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How will COVID-19 affect an already fragile global economy?

List of Papers

1. The impact of the COVID-19 pandemic on productivity dynamics by industry

Bart van Ark, The Productivity Institute, University of Manchester
Klaas de Vries, The Conference Board
Abdul Erumban, University of Groningen

Abstract

This paper analyses quarterly estimates of productivity growth at industry level for three advanced countries, France, the United Kingdom and the United States, for 2020. We use detailed industry level data to distinguish reallocations of working hours between industry from pure within-industry productivity gains or losses. We find that all three countries showed positive growth rates of aggregate output per hour in 2020 over 2019. However, after removing the effects from the reallocation of hours between low and high productivity industries, only the US performed positively in terms of within-industry productivity growth whereas the two European economies showed negative within-industry productivity growth rates. Some positive developments are that productivity growth in medium-intensity work-from-home industries may represent a catching up on high-intensity work-from-home industries. More intensive digital-using industries have outperformed less intensive digital-using industries in the US and the UK, but not in France. The paper also experiments with US data on employment at county level by allocating within-industry productivity contributions for 2020 to urban, sub-urban and rural areas, showing that the contributions to within-industry productivity growth from manufacturing and other production industries in urban and sub-urban areas increased during the pandemic. However, after taking into account the collapse in productivity in the hospitality and culture sector, the within-industry growth patterns during 2020 show no clear deviation from the slowing pre-pandemic productivity trend. Trend projections of productivity growth will depend on whether favourable productivity gains (or smaller losses) in industries that are more digital intensive in terms of usage of digital assets and service outweigh possible negative effects from the pandemic, in particular scarring effects on labour markets and business dynamics.

Discussant: Paul Welfens, EIIW/University of Wuppertal, Germany.

2. How lockdown causes a missing generation of start-ups and jobs

Shyngys Karimov, University of Leuven
Joep Konings, University of Leuven

Abstract

This paper explores the impact of the COVID-19 lockdown on aggregate employment in Belgium. To this end, we use microdata of all Belgian firms and apply a machine learning-based approach to simulate the impact of the lockdown on employment growth under various economic scenarios. In doing so, we distinguish between start-ups and incumbent firms with both short and long-term effects. In the short term, we expect to see significant losses of employment coming mainly from mature incumbent firms. In the long term, the missing generation of start-ups formed during the lockdown will have a significant and growing effect of slowing down the employment growth even a decade after the lockdown.

Discussant: Werner Roeger, DIW, EIIW and VIVES

3. COVID-19 acceleration in digitalization, aggregate productivity growth and the functional income distribution

Bjoern Doehring, European Commission
Atanas Hristov, European Commission
Christoph Maier, European Commission
Werner Roeger, DIW, EIIW, VIVES
Anna Thum-Thysen, European Commission

Abstract

This paper characterises the conventional and the digital sector of the EU economy since the late 90s and introduces a two-sector growth model which highlights structural differences between the two sectors. In contrast to conventional goods and services, digital services are more easily scalable but require more upfront intangible investment. These are features which requires consideration of fixed costs and a departure from perfect competition and raises issues about market entry. Another important dimension is the skill demand of both sectors, with the latter requiring a larger share of workers with digital skills. Since COVID 19 is expected to induce a persistent demand shift towards digital services, we use this model to estimate the likely economic impacts. We are in particular interested how such a transition is affecting the labour market and the functional distribution of income. The paper shows how the distribution of economic rents between workers with digital skills and platforms are determined by labour supply conditions and entry barriers. This suggests that there is a role for competition policy and labour market policies to support this process.

