

# **The Economic Impact of the Covid-19 Pandemic**

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**AXA Investment Managers Webinar**

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# Topics

- The recovery—V or U, or another long recession/depression
- Explaining the successes and failures
- The post-pandemic world
  - The new geo-politics
  - The new politics
  - The new investment environment

# The Recovery

- Fantasy of a short lock down followed by a V-shaped recovery
- Two key uncertainties—interlinked
  - The course of the pandemic
  - The course of the economic measures to address pandemic and the economy
- These uncertainties compound pre-existing uncertainties
  - Structural transformation
  - Climate change

# Key uncertainties: the course of the pandemic

- The economy won't recover until the pandemic is viewed as under control
  - Vaccine, retrovirals
- Some countries have succeeded—South Korea, New Zealand—through lock-down, public cooperation in social distancing
- The global economy won't recover until pandemic and its economic impacts have been addressed globally

# Key uncertainties: the policy response

- Will the strong policy responses be continued?
- Will they prove effective?
- When they prove ineffective, will they be redesigned?
- Two depressing worries
  - For US, the answer to three questions is no—at least until election
  - For Europe, the worry, too little, too late

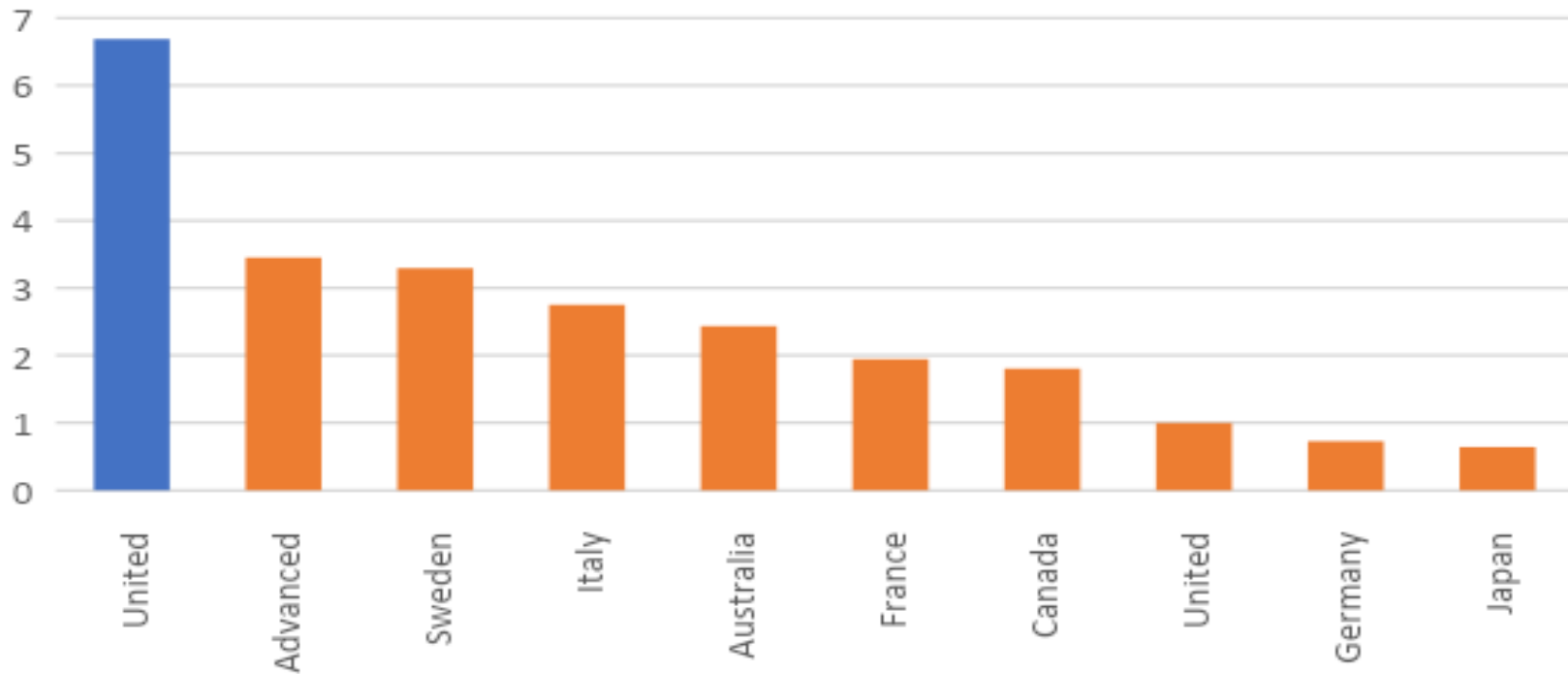
## II. Explaining the differences in outcomes

Why does the US have such high unemployment? Why has the disease spread so widely? Why so many deaths?

- US was badly prepared
- Weak health care system
- Weak system of social protection/paid sick leave
- Weak pandemic preparedness—decrease in budgets, shutting down White House office
- Excessive corporate influence in design of economic response
  - Small business program (PPP) emblematic

# Comparative performance

Projected Increase in Employment Rates, 2020  
(percentage points)



# Europe

- Exacerbated on-going political and economic differences
- Absence of solidarity encouraging euro skepticism
- Continued past pattern—minimum necessary to keep the European project alive



# III. Post pandemic geo-politics

- Contrasting forces
  - Pandemic, climate change, demonstrate need for global cooperation
  - Responses to crisis have highlighted new reality: borders matter
    - Some nativist demagogues have doubled down on rhetoric
- A note of optimism: Failure of demagogues will curtail their influence
- A note of pessimism: Poor performance of US, possibly Europe will further weaken democratic forces

# Post-pandemic world: New Cold War

- Multi-faceted conflict between China and US heating up
  - Economic competition, geo-political competition, national security
- Europe caught in the middle
- Unlikely to go away even if a Democrat gets elected
  - But more focused on human rights issues
  - Greater effort to find areas of cooperation—fighting pandemics and climate change
  - More rationality in economic agenda

# Post-pandemic World: new politics

Greater recognition of the important role of the state

- Including anticipating and responding to disasters
- Supporting basic science
- Importance of good system of social protection

Greater recognition of the limitations of the market and understanding of the reasons for it

# Post-pandemic world: new investment climate

- High-probability scenario:
  - long period of low interest rates
  - Monetary policy no longer key instrument
  - High level of uncertainty—greater dispersion in views; high level of volatility
- Small probability scenario
  - Huge liquidity combined with supply constraints leads to inflation
- In all scenarios—greater attention to ESG