

# Covid-19 crisis and Economic Recovery

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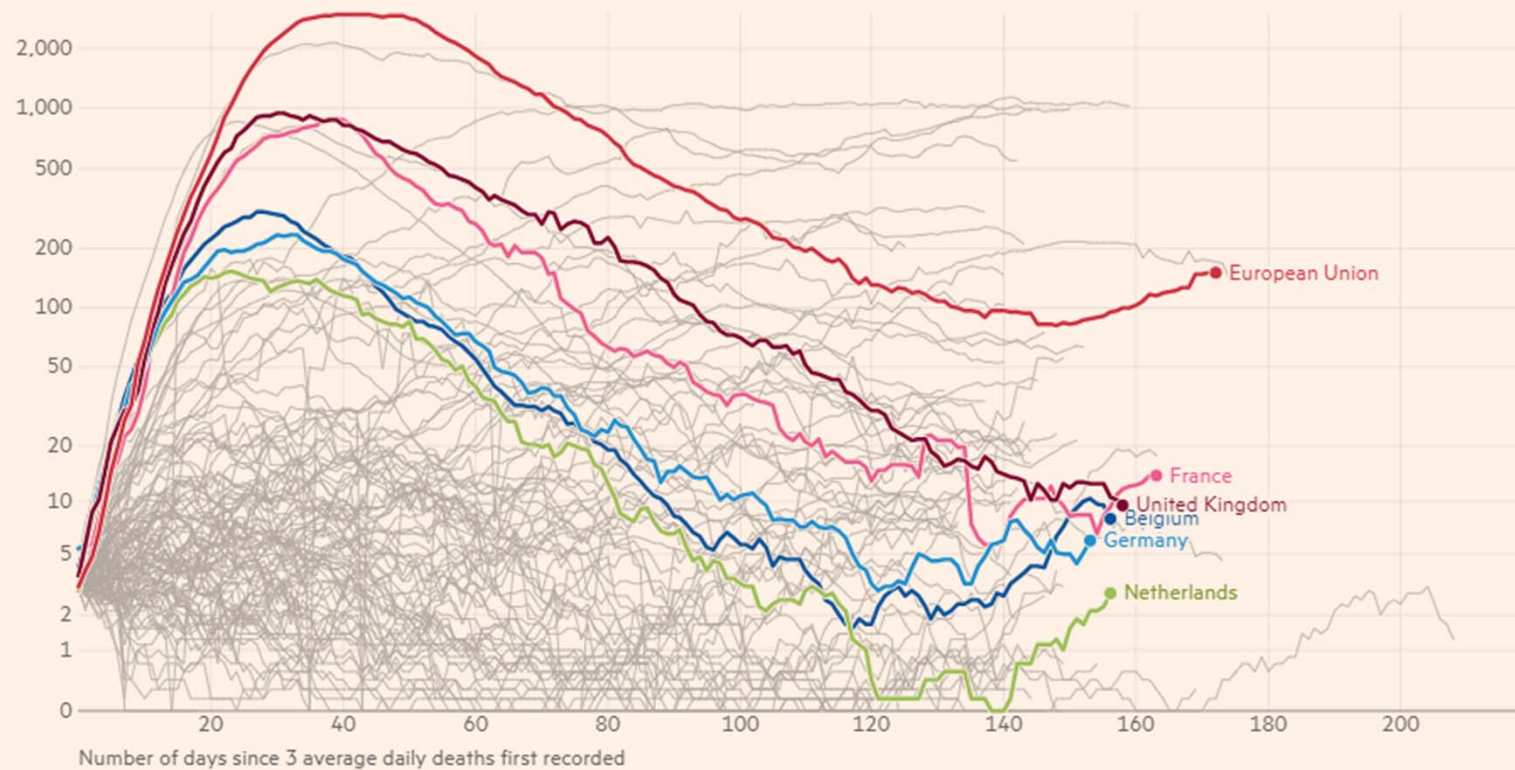
# Roadmap

- Economic costs of Corona crisis
  - Length and Depth of the Recession?
  - Mix of economic Policies to flatten the recession curve
- Aftermath of Corona crisis
  - End of globalization?
  - End of productivity Growth?
- Policy Implications

# Health Impact of Covid-19

New deaths attributed to Covid-19 in Belgium, France, Netherlands, Germany, United Kingdom and European Union

Seven-day rolling average of new deaths, by number of days since 3 average daily deaths first recorded



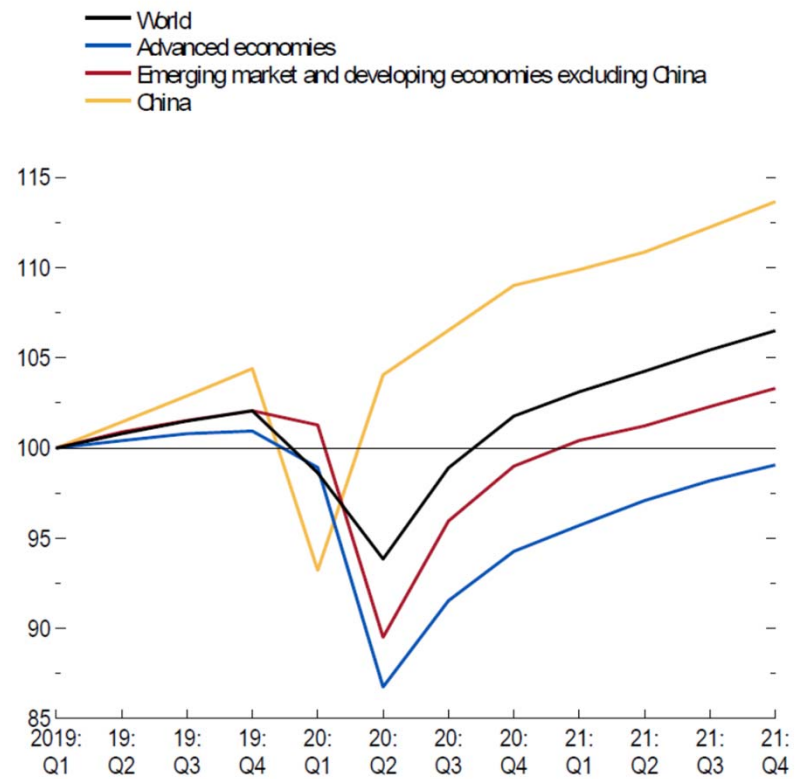
Source: Financial Times analysis of data from the European Centre for Disease Prevention and Control, the Covid Tracking Project, the UK Dept of Health & Social Care and the Spanish Ministry of Health. Data updated August 20 2020 11.10am BST. Interactive version: [ft.com/covid19](https://www.ft.com/covid19)

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# Part 1

## Economic Costs of the Corona Crisis

**Figure 1. Quarterly World GDP**  
(2019:Q1 = 100)

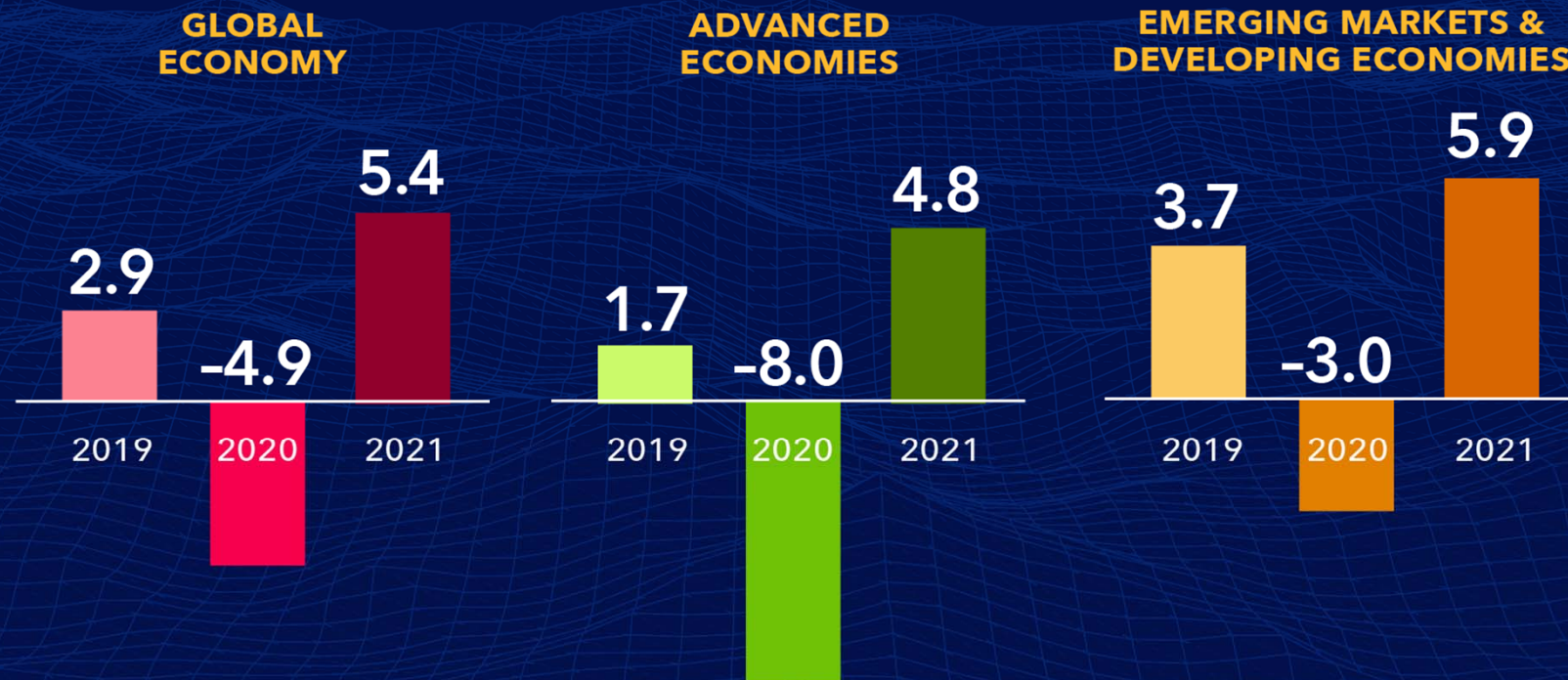


WEO update, June 2020 <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

WORLD ECONOMIC OUTLOOK UPDATE JUNE 2020

# GROWTH PROJECTIONS

A Crisis Like No Other, An Uncertain Recovery



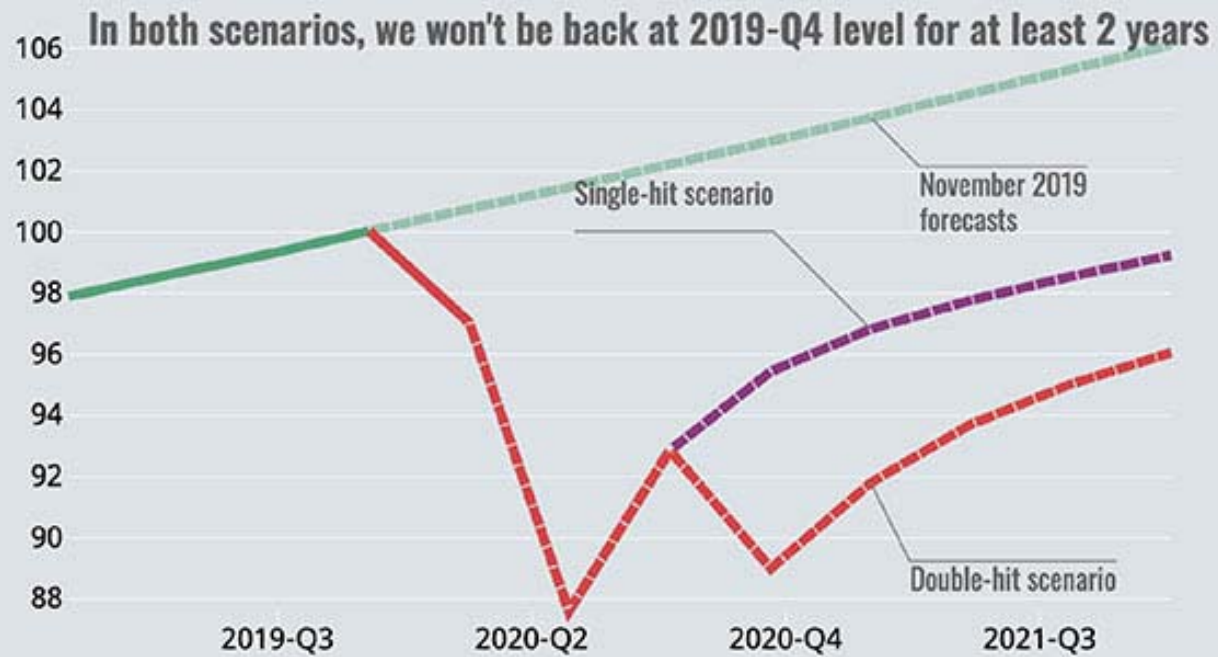
INTERNATIONAL MONETARY FUND

IMF.org #WEO

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## A collapse in output followed by a slow recovery

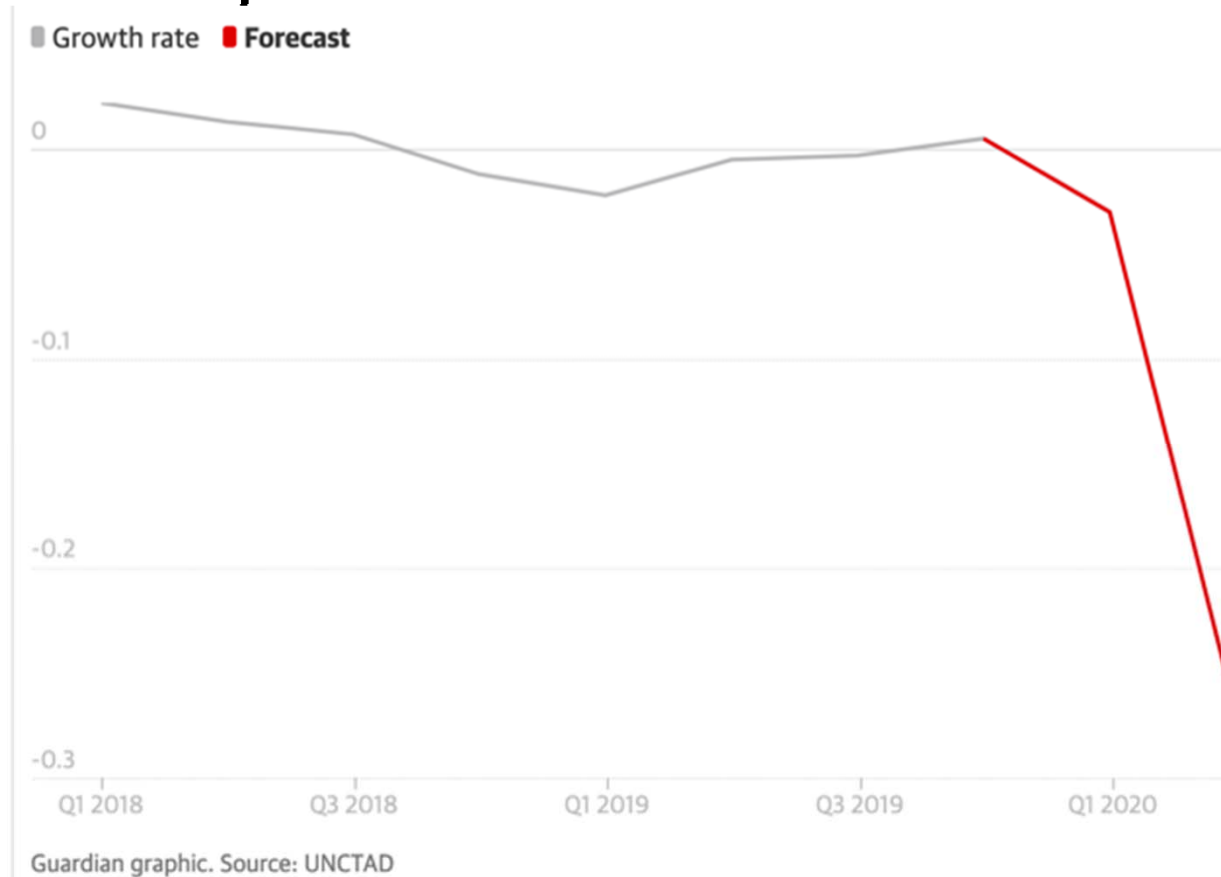
World GDP, index 2019-Q4=100



Source: OECD (2020), 'OECD Economic Outlook No. 107 (Edition 2020/1)', OECD Economic Outlook: Statistics and Projections (database).

