

# **Economics in a COVID-19 World: Global and Local Challenges**

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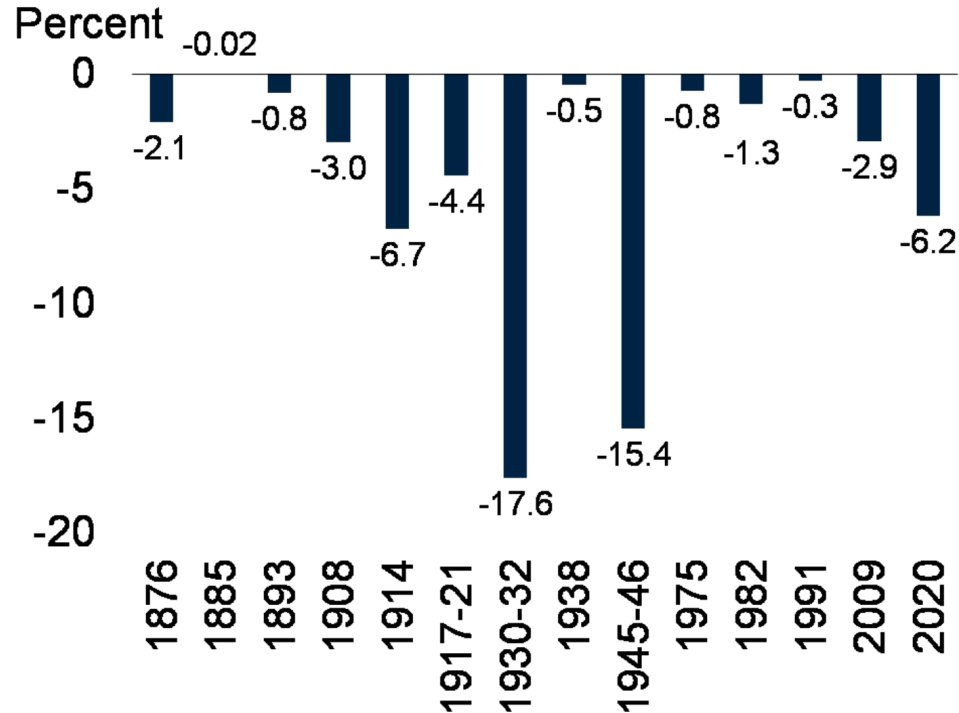
# This time is really different

**Table 1.1. Overview of the *World Economic Outlook* Projections**  
(Percent change, unless noted otherwise)

	2019	Projections		Difference from June 2020 WEO <i>Update</i> <sup>1</sup>		Difference from April 2020 WEO <sup>1</sup>	
		2020	2021	2020	2021	2020	2021
<b>World Output</b>	<b>2.8</b>	<b>-4.4</b>	<b>5.2</b>	<b>0.8</b>	<b>-0.2</b>	<b>-1.1</b>	<b>-0.5</b>
<b>Advanced Economies</b>	<b>1.7</b>	<b>-5.8</b>	<b>3.9</b>	<b>2.3</b>	<b>-0.9</b>	<b>0.3</b>	<b>-0.6</b>
United States	2.2	-4.3	3.1	3.7	-1.4	1.6	-1.6
Euro Area	1.3	-8.3	5.2	1.9	-0.8	-0.8	0.5
Germany	0.6	-6.0	4.2	1.8	-1.2	1.0	-1.0
France	1.5	-9.8	6.0	2.7	-1.3	-2.6	1.5
Italy	0.3	-10.6	5.2	2.2	-1.1	-1.5	0.4
Spain	2.0	-12.8	7.2	0.0	0.9	-4.8	2.9
Japan	0.7	-5.3	2.3	0.5	-0.1	-0.1	-0.7
United Kingdom	1.5	-9.8	5.9	0.4	-0.4	-3.3	1.9
Canada	1.7	-7.1	5.2	1.3	0.3	-0.9	1.0
Other Advanced Economies <sup>2</sup>	1.7	-3.8	3.6	1.1	-0.6	0.8	-1.0
<b>Emerging Market and Developing Economies</b>	<b>3.7</b>	<b>-3.3</b>	<b>6.0</b>	<b>-0.2</b>	<b>0.2</b>	<b>-2.1</b>	<b>-0.5</b>
Emerging and Developing Asia	5.5	-1.7	8.0	-0.9	0.6	-2.7	-0.5
China	6.1	1.9	8.2	0.9	0.0	0.7	-1.0
India <sup>3</sup>	4.2	-10.3	8.8	-5.8	2.8	-12.2	1.4
ASEAN-5 <sup>4</sup>	4.9	-3.4	6.2	-1.4	0.0	-2.8	-1.5

# The worst crisis since WWII

Global per capita GDP growth

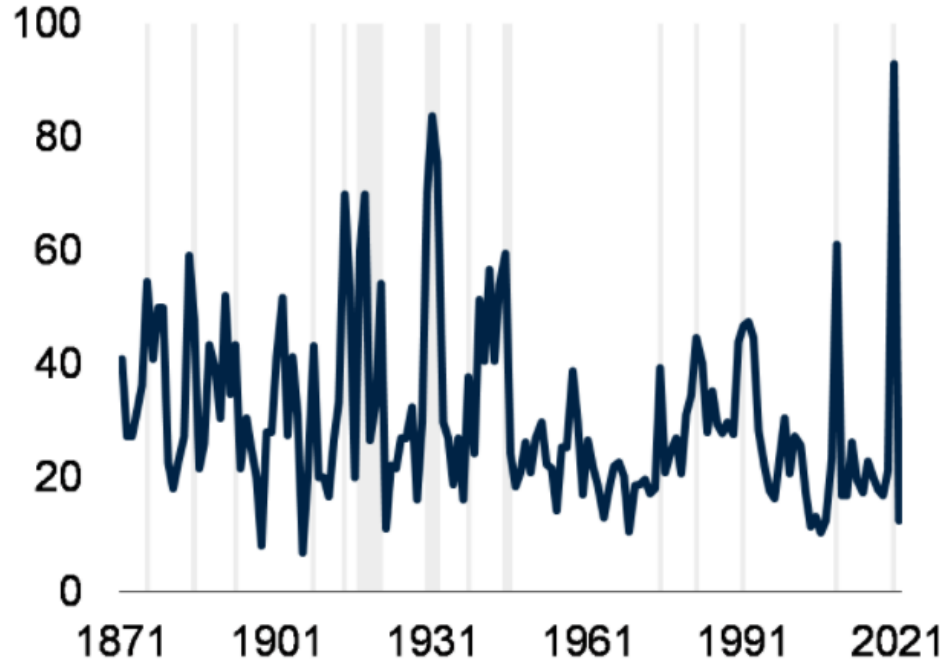


*Note: For multi-year episodes, the cumulative contraction is shown. Data for 2020 are forecasts.*

# The most global crisis on record

Economies with contractions in per capita GDP

Percent

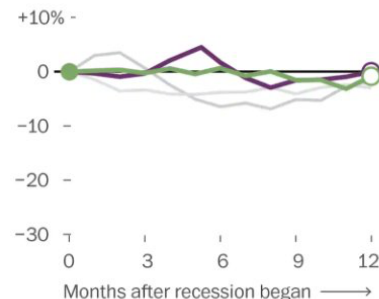


*Note: The proportion of economies with an annual contraction in per capita GDP. Shaded areas refer to global recessions. Data for 2020-21 are forecasts.*

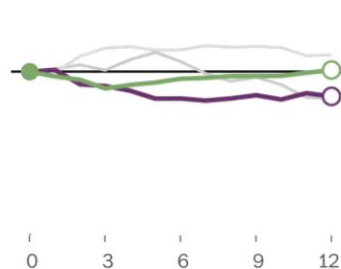
# The most unequal crisis

Job growth (or loss) since each recession began, based on weekly earnings

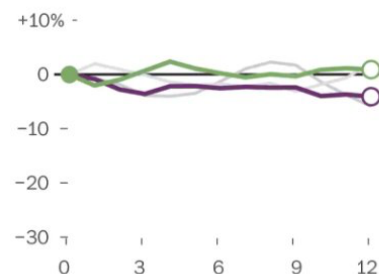
**1990 recession**



**2001 recession**



**2008 recession**



**Coronavirus crisis**



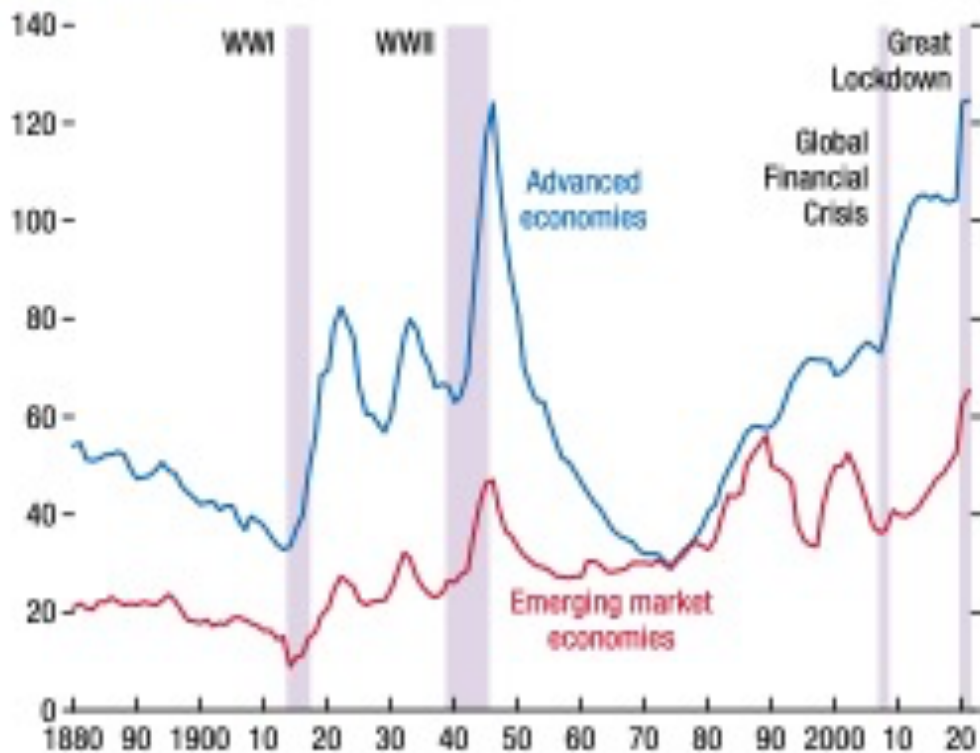
Notes: Based on a three-month average to show the trend in volatile data.

