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Schilirò, Daniele

Department of Economics, University of Messina

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Working Paper

The global economy, the people and the covid-19 pandemic

Daniele Schilirò

Department of Economics
University of Messina
dschiliro@unime.it

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**Department of Economics
University of Messina**

Abstract

The paper highlights the consequences on the global economy and the people of the COVID-19 pandemic. Changes in the way people work, including the widespread adoption of remote work and modifications in social interactions, have been clear outcomes of the pandemic. Furthermore, the paper emphasizes the highly unequal economic effects experienced by individuals as a result of the pandemic, particularly affecting vulnerable groups such as young people, women, and those with low incomes. Concurrently, the pandemic has also fostered the adoption and development of digital technologies.

Keywords: global economy, digital technologies, COVID-19 pandemic

1. Introduction

The slightest flapping of a butterfly's wings is capable often causing a hurricane on the other side of the world. This *butterfly effect* is a statement present in physics in the theory of chaos. Small variations in the initial conditions are believed to produce large variations in the long-term behavior of the system.

The similarity between the spread of the coronavirus pandemic and the butterfly effect seems appropriate to us. In the hyperconnected world of today, dense global networks enable butterfly effects to amplify far more rapidly.

The COVID-19 pandemic has determined severe health consequences and economic shocks on both the supply and demand sides, not to mention the social effects. Concurrently, the pandemic has also fostered the adoption and development of digital technologies.

In the next section, we will examine the economic consequences of the COVID-19 pandemic and the effects it has brought in terms of the adoption and development of digital technologies.

2. The COVID-19 and its economic consequences

Since the pandemic began, we have witnessed and adapted to a set of events and behaviors that we hardly took into consideration before the pandemic. I mean witness the massive intervention of the state and public authorities that regulate our social life and heavily intervene in the economy. The generous fiscal policies with aid, subsidies, and incentives for businesses and households from governments around the globe coupled with the ultra-expansionary monetary policies by central banks, and low-interest rates reveal a big shift in the macroeconomic paradigm.

Furthermore, the COVID emergency has caused the use of smart working to increase exponentially, requiring collaboration and adaptability from the people involved (Schilirò, 2020). This new way of working affects labor demand, occupations, and workforce-skill needs. According to McKinsey's estimates, the pandemic has accelerated existing trends in remote working, e-commerce, and automation, with up to 25% more workers, than previously estimated, potentially needing to switch occupations. At the same time, COVID-19 has elevated the importance of the physical dimension of work, as in the case of medical care, personal care, retail stores and supermarkets, and home support.

Despite government aid, many families found themselves in poverty due to job losses and business closures. In particular, in many countries around the world, working women paid the highest price in an economy crushed by COVID. In addition, children could not go to school, and parents were forced to provide extra childcare and spend significant amounts of time helping children continue to learn, while possibly working from home. Also, for this reason, women paid a higher price than men, as many studies show.

The true recovery is likely to take years. Instead, it seems almost certain that the world economy seems to face sharply divergent growth prospects and the global recovery looks uneven. While China, the US, and other leading economies are on their way to a robust recovery, many others, including several European countries, are struggling to return to pre-pandemic GDP levels. The Organization for Economic Co-operation and Development (OECD), an international organization of economic studies of developed countries sharing a market economy, based in Paris, in its *Economic Outlook* (OECD, 2021) states that the global recovery continues to progress, but has lost momentum and is becoming increasingly imbalanced. In particular, by analyzing a set of selected countries, estimated for the first quarter of 2021 (Q1 2021) that China is bouncing strongly with an 18.3% increase. After all, China was the first economy that bounced back from its coronavirus losses. Moreover, the country recorded a GDP growth of 3.2 percent as early as Q2 of 2020. Countries like South Korea with a 1.7% increase in GDP and France with a 1.5% increase did moderately well in the first quarter of 2021. The United States recorded a small increase of 0.4%. In the same quarter, countries such as Italy and Japan recorded a decrease in GDP of 1.4% and 1.8% respectively; Germany with a decline of 3.0%, Mexico with a decline of 3.1%, and especially the United Kingdom with a sharp decline in GDP of 6.1% have had negative performances and are struggling to reach pre-pandemic levels.