OECD, June 2020. <http://www.oecd.org/economic-outlook/june-2020/>

# Global trade could fall by 27% in the second quarter of 2020



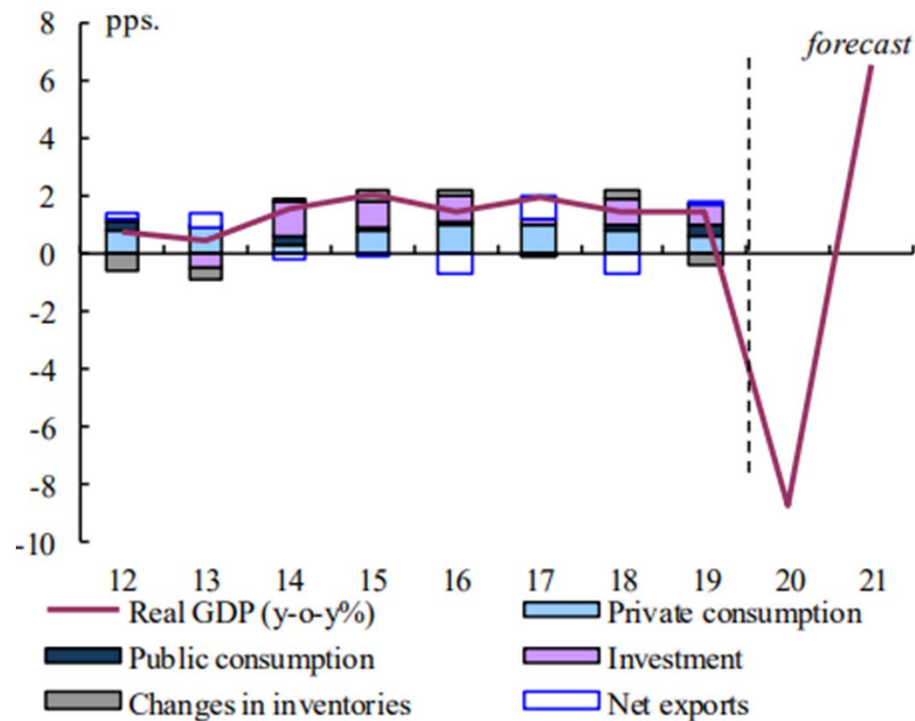
- Though, China reopened after COVID, its economy still operates at 60 to 80% only
- Demand from advanced countries is not picking up any time soon

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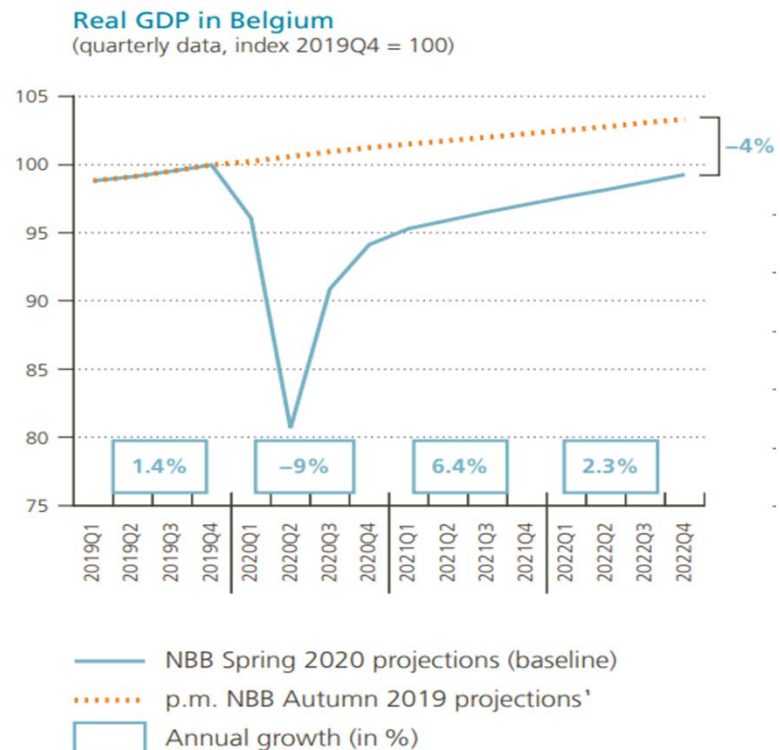
Source: The Guardian, UNCTAD



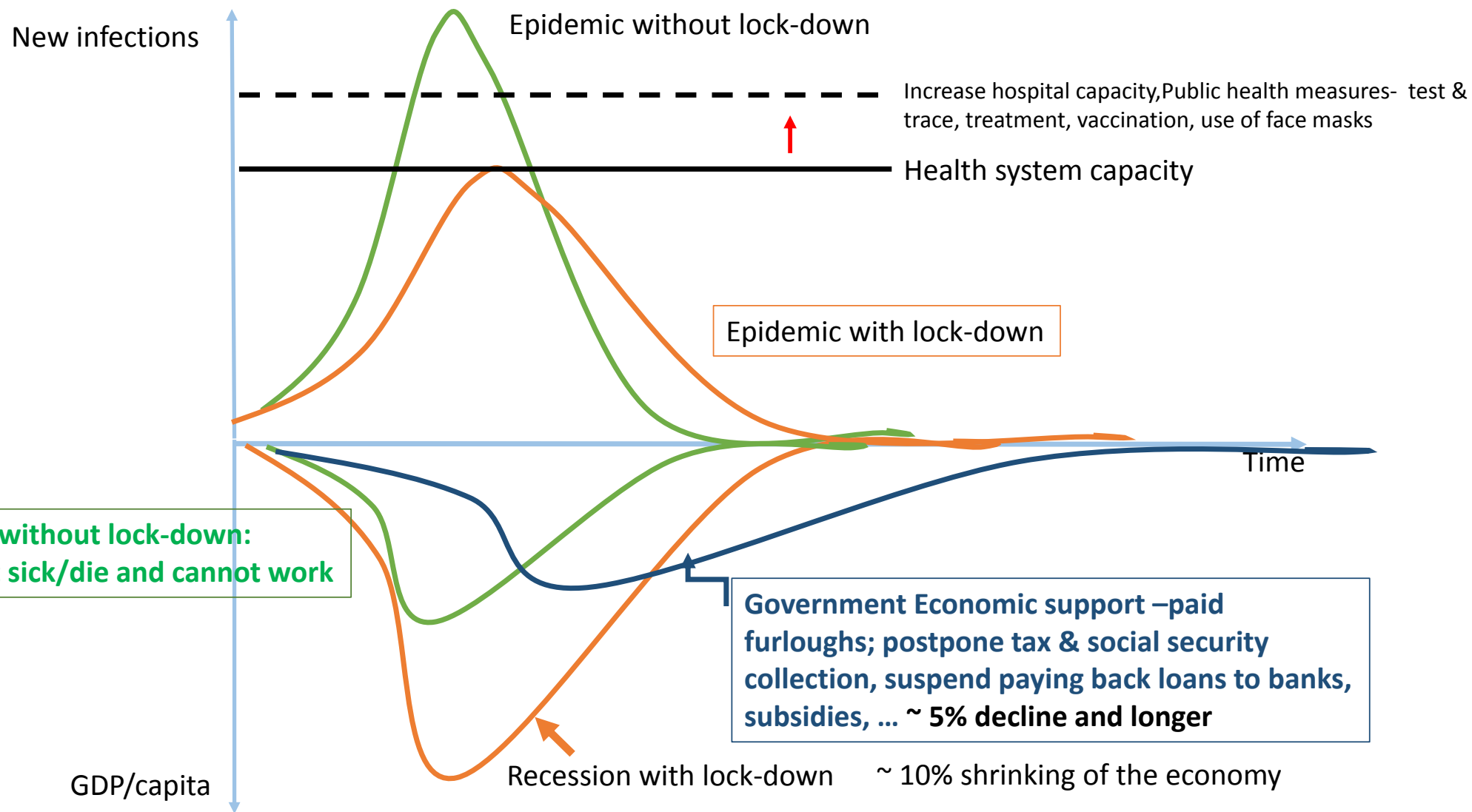
# Evolution GDP Belgium and forecast



Belgium - Real GDP growth and contributions. Source: Summer 2020 economic forecast European Commission.



Source: NBB spring 2020 economic projections



Adapted by Konings J & Konings E, from Gourinchas, P. (2020). 'Flattening the pandemic and recession curves'

Steuerdag CRB 28 Augustus 2020

# Direct and Indirect Effects on the Economy

- Round 1: supply side disruptions and large death toll generates heightened uncertainty and panic for households and businesses
- Round 2: heightened uncertainty and panic leads to drop in consumption and investment.
- Round 3: large drop in demand dries up corporate cashflows, triggering firms' bankruptcies
- Round 4: layoffs and exiting firms generate sharp rise in unemployment+lower entry
- Round 5: Labour income falls significantly and non-performing loans spike up, which weakens demand and increases uncertainty further. Back to round 2 for another loop!

# Flattening the Recession Curve

## Measures

### Federal government

- System of technical (temporary) unemployment for 70% of gross income, up to € 1,928.33 (until 31/08/2020).
- Postponement of several tax payments like VAT, personal income taxes, ...

### Flemish government

- Monthly premium for self-employed of €2,000 if revenue decreases by more than 60% (until 31/08/2020). Until 12/06/2020, the premium amounted to €3,000.
- Monthly premium for self-employed of up to €1,614 in case of obligatory closure or interruption of more than 7 days and for a period thereafter (until 31/12/2020).
- Daily subsidy of €160 in case of obligatory closure of the firm. Until 06/04/2020, the subsidy consisted of a monthly amount of €4,000.

# Measures that make sense

## Issue

- Firms/households experience (large) fall in revenues but still have to cover fixed costs  
(see VIVES Briefing: *Ondernemingen met hoge vaste kosten en kleine winstmarges meeste geholpen met subsidies*, Bormans & Konings (2020))

## Measures

### Federal government

- Allow households to postpone home loan (until 30/09/2020).

### Flemish government

- Change policy: No lump sum anymore for firms but percentage of fixed costs (fixed costs estimated at 15% of revenues ; limited to €15,000/firm; if revenue decreases by more than 60%).
- Borrow two months of rent to firms in event sector (if owner remits 1 or 2 months of rent; limited to €35,000).
- Premium for households to cover electricity and water (€203; temporarily unemployed)

### City government

- Antwerp provides a financial compensation for day care centers to cover fixed costs (€64/child)

# Part 2: The aftermath

End of globalization?

End of productivity growth?

# Key economic trends which were already in place have now been accelerated

- Protectionism

- De-globalization

- Productivity Puzzle

- Declining Business Dynamism

***Covid-19 is accelerating these trends:***

- ***Disrupted GVCs***
- ***Collapsing Export Demand***
- ***Shifting consumer tastes***
- ***Increased political tensions towards China, Russia, but also within EU***

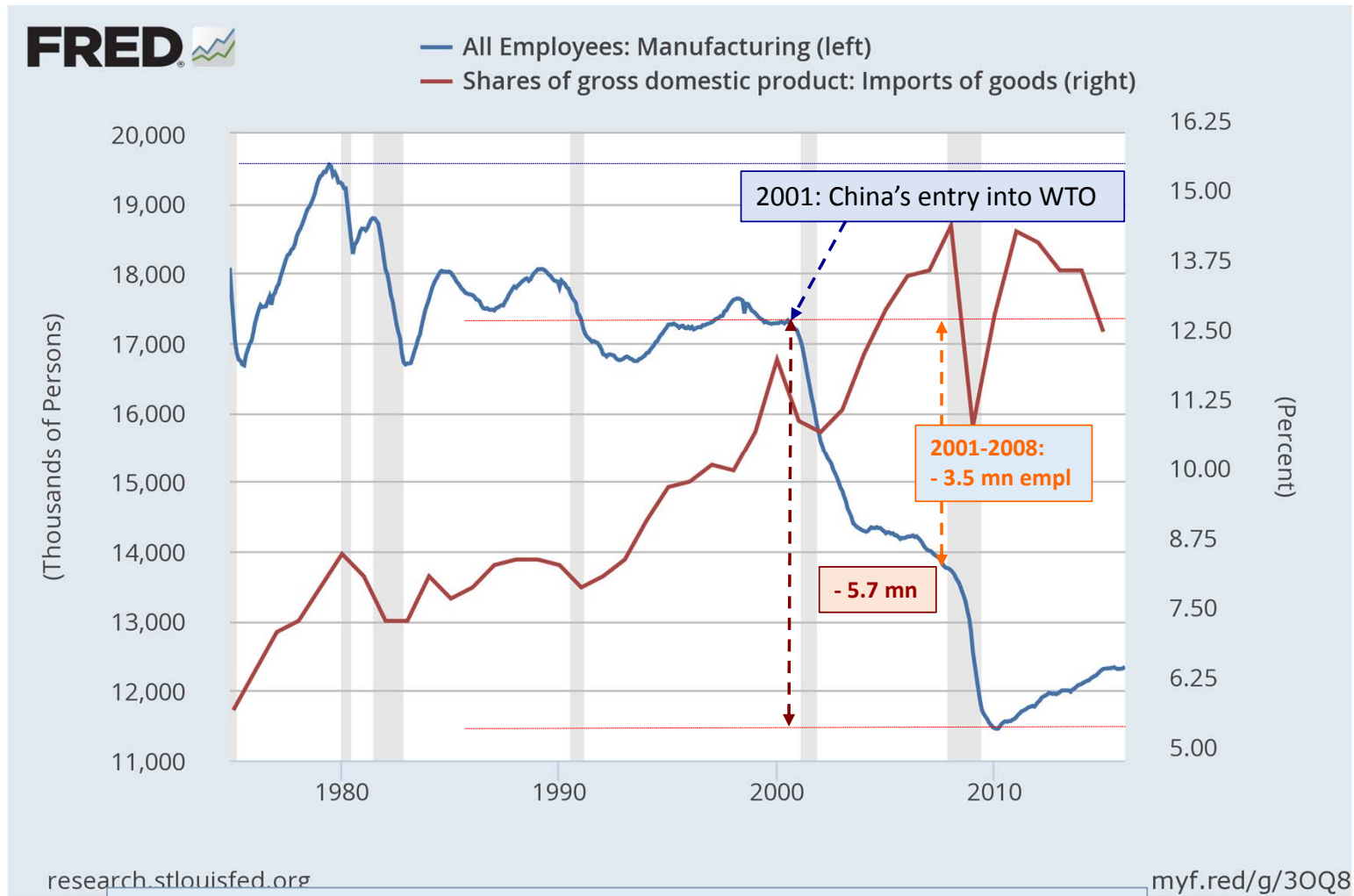
***Covid-19:***

- ***Lower firm entry***
- ***Lower firm growth***
- ***New ways of production (teleworking)***

