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Review of “Economics in the Time of COVID-19”¹ by Baldwin and Mauro

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Abstract

This review provides an assessment of the collection of contributions on the economic issues of COVID-19. The paper focused on the structure of the book and chapters' content, quality of the publication, missing topics, predictions, and the pandemic effects on poverty and inequality. As the book is written during the initial stages of the pandemic, it does not contain the digital economy, cryptocurrency, health economics issues, sovereign debt, and resilience. The book is a useful text for graduate students in Economics and illuminating for economic policies during the COVID-19 pandemic.

Key Words: Pandemic economics, Covid-19, Economic impacts, Economic policy

1 . Richard Baldwin and Beatrice Weder di Mauro(eds),(2020),“Economics in the Time of COVID-19”, CEPR Press

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Introduction

In the first decade of 21st century, the world witnessed the global financial crisis of 2007–2009. At the end of the second decade of 21st century, the world was faced with the COVID-19 pandemic. Although the epicenter of the outbreak was initially China, in early January 2020, the globalization of disease resulted in a pandemic. Indeed, on 4 January 2020, WHO reports a cluster of Pneumonia cases in Wuhan, Hubei, China, and on 7 January 2020 WHO identifies COVID-19 (Brodeur et al,2020,p.7). The world was faced with Corona Virus contagion that had economic consequences and gave rise to a large global recession with hundred of millions of people and businesses on lockdown. The pandemic, caused large supply and demand shortages in the world and the world economy experienced high uncertainty.

The COVID-19 crisis is a new phenomenon that has crippled both demand and supply of economies. While the global financial crisis only disrupts the demand side. The COVID-19 shock is the most adverse shock in peacetime during a century. Impact on economic growth is the most important indicator of the severity of the crisis caused by the shock of the COVID-19 epidemic. The Corona crisis has caused the largest contraction in world GDP per capita since World War II (Loaysa et al., 2020, p. 1 and World Bank, 2020).

The book appeared in early March 2020 at the initial stage of the pandemic. The book is a collection of short essays on the economic aspects of COVID-19. Two editors of the book, Richard Baldwin and Beatrice Weder di Mauro, are Professors of International Economics at the Graduate Institute of Geneva, Switzerland.

As they mentioned in the introduction, on 27 February 2020, the editors emailed a group of economists to contribute. The deadline was Monday 2 March 2020. Therefore, the eBook appeared over a weekend.

The book is published by the Centre for Economic Policy Research (CEPR) which is a network of research economists based mostly in European universities.

The key economic questions addressed in the book pertain to the economic damage of COVID-19, how long will the fallout will continue, and the mechanisms of economic contagion, and, the government's interventions to curb the outbreak.

The rest of the review essay is structured as follows. Section 2 focuses on the structure of the book and highlights the issues addressed in the fourteen chapters. Section 3 briefly points out the quality of the publication. Section 4 discusses the methodological aspects of the book. Finally, section 5 provides the conclusion.

2. Structure of the book

The book comprises an introduction and fourteen chapters. It may be read as five parts of a somewhat fragmented whole. First, macro aspects (ch.1,5,10,12); Second, economic effects (ch.2,3,8,13,14); third, regions(ch.4,9); fourth, finance and bank run(ch.6,7) and Fifth, Ebola (ch.11).

Part one: macro aspects;

In chapter one, Mauro discusses the scale of global shock, duration, its persistence, and how policymakers may respond and contain the fallout. She holds that fiscal policy would be a suitable tool to curb the outbreak and mentioned that fiscal measures could quickly be deployed as targeted help for those affected by quarantine and income shortfalls (p.34). In Chapter 5 Baldwin and Tomiura explored the trade impact of the pandemic and mentioned that COVID-19 is a supply and demand shock. Both aspects impact international trade in goods and services. As manufactured goods are 'postpone-able' purchases, the manufacturing sector gets a triple hit. First, direct supply disruptions hinder production. Second, supply-chain contagion that amplify the direct supply shocks. Third, aggregate demand reduction, purchase delays by consumers, and investment delays by firms (p.61). Supply and demand shock effects on aggregate trade flow (p.65). In chapter ten Voth discusses that restriction of mobility is desirable to curb the virus fallout, because of the human life value. In chapter twelve, Cochrane discusses the coronavirus monetary policy

and asks whether the central bank should lower interest rates in response to the coronavirus in order to provide liquidity. He responds that the interest rate is very small for the fundamental problem (p.107).