Source: Labor Department via IPUMS, with methodology assistance from Ernie Tedeschi of Evercore ISI

THE WASHINGTON POST

# Have we reached the limit for fiscal space?

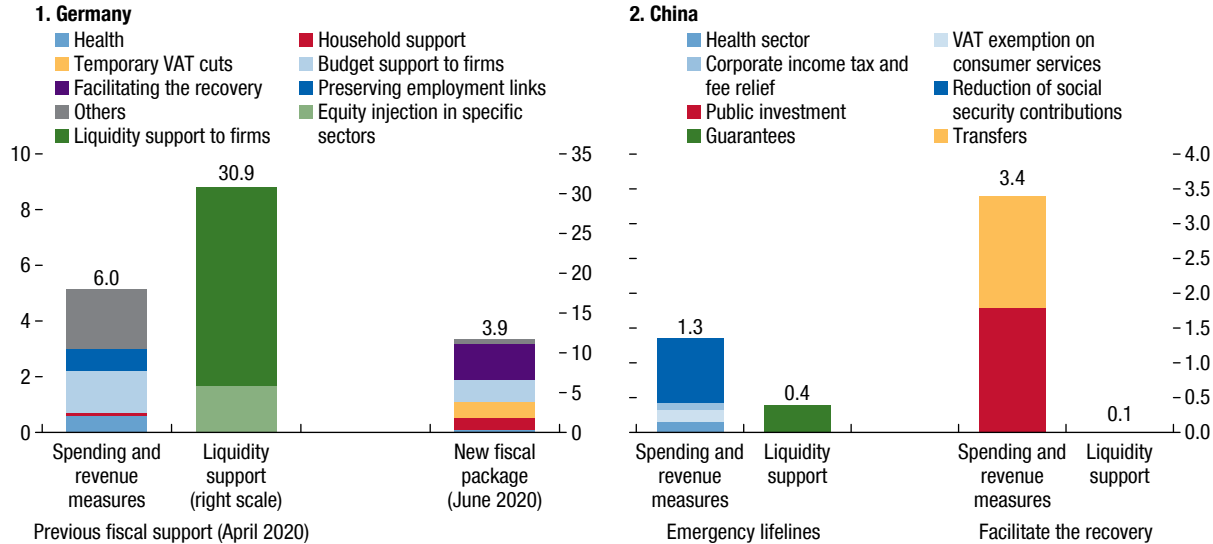
**Figure 1.2. Historical Patterns of General Government Debt**  
(Percent of GDP)



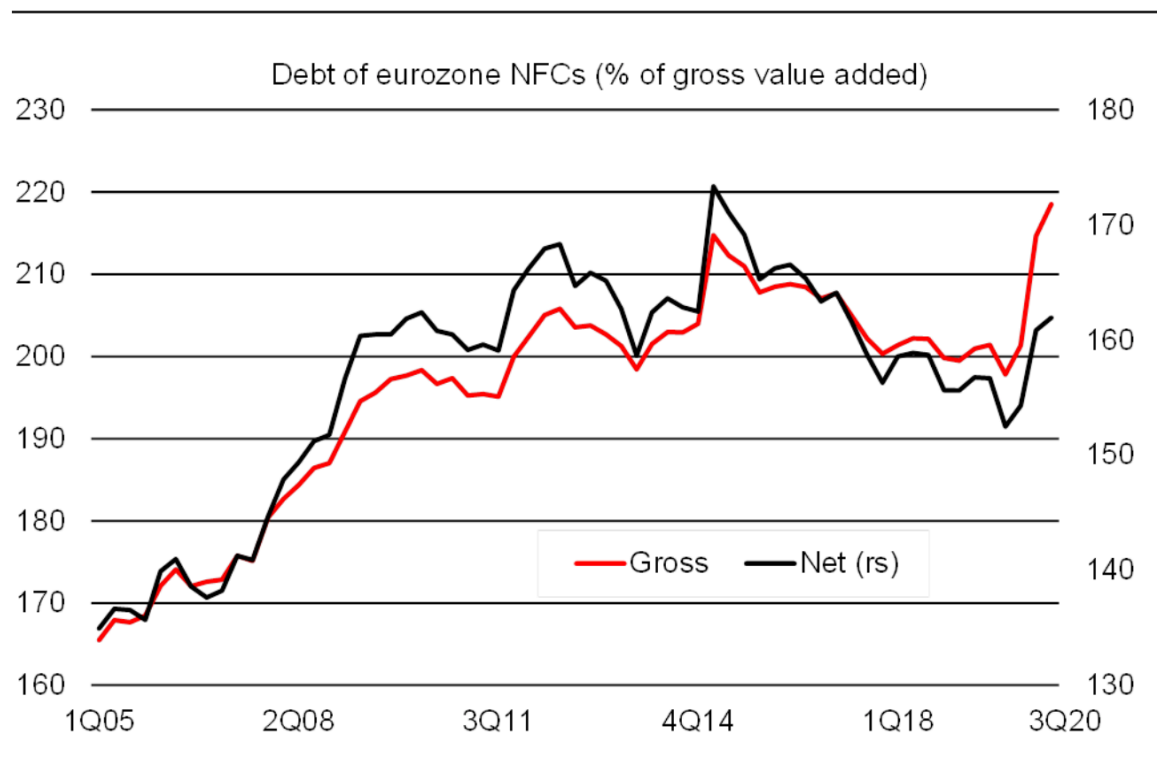
Sources: IMF, Historical Public Debt Database; IMF, World Economic Outlook

# ...but strategies are different

**Figure 1.10. Composition and Evolution of Fiscal Support, April 2020 versus June 2020**  
(Percent of GDP)



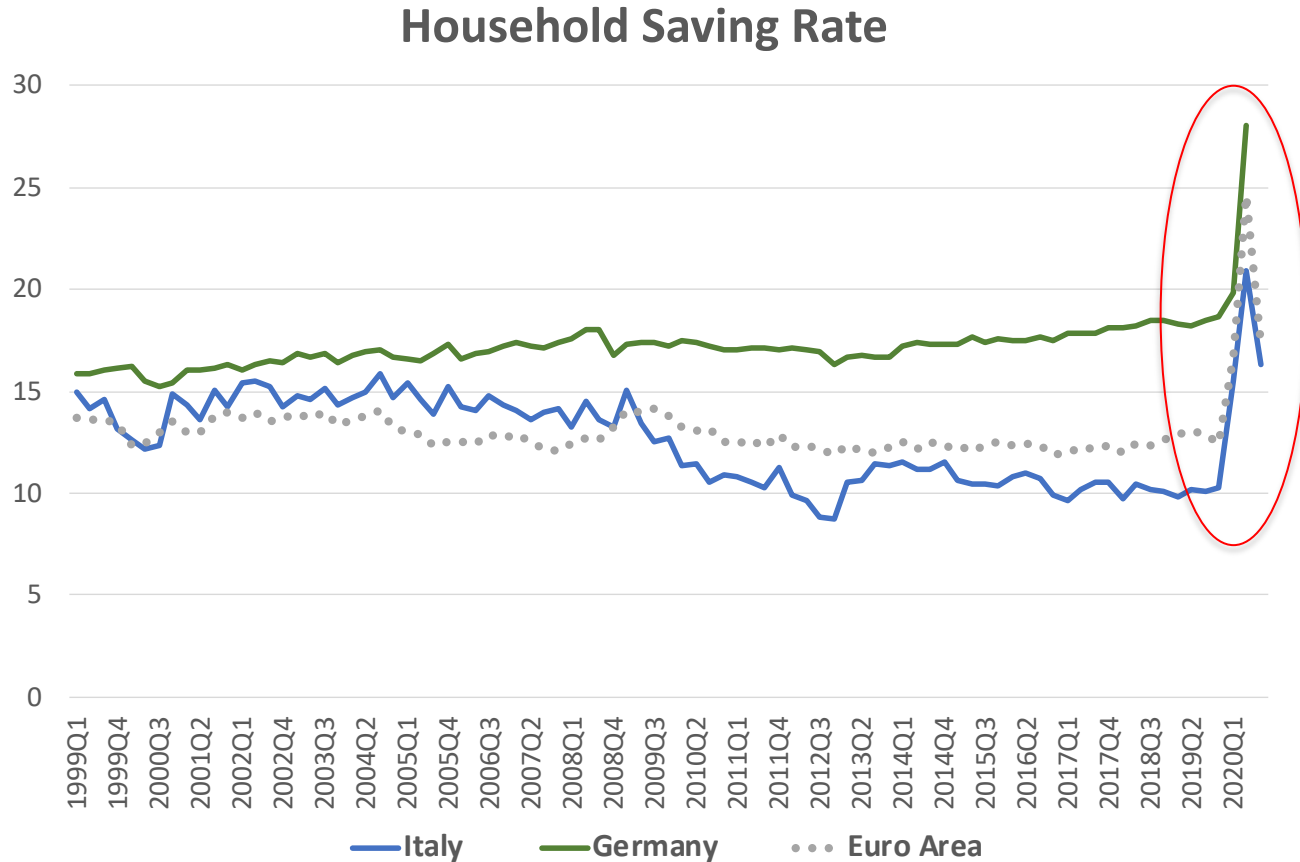
# Firms' financial vulnerability in perspective