# Protectionism



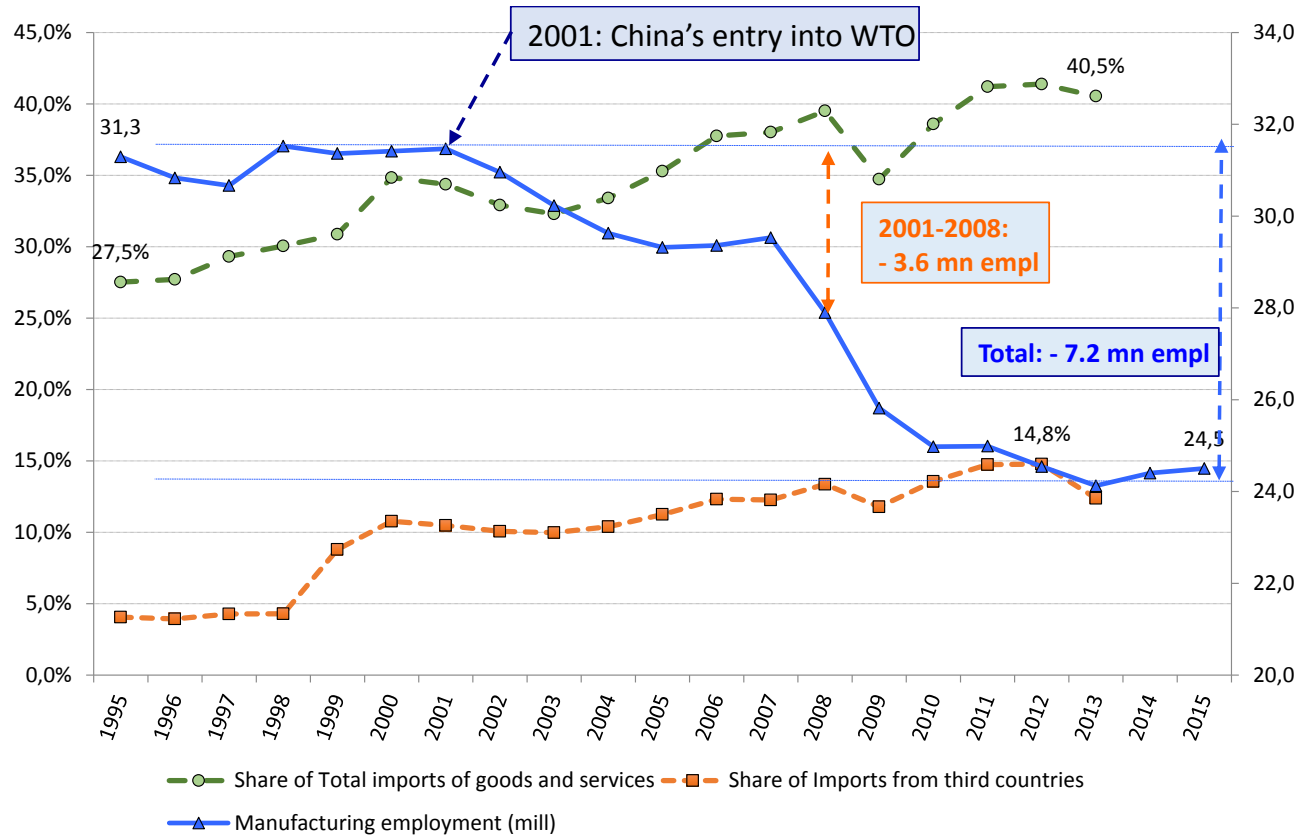
# A: US manufacturing employment & import share



**China shock:** after 2001  
3.5 mn manufacturing jobs lost between 2001-2007

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## EU-15 manufacturing employment & import share



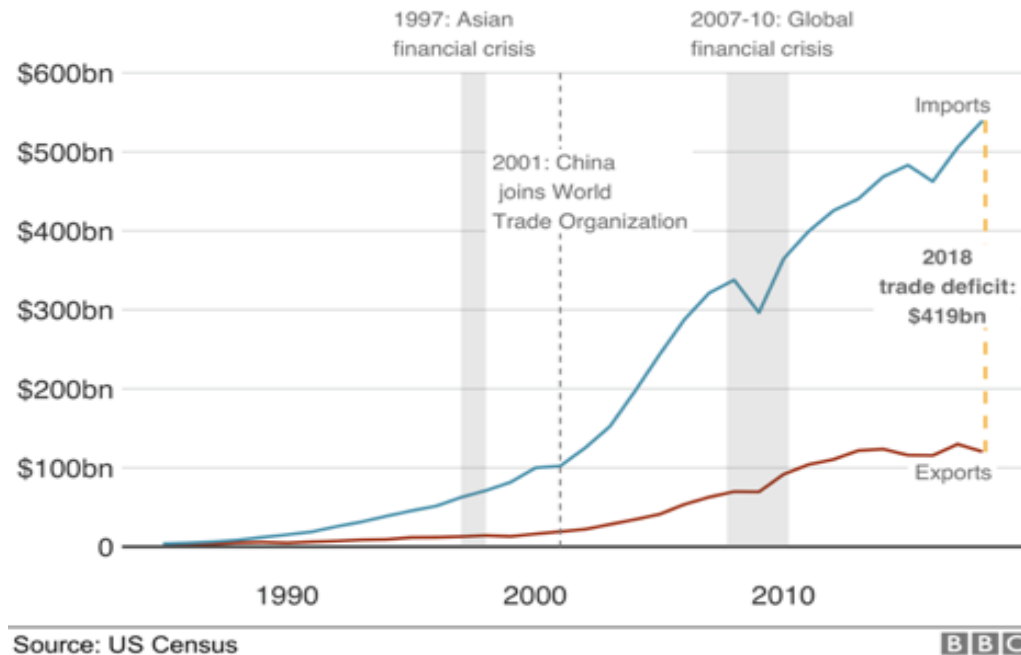
**China shock: after 2001**  
 Studiedag CRB 26 Augustus 2020  
 3.6 mn manufacturing jobs lost between 2001-2007

# What is at stake?

Trump's goal is to decrease massive US deficit with China

## US trade with China

US trade deficit with China has soared since 1985

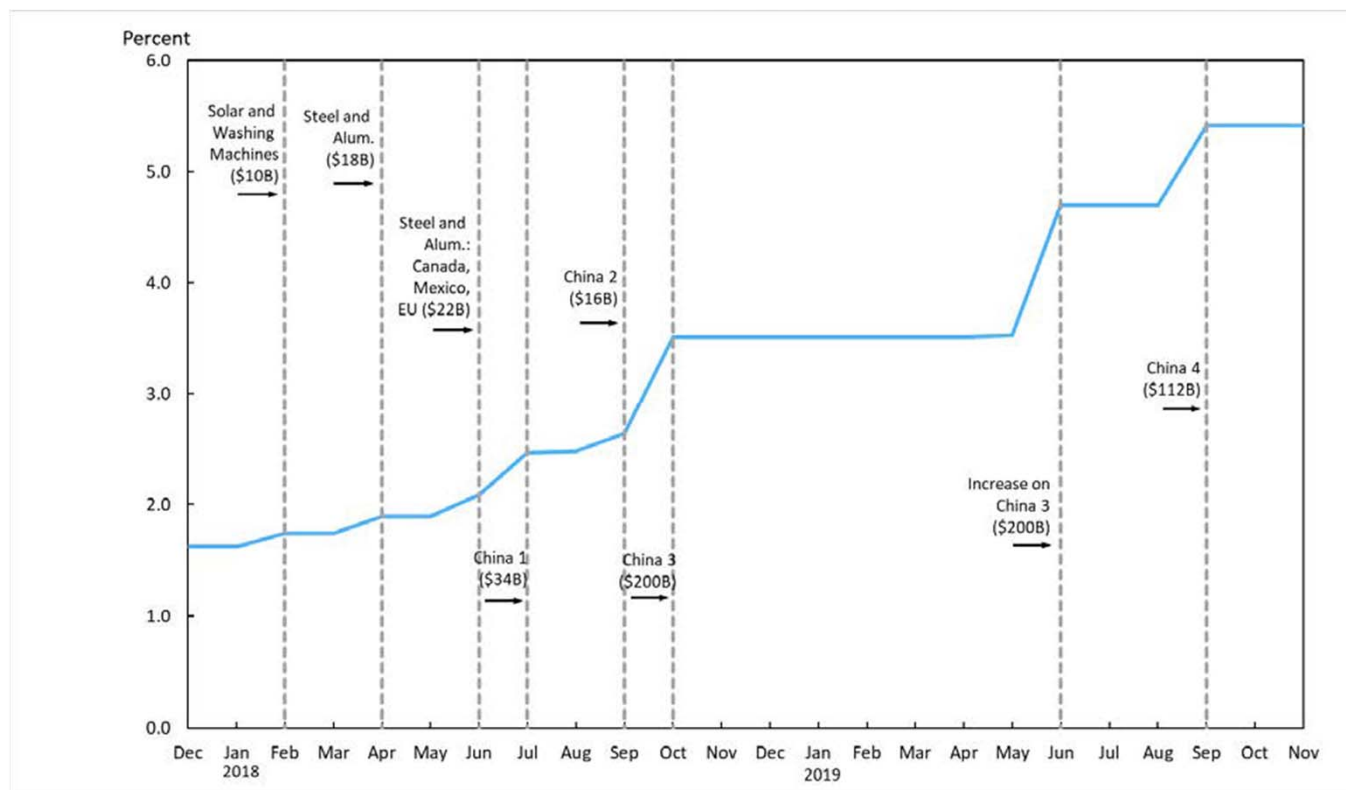


- China's exports to US: \$540 bn (2018)
- US exports to China: \$130 bn (2018)

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# Trump's trade wars with China, EU, Mexico, Canada,...

## Average U.S. Tariffs by Wave of the 2018-2019 Trade War



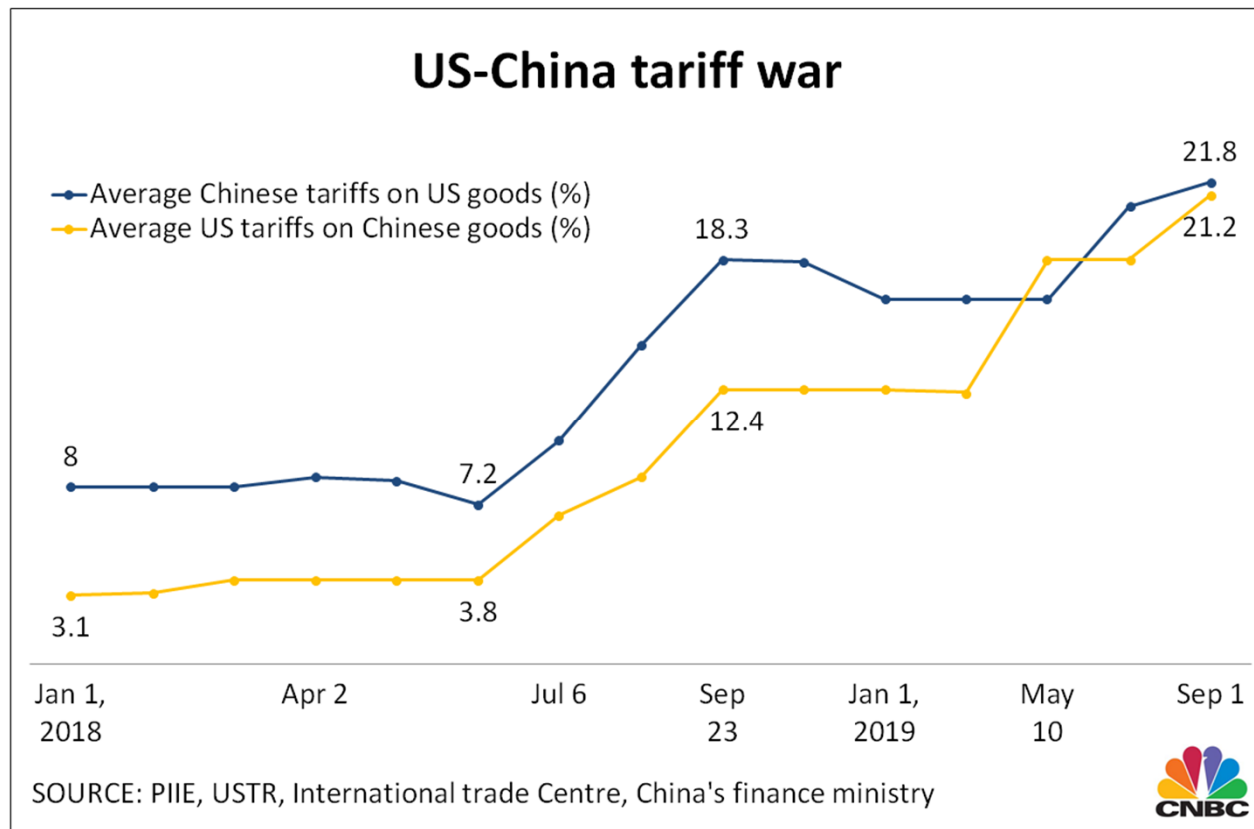
- 8 waves of tariff increases in 2018-2019
- Affecting \$612 bn of US imports, equivalent to almost 4% increase in average US import tariff

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Source: Amity, Redding & Weinstein, [Who's Paying for the US Tariffs?](#), NBER, 2020

