

Book Review

Economics in the Time of COVID-19 (e-book). Edited by Richard Baldwin and Beatrice Weder di Mauro. CEPR Press, 2020, 115 pp.

This e-book is a timely response to the current pandemic. It is a product of a collective effort of eighteen leading economists who joined forces virtually to address three principal concerns: (1) how far and fast will economic damage spread?; (2) what are the mechanisms of economic contagion in place today?; and (3) what can governments do about it?

Divided into fourteen topics, the introduction is followed by a write-up by the editor. The macroeconomics of COVID-19 explain how the initial effects of the epidemic resulted in an unexpected long term global shock. Evidently, the classical conservative “wait and see” policy approach is no longer an option. Containment measures in the form of interruptions to work processes, supply chain disturbances and possible lockdowns are expected to determine the scale, duration and persistence of the crisis. Di Mauro makes an insightful remark on the critical role of policy responses by governments: “The size and persistence of the economic damage will depend on how governments handle this sudden close encounter with nature and with fear.”

The subsequent topics, first by Boone, the chief economist at the Organisation for Economic Co-operation and Development (OECD), and the next by Professor McKibbin at the Australian National University (ANU), tackle the fallout under different scenarios. While the former studies the global impact of COVID-19 on equity and commodity prices, based on the strength of cross-border linkages between China and the rest of the world specifically, the latter simulates a global economic (G-cubed) model, which is a hybrid of the dynamic stochastic general equilibrium (DSGE) and computable general equilibrium (CGE) models, to explore seven scenarios regarding the spread of the pandemic. The work studies the impacts on population (mortality) and overall gross domestic product (GDP) losses for countries or regions, under different assumptions about the severity and nature of the shocks. The authors unanimously suggest increased government spending, directed towards vulnerable households and firms, and independently call for global cooperation, led by the G20, in the sphere of public health.

Next, Arezki and Ha draw our attention to the MENA (Middle East

and North Africa) countries by highlighting the economic effect of heavy exposure to oil and gas on the Organization of Petroleum Exporting Countries (OPEC), caused by the drastic reduction in demand for oil by China and falling oil prices internationally. The crisis has prompted these oil producing economies to contemplate significant cuts to supply. Despite the limited participation of MENA countries in global value chains, at least compared to Asia, travel restrictions imposed by affected countries in both regions (and others as precautionary measures) is expected to further depress oil prices in the long run.

Topic five, the longest in the volume, promotes thinking ahead on the international trade impact of Covid-19. Baldwin and Tomiura extensively discuss the economic fallout in terms of global supply and demand shocks. They begin by underlining the background of the pandemic, to remind readers of its peculiarity and atypical effects on international trade in general. The most precarious example is the heavy trade between six hard-hit nations (as of early March 2020) China, Korea, Italy, Japan, the United States (US) and Germany (which had the most reported cases then) accounted for 55% of the world's supply and demand, in terms of GDP, producing 60% of world manufactured products. Clearly, this factor alone can have devastating implications on the rest of world.

The next three topics center on the financial impact of COVID-19. Thorsten Beck focusses on the burden of financing by steering attention towards making sense of what is expected in economic policies and regulatory reactions as well as bank instabilities. The emphasis is the duration of COVID-19-related disruptions, and he contrasts how the role of long running relationships between firms and business within the European banking system can be a good source of support in the case of mild demand-side shocks, but a longer economic slowdown, leading to a recession, will put pressure on banks' loan portfolios and force businesses into insolvency (especially those concentrated in the most highly affected areas). Another equally important point is for states not to withhold pertinent information from the public, for historical evidence has shown the damage caused by a lack of transparency in public confidence in the system. The final reminder is for nations to respond collectively, rather than handle the aftermath of the pandemic separately. Given the contagiousness, the challenge is the ability to coordinate action plans at regional, if not global, levels.

Cecchetti and Schoenholtz insist that governments must tell the whole

truth and retain public trust in this novel crisis. With little known at the time of writing, people would be expected to behave in ways disadvantageous to the economy if the authorities failed to be straightforward and open about both the risks and potential damages associated with failure to comply with new operating procedures. Using banks as examples, they discuss bank runs and the idea of quarantining vulnerable ones, while funding those with good collateral so that they can stay in business. Extraordinary disclosure mechanisms, equivalent to stress tests, are seen as effective means of revealing the actual financial fitness of banks, which can help in designing appropriate monetary policies. In a similar vein, detailed real time information on the virus's spread, severity, treatment and control methods must be made available to all, so that people can understand and cooperate with containment measures.

Catherine L. Mann, in her capacity as the Global Chief Economists with Citibank, shares her impact assessment views, and pays special attention to the linkages between economic and financial conditions with the uncertainty faced by policy authorities. Not only did COVID-19 upset the upturn in global growth experienced in the US early 2020, but financial markets too missed the initial signs of shock due to data constraints and positive assumptions of rebounds. Accordingly, the situation called for a multilevel analysis and evaluation, involving key economic sectors and the financial sector. Consumer and business sentiment began to have significant bearing on various topics, from buy-ins to the monetary and fiscal adjustments required to manage health and income crises.

This is followed by a topic on random issues pertaining to the repercussions of the pandemic, beginning with whether or not the European Union can survive border closures. According to Meninno and Wolff, at least 1.9 million residents of Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and Switzerland crossed borders in 2018. The Schengen Agreement allows for commuting for all purposes, and the authors highlight this importance by graphing trends in the (increasing) share of the employed population who commute, with Slovaks in the lead. The number of outbound trips for personal and professional reasons have also soared in the last couple of years, indicating that even a provisional closure can have high economic impacts on member countries.

Interestingly, the main theme of this book, effective intervention of a functioning state, is reserved for the end of the book. Using the historical plagues of the Middle Ages as analogies, Voth raises the fundamental question of the relationship between mobility and globalization. He ingeniously lays down a simple cost-benefit analysis, comparing the principal winners in international trade to the massive amounts of welfare spending by a handful of Nordic economies, which valued lives. The debate boils down to whether restricting globalization is worth the economic loss.

Topic 11 revisits the Ebola crisis (2014–5) to understand the role of public action in containing diseases in general, thus providing a perspective on shared responsibility in the wake of a health crisis. The author emphasizes how public support (in the form of preparedness), corruption (in terms of breaching quarantine, concealing deaths and deliberate misdiagnoses of plague) and anti-social behavior as determinants of the effectiveness of public health measure. The significance of the World Health Organization (WHO) and its allies has commanded due obedience, even from nations with anti-establishment attitudes towards institutions which serve universal interests.

The discussion of how to fund is deliberately tucked away in Topic 12, underscoring the urgency of a pandemic-induced financial crisis plan. Suggestions include judiciously targeted bailouts and the introduction of special purpose insurance policies to keep businesses and people afloat, while regulators work out the moral hazards that comes along with these interventions.

The book closes with two topics: the penultimate one demonstrating the vicious cycle of health consequences, leading to economic impacts on lives, and the final topic on the positive impacts of COVID-19. Bearing in mind that the contents were produced early March, some of the estimates were clearly premature, made based on tested assumptions at the time of writing. However, the fact of the matter remains the breadth of the intellectual debate on the economics of COVID-19. The assortment of discussions in this volume are a treat for readers from any background because we are all consumers, and the lives of some academicians and businesspeople are deeply affected by COVID-19, which shows no signs of going away.

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