Source: Eurostat, ECB, UniCredit Research

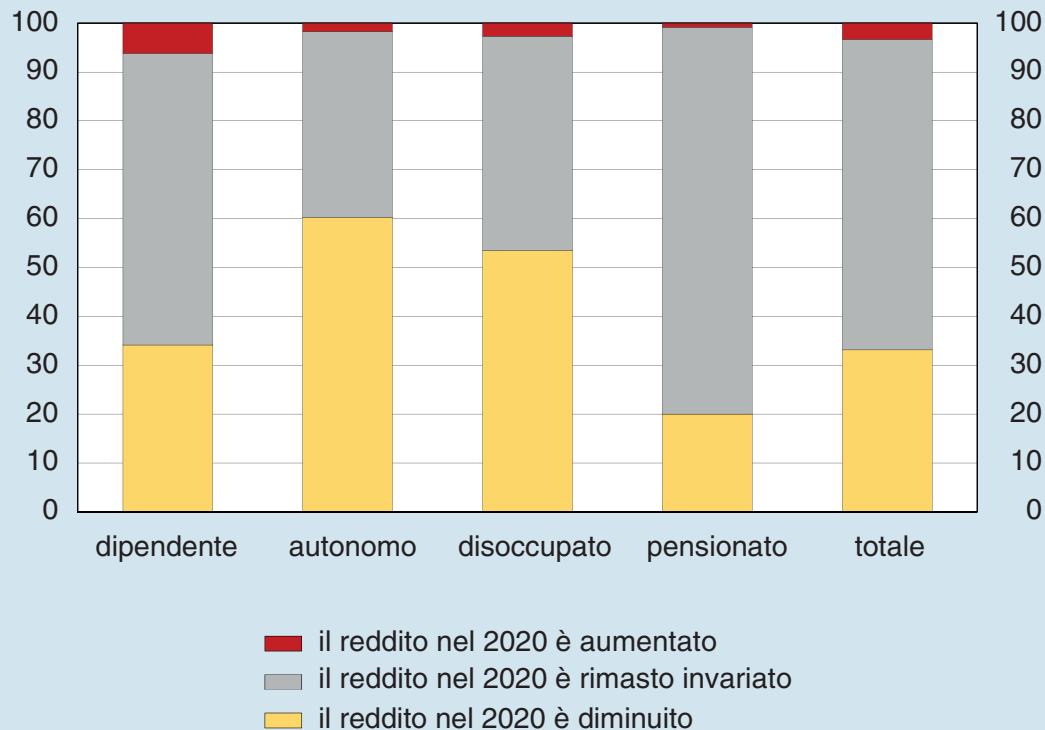


# The potential role of households savings

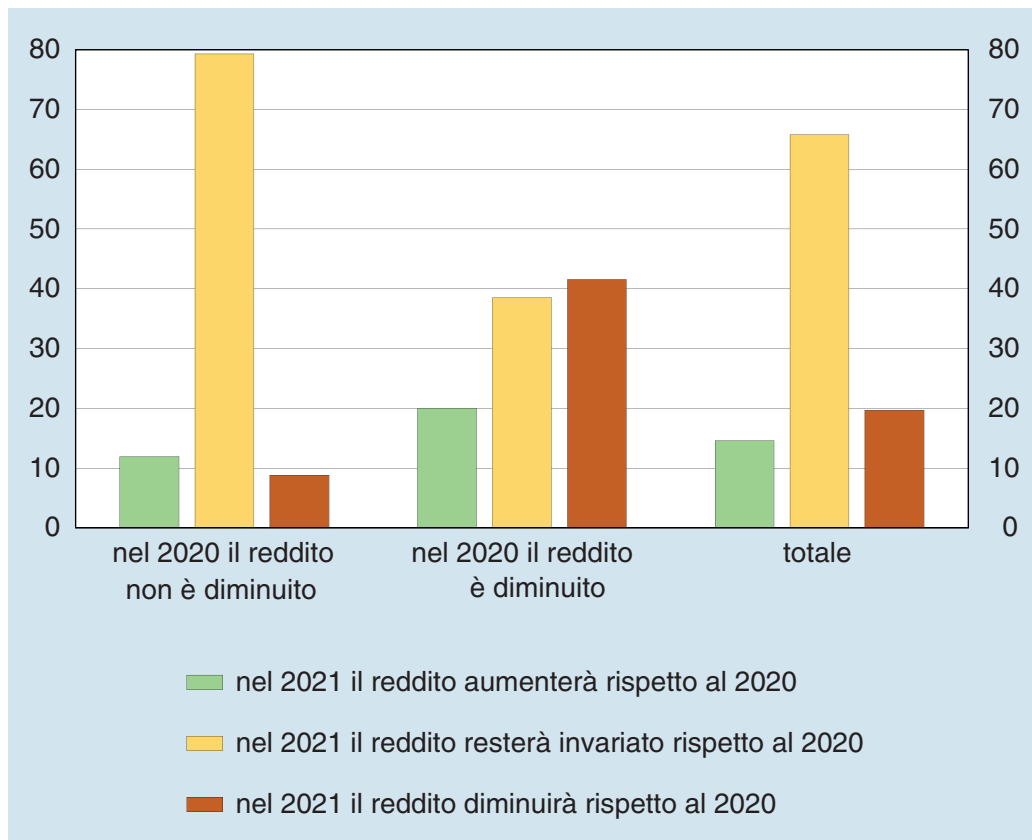


# Whose crisis?

(b) valutazioni sulla variazione del reddito familiare secondo la condizione occupazionale del capofamiglia



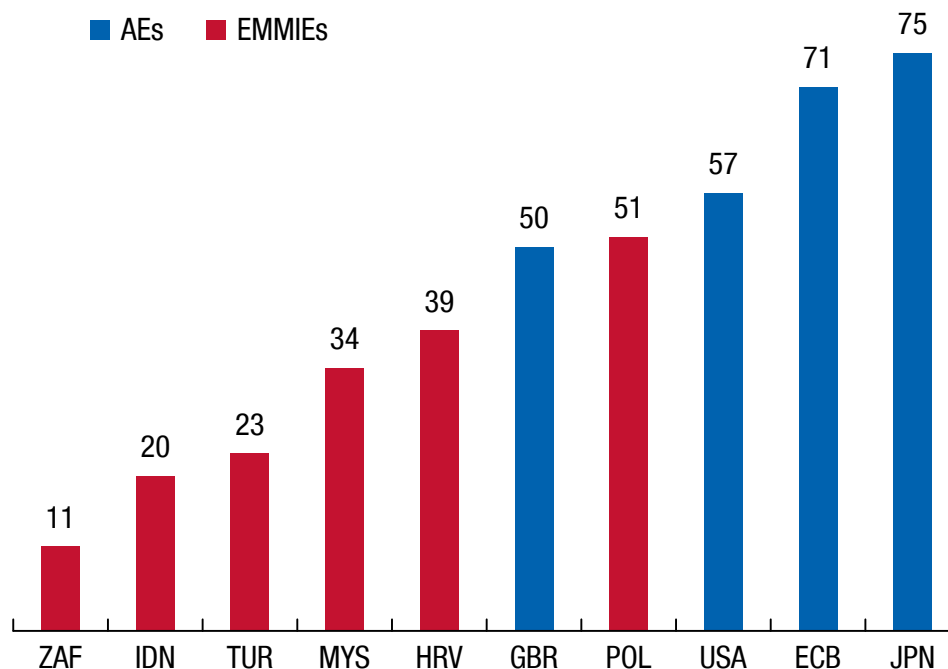
# Whose crisis?



# Central banks are doing their best

**Figure 1.3. Central Bank Purchases of Government Debt**

*(Percent of central government marketable securities or debt issued since February 2020)*



# The ECB is providing a big support

Tavola 4

Titoli detenuti nell'ambito dell'APP e del PEPP (miliardi di euro)				
VOCI	Titoli privati (1)	Titoli pubblici (1)	Titoli pubblici italiani (2)	Titoli pubblici italiani acquistati dalla Banca d'Italia (2)
<b>APP</b>				
Dicembre 2019	477	2.103	364	327
Dicembre 2020	567	2.342	411	370
<b>PEPP</b>				
Novembre 2020	48	650	118	107

Fonte: BCE e Banca d'Italia.

(1) Valori di bilancio al costo ammortizzato. – (2) Differenza tra i valori a prezzo di acquisto e gli importi nominali rimborsati.

Tavola 5

Operazioni di rifinanziamento dell'Eurosistema (miliardi di euro)				
VOCI	Area dell'euro		Italia	
	Importo	Numero di controparti	Importo	Numero di controparti
<b>Rifinanziamento totale al 31 dicembre 2020 (1)</b>	<b>1.793</b>		<b>374</b>	
Rifinanziamento nell'ambito delle TLTRO3	1.749		350	
di cui: ultima operazione regolata a dicembre 2020 (lordo)	50	156	11	25
ultima operazione regolata a dicembre 2020 (netto) (2)	37		6	

Fonte: BCE e Banca d'Italia.