# Consequences: Retaliation by affected trade partners

## China's response to US tariffs hikes

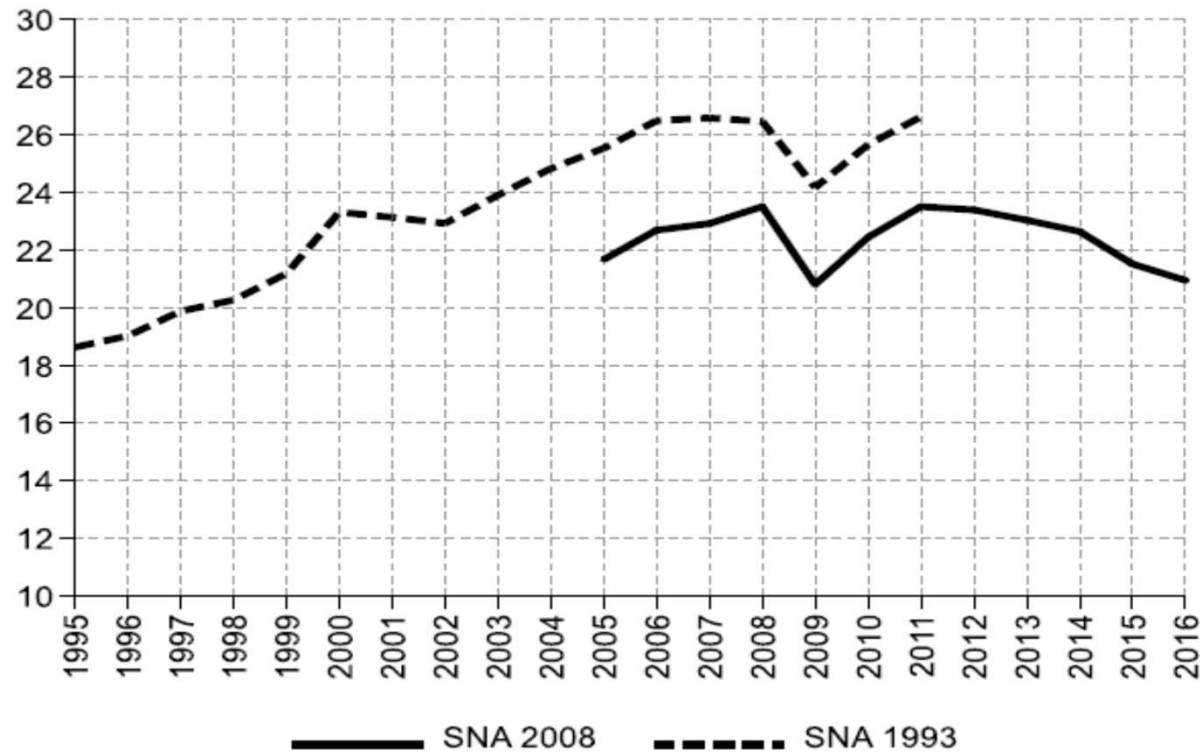


- US increases average tariff on China's goods from 3% to 21%
- China responds with tariffs increases on US goods from 8% to 22%

# De-Globalization

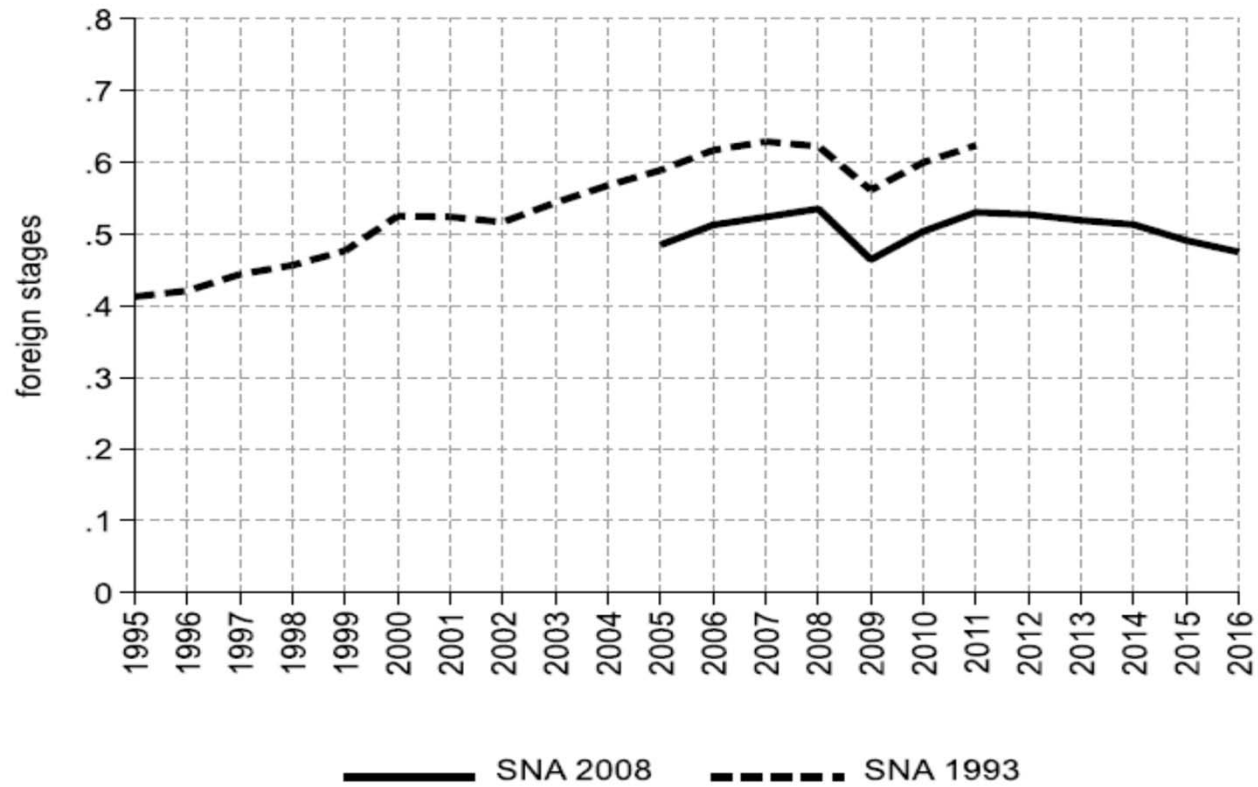
# Foreign Value Added in Exports Declines since 2012

source: Miroudot & Nordstrom (2020)



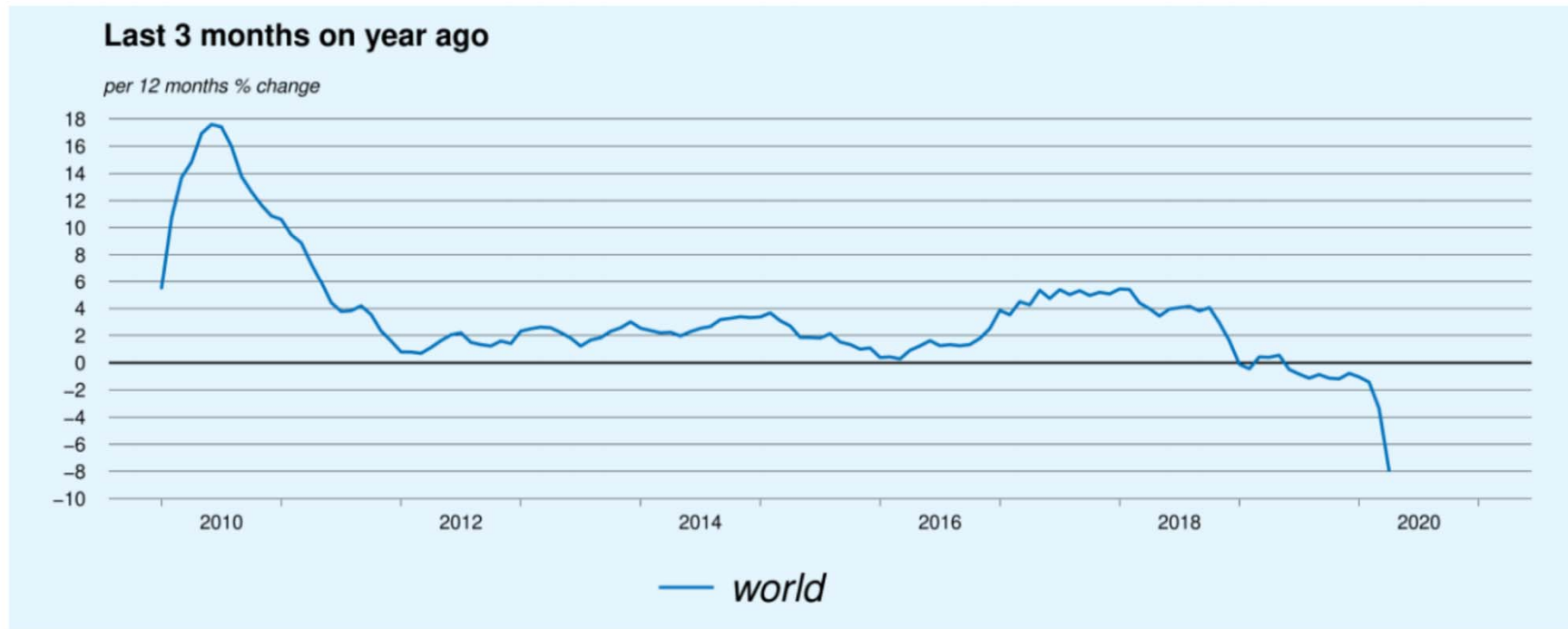
# Index of # Foreign Production Stages declines since 2012

source: Miroudot & Nordstrom (2020)





## WORLD MERCHANDISE TRADE VOLUME, CHART 3



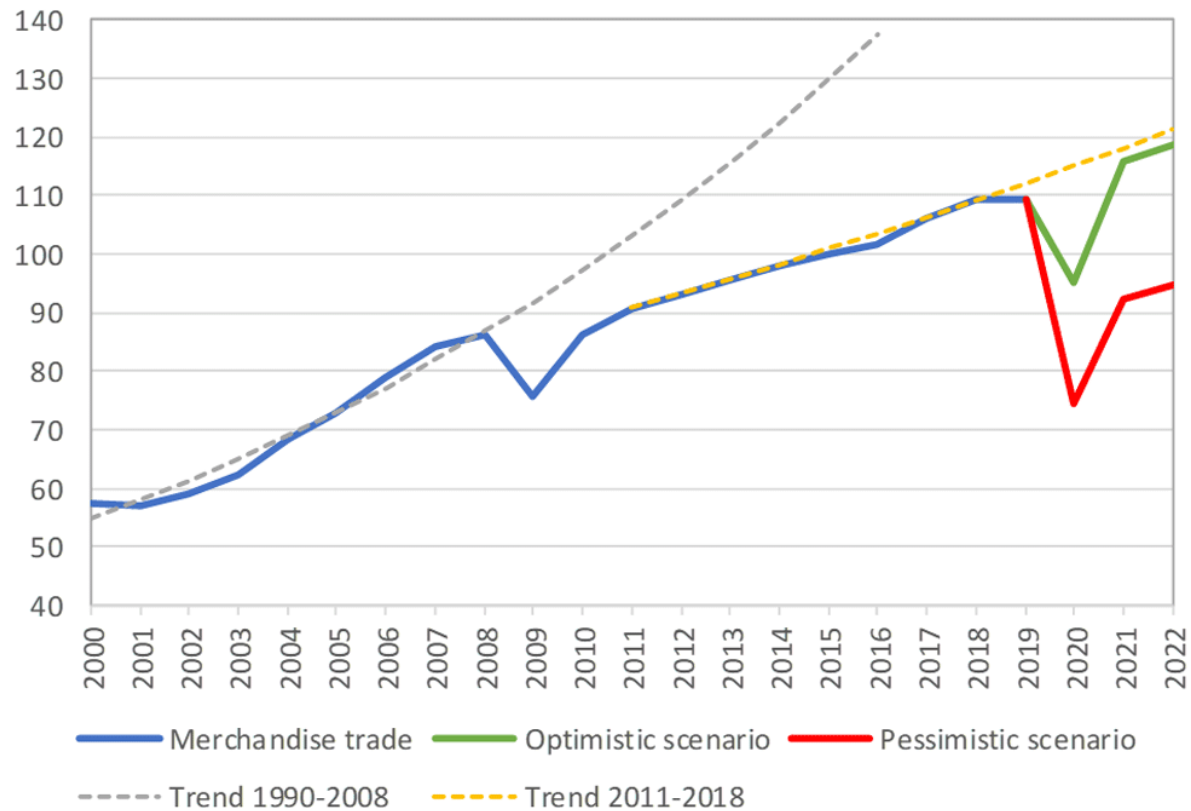
Netherlands Bureau for Economic Policy  
Analysis, June 2020.

<https://www.cpb.nl/sites/default/files/omnidownload/CPB-World-Trade-Monitor-April-2020.pdf>

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# Trends in World merchandise trade volume, 2000-2022

(2015=100)



- New downward revision of the global trade trend

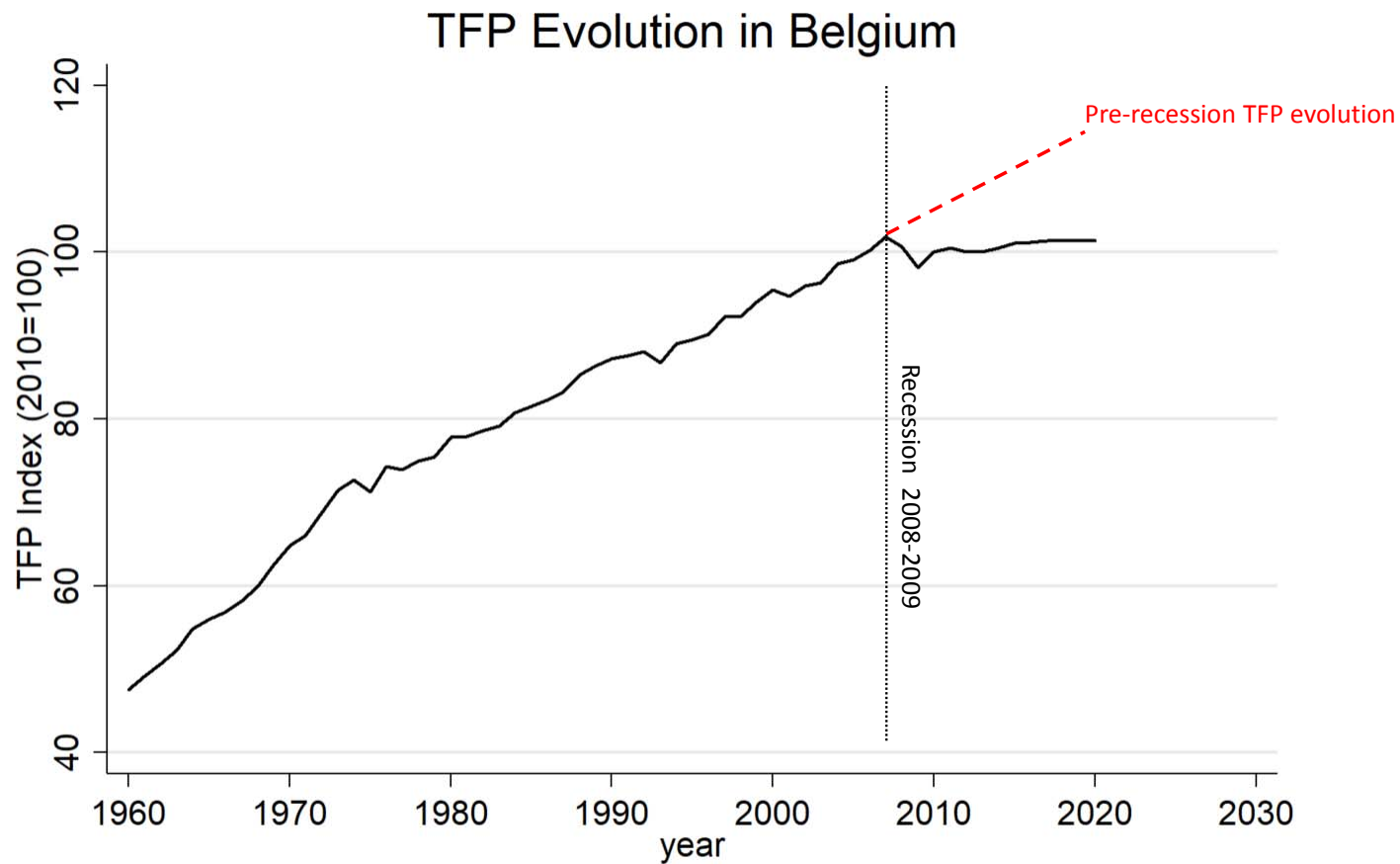
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# Implications

