

The United States' Control Over a Covid-19 Economy

By: Keerti Rao

Date: August 6, 2020

Introduction

The first Covid-19 (coronavirus disease 2019) case was discovered about eight months ago in Wuhan, China; in three short months, by March 11, 2020, the World Health Organization had declared a global pandemic. The nation and the globe have reached previously unimaginable levels of transformation and change. Worldwide, there have been over 17 million confirmed cases, and deaths exceed 600,000 (Worldometers). Consequently, copious research has been conducted regarding the symptoms, transmission, and prevention of the disease.

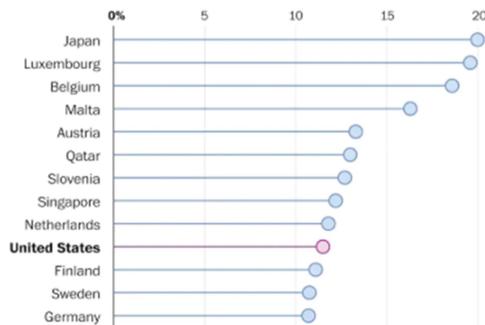
Aside from every nation's efforts to control their infection rates, they are also faced with another issue- finding ways to help support affected parties such as laid-off workers, companies which were heavily reliant on tourism, etc. By enacting various combinations of unemployment benefits, government mandated shutdowns, stimulus checks, and loan programs, each country is determined to find the appropriate balance between citizen health and supporting/reopening businesses. As millions of people become unemployed and consumer spending drastically decreases, the World Bank developed a baseline forecast projecting that global GDP may drop by 5.2 percent, or more than 7 trillion dollars. Although providing stimulus checks to people and businesses is important, this is only a short-term solution considering the \$24 trillion debt that the United States already endures. There seems to be a lack of efforts focused on the long-term economic trajectory of the U.S., which is just as important as sustaining day-to-day operations. A recession/depression could leave lasting consequences including lower levels of investment, increased levels of un- and under- employment, and destruction of global trade decades into the future. Through the analysis of other countries' economic policies, past and present, the United States can aim to develop its own customized approach and ensure minimal economic impacts for the country.

Current State of United States

The first coronavirus case found in the United States was almost seven months ago, during late January, though experts believe the virus was silently spreading some time before that. Since then, there have been almost 5 million confirmed cases, and 158,207 deaths. The U.S. economy

has contracted by an annual 32.9% during the second quarter, between April and June. More than 1.4 million people filed for unemployment in this past week, with total unemployment claims since February exceeding 15 million. In comparison to the same quarter in 2019, the U.S. economy has shrunk by 9.5%. Exports and imports are almost 20% lower from last year, and consumer spending fell by 10.7% in the same time period (BBC News). In response to these factors, the government has funneled more than \$6 trillion into the nation. This is divided into the initial legislation of \$2.5 billion, the next of \$2.35 trillion in April, and an estimated \$4 trillion in efforts made by the Federal Reserve. These funds have been dispersed through numerous avenues such as stimulus checks, grants to small businesses, \$600/week additional funds for the unemployed, etc. That being said, the United States still ranks behind some countries when comparing fiscal response to the coronavirus as a share of GDP, as shown in the figure to the right (Dam).

Fiscal response to the coronavirus as a share of GDP



Source: Ceyhan Elgin, Gokce Basbug and Abdullah Yalaman
THE WASHINGTON POST

Minimally Impacted Economies

Although no country is unaffected, some countries have handled the situation so far better than others. One should caution, however, that the recurrent waves of the pandemic may change this current snapshot.

1. **Vietnam-** Vietnam ranks first on the list, showcasing one of the most positive outlooks throughout Asia. Vietnam certainly suffered due to lowered demand and decreased trade, but their quick containment strategy set them up for an effective rebound. In a population of almost 100 million people, they have only reported approximately 600 cases and 6 deaths. Due to their previous experience with the Severe Acute Respiratory Syndrome (SARS) in 2003, the country quickly went into a strict lockdown incorporating airport health screenings, travel bans, physical distancing, a 22-day shutdown of nonessential services, etc. Through the use of their military and other public security services, they

were able to ensure the Vietnamese public was taking the proper precautions. Furthermore, they had one of the highest ratios of tests done per confirmed case, 1,000 (Delteil). The government additionally released a VND 27 trillion stimulus packages in March, mainly targeting households and small businesses. In order to sustain the country's manufacturing sector, the government also partnered with local businesses to increase production of personal protective equipment to provide to domestic essential workers as well as international markets. Although GDP growth has been impacted, it still increased by 3.8% in the first quarter, more than can be said for most other countries. In fact, by 2021, the International Monetary Fund predicts Vietnam's GDP to return to normal, at a growth of 6.8-7%.