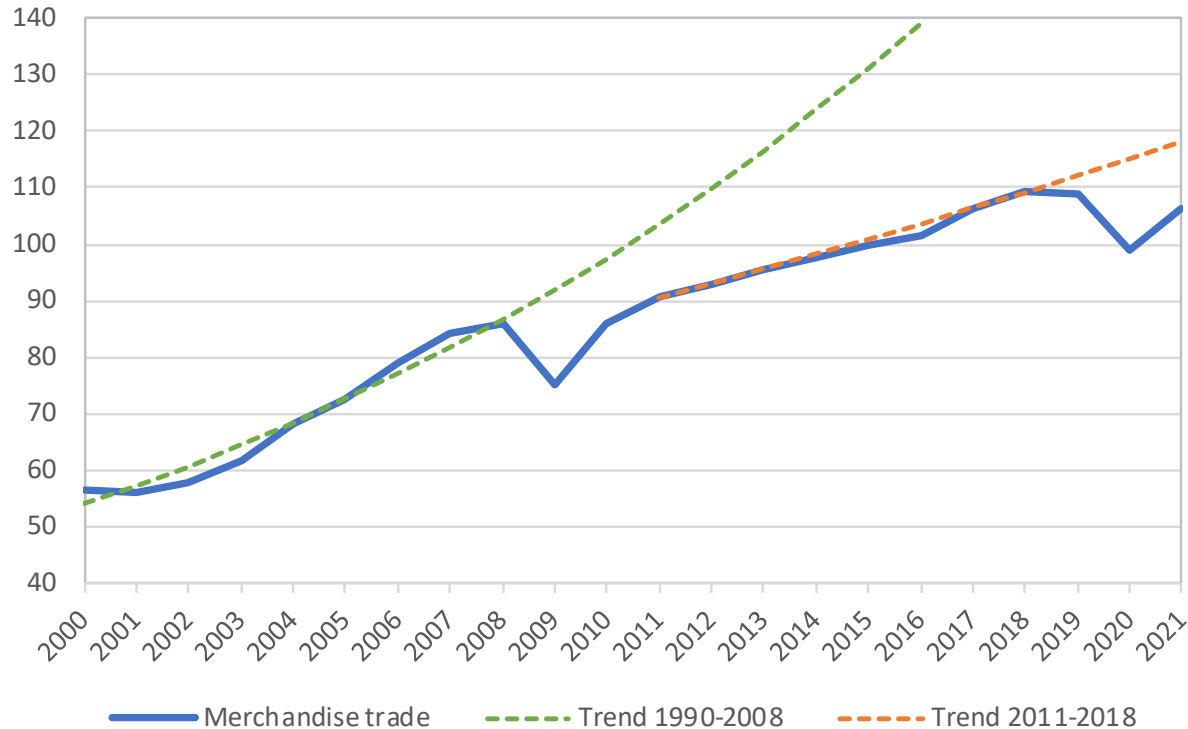
The Good, the Bad, and the Ugly

# **GLOBALIZATION**

# The global trade slowdown

**Chart 1 - World merchandise trade volume, 2000-2021**

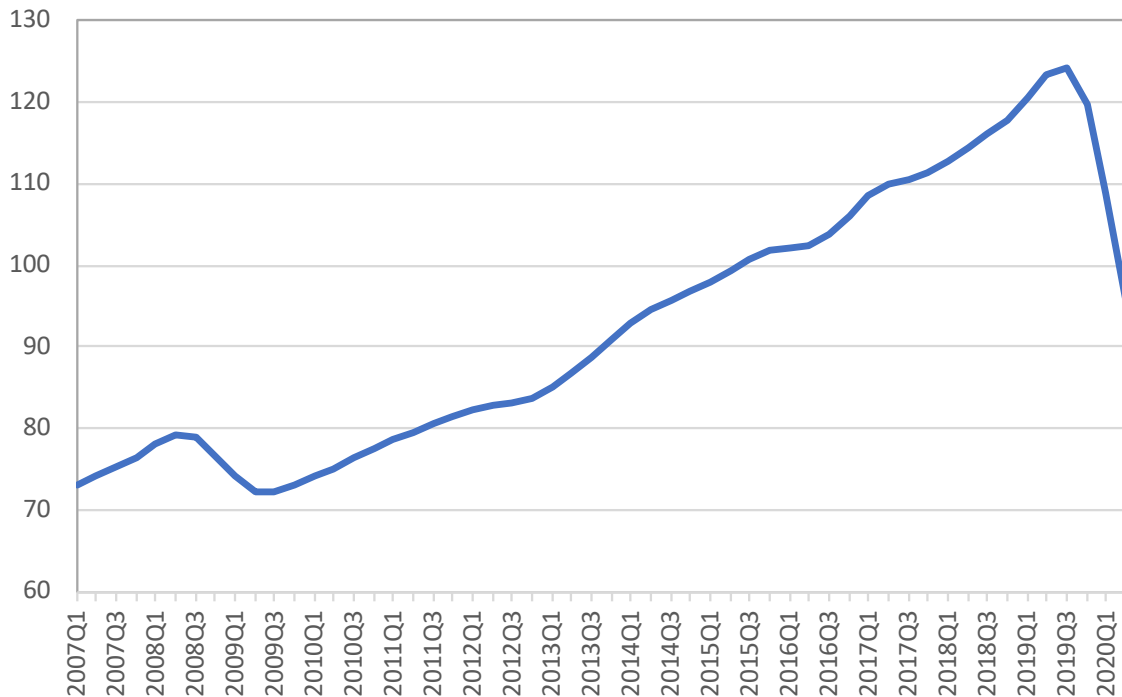
Indices, 2015=100



# Big impact on service trade

**Chart 4: World services trade activity index, 2007Q1-2020Q2**

Index, 2015=100

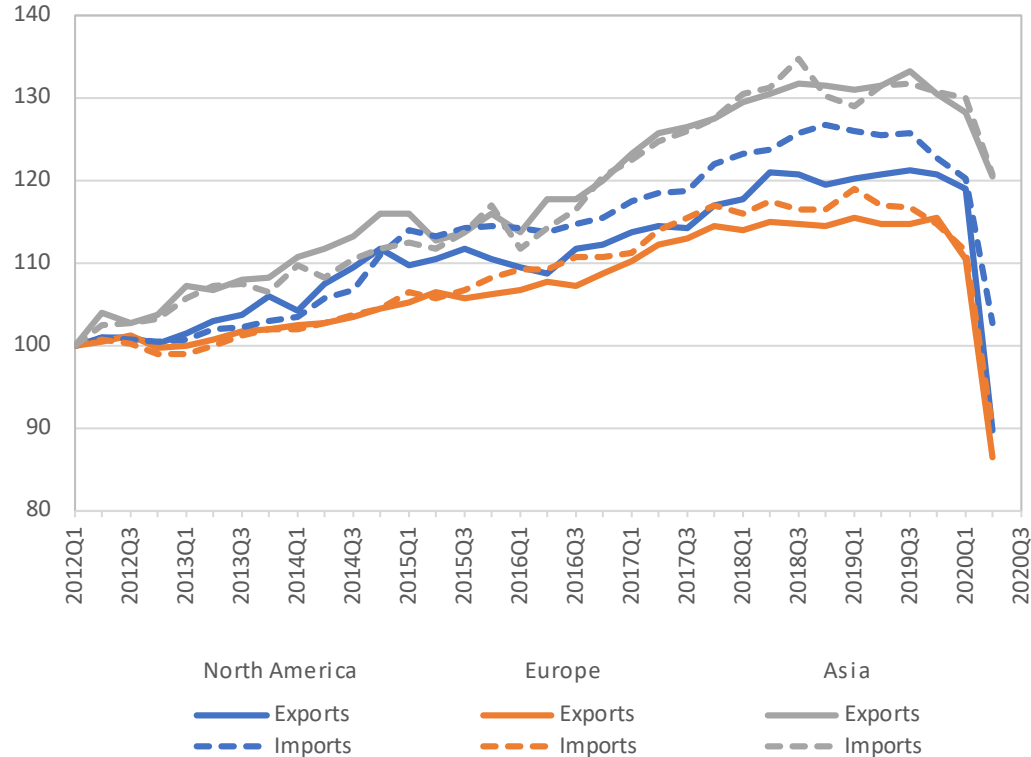




# Large geographic heterogeneity

**Chart 3: Merchandise exports and imports by region, 2012Q1-2020Q2**

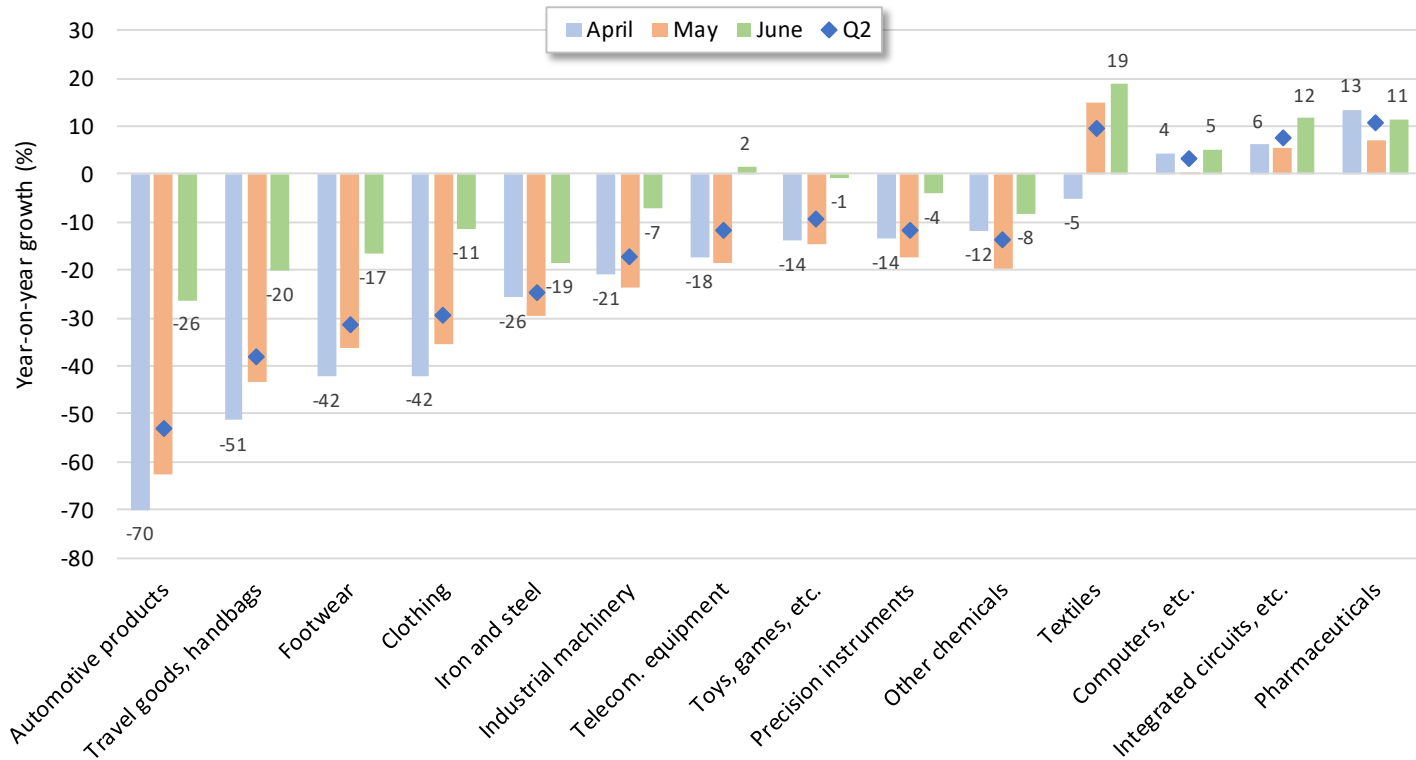
Volume index, 2012Q1=100



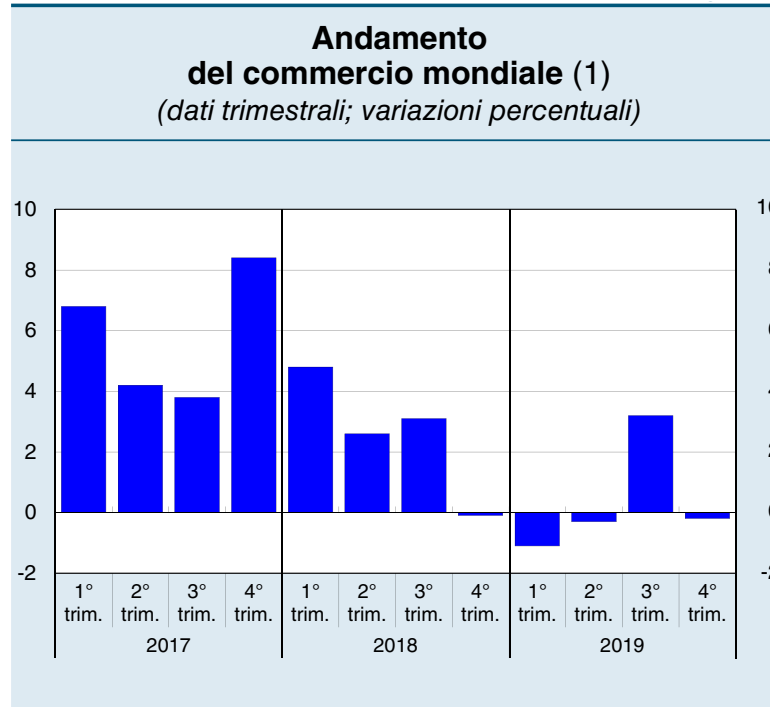
# Covid related products gained

**Chart 6: Year-on-year growth in world manufactured goods trade by product, 2020Q2**

% change in US\$ values



# It comes after a difficult year

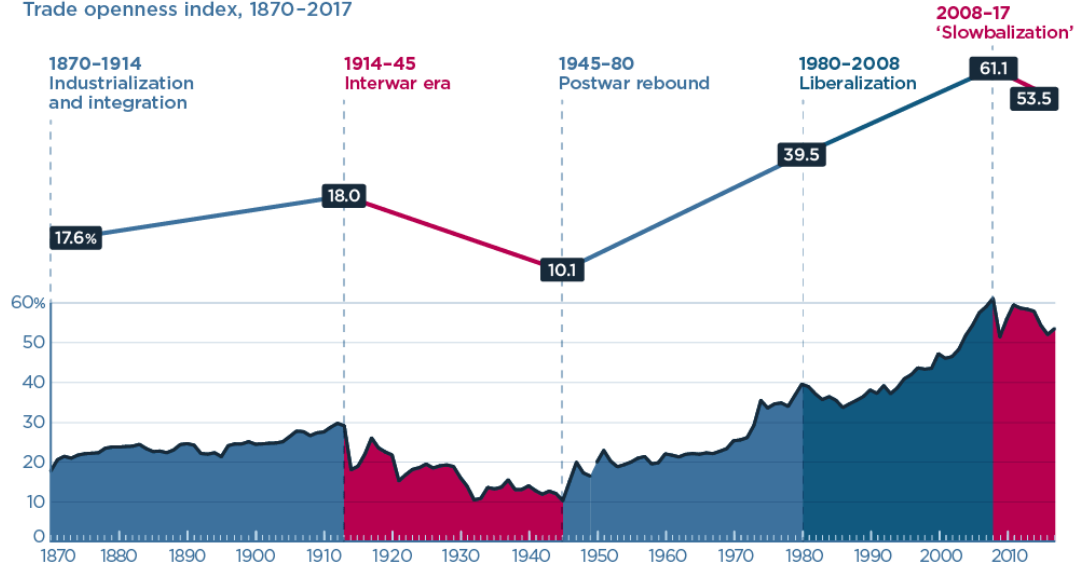


Fonte: elaborazioni Banca d'Italia su dati di contabilità nazionale e doganali.