- **GVCs have become shorter** both in terms of the average geographic distance that is travelled by inputs and in terms of production stages
- **Protectionism is on the rise** and this has contributed to the de-globalization trend, but that is not the only driver as it is not just a shift from international production to more domestic production, also international GVCs shortened.
- **Other drivers** include: technology (digital transformation), shifting consumer tastes (environmental changes, ageing), new business models (servitization of manufacturing, mass customization).
- Implications:
  - Opportunities of shorter GVC especially in the current pandemic: renewed role for EU (and Belgium with its logistic expertise)
  - Shorter GVC (and declining trade with China) offer an opportunity for greener production
  - New business models

# Productivity Puzzle

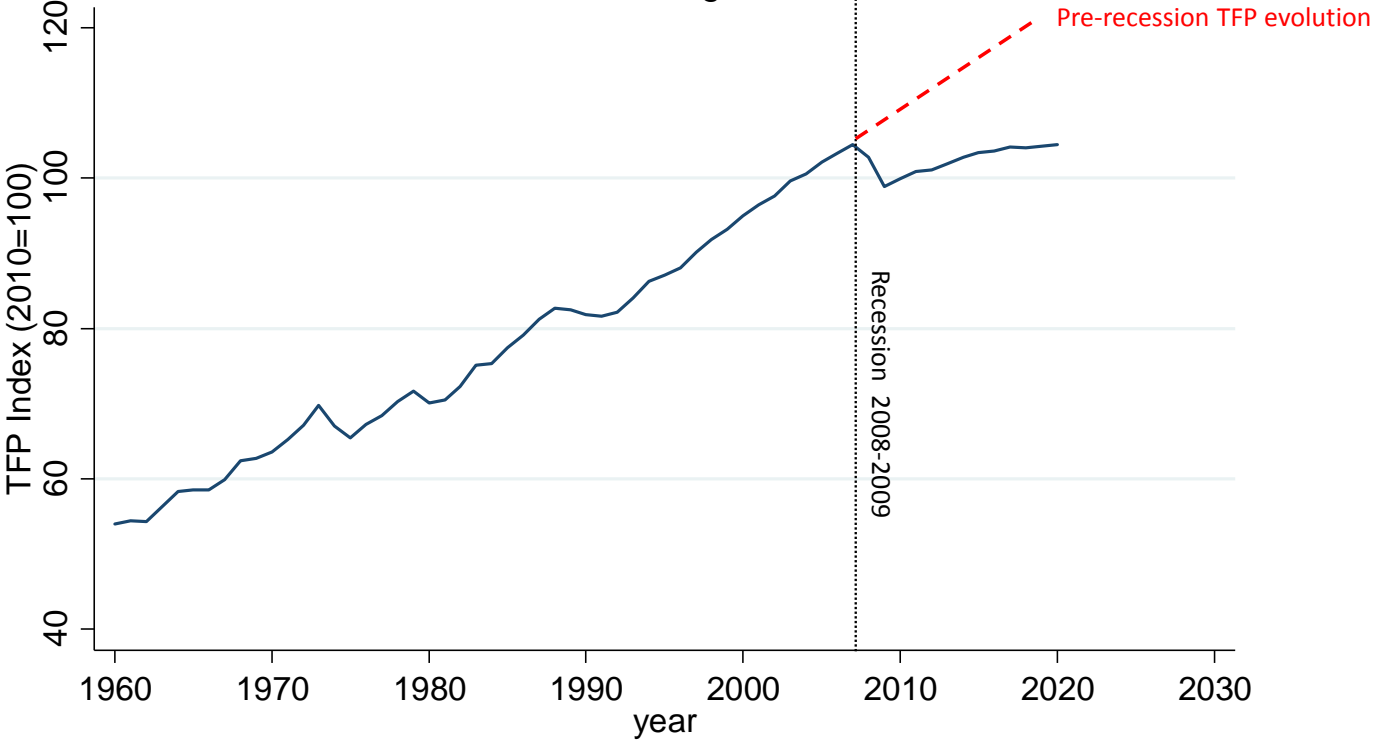
# Productivity puzzle



Source: Ameco - European Commission

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# TFP Evolution United Kingdom



Source: Ameco - European Commission

**Production function:**

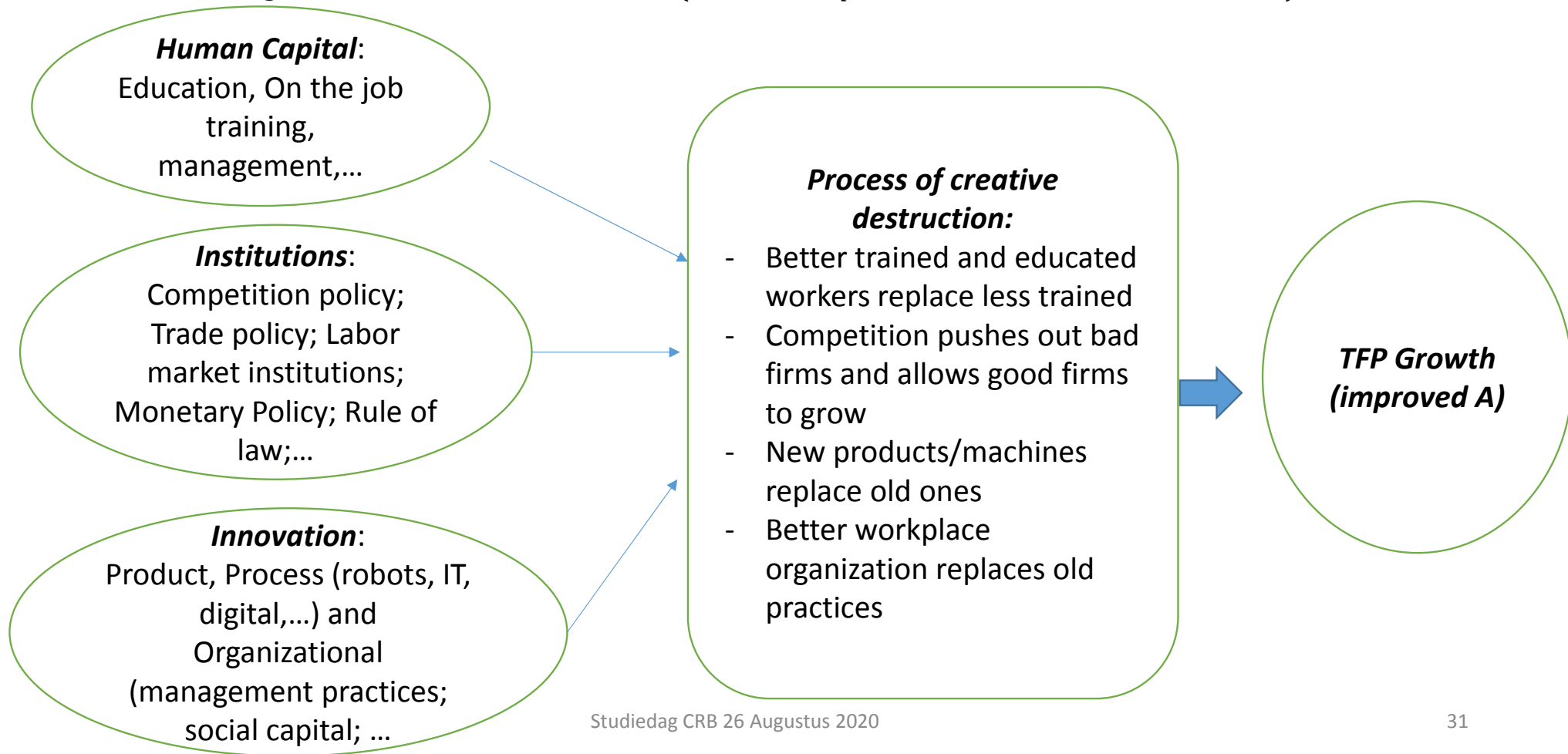
$$Q = AF(L, K, M)$$

**Total Factor Productivity:**

$A$

**Endogenous**

$$A = A(\text{Human Capital}; \text{Institutions}; \text{Innovation})$$



**Production function:**

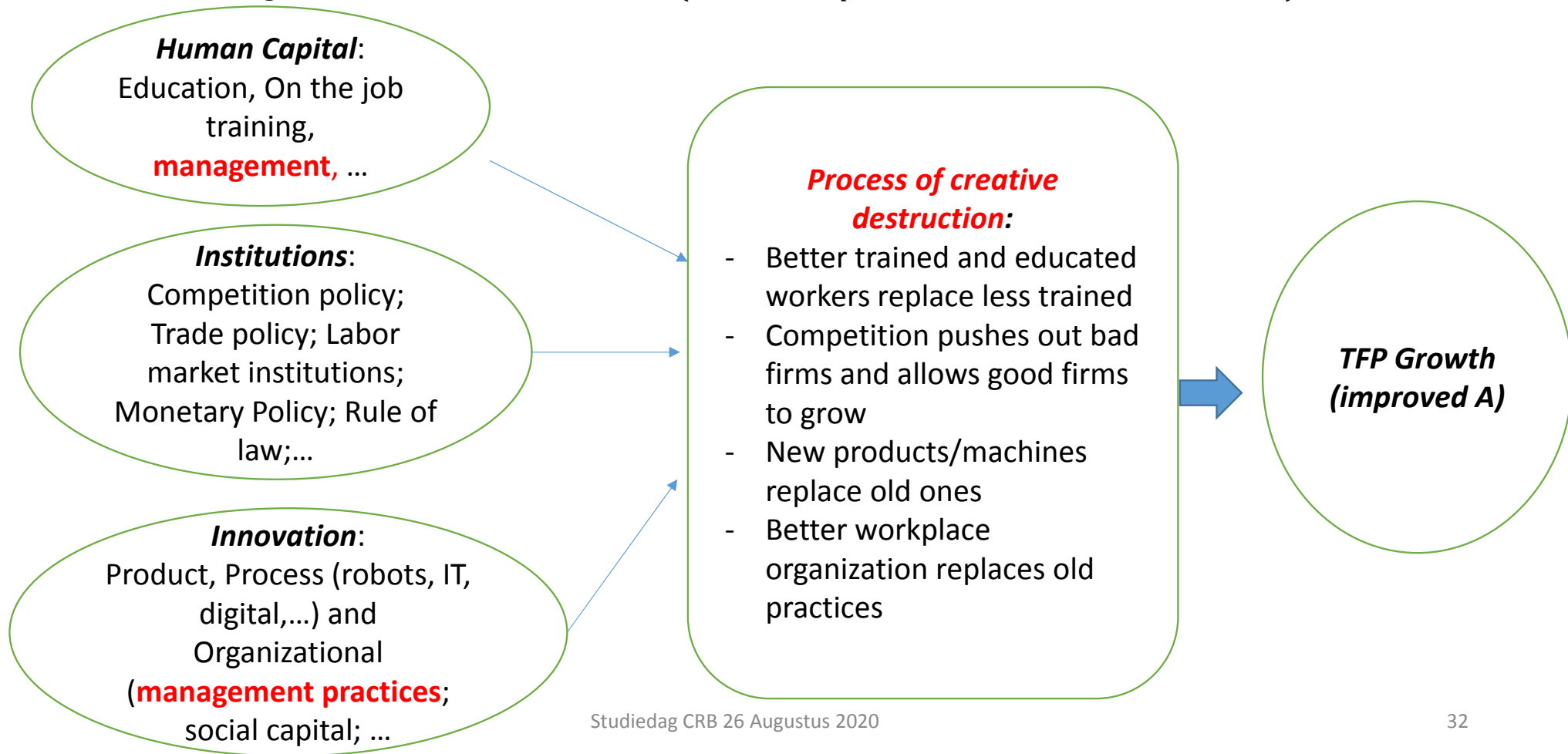
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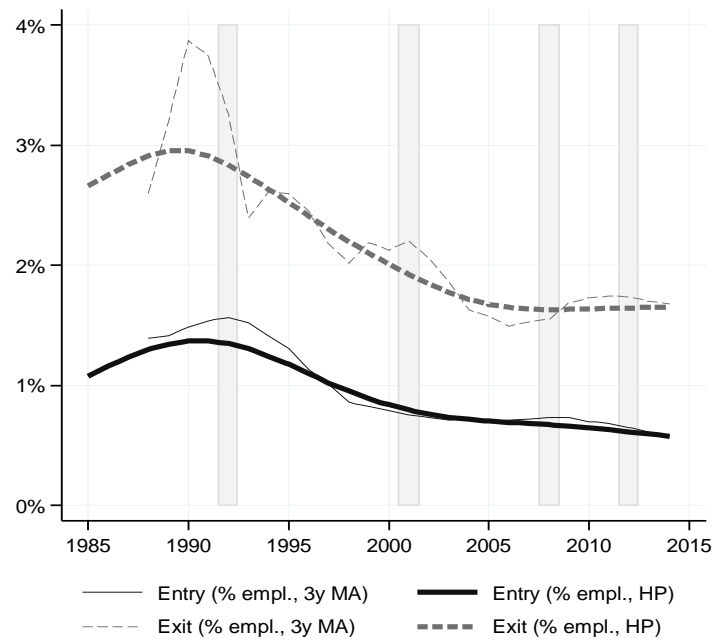




# Declining Business Dynamism

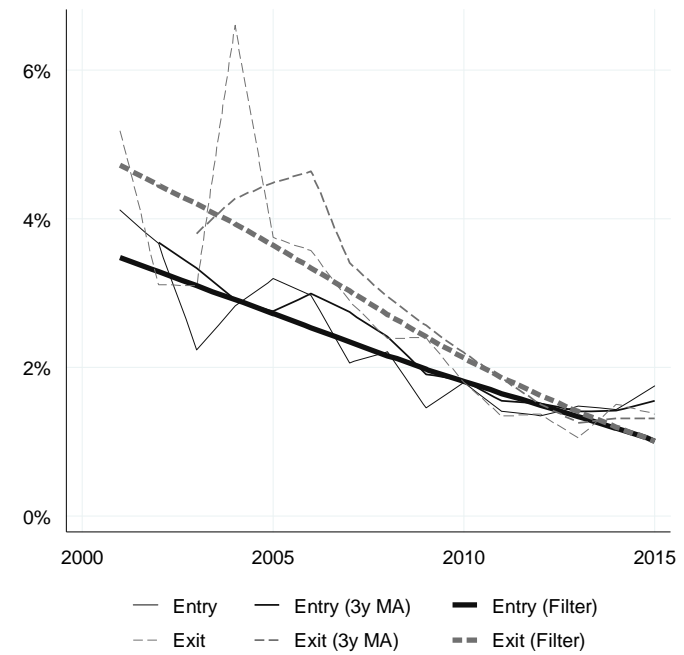
# Declining business dynamism

Firm entry – exit in Belgium



Source: Bijmans & Konings (2018)