2. **Sweden-** In strong contrast to strict lockdowns imposed by Asian countries, Sweden chose to take an alternative approach. They refused to enforce a full lockdown on citizens, and instead advocated for citizens to use a sense of civic duty and common sense- stay home if they are feeling ill, use hand sanitizer and wash their hands frequently, and physically distance themselves from others. As the economic figures have come in, this seems to be working. According to Capital Economics, the full year GDP is forecasted to shrink by only 1.5%, as compared to the 3% of Norway and Denmark. Household consumption has fallen by 4.5% year-to-date, while there was a 10% drop in the United States. Swedish unemployment is 9% while U.S. unemployment is over 14%. And the Swedish currency is thriving as well, appreciating 12.5% against the dollar (Book). However, these successes aren't without their consequential failures. As a result of keeping all establishments and businesses open, Sweden has one of the highest Covid-19 deaths per capita. In total, they have reported 80,422 cases and 5,743 deaths, much higher per capita than other Scandinavian countries ("Sweden").
3. **China-** What differentiates China from the previous country is its population. While smaller, less populated countries may be able to survive with a minor lockdown, or none at all, implementing this strategy in larger, more densely populated countries would immediately overburden their healthcare system. Furthermore, as one of the world's largest economies and its biggest exporter, China plays an enormous role in terms of international affairs. Moreover, since China was the first country hit by the coronavirus, it serves as proof of what can be achieved over a longer duration of time. When the

outbreaks first started, the Chinese government responded by imposing strict lockdowns of the major epicenters, including the places of the virus' origin, Wuhan, and surrounding Hubei Province. 130 million people lost their jobs temporarily, and for 25 million of those, "temporary" may mean the remainder of the year (McDonald). After a sharp decline in consumer spending and manufacturing, however, China has made just as quick of a rebound during the second quarter; GDP fell by 6.8% in the first quarter but has risen 3.2% in the second in comparison to the same quarters from 2019. This has been in response to lockdown in Hubei ending but also to strong fiscal policies- tax relief, lowered lending rates, and decreased reserve rates for banks (almost 4 trillion yuan or \$571.76 billion). The ruling party also agreed to spend \$280 billion in order to create 9 million more jobs. From April to June, factory output increased by 4.4%, exports grew 0.3%, and imports rose by 3%. The International Monetary fund expects China to be the only major economy to grow in 2020, at 1.0%, but given the important role that exports play in its economy, China cannot fully recover until the rest of the world economy also recovers (Crossley).

The reason that these countries are currently thriving in comparison to others can be attributed to a couple of factors. First, the economies of these areas were already thriving, allowing them room to be impacted. Secondly, each country developed a unified front, in terms of government action as well as within the public; this same sentiment cannot be said for the United States. In Vietnam and China, with authoritarian, centralized political structures, strict lockdowns were imposed where needed and had to be accepted by the public. In Sweden, the entire country remained open, but the health authorities were held in high esteem despite the difference in their approach from other countries, and people accepted their civic duty and maintained safe practices to protect themselves and others. In the United States, however, lockdowns and other preventative measures varied from state to state and even at times from city to city. Governmental messaging was inconsistent withing the federal system and even within the U.S. executive branch itself. This affects the public as people don't know which authorities to follow and more importantly, which are the correct practices.