# It's part of a turn in globalization trend

## Globalization is in retreat for the first time since World War II

Trade openness index, 1870–2017



**Note:** The trade openness index is defined as the sum of world exports and imports divided by world GDP. 1870 to 1949 data are from Klasing and Milionis (2014); 1950 to 2017 data are from Penn World Tables (9.0).

**Source:** Our World in Data, <https://ourworldindata.org/grapher/globalization-over-5-centuries>.

# The COVID crisis will reshape the globalization...

...but **most likely through an acceleration of preexisting trends**

i) The US-China conflict has not been resolved.

- What will Biden do?
- What will the EU position be? (See CAI)

ii) Companies can no longer take it for granted that tariff commitments enshrined by WTO rules will prevent sudden surges in protectionism.

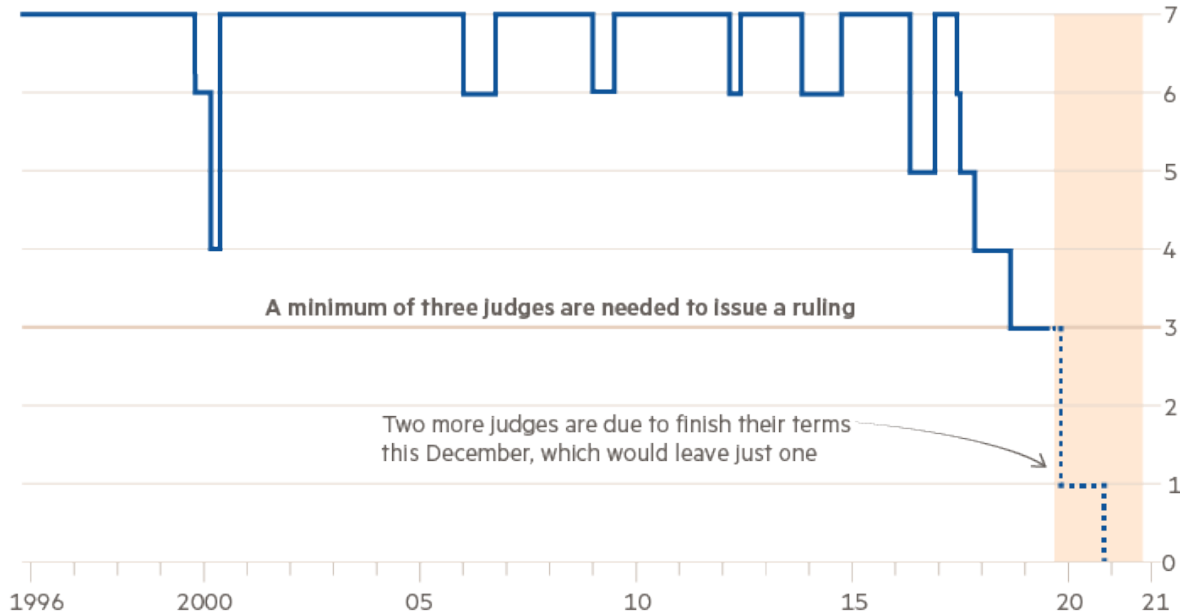
- Will GVCs be reshaped?

iii) What will happen to multilateralism? (e.g. The WTO dispute mechanism has stopped working).