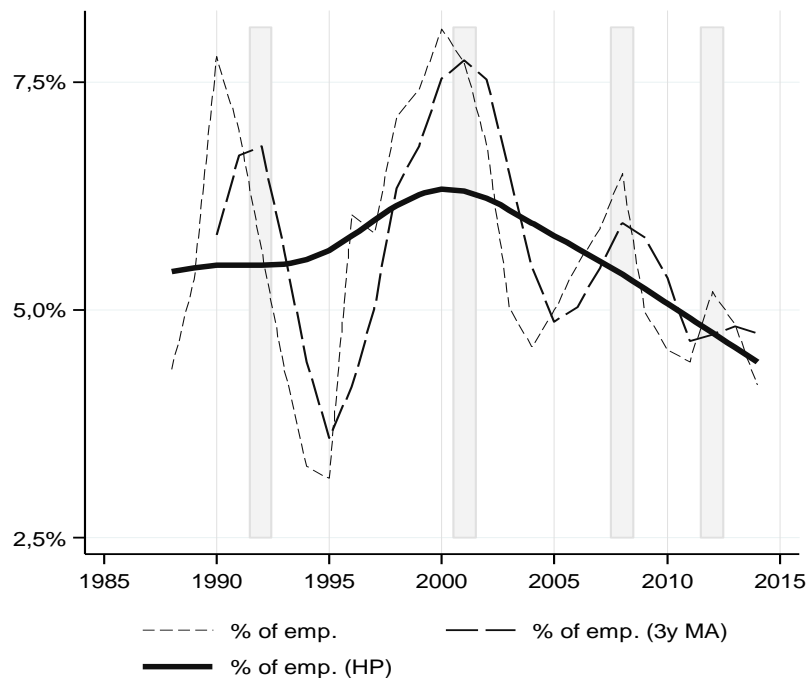
Firm entry – exit in the UK



Source: Author's calculations based on ORBIS database

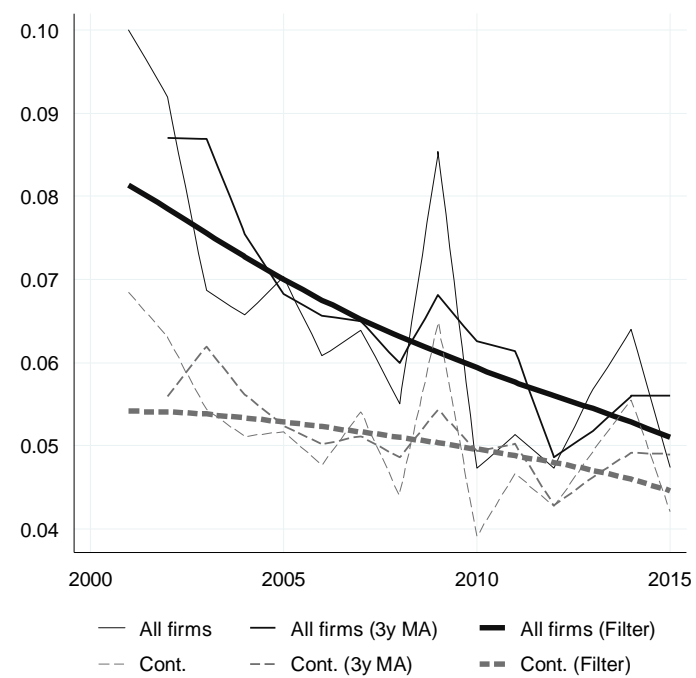
# Declining business dynamism

High growth firms in Belgium



Source: Bijmens & Konings (2018)

High growth firms in the UK



Source: Author's calculations based on ORBIS database

# Impact of Covid-19

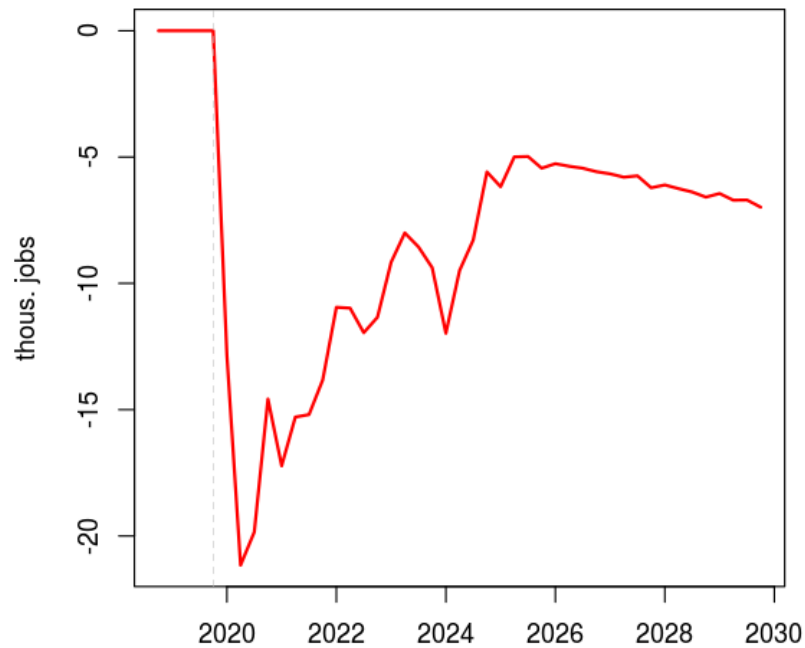
- 50 percent of firm growth is due to initial conditions  
*(like product, location, business cycle, etc.)*
- 50 percent is due to factors happening during the lifecycle  
*(e.g. changes in management practices)*

Decline in GDP by 3.6% in the first quarter of 2020

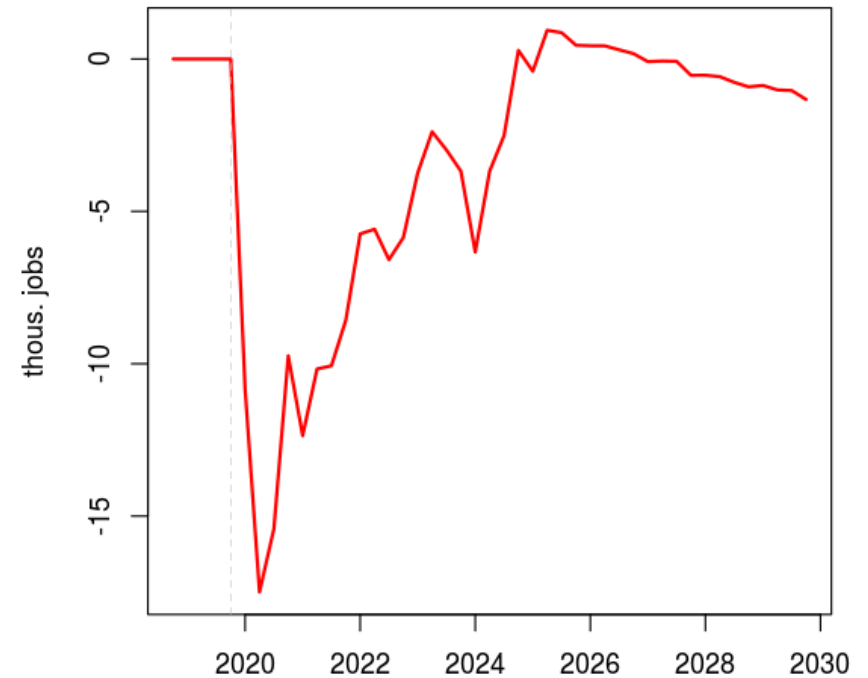
*Start-ups down by 50% in first quarter,  
20% down in the second quarter  
10% down in the third quarter*

*No change in the start-up rate,*

**The Aggregate Losses of Employment**



**The Aggregate Losses of Employment**



Source: Karimov & Konings (2020): job simulator

# Long Term Impact

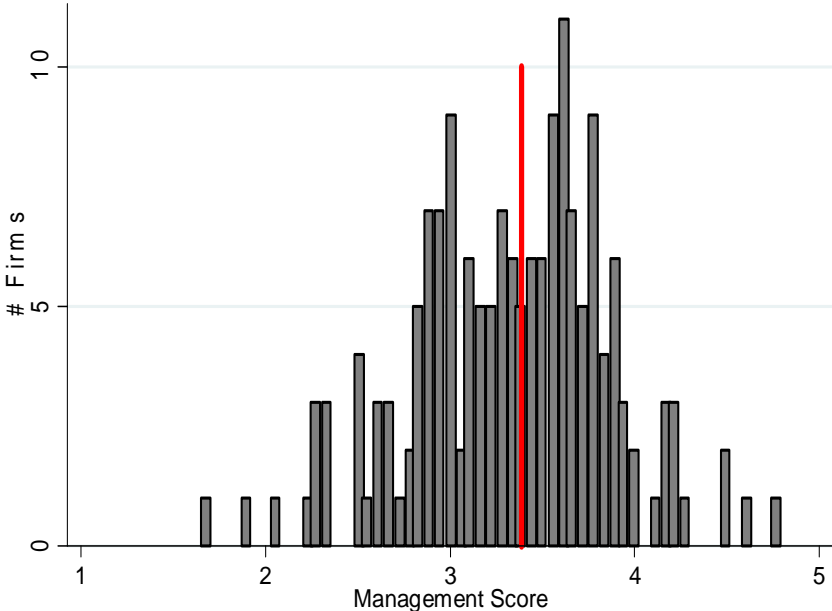
- Slow down in productivity?

Factors driving productivity:

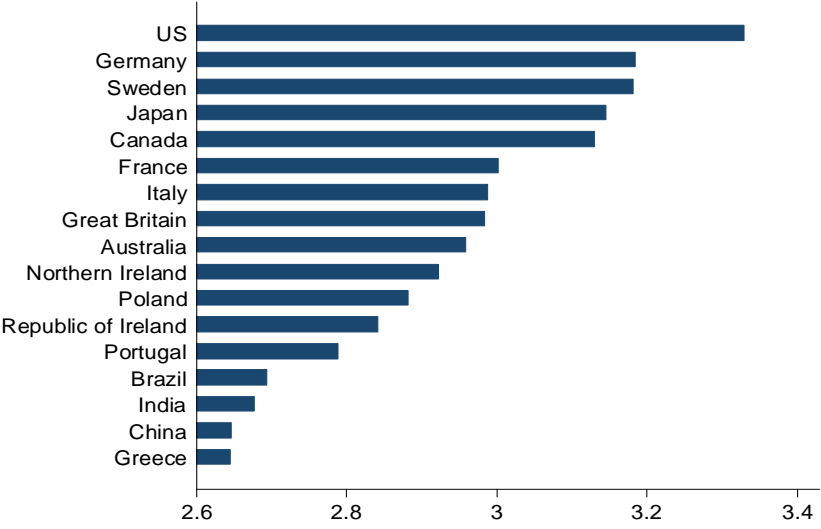
- **Creative destruction** and factors hindering this (see above)
- Other: **management practices** (results for Belgium based on Konings & Van den Bosch, 2019, VIVES research note)

# Management practices differ across firms and countries

Management Score Distribution

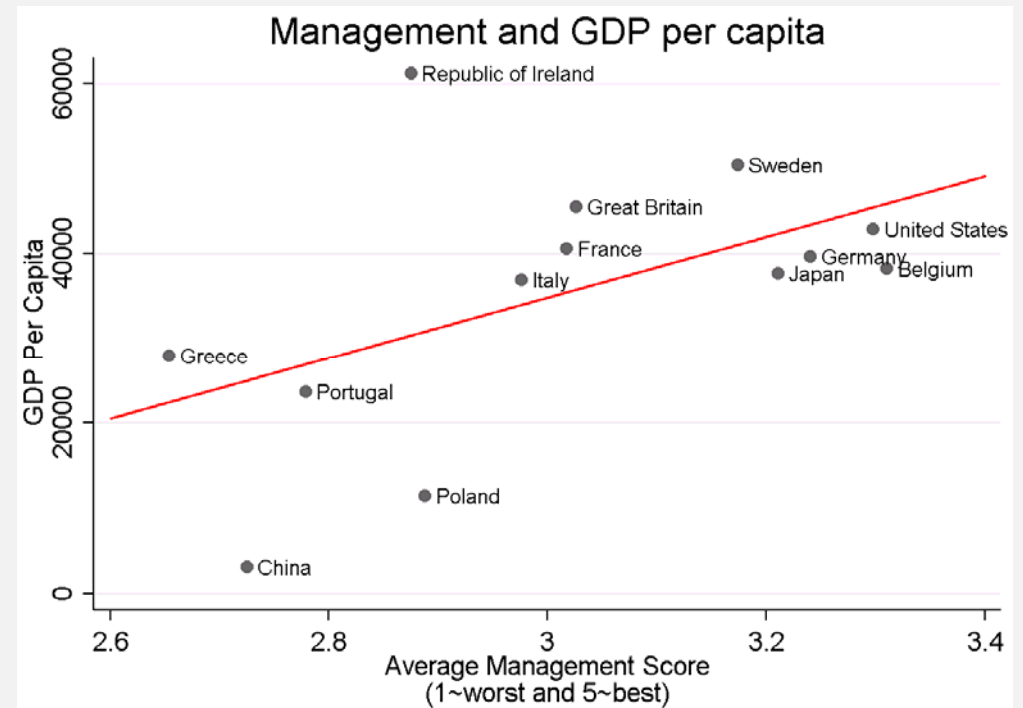


Source: Konings & Van den Bosch (2019)



Source: Bloom et al. (2012)

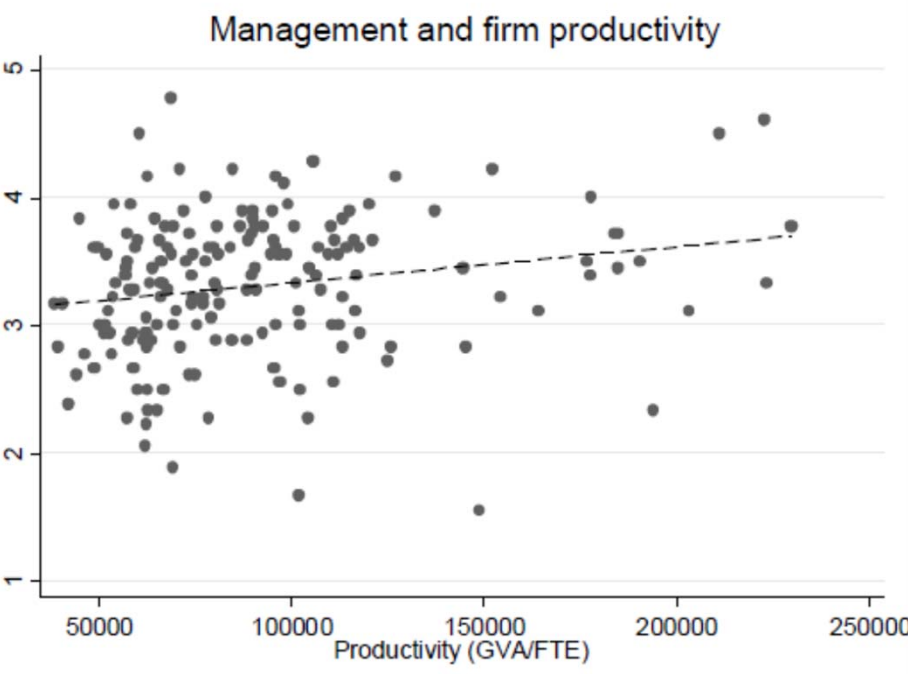
# Management Practices Matter



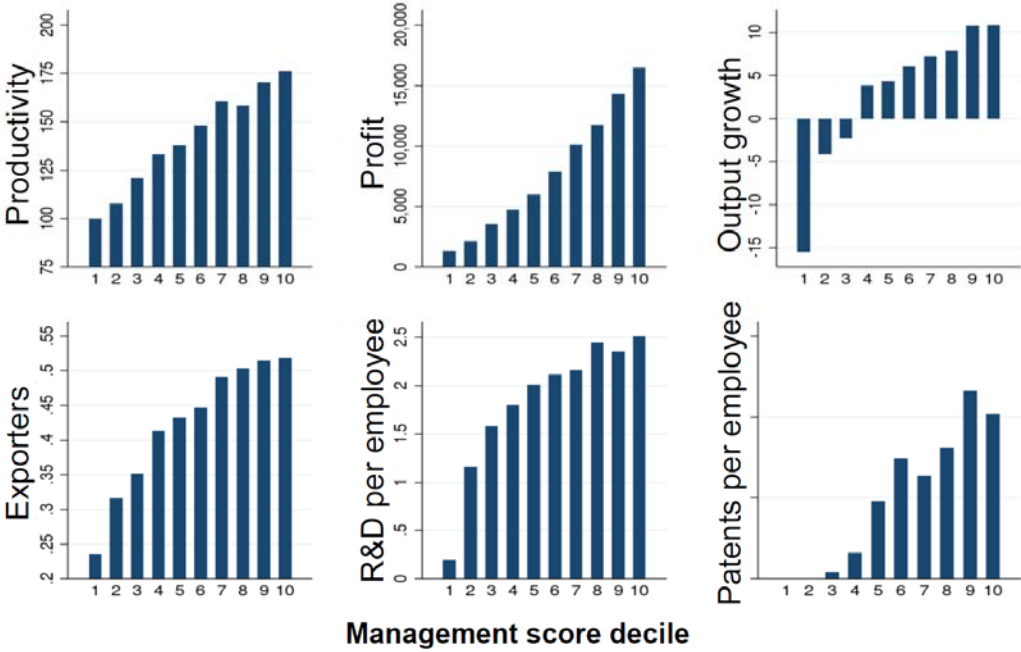
Note: Own calculations based on a dataset that was obtained by merging collected data of 186 Flemish manufacturing firms with the public World Management Survey data that was used in the research by Bloom, Genakos, Sadun and Van Reenen (2012) in their survey paper 'Management practices across firms and countries'.