Heavily Impacted Economies

- 1. France-** The French GDP is predicted to decrease by 10 percent for 2020 and may take until 2022 to get back to normal, according to the Bank of France. Currently, economic activity is 17 percent lower than normal, the sharpest contraction since 1949. The country's GDP shrank 5.8% during the first three months of this year. This is largely because France enforced a two-month strict lockdown of its 67 million citizens. Consumer spending, a prominent driver of the French economy, decreased 6.1% in the first quarter and even more, 11.4% in the second. Looking at only the differences between February to March, consumer spending dropped by 18%. Even after the lockdown was lessened in mid-May, bankruptcies and unemployment rose. The country has enacted a stimulus package worth 110 billion euros (Thomas), in order to try to contain the shrinkage to 8% of GDP. Spending this much on stimulus packages also has consequences. There is no current plan on how France will deal with this debt accumulating to 112% of their national wealth. Although France had stricter lockdown regulations when compared to neighboring countries such as Spain or the United Kingdom, its economy fared essentially the same.
- 2. Japan-** The effects of Covid-19 were truly the last straw for the Japanese economy, which has been slowing down since late 2018. Japan functions as the world's third largest economy. During the first quarter of this year, its economy shrank at an annual rate of 3.4%, following a 6.4% decline from the last quarter of 2019 (Huang). While Japan did not enforce a total lockdown, it issued a state of emergency and selected lockdowns, severely impacting business and trade. Citizens are suffering two-fold due to the sales tax hike from the previous October as well as the additional effects of the coronavirus. The Japanese government has since announced a \$1 trillion stimulus package, one of the largest in the world. Still, figures indicate that household spending has decreased by 16.2% in May from a year earlier. Wages have also taken a hit. Real wages, a prominent indicator of household spending power, have decreased by 2.1%, with overtime pay falling by as much as 25.8% ("Japan's Economy"). Besides the impact on trade, Japan's tourism industry has also been severely damaged. The postponement of the 2020 Tokyo Olympics and Paralympics, especially, have negated the positive revenue hotels, restaurants, and other venues were expected to gain this year.

3. Thailand- Thailand was one of the first countries to feel the effects of the coronavirus, and its economy has been significantly impacted despite a relatively small number of confirmed infections. Even before the virus had spread to Thailand, they suffered from lack of tourists, as Chinese citizens make up almost 25% of the nation's travelers. Immediately, small entrepreneurs such as flower sellers, traditional dancers, and drivers were impacted. The World Bank expects Thailand's economy to shrink by at least 5% and will take more than two years to recover, meaning for GDP to rise to pre-Covid levels. Citizens across social classes have been suffering due to widespread job losses. As seen with other countries, this severe economic impact has been accompanied by lower infection rates overall. In Thailand's case, this can be attributed to lower levels of tourism, the sector responsible for almost 15% of the nation's GDP. The devastating projections for 2020 include: 6.3% decline in exports, 3.2% decline in household consumption, 8.3 million workers experiencing unemployment or income cuts, and 9.7 million people economically insecure ("Major Impact from Covid-19").

To combat these issues, the Thai government has issued several stimulus packages in hopes of stimulating domestic tourism. In late June, Thailand's government decided on two stimulus packages, worth a total of 22.4 billion baht (or U.S. \$718 million) in order to revitalize the country's economy. The first of these packages is labeled "We Travel Together," approximately 20 billion baht. Hotel rooms, airline tickets, as well as facilities or services offered at tourist destinations, such as food, are offered at 40% subsidized rates. The other part of this package is labeled "Moral Support." Here, the remaining 2.4 billion baht are allocated to fund travel expenses for the approximately 1.2 million health workers and volunteers that have been working hard to help treat coronavirus patients, administer tests, etc. (Medina). Even with these efforts, however, it would be naïve to think that domestic travel would fill the gap created from the absence of international travel. In order to truly revive its tourism sector, the country plans to gradually ease restrictions on foreign visitors, potentially employing "travel bubbles" as shown in Singapore and China.

The underlying factor connecting this set of countries is that they were already struggling before covid-19 heavily impacted their economies. Secondly, although a dip in trade and production is

expected, there are few long-term plans on how to get industries running again. As with many other countries, there is an issue on how legislatures plan on reforming the country for the next two years in order to compensate for the industries that are now underperforming.

Comment [CM1]: Seems you already said that in the previous sentence. A lot of short-term adjustments, but unclear what the long-term strategy is.