# Disruption of multilateralism

Trump has blocked all WTO appointments since his inauguration

Number of sitting Judges at the appeals court

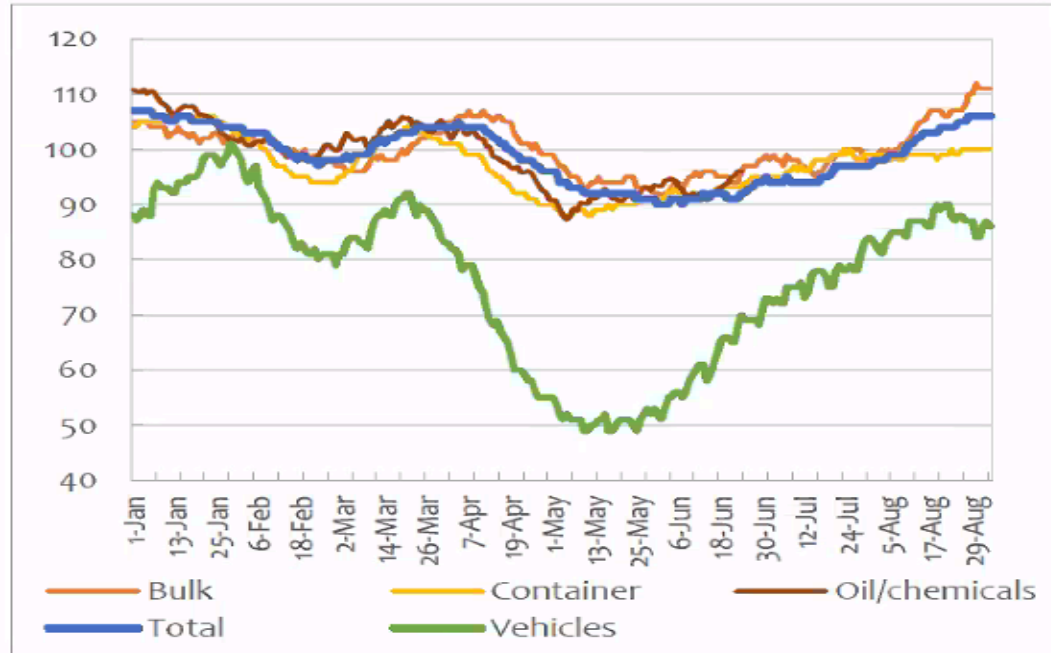


# The importance of GVCs

		Factory North America			Factory Europe								Factory Asia										
		usa	can	mex	deu	gbr	fra	ita	esp	tur	nld	che	chn	jpn	kor	ind	tw	aus	idn	bra	rus	sau	
Factory North America	usa		1.6	1.6	1.0								6.5	1.2	1.0								
	can	14.1		1.4	1.2	0.5							7.2	1.2	1.1		0.5						
	mex	15.5	1.0		1.7			0.6	0.6				14.3	2.3	2.6	0.7	1.1			0.6			
Factory Europe	deu	1.6				1.0	2.0	1.9	1.1	0.6	1.3	1.0	4.6	0.9	0.6						0.8		
	gbr	2.6	0.5		3.9		1.6	1.2	1.0	0.6	1.0		4.8	0.6	0.6	0.6							
	fra	2.4			5.7	1.2		2.3	1.9		0.8	0.6	4.1	0.6						0.5			
	ita	1.1			4.9	0.8	2.3		1.6	0.8	0.8	0.6	4.6		0.7	0.6				1.2			
	esp	1.2			4.5	1.2	3.3	2.3		0.6	0.8		4.6	0.6	0.6	0.6							
	tur	1.1			2.1	0.6	0.8	1.2	0.8				5.0		1.3	1.0				2.0			
	nld	1.8			5.0	1.2	1.2	0.9	0.7				3.7	0.7						0.9			
	che	2.4			8.2	1.6	1.9	3.1	1.1	0.6	0.7		5.2	0.9		0.5							
Factory Asia	chn	1.5			0.9									1.9	3.0		1.9						
	jpn	1.4			0.7								6.3		1.2		0.6						
	kor	2.9			1.8			0.5					16.4	4.4		0.6	1.8			0.6			
	ind	2.1			0.9	0.5							7.2	0.9	1.5		0.5			0.7	0.5		
	tw	2.7			1.3								13.8	6.4	3.4	0.6			0.8	0.6			
	aus	1.8			1.0								7.1	2.2	1.5		0.5						
	idn	0.9			0.5								7.4	2.1	1.9	0.6	0.7						
	bra	2.2			1.0								4.6	0.5	0.6	0.6							
	rus	1.0			1.9		0.6	0.8					5.7	0.8	0.8								
	sau	1.3			1.8	0.9	0.5						3.8	0.6	1.0	1.0							

# GVCs products

Panel B. Estimated Metric Tons of World Exports  
(30-day moving average in ratio to 2017-19 average)



**Source:** Cerdeiro, Komaromi, Liu and Saeed (2020); AIS data collected by MarineTraffic ([link](#))

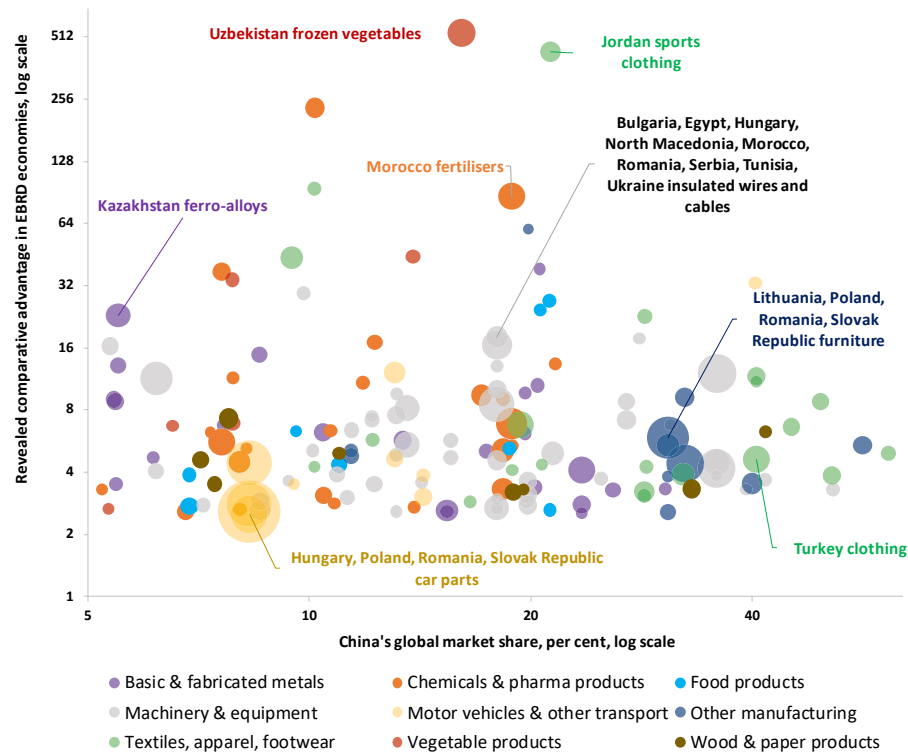


# Likely change in risk management

- **Just-in production** strategy was one of the key bones of global production.
- **Low probability events with high disruption potential did not weigh much into production strategies.**
- The **pandemics**, together with past experiences on data breach, natural disasters, and the feared consequences of climate change, **might expose firms to what once were considered tail events.**
- This may lead to a new way of thinking, in which **resilience will feature as prominently as efficiency.** For GVCs may imply:
  - i) A certain degree of redundancy in production may be optimal
  - ii) There can be **onshoring of critical goods**, which countries may want to hold reserves domestically.

# Someone will gain

**Figure 3** Which countries will take advantage of rethinking of global value chains?



*Notes:* The figures pertain to 4-digit HS codes in 2018. Bubble size indicates the absolute export volume in millions of US dollars. Restricted to lines with revealed comparative advantage  $\geq 3$  and export volume of more than \$500 million.

*Source:* EBRD (2020).

To Not be Forgotten

**WHERE WERE WE?**

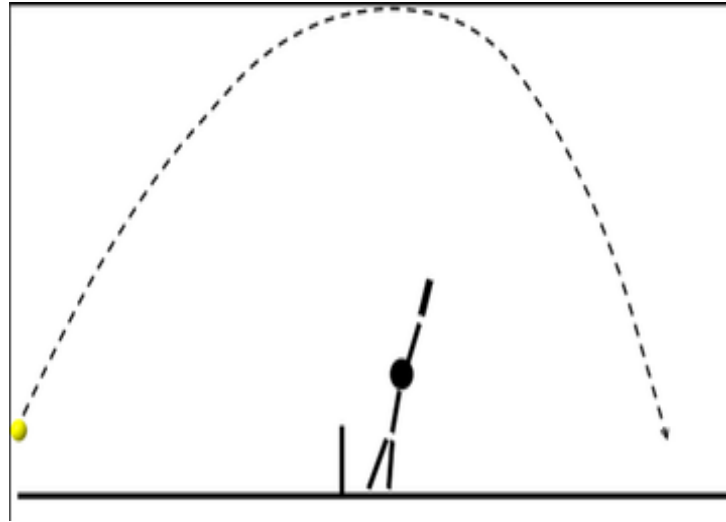
# From fastest growing into a sleeping beauty

GDP, real growth rate (average per year)

	1970s	1980s	1990s	2000s
<b>Italia</b>	<b>3.7</b>	<b>2.5</b>	<b>1.4</b>	<b>0.6</b>
<b>Germania</b>	2.9	1.9	2.1	1.0
<b>Francia</b>	3.7	2.3	1.9	1.3

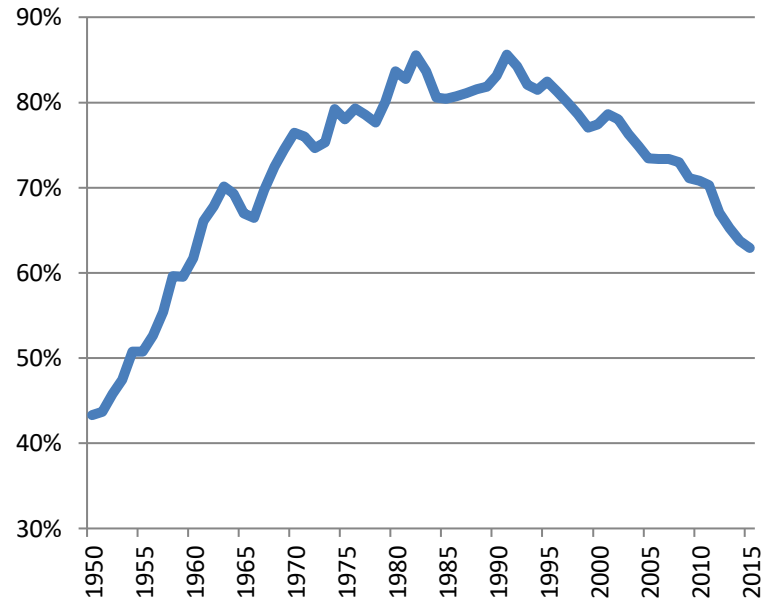


It looks like a lob, but it's the Italian economy



# The Italian turnaround

GDP per capita, USA % (PPP)