# Management practices are positively correlated with productivity and many other measures of firm performance

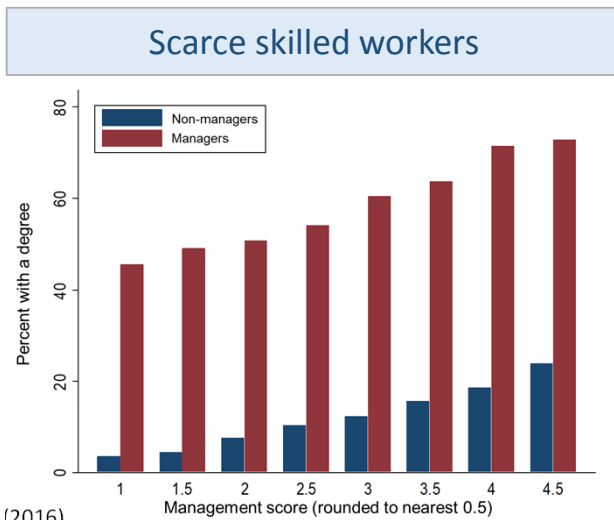
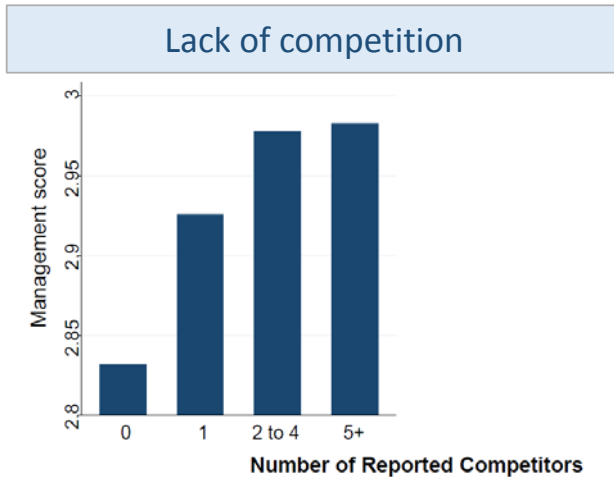


Source: Konings & Van den Bosch (2019)



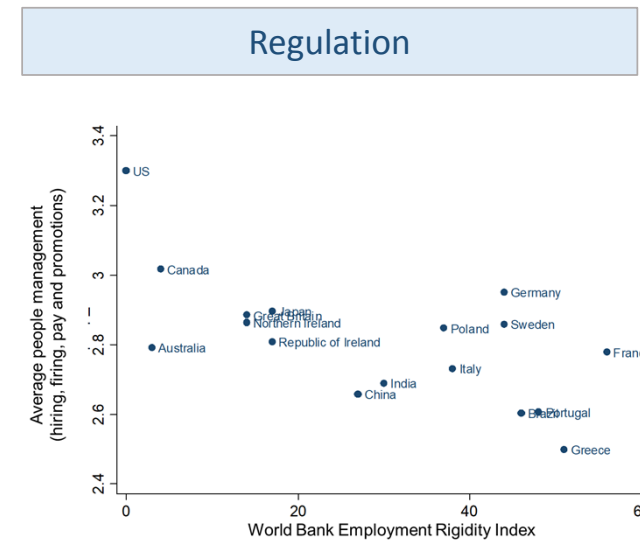
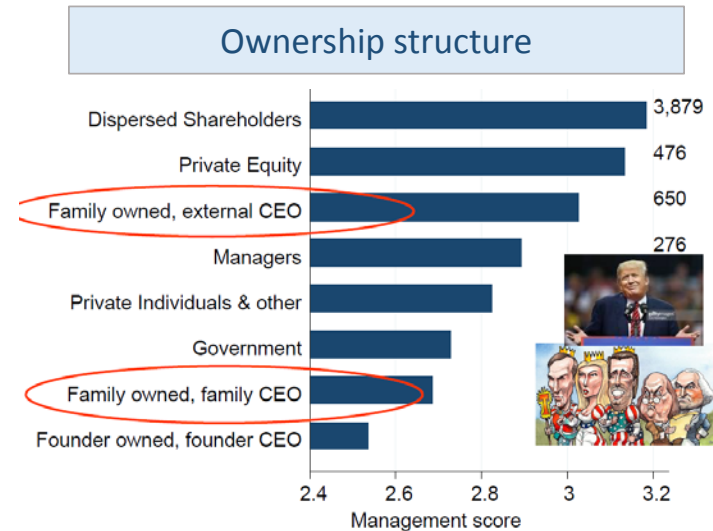
Source: Bloom et al. (2016)

# Why are not more firms upgrading their management practices?



Source: Bloom et al. (2016)

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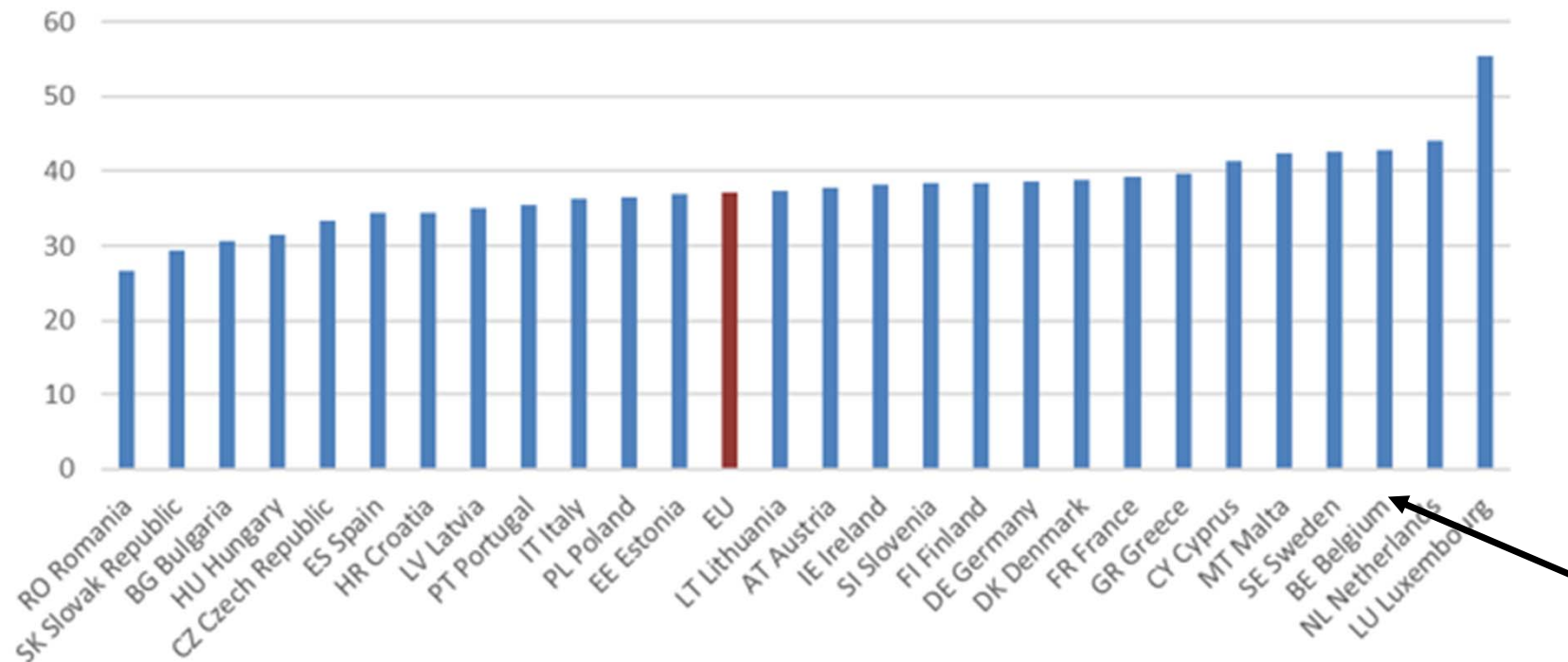


# New Management and Organisation of work: TELEWORKING and PRODUCTIVITY



## Percentage of employees in teleworkable occupations by member state, EU27

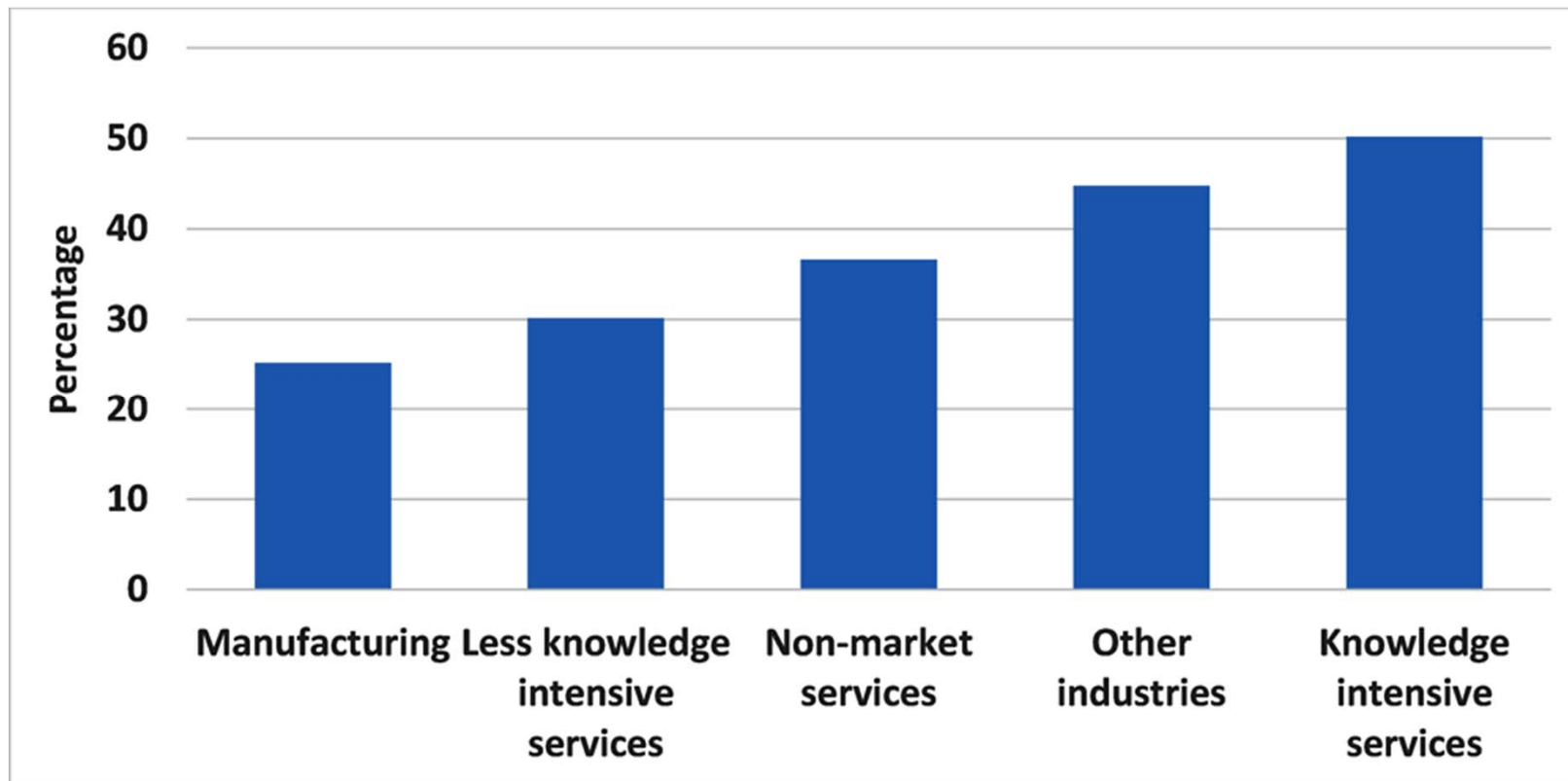
Source: Santo Milasi, Martina Bisello, John Hurley, Matteo Sostero, Enrique Fernández-Macías (2020), based on ULFS