Lessons from Previous Recessions/Depressions

When looking back at economic downturn within the United States as well as abroad, there are couple techniques that worked in helping the country recover. In a sense, these are even more important than analyzing current corona responses as we can see how the strategies implemented affected the nation on a longer-term basis. The first is that people need to be the priority. This can be broken down into two aspects- firstly, public health, and then secondly, human capital. As many businesses and industries are having to layoff workers, it is important that this is combatted by helping these individuals regain employment, potentially transferring their skills to a different role. After the Great Depression, numerous state workforce agencies were created in order to provide training or employment to citizens. While the stimulus checks currently being offered are a great immediate solution, they are no way sustainable for the next year, as predictions for when a vaccine will be ready to be administered stretch into 2021.

Additionally, it's important to understand a country's situation before entering an economic crisis in order to accurately judge the situation and develop goals/results. Even in the Great Depression, it was clear that people/places that had longer-term structural problems before the crisis hit, dealt with the toughest recovery. At the time, the lower 10% of earners suffered a loss in income of 2.5 times the richest 10%. Additionally, Hurricane Katrina illustrates about several other risk factors including social exclusion, English proficiency, quality of housing, etc. Many of these factors are being seen today as well. For example, a study done by McKinsey found that the odds of black Americans being laid off or furloughed is 5% higher than their white counterparts (Chang). By analyzing these certain riskier populations, governments can adequately allocate their resources for reform.

Lastly, any crisis requires long-term solutions. Although we have seen this in the current world in regard to research and development in creating vaccines, it is largely absent on the economic front. Granted, this pandemic came as a shock and was something much of the western world hadn't dealt with before 1918. Stimulus packages were crucial in helping the public survive. That being said, there is still a need for creative solutions that will mitigate many of the long-term

effects of recessions mentioned in the introduction of this paper. It is also important to consider the permanently changed world that will rise. In this situation, a plan can't depend on a so-called switch, that after the vaccine is made things will immediately go back to normal. Even if conditions are marginally safer, it's much more difficult to change the public's perception. This has been shown in other countries, where even after cases have dropped to double digits, the general population remains largely quarantined as opposed to immediately returning to their original levels of consumption or tourism. If the situation were short-term, the recovery could be a "V-shaped" or be able to return to "normal" once it was over. However, it is increasingly realized that the impact is longer-term and will accelerate some existing trends in the society, such as the shift to on-line shopping. Thus, the strategies called for require something more than going back to business as usual, but instead need to take into account longer-term socio-economic conditions and trends. Vietnam and Thailand have been excelling in these categories, as explained through Vietnam's change in manufacturing to personal protective equipment and Thailand encouraging domestic tourism.

Recommendations

It's important to note this is a two-pronged effort. Although this paper mainly focuses on economic solutions to the coronavirus pandemic, the economy will never completely recover and have a new growth trajectory until the public health issue is resolved. For that reason, it is important for the United States to provide funds for the research, testing, and manufacturing of vaccines. In the time being, there needs to be a federal effort on educating the public regarding safety measures and uniformity in the associated laws across the nation. Although the U.S. would not be able to maintain the same level of enforcement as China or Vietnam, there still needs to be more proactive efforts, starting with mandating masks nationwide. Following Vietnam, it would also be beneficial for the United States to conduct more tests per positive case of corona. This will help decrease the number of cases and deaths, as well as provide some relief for the currently overburdened healthcare facilities.

One of the most prominent approaches of controlling corona is through the use of lockdowns, another aspect in which the United States is lacking. As explained earlier, Sweden's strategy is only temporarily sustainable as it eventually stresses the healthcare system, a trend already being

seen there. Through the previous examples of Vietnam, China, and France, it can also be seen the positive effects that quarantining has had in relation to coronavirus cases as well as the economy.

The next issue is the use of monetary resources. Although it is important to help unemployed workers and university students, funds also need to be allocated towards food distribution, housing, health care, and other public services, etc. in poorer parts of the nation. As discussed, some areas of the United States are hurt more than others, and it is crucial that they receive the additional help. On that note, some efforts also need to be made to healthcare and other essential workers thanking them for their efforts in these times; it's crucial they are properly compensated for their increased exposure to corona and continuous hard work. Lastly, just as the United States needs to be unified internally at this point in time, the same applies externally for the entire world. The U.S. economy will not be able to succeed until other countries succeed with it, and that goes for every nation. The fact is that the pre-covid economy was a global economy, based on a high-level of trade and human interaction. No economy will be back to normal until there is truly an open global economy once again. For that reason, the U.S. government needs to be actively working with other national leaders and multinational organizations in creating a worldwide solution.