# Growth accounting

- We can decompose GDP growth also as

$$G_{Y/P} = G_A + \alpha G_K + (1 - \alpha) G_L$$

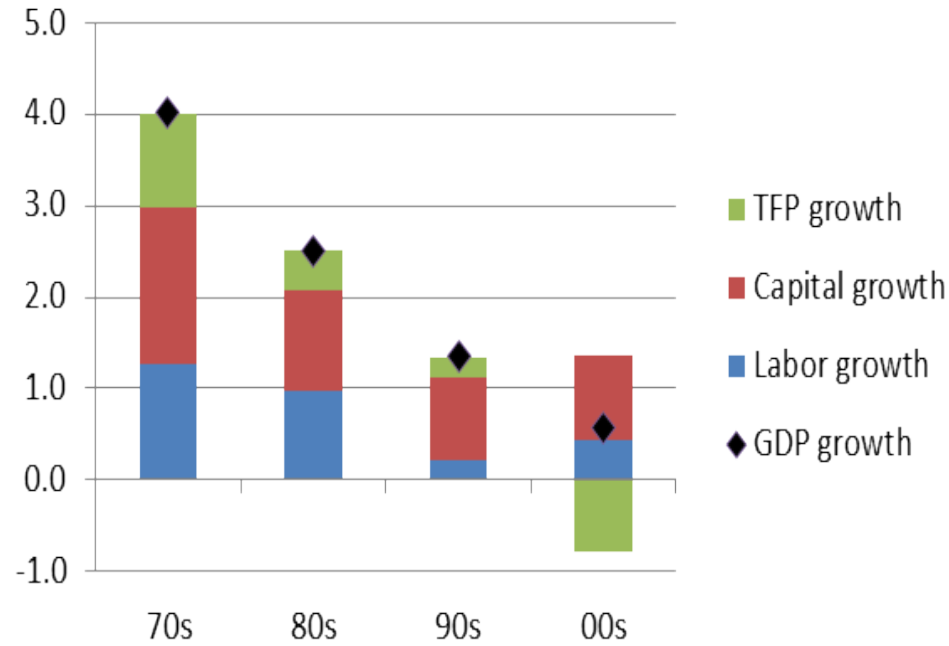
GDP growth

TFP growth

Capital growth

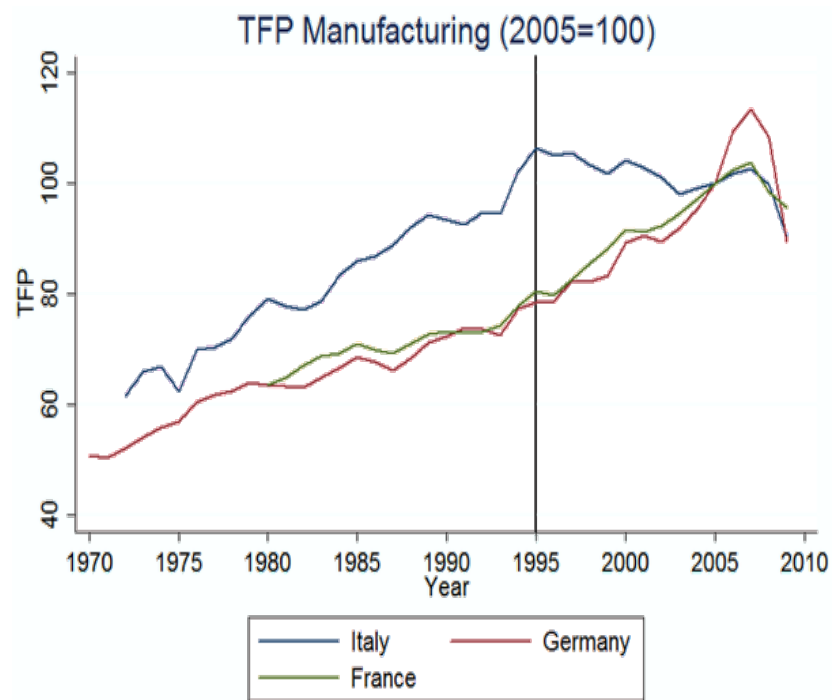
Labor growth

# It's the TFP, stupid!





# The Great Unlearning

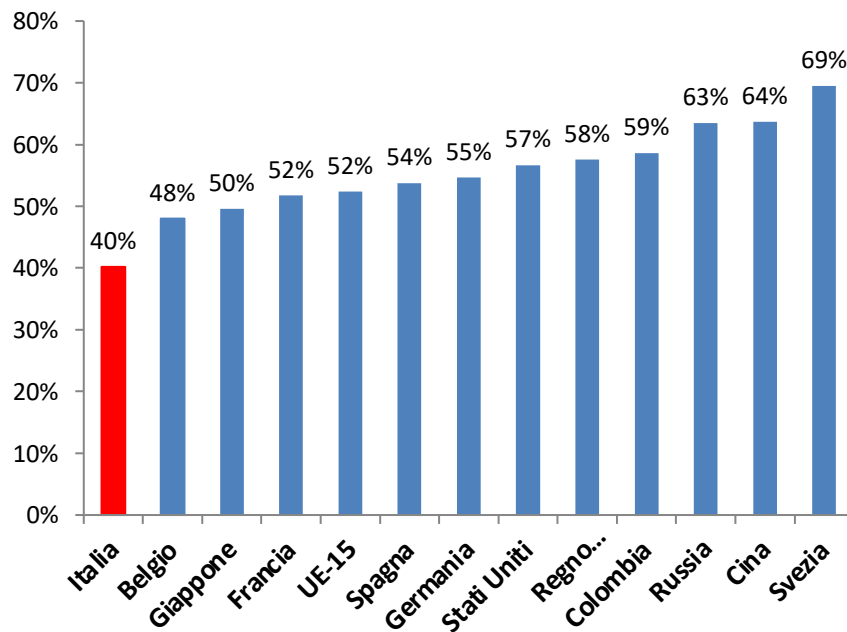


# TFP, what affects it?

- **Institutions:** they affect the working environment of firms.
- **Investments in IT and R&D:** they influence the general level of technology and innovation.
- **Allocation of resources:** how capital and labor are allocated across firms.
- **Managers:** they affect the general efficiency of firms

# Women and the labor market

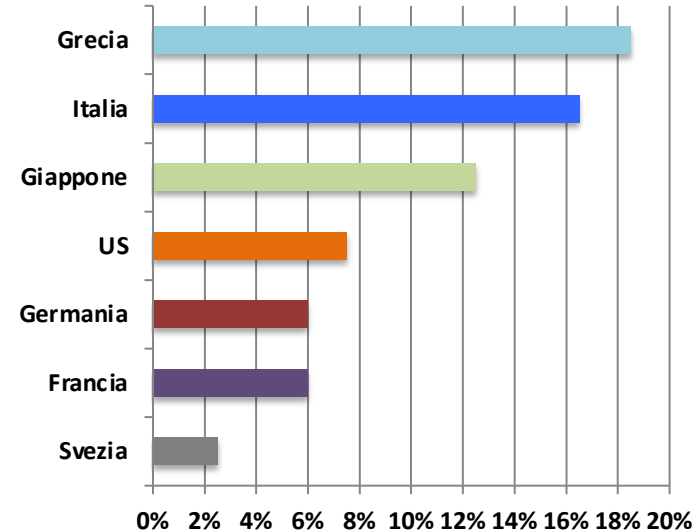
## Female Participation (2016)



# Womenomics 4.0



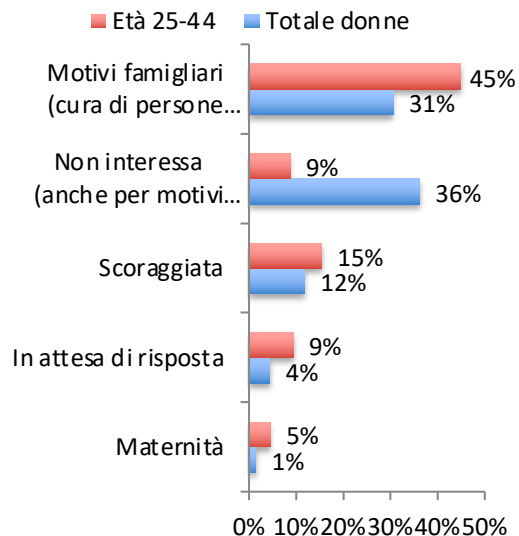
- What if women had the same occupation rate of men, how much would GDP increase?



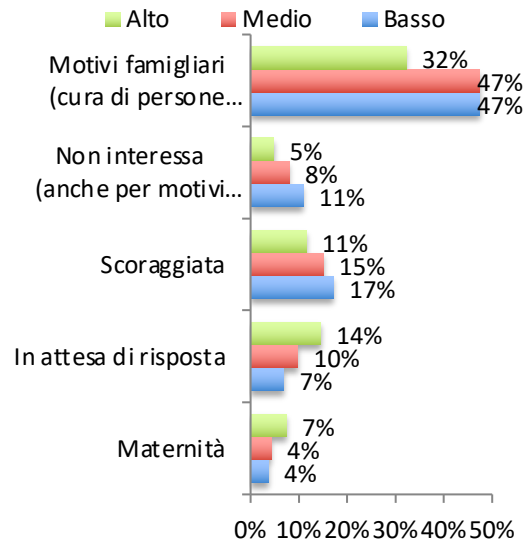
# Why women do not engage in the labor market



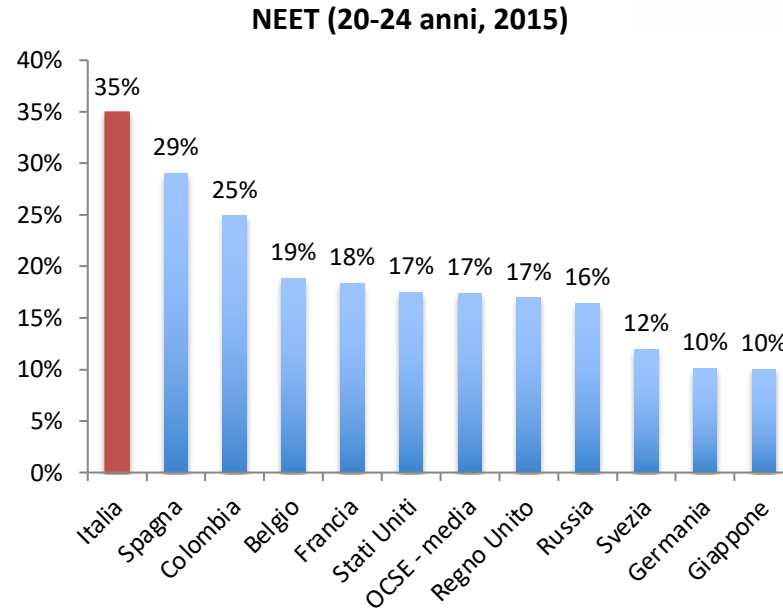
Answer by age group



Answer by education



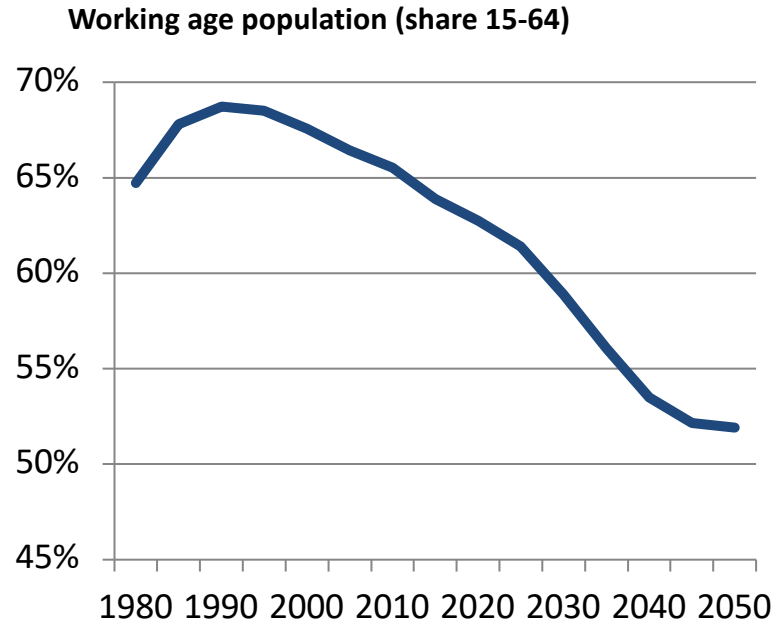
# A lost generation?