Part two: economic effects;

In chapter two, Boone highlights the channels through which the virus affects the economy and identifies three main channels through which these measures spill over globally. These channels are supply disruptions in the global supply chain goods and many services; demand decline in travel and tourism, education, and entertainment services; and uncertainty which leads to reduced or delayed consumption and investment (p.39). Boone recommends the increase of government spending on the health sector, and supporting vulnerable households and firms (p.42). In chapter three, McKibbin and Fernando recommended that for the short term, central banks and treasuries need to make sure that disrupted economies continue to function while the virus outbreak continues. In the face of real and financial stress, there is an important role for governments. While decreasing interest rates by the central banks, the shock is not simply a demand management problem but a multi-faceted crisis that will require monetary, fiscal, and health policy responses (p.50). In Chapter eight, Mann asserted that the real economic impact of the virus requires evaluation of manufacturing supply chains; tourism, transportation, services, energy, and commodity demand and prices. In Chapter thirteen, Wren-Lewis argues that the 'direct' impact of the pandemic will reduce GDP and the precise number will depend on what proportion of the population get sick, lose a life, and miss work by the disease (p.110). Wren-Lewis hold that banks should not force firms into bankruptcy during any pandemic (p.111). In Chapter fourteen Wyplosz put forward that the pandemic will reveal which governments are good at containing the fallout and which political and cultural institutions need change (p.115).

Part three: regions;

In chapter four, Arezki and Nguyen examined the channels through which COVID-19 may affect the MENA region. It expresses that according to WHO's a regional office, the US embargo on Iran may hurt Iran's ability to buy the technology required to produce essential equipment and medicine (p.54). Moreover, because of MENA's exposure to oil and gas exports, a decline in the prices of petroleum-related products is expected to be the most significant channel through which pandemic effect the region (p.54). In chapter nine, Menino and Wolff, looked at some of the possible economic consequences of border closings for the European Union, saying that stopping cross-border travel would lead to a major disruption of economic activity. Therefore, it's better for the EU not to close borders.

Part four: finance and bank run;

In chapter six Beck recommends focusing on operational disruptions in the financial system, strengthening confidence in financial markets by intervention and resolution of failing banks. In chapter seven Cecchetti and Schoenholtz discussed how virus fallout can threaten bank runs.

Part five: Ebola;

In Chapter eleven, Gráda expressed several similarities and urgent global action needed in the time of Ebola.

All in all, the chapters have overlaps on the outbreak facts. They represent evidence base analysis to accomplish the explaining of the issue and cover some aspects of the event from different angles. As it is obvious from the classification of the chapter's topics, the collection came out from the prepared writings of the contributors on the weekend, and not from the organized orders of editors.

3. The Quality of Publication

Early publication, excellent collaboration, and good coordination are admirable about the ebook which comprises 14 short essays on the COVID-19 pandemic. However, the ebook lacks a subject index. As the book was prepared on a weekend, it needed exact galley proof. Some typesetting mistakes are as follows:

-Other mayor central banks.....(major)(page 34)

by clearly signalling that...(signaling)(page 76)

But the GDP not made is not made for good... (words repeat) page 106)

If I were running the central bank... (I was)(page 111)

4. missing topics;

From an umbrella title of Economics of COVID-19, it is expected that the book covers a comprehensive set of topics pertaining to the title. This book gives a general outline of some economic issues on COVID-19. Despite covering some issues under this title, there are important issues neglected in the book, among others are:

There is no topic on health economics in the book, while health economic issue is a determinant in COVID-19 economics. The extent of virus spread and its containment, the cost of sanitary goods and equipment, and so on play an important role in the economic aspects of the pandemic and deserve a topic while it is missing.

There is also no topic on the digital economy in the book, while COVID-19 gave rise to the development of the digital economy from the government to consumers and to businesses during the COVID-19 breakout. In the same vein, there is no topic on Cryptocurrency that is promoted during the COVID-19 spread. As governments around the globe struggled to contain the virus breakout, Sovereign debt soared during the pandemic. Indeed, during the Corona outbreak, a new wave of government debt has accumulated in the world. The budget deficit of governments due to the COVIS-19 in 2020 was about 5% of GDP (Kose et al.,2020, p. 43).