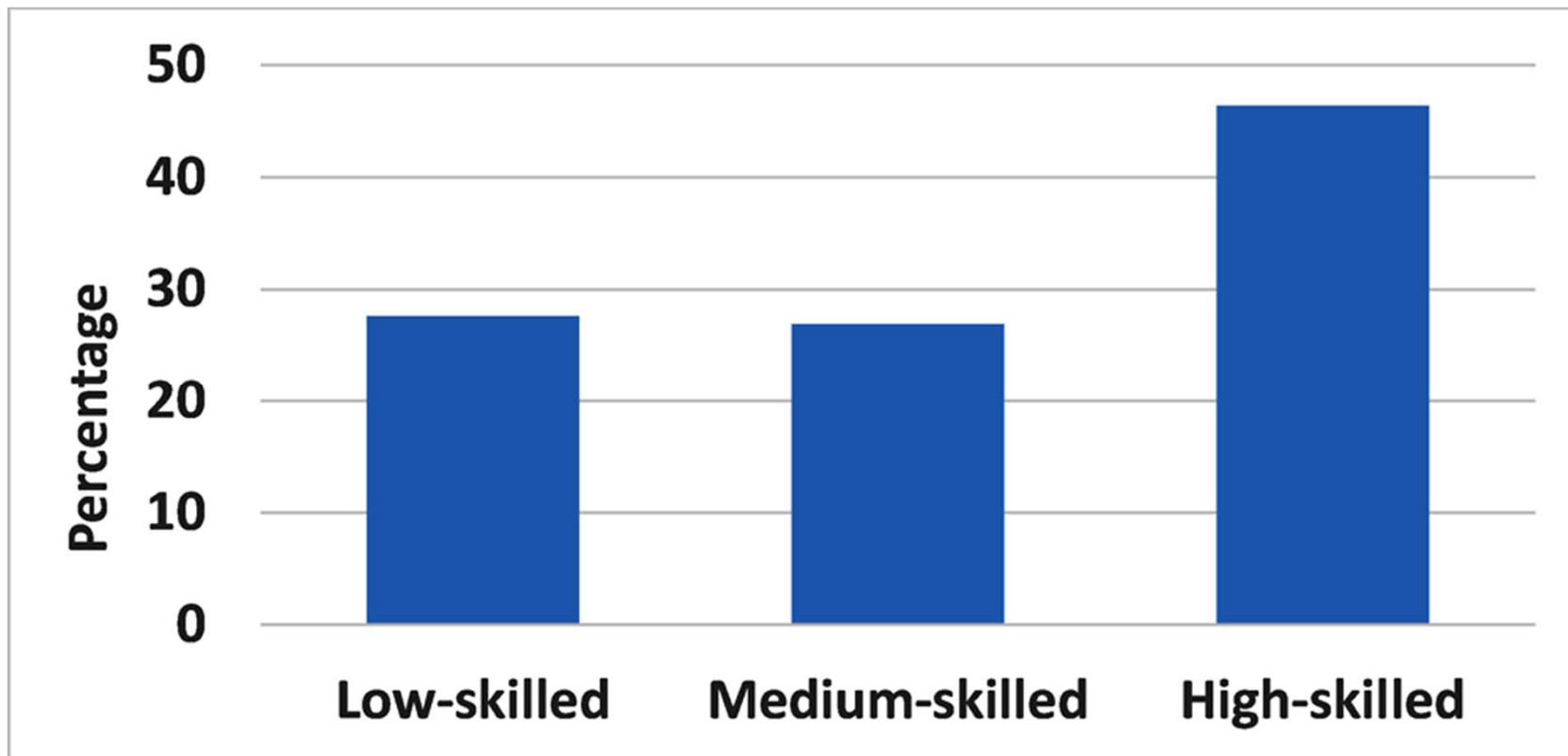
Note: These numbers are very similar to real time surveys of “Living, Working and Covid-19” e-survey (Eurofound 2020)

# Cross-country average of percentage of people using telework in 2015 by sector

source: European Foundation for the Improvement of Living and Working Conditions

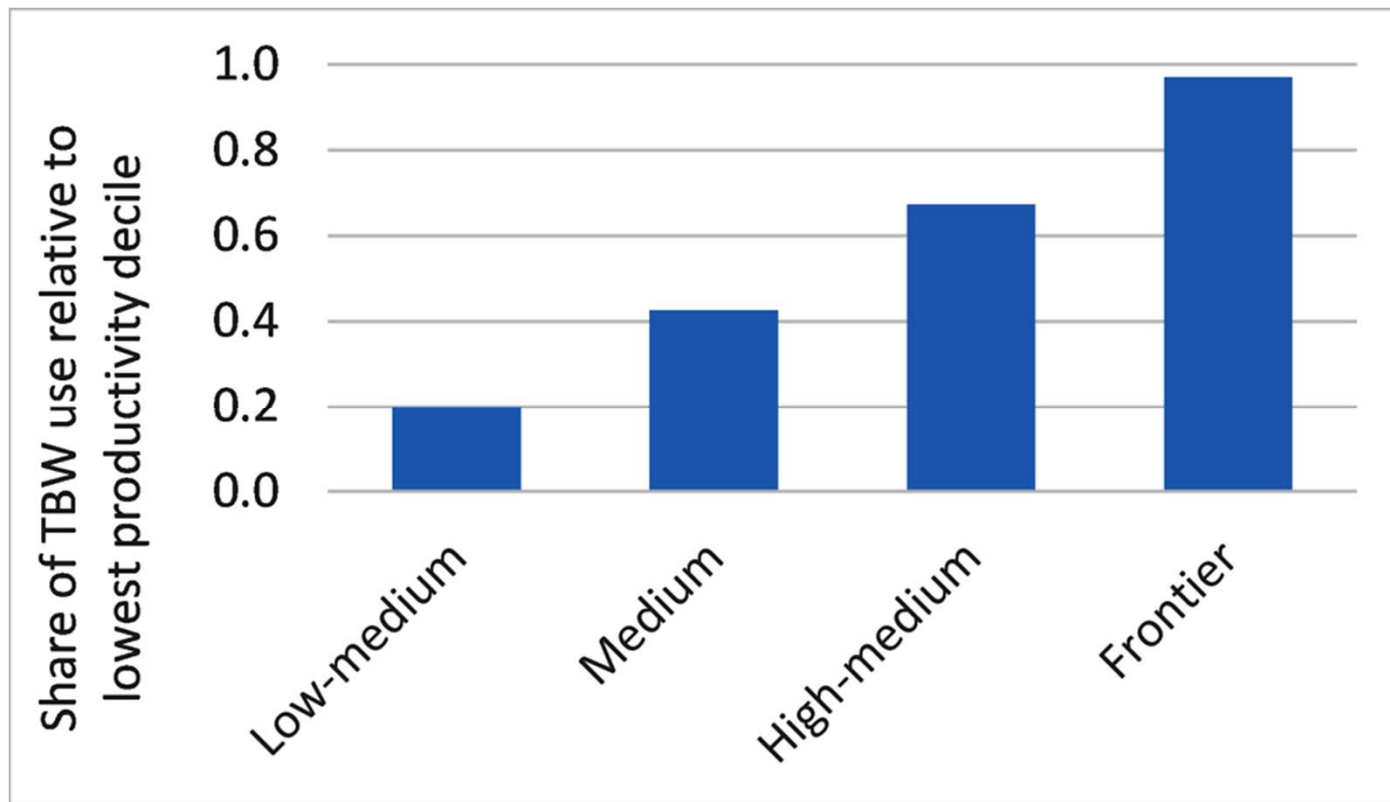


# By skill



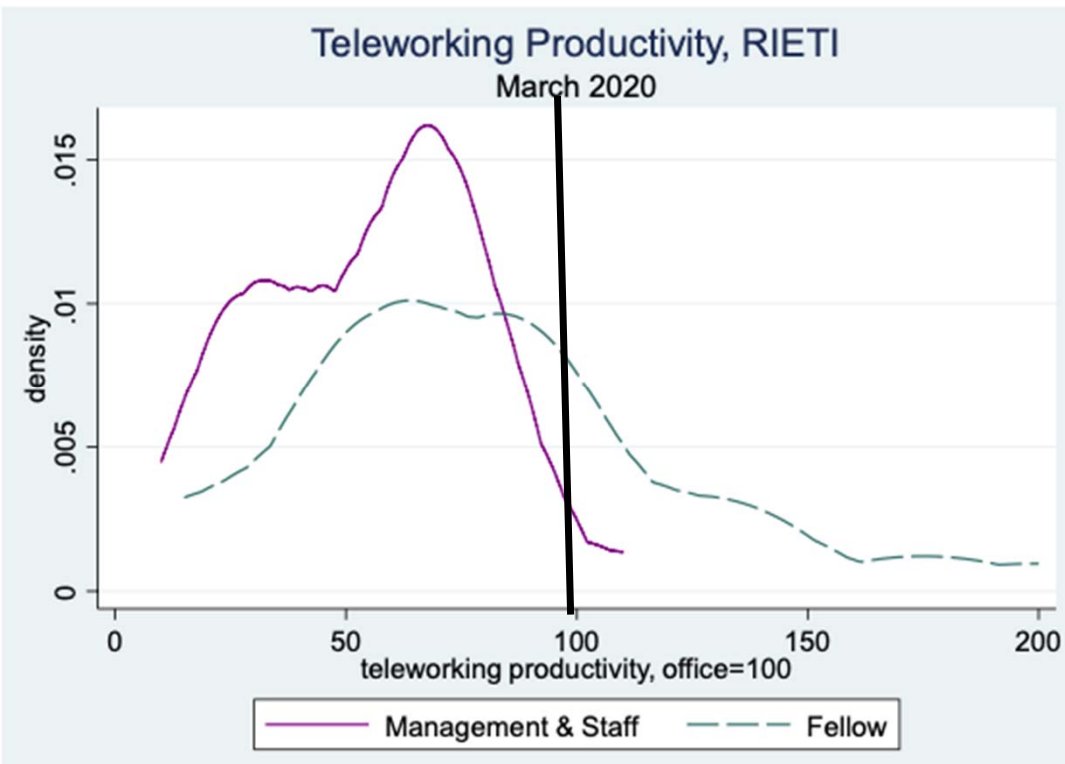
## More productive firms use more teleworking (German Data)

source: OECD calculations based on German LIAB for 2000-2016.



# Teleworking and Productivity during Covid-19

“Suppose your productivity in the office to be 100, how do you evaluate your working productivity at home?”



Reasons for lower productivity:

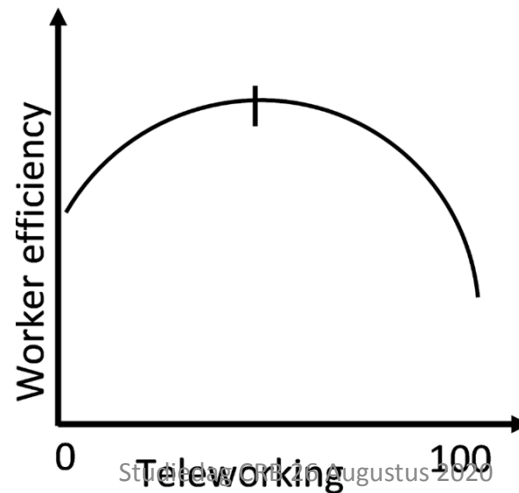
- Lack of user friendly software and hardware
- Secured tasks & IT systems which can only be done in the office
- Loss of quick and valuable face to face communication
- Poor working environment at home (children,...)

Note: survey done in a very specific environment:  
Research institute with researchers; managers and staff

Source: Covid-19, teleworking and productivity,  
EU Vox, Morikawa (2020)



- Not clear that teleworking improves productivity
- The positive association of telework with productivity may however be driven by third factors, e.g. better managed firms may be more likely to introduce such measures (Bloom et al)
- for firm-level productivity to increase with telework it is therefore crucial that worker satisfaction increases enough to offset the potentially negative effects on communication, knowledge flows and managerial oversight



Stijl en de Witte Augustus 2020

# Policy Implications

(Policy Research Center Entrepreneurship & Economics, STORE)

# Improving Productivity

- ***Insights from Teleworking during Covid-19***

- subsidising firms' or individuals' ICT investments related to teleworking can be considered wise spending. It immediately creates a demand for ICT equipment and software ,as well as improving productivity at home.
- Good work environment at home matters, it requires school to open
- Not for al occupations → risk for increased polarization

- ***What else works and reinforces the above?***

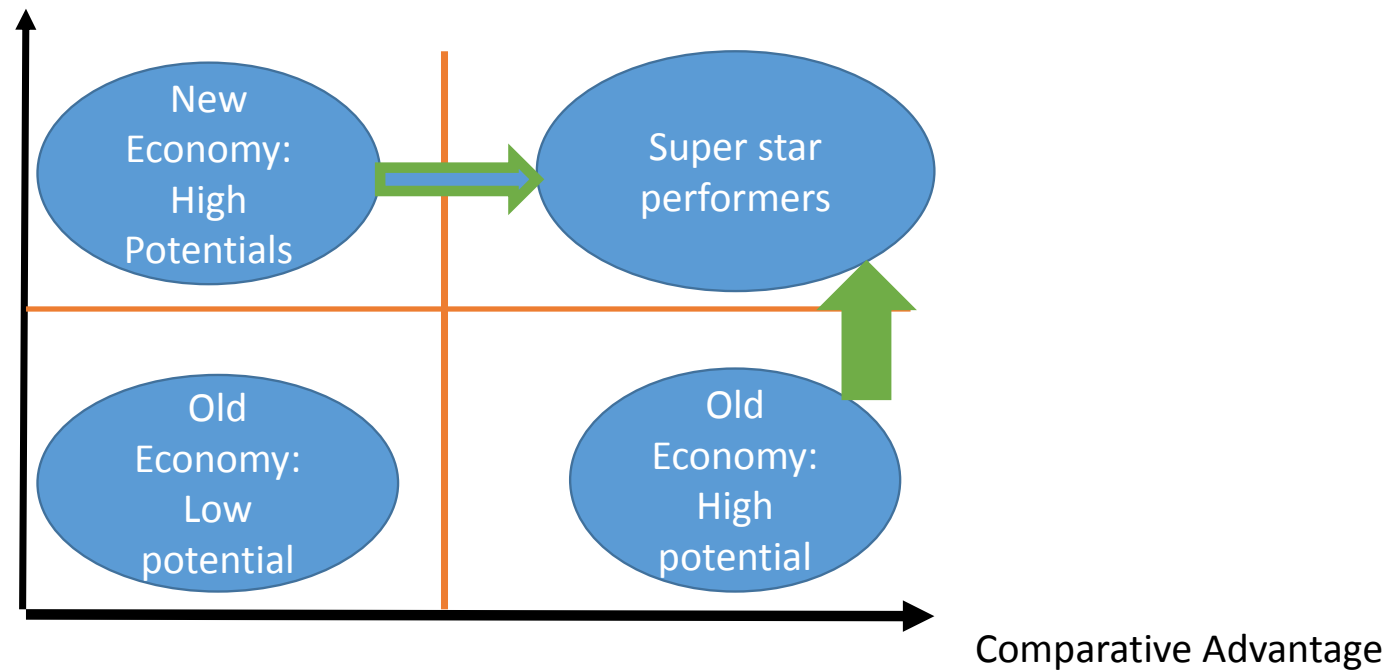
- Good management practices improve productivity
- IT improves productivity: Using Belgian granular data we find that a firm investing an additional euro in ICT increases value added by 1 euro and 35 cents on average (digital agenda).
- On-the-job training improves productivity (net premium of 10% in Belgium)
- New ways of measuring productivity → CO2 per unit of output or per head

- ***Insights from business dynamism under Covid-19***

- Collapsing entrepreneurship → stimulating entrepreneurship (start-ups) matter for the future DNA of the economy
- Firms with large fixed costs and low margins are a potential target for take-overs, policies targeted at covering fixed costs help to sustain healthy firms, which otherwise would exit.
- De-Globalisation and Protectionism requires rethinking trade policy towards strategic trade policy

# Conceptual Framework

- Global Trends:
- Sustainability
  - High Growth
  - Green Deal



# Belgian Economy: size of the circle indicators multiplier computed using IO tables

Relative comparative advantage - top 20 all sectors (based on VA share)



# Complex & Toxic Global Environment

- Protectionism
- Brexit/EU
- Middle East/Turkey: refugee flows to the EU
- Trade war China-US
- North EU versus South EU
- Helicopter Money
- Green Deal

# Discussion and Thank you