References

- Book, Joakim. "The Economic Performance of Coronavirus Sweden." *American Institute for Economic Research*, 29 July 2020, www.aier.org/article/the-economic-performance-of-coronavirus-sweden/.
- Chang, Wan-Lea, et al. "Lessons from the Past on How to Revive the US Economy After COVID-19." *McKinsey & Company*, McKinsey & Company, 2 July 2020, www.mckinsey.com/industries/public-and-social-sector/our-insights/lessons-from-the-past-on-how-to-revive-the-us-economy-after-covid-19.
- "Coronavirus: US Economy Sees Sharpest Contraction in Decades." *BBC News*, BBC, 30 July 2020, www.bbc.com/news/business-53574953.
- Crossley, Gabriel, and Kevin Yao. "China's Economy Has Rebounded after a Steep Slump - but Challenges Lie Ahead." *World Economic Forum*, 16 July 2020, www.weforum.org/agenda/2020/07/chinas-economy-rebounds-after-steep-slump-u-s-tensions-weak-consumption-raise-challenges/.
- Dabla-Norris, Era, et al. "Vietnam's Success in Containing COVID-19 Offers Roadmap for Other Developing Countries." *International Monetary Fund*, 29 June 2020, www.imf.org/en/News/Articles/2020/06/29/na062920-vietnams-success-in-containing-covid19-offers-roadmap-for-other-developing-countries.
- Dam, Andrew Van. "The U.S. Has Thrown More Than \$6 Trillion at the Coronavirus Crisis. That Number Could Grow." *The Washington Post*, WP Company, 15 Apr. 2020, www.washingtonpost.com/business/2020/04/15/coronavirus-economy-6-trillion/.
- Delteil, Bruce, et al. "Emerging From the Pandemic, Vietnam Must Position Itself for Recovery." *McKinsey & Company*, McKinsey & Company, 2 July 2020, www.mckinsey.com/featured-insights/asia-pacific/emerging-from-the-pandemic-vietnam-must-position-itself-for-recovery.
- Heath, Ryan, and Beatrice Jin. "Ranking the Global Impact of the Coronavirus Pandemic, Country by Country." *Politico*, 21 May 2020, www.politico.com/interactives/2020/ranking-countries-coronavirus-impact/.

Huang, Eustance. "Japan's Economy Has Been Dealt the 'Final Blow' by the Coronavirus Pandemic, Says Analyst." *CNBC*, CNBC, 7 Apr. 2020, www.cnbc.com/2020/04/07/japans-economy-has-been-dealt-the-final-blow-by-the-coronavirus-pandemic.html.

"Japan's Economy Falls into Recession as Virus Takes Its Toll." *BBC News*, BBC, 18 May 2020, www.bbc.com/news/business-52570721.

"Major Impact from COVID-19 to Thailand's Economy, Vulnerable Households, Firms: Report." *World Bank*, 30 June 2020, www.worldbank.org/en/news/press-release/2020/06/30/major-impact-from-covid-19-to-thailands-economy-vulnerable-households-firms-report#:~:text=While Thailand has been successful,tourist arrivals since March 2020.

Medina, Ayman. "Thailand Issues Stimulus Packages to Boost Domestic Tourism." *ASEAN Business News*, 9 July 2020, www.aseanbriefing.com/news/thailand-issues-stimulus-packages-boost-domestic-tourism/.

McDonald, Joe. "China's Economy Rebounds After Coronavirus." *Time*, Time, 16 July 2020, time.com/5867556/china-becomes-first-major-economy-to-rebound-after-coronavirus/.

Thomas, Leigh. "Coronavirus Lunges French Economy into Worst Post-War Slump." *Reuters*, 30 Apr. 2020, www.reuters.com/article/us-health-coronavirus-france-economy/coronavirus-plunges-french-economy-into-worst-post-war-slump-idUSKBN22C0P2.

"Sweden." *Worldometer*, 2 Aug. 2020, www.worldometers.info/coronavirus/country/sweden/.

"The Global Economic Outlook During the COVID-19 Pandemic: A Changed World." *World Bank*, 8 June 2020, www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world.

Worldometers.info. "Covid-19 Coronavirus Pandemic." *Worldometer*, 31 July 2020, www.worldometers.info/coronavirus/.