The Impact of Coronavirus on Economy and Economic Policy Actions

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RESUMO

O mais novo desafio que o mundo enfrenta, a pandemia do Covid-19, trouxe grandes mudanças na ordenação interna de todos os países, a maior delas sendo as modificações na economia dos mesmos. Este artigo busca introduzir conceitos básicos de economia, juntamente com o contexto atual da pandemia, e estudar diferentes líderes de países e como estes estão lidando com o novo cenário mundial, com o objetivo de entender a seriedade dos impactos esta pandemia está tendo em países despreparados, e até mesmo naqueles que deram a devida atenção a doença.

Palavras-chave: Covid-19; Políticas Economicas; Pandemia; Economia.

ABSTRACT

The newest challenge the world is facing, the Covid-19 pandemic, brought major changes in the internal ordering of all countries, the largest of which being the changes in their economies. This article seeks to introduce basic concepts of economics, together with the current context of the pandemic, and also studies different country leaders and how they are dealing with this new world scenario. The main point being, so that could it be better noticed the serious impacts this pandemic is having on unprepared countries, and even in those who gave due attention to the disease.

Keywords: Covid-19; Economic Policies; Pandemic; Economy.

INTRODUCTION

In this paper it will be explored the main concepts of Economy and Economics so it can be better understood how they are connected, what is the actual difference between them and how they pose an important role to understand the countries. After it will be further explained with a case study method, what is the Covid-19 (coronavirus) pandemic and how it affected the economy and economics of 3 distinct countries and the whole world. The different measures of each of these countries and how they are working for them are also going to be explored along with data analyses and a focused view on their policy actions.

ECONOMICS AND ECONOMY

Economics

Starting with the explanation of the two core concepts, Economics and Economy. Beginning with Economics, which is the study on "...how societies use scarce resources to produce valuable (PAUL A. Samuelson; WILLIAM 2009, p. 27), this concept relies on the of the economic policy actions and how they work, basically explaining how policy makers should manage their resources towards different areas so that they would be used in the most effective way possible and economics is also about how to "...pursue important goals such as rapid economic growth... full employment, price stability, and a fair distribution of income." (PAUL A. Samuelson; WILLIAM D. Nordhaus, 2009, p. 27).

Economy

Now the Economy concept, economy is essentially the economics that plays in a certain area, if it's said that economics is the theory then economy would be the practice in a region. Economy also has more than one concept, countries for exemple can have different types of economy, such as a market-based economy like the United States, which would be a country that relies on the marketing regulating itself (the invisible hand by Adam Smith would apply here), although all the market-based economies are a mixed economy since all of them have at least a little regulation at some point, as will be further explored in this paper, and another type of economy would be the Command-based economies such as North Korea or China, this mode relies on a central agent that controls the prices and distribute the goods so the market would work by this agent means.

COVID-19 AND THE WORLD

As a last concept before getting into the actual impact of Covid-19 in the economy and economic policy actions that will be discussed is what is the coronavirus. The coronavirus or Covid-19 is a fatal viral disease that had it first appearance at Wuhan a city in China, because of the 14 days incubation period, how infectious this disease is and China having a huge inflow of people from all over the world, the coronavirus spread rapidly to every country. Since a few countries couldn't or wouldn't respond in a faster and stronger way, the Covid-19 had turned in a world pandemic creating several economic crises all around the globe in just a few months of its appearance.

One of the crucial changes in how the countries are dealing with this situation is the beginning of an inward-looking system from almost all the States so they could try to reorganize themselves from the inside and control the crisis. The inward-looking is an economic policy where the players tend to focus on their national industries, market, products and so on, deliberately shutting themselves off international trades, this is something that happened right after World War 1 and led to a big recession in all the States. But back then the United States was able to pass this crisis faster and take advantage of the situation by becoming the only one who could help this countries have a faster recovery and because of this new allies and debts, the USA would grow much faster later on (until the great depression), a strategy that China is now using more and more throughout this crisis.

CASES STUDIES

For a more inside view this paper will now show and discuss 3 specific countries that were affected with the pandemic, how these States have been dealing with the impacts and how the economic policy actions are being used. The countries are Brazil, France and Germany, it is important to know that they took different measures and have different levels of economies, Brazil for example is passing through a political crisis and have been recovering from a economic recession since 2014 (BBC NEWS, 2019), the cenarios from all of these countries are different therefore the measures were different as well and the impacts of this pandemic were felt much harder in the ones that weren't prepared for it or did not take it serious enough.

France

Starting with France, the president Emmanuel Macron made a very early and strong pronouncement where he even call's the corona "the invisible enemy", for this and the early measures like social distance, campaigns to stay home, canceled events, schools closing and others it was thought that it may be enough. The problem was "the French responded by partying in the spring sunshine in large groups of friends and families" (HEALTHCARE IN EUROPE, 2020) and because of this the state went in a lockdown in mid april and felt the harsh consequences of this pandemic having the highest death rate among all theses three countries that are been analysed (WORLDOMETER, 2020).

About the economic measures taken by France, first it's necessary to understand that the State is a mixed economy meaning that both the private sector and government will have an impact on the financial market, and also 70% of its economy comes from the third sector (SANTANDER TRADE MARKS, 2020). This means that it can be expected from the pandemic to have a huge impact on the economy since the measures such as the social distancing and the quarantine affects directly the workers making almost impossible to keep the marketing flowing the way it should.

The economic policy actions that the french government chosen were mostly financial ones, for example it was mobilized 45 billions (EUR) to postpone taxes and refunds for every-one that was affected by this situation, and also it was promised by the president Macron a 300 Billion (EUR) of bank loans to entrepreneurs so it can be avoided the mass unemployment and bankruptcy that the whole country would face during this crisis. Even though these measures are very helpful for the businesses they have a big impact on the country public finances making France's debt be more than 15% higher than in 2019 (FRANCE24, 2020).