Discussant: Robert Kollmann, ULB, Brussels

4. Who absorbs the shock? An analysis of the exposure of central governments to subnational governments' fiscal risks in the time of COVID-19

Pietrangelo de Biase, OECD
Sean Dougherty, OECD

Abstract

The paper examines the fiscal impact of the COVID-19 crisis across levels of government. It contrasts the composition of revenues and expenditures of different levels of government in light of their differences in fiscal policy constraints. To analyze revenues, an error correction model is used to show that short-term elasticities of subnational governments' (SNGs) revenues are less sensitive to economic downturns than central governments', mostly because SNGs tend to rely much more on property taxes. With respect to expenditures, central governments are often responsible for a major portion of expenditure on social protection, while SNGs have a higher investment-to-revenues ratio. The combination of these differences in expenditure assignments with the substantial budgetary and borrowing constraints that SNGs face creates a tendency towards pro-cyclical policy at the subnational level and counter-cyclical policy at the central level. Furthermore, in the context of the COVID-19 pandemic, in order for SNGs to have sufficient fiscal capacity to take the necessary measures to tackle the outbreak, survey evidence shows that most central governments have been supporting SNGs through intergovernmental grants. As a result, central governments have been absorbing much of the fiscal shock.

Discussant: Istvan Szekely, European Commission, DG ECFIN

5. Nominal and real interest rates in OECD countries: An eclectic approach

Claude Bismut, CEE-M, University of Montpellier, France
Ismaël Ramajo, CEE-M, University of Montpellier, France

Abstract

In this article we seek to gain a better understanding of the decline in interest rates observed over the long term and we ask whether this trend is likely to stop or even reverse as a result of the covid crisis. For this, we introduce a model that combines an intertemporal framework and a price adjustment process. This model makes it possible to derive a testable relationship between observable macroeconomic variables. Tests carried out on a panel of 19 OECD countries confirm the influence of factors suggested by the theoretical model, in particular, the link between the fall in the interest rate and the economic slowdown. The covid episode is analyzed as a mixed shock of supply and demand. The exit from the covid crisis could be accompanied by a rebound, but rising real interest rates are not the most likely scenario.

Discussant: Joaquim Oliveira Martins, CEPII and University Paris Dauphine-PSL.

6. Globalization, Freedoms and Economic Convergence: An empirical exploration of a trivariate relationship using a large panel

Jorge Braga de Macedo, CGG, Nova School of Business and Economics, Lisbon.
Joaquim Oliveira Martins, CEPII and University Paris Dauphine-PSL
João Tovar Jalles, ISEG/UECE, Lisbon.

Abstract

Using a large country panel for the period 1972-2014, this paper analyses the interactions among globalization, political & civil rights and economic convergence, through a simultaneous estimation technique. We use a multi-dimensional, de facto, and continuous measures of Freedoms and Globalization. We find a two-way positive relationship between civil liberties & political rights and economic, political and social Globalization, as well as significant two-way relationships with the economic convergence (using as a proxy the ratio of GDP per capita to the US). In this way, we extend the test for the two-way relationship between Democracy and Globalization put forward by Eichengreen and Leblang (2008). Overall, we also find a virtuous cycle between Globalization, Freedoms and Economic convergence, except for non-OECD countries at early intermediate stages of development. This positive systemic effect can be put into question by the recent negative shocks on Globalization and Freedoms related to the Covid-19 pandemic.

Discussant: Sébastien Jean, CEPII

7. Covid-19 and the Euro Area Macroeconomy: The Role of the Liquidity Trap

Robert Kollmann, ULB, Brussels.

Abstract

This paper analyzes the macroeconomic effects of the Covid epidemic on Euro Area (EA) inflation and GDP using a New Keynesian model of a liquidity trap. Covid is interpreted as a combination of adverse aggregate supply (AS) and adverse aggregate demand (AD) disturbances. Offsetting AD and AS changes are required to account for the stability of EA inflation, in the face of the sizable GDP contraction during Covid. The relative model-implied contribution of AD and AS factors to the GDP contraction depends on the persistence of the AS and AD shifts. Under persistent shocks, the AS contraction was the dominant force driving the fall in EA GDP.

Discussant: Romanos Priftis, Bank of Canada