The recipe for a strong and durable recovery remains the same as it has over the past year—resolute measures to control the virus coupled with balanced monetary and fiscal stimulus, with an emphasis on policies that support demand as well as improve productivity.

The OECD in one of its recent reports (OECD, 2021a), by analyzing the problem of how to face a world deeply signed by the pandemic, pointed out that COVID-19 is requiring all levels of government to act in a context of great uncertainty and under heavy economic, fiscal, and social pressure.

Particularly, with the emergence of COVID variants, governments are confronted with the limited ability to sequence policy action. National, regional, and local governments must act on all fronts simultaneously and in synchrony.

This need for *flexibility and adaptability* is leading governments to reconsider their multi-level governance systems and reassess their regional development priorities.

Moreover, the post-COVID recovery will be "K-type", with some sectors recovering fast and others in difficulty. Sectors such as construction, human health, information and communication, administrative services, energy and utilities, transport, and logistics (excluding airlines) will rebound quickly. Also, pharma manufacturing, insurance, real estate services, food, and drink production, will continue to grow. Instead, sectors such as arts and entertainment, accommodation and food, and air transport will continue to suffer.

COVID-19 emphasized the relevance of issues such as employment, climate change, social inclusion, and financial stability. There is a widespread belief that the pandemic has created a discontinuity in economic life and that this discontinuity will be permanent with new opportunities and new risks.

COVID-19 and the advent of new digital technologies have brought about a complete transformation in the way individuals work, necessitating employees to acquire new tasks and skills (Schilirò, 2021).

The great interest in innovation and new technologies, the attention to cryptocurrencies, and the development of the fintech sector that is revolutionizing financial services constitute a set of new elements in the post-pandemic global economic and financial scenario (Schilirò, 2021a).

The great lesson we learned from this disrupting pandemic is the importance of innovation and institutional change, where innovation includes digitalization and environmental sustainability. Humanity now needs innovation not only to progress but to survive. Progress arises from scientific and technological innovation and involves culture, the economy, and society.

In addition, the COVID-19 pandemic has laid bare the complexity of climate and environmental challenges that require institutional changes. Political institutions' response to the pandemic becomes crucial for a transition to a different economic model both for our social life and in the face of climate change. We live in a geological age in which we influence the climate. With our activities, we emit too many greenhouse gases, which are responsible for the rise in temperatures and therefore for the

follies of the sky. The food system also weighs on emissions with a weight equal to one-third of the total. In a recent report (UNEP, 2022), the United Nations highlighted that the negative impacts of climate change have become more intense. It is crucial that we make significant reductions in current greenhouse gas emissions. Taking action to mitigate global warming requires a system-wide transformation, involving substantial changes in electricity supply, industry, transport, buildings, and food systems. A vital aspect of this transformation is the need to alter our patterns of food consumption and production in order to achieve these objectives.

However, all these challenges require first of all a change in institutions and politics. The economist and Nobel Prize Douglas North (North, 1990, 1991)¹ highlighted the role of institutions, the importance of institutional change and of allocating resources to legal and institutional reforms. He focused to explain the role of institutions in the process of economic change. This is even more essential today in the aftermath of COVID to ensure long-term economic growth, prosperity, and robustness across countries.

Final Remarks

The COVID-19 pandemic has unquestionably had profound effects on the global economy, companies, and society, resulting in significant implications for the utilization and advancement of technologies, particularly digital technologies. All these changes have upset the way of doing business and the life of individuals.

It is evident that we must seek solutions to address the adverse economic and health effects of the pandemic, taking into account the accompanying technological changes.

However, we need a world in which existential questions, such as those brought forth by the impact of the pandemic, are not limited to economic, technical, and scientific discourse alone. Instead, they should become subjects of political debate and serve as catalysts for reevaluating our cultural norms. This is also an integral aspect of institutional change.

In conclusion, probably our immune system in its capacity to protect us from the worst outcomes of shock events, even if we know they are on the horizon has weakened. Thus, we should become able to develop strategies for rapid, agile, and flexible responsiveness to sudden change. But this will depend, to a large extent on our ability to adapt to appropriate cultural norms.

¹ See also Schilirò (2012).

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