The significant increase in the level of government debt around the world at a relatively high level is a consequence of the COVID-19 crisis. Following the quarantine in countries, the World Bank has warned of a sovereign debt crisis that is the largest, fastest, and most widespread increase in government debt since the 1970s. The International Monetary Fund has also warned that unprecedented global debt growth is worrying. More than half of the

world's countries have applied for loans from the International Monetary Fund following the outbreak of the coronavirus. Thus it deserved as a topic to discuss in the book.

Finally, the pandemic revealed the importance of economic resilience. It divided economies into resilient economies and non-resilient economies. It revealed that some advanced economies are vulnerable to epidemic diseases.

Moreover, on macro aspects of COVID-19, the economic recession is a crucial issue that happened almost throughout the world. While this situation has never been seen before, the book does not discuss recession and why it cannot be treated as a normal recession.

Finally, none of the contributions offered recommendations to mitigate the consequences of the next such pandemic, or advice to avoid its re-emergence.

5. predictions;

This ebook was published in the early months of an unprecedented pandemic which combines global demand, supply shocks and uncertainty. The contributions in this collection discussed the economic impact of the virus and the facts about how pandemics could affect the economy and the policy interventions to contain the decline in economic activity.

However, predictions provided in the collection could not be relied on, because they are far from actual figures. This is because of the evolving nature of the pandemic and the uncertainty surrounding the virus spread. Some instances for such predictions provided in the book are as follows:

- Prediction of Arezki and Nguyen's chapter on world oil prices.
- Prediction of Boone, Haugh, Pain, and Salin that uses the NiGEM global macroeconomic model to simulate the "downside scenario" of the virus.
- Prediction of McKibbin and Fernando for the lowest of the pandemic casualty. They estimated to be around 15 million deaths globally" (p. 46). While on 31 October 2021 the total number of death passed 5 million. This prediction includes nearly 3 million deaths in China, while China's deaths were about 3,000.

- In chapter 2, prediction of the reduction of world GDP by 1.75% at the peak of the shock in the latter half of 2020, with the full-year impact on global GDP growth in 2020 being close to 1.5%(p.42), while the actual figures are much different.

-On page 113, Wyplosz asserted that “some epidemiologists fear that half of the world’s population may be infected. With a mortality rate of 2%, this means that 1% of the currently living could be wiped out. The toll would be 78 million people, a bit less than the population of Germany or Turkey.” To check the accuracy of prediction, it is enough to know on 31 October 2021 the total number of death passed 5 million.

6-Impact on poverty and inequality;

Regarding the impact of COVID-19 on poverty, estimates show that the economic contraction will add 48 million to 135 million people to the world's poor. Therefore, 2020 is the first year since 1998 that the global poverty rate will increase. If inequality increases, then the impact of economic contraction on poverty will be much worse. For example, if the Gini coefficient increases by 2% in all countries, the number of poor will increase by 83 to 200 million.

If the risk of worse contraction is realized, the number of poor can increase by 70%. Not only poverty but also the income of the poor and vulnerable will be affected. A two percent worsening of the Gini coefficient is not unlikely. Because first, the negative shock is both universal and quite large. Second, the shock affects workers in low-income countries, especially informal workers, who are more affected by social distancing measures.

The World Labor Organization announced that about 1.6 million people are employed in the informal economy - which makes up half of the world's workers - whose livelihoods could be lost if employment cuts and layoffs continue. Declining incomes are leading to deteriorating education, nutrition, and living conditions that have worrying long-term consequences (Loayza and Pennings, 2020, p.3). Despite the crucial effect of COVID-19 on poverty and inequality, it is expected that a topic of the book discusses this issue.

6. Conclusion

The writing style is comprehensible, simplistic, and fluent. However, since the book is written during the initial stages of the pandemic, it does not contain the digital economy, cryptocurrency, health economics issues, sovereign debt, and resilience. None of the contributions offered recommendations to mitigate the consequences of next such pandemic, or advice to avoid its re-emergence. The book is a useful text for graduate students in Economics. It helps to understand economic policies during the pandemic which go well beyond economics.

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