Germany

Regarding Germany, the German chancellor Angela Merkel handled the situation in the best possible way, the government saw the crisis rising quickly in Italy and other countries and decided to take a fast action even before the crisis hit Germany. This gave the country an almost 2 week headstart from all the other States and they used it, putting the lockdown mesures, closing borders and the quarantine period on so that when the crisis hit the country they would be in he best shape to deal with it, that along with the great healthcare system and the big amount of coronavirus tests available to them were the reason of Germany's success in the combat against the Covid-19.

The economic measures taken by Germany were also based on its mixed economic base, the services having

69% of the GDP share and the industry 24% (Statista, 2020) also having a big impact on the economy for the same reason as France. For this, the path chosen by the government was austerity and spending cuts so that the country would suffer a weaker impact than they would if they hadn't made use of these measures together with the ones explained in the last paragraph concerning the society.

Still concercing the economic measures, similar to France they were based on fiscal policies focusing on distributing the income and reducing taxes, the first was the government taking a loan of 156 Billion (EUR) to keep on the projects for sustaining the economy in the crisis such as supplementing the salary of employees with reduced working hours, fund to support corporate debts, loans and collection of taxes. Even though the results are satisfying and the government is already choosing the best way to reopen sectors that were freezed for the quarantine period Germany is still expected to have a downfall of 4,2% on it's GDP in 2020 (IFO, 2020).

Brazil

For the last example, Brazil and how the country is handling the crisis. The brazilian president Jair Messias Bolsonaro didn't actually managed the situation very well, the government did started the confinement period quite early and was at the beginning trying to make through the situation in the best possible way, but as it was in France the population did not helped they wouldn't recognize how serious it was and kept on going to vacations, schools and so on. The situation was already bad enough but it gotten even worse in the beginning of april where the less fortunate part of the population had to work otherwise they would starve and the only measure the president did was to give 600,00 R$ to each person above 18 years old that was eligible to get the help, this was clearly not enough to get through this months and it was also a broken system since most of the people couldn't even get this money out of the bank.

Another financial policy that the president made was to get 125 Billions (R$) out of a fund and give it to the 27+1 states in Brazil (SENADO NOTÍCIAS, 2020) so they could manage better the situation, the other action was to suspend all the ongoing debts of the states so they could use this money towards their health care system and the combat against the Covid-19. A few smaller changes were the prohibition of increasing salaries in the public areas and that the government no longer can hire or make new vacancies for public jobs. The problem with the first policy mentioned is that most of the brazilian states weren't prepared for this crisis, their health care system is not enough and this money also isn't enough for the necessary changes.

Even with all the ongoing difficulties "Bolsonaro, Brazil's president, has consistently downplayed the crisis, saying the new coronavirus is nothing but a "little flu" that has to be faced "realistically"." (EURONEWS, 2020), this position for the president of a country is unacceptable and it is making the part of the population that still supports him to downplay this pandemic as well, they are having rallies and gatherings to support his ideas and this is being which is worsening the spread of the virus in a country that can't handle it very well. The former health care minister Luiz Henrique Mandetta was against Bolsonaro's speech about how serious the pandemic actually was, with a few weeks of his disagreements in how the president was handling this crisis, he was fired.

COVID-19 OVERVIEW

This whole scenario gives a good idea on how a country that is going through major political changes and is recovering itself from a recent economic crisis has difficulties to handle a pandemic like this one. The unemployment rate has risen to almost 15% and the GDP is at -5,3%, the Covid-19 crisis was able to reach the same numbers that tooked the 2008 financial crisis three whole years in just three months (WORLD ECONOMIC FORUM, 2020), the cases of Covid-19 in France and Germany are still higher than in Brazil, the difference is at the quantity of cases per day in these countries, while France and Germany have both less than 900 cases per day, Brazil is now having more than 7,100 cases in just one day (WORLDOMETER, 2020) because of that, unfortunately is just a matter of time until Brazil reaches these other two countries and pass them in the total amount cases. And here is a graphic comparing these three countries in two different areas along the last 4 years.

Graphic 1 - Real GDP Growth (in percentage)

Real GDP Growth (Anual)

Countries	2017	2018	2019	2020
France	2.3	1.7	1.3	-7.2
Germany	2.5	1.5	0.6	-7
Brasil	1.3	1.3	1.1	-5.3

Source: IMF DataMapper. Access April. 2020. Organized by the author.

Graphic 2 - Unemployment rate (in percentage)

Unemployment Rate				
Countries	2017	2018	2019	2020
France	9.4	9	8.5	10.4
Germany	3.8	3.4	3.2	3.9
Brasil	12.8	12.3	11.9	14.4

Source: IMF DataMapper. Access April. 2020. Organized by the author.

CONCLUSION

Taking a look at the world, the harsh impacts that the Covid-19 pandemic has caused in the economy are clear, the macroeconomics and financial outcome of the coronavirus are terrible and it is also interesting to mention how far the countries are from an actual full market-based economy, as it was visible all the countries needed a government intervention on the market so they could survive in this crisis. The unemployment rate has been rising alongside with the GDP growth going down in all the countries, the policy makers have to find a way to combat this crisis and minimize its damage to the economy. But the main goal right now should be stopping the spread of this virus, this is what will bring an end to the crisis making it crucial for the countries to have an effective quarantine period, regardless of the impact on the economy its more important to save lives. It's also important to remember that the text was written in may of 2020, new events, more datas and else will happen, meaning that some of the ones used here could be outdated.

Notas

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