# Italian depopulation

- **Population 2017**: 60 mln.
- **Population 2055**: 56.4 mln.
- **Natural balance**: -7.4 mln.
- **Migration contribution**: 2.7 mln.

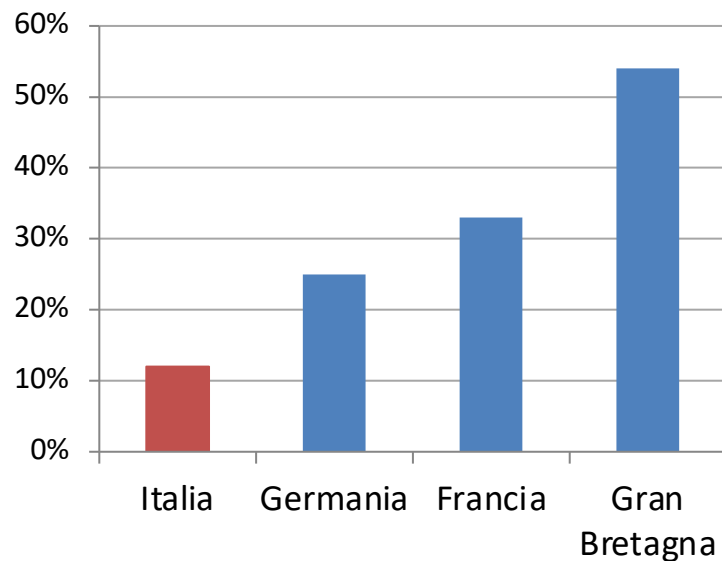
# Less and less workers





# Low ability to manage migration flows

Migrants with a university degree, (share 25-54 years)



Ask not what your country can do for you

**WHAT IS YOUR ROLE?**

# A simple syllogism

- 1) Firms are at the basis of the economy.
- 2) The manager are at basis of the functioning of firms.
- 3) The managers are...

# Different views about management

- **management as design:**
  - There are no better or worse management practices, but different optimal styles (*Organizational Economics*, Woodward)
- **management as technology:**
  - We can measure management practices and they have a strong impact on firms' productivity.
  - Bloom, Sadun, Van Reenen (2007-2017)

# World management Survey

- More than 12.000 firms
- 34 countries
- Biased to medium-large firms, 50-5.000 workers
- <http://worldmanagementsurvey.org>

# Main areas (18 questions)

- Operations Management
- Performance Monitoring
- Target Setting
- Talent Management

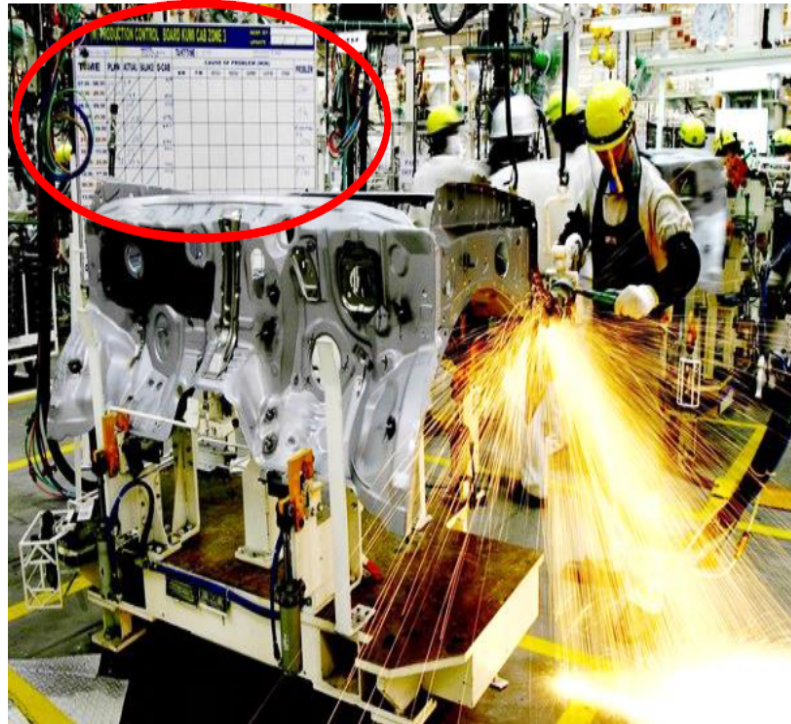
# Scoring

## MONITORING – e.g. *“HOW IS PERFORMANCE TRACKED?”*

Score	(1): Measures tracked do not indicate directly if overall business objectives are being met. Certain processes aren't tracked at all	(3): Most key performance indicators are tracked formally. Tracking is overseen by senior management	(5): Performance is continuously tracked and communicated, both formally and informally, to all staff using a range of visual management tools
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# Performance tracking

## Examples of performance metrics – Car Plant





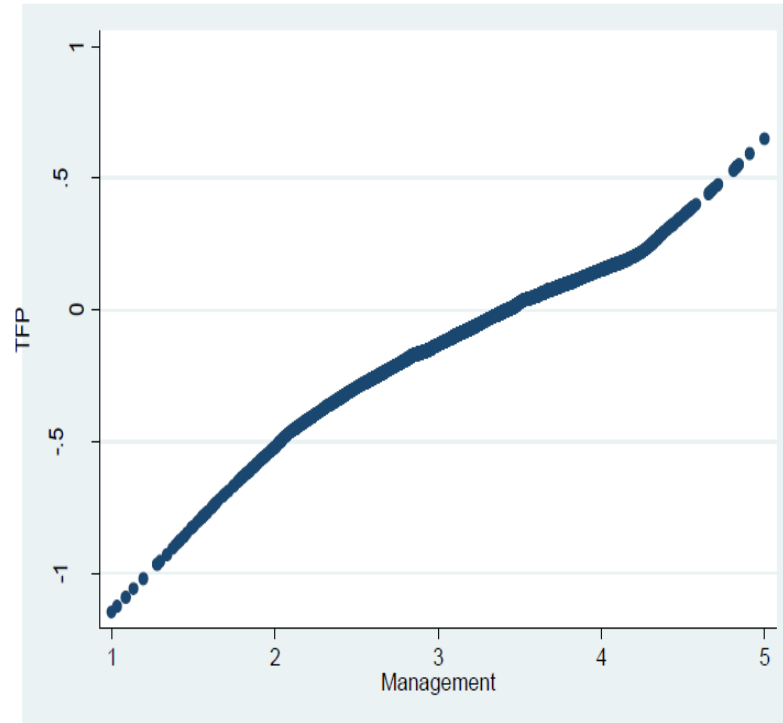
# Incentives

**INCENTIVES - e.g. *"HOW DOES THE PROMOTION SYSTEM WORK?"***

<b>Score</b>	<b>(1) People are promoted primarily upon the basis of tenure, irrespective of performance (ability &amp; effort)</b>	<b>(3) People are promoted primarily upon the basis of performance</b>	<b>(5) We actively identify, develop and promote our top performers</b>
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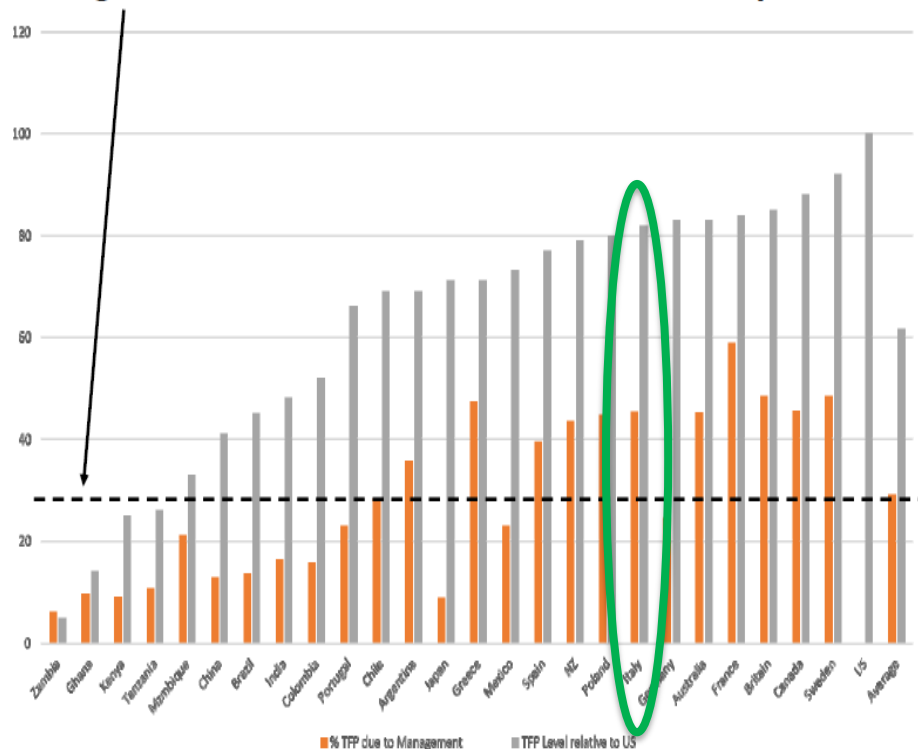
# Management and productivity

Data: Firm Productivity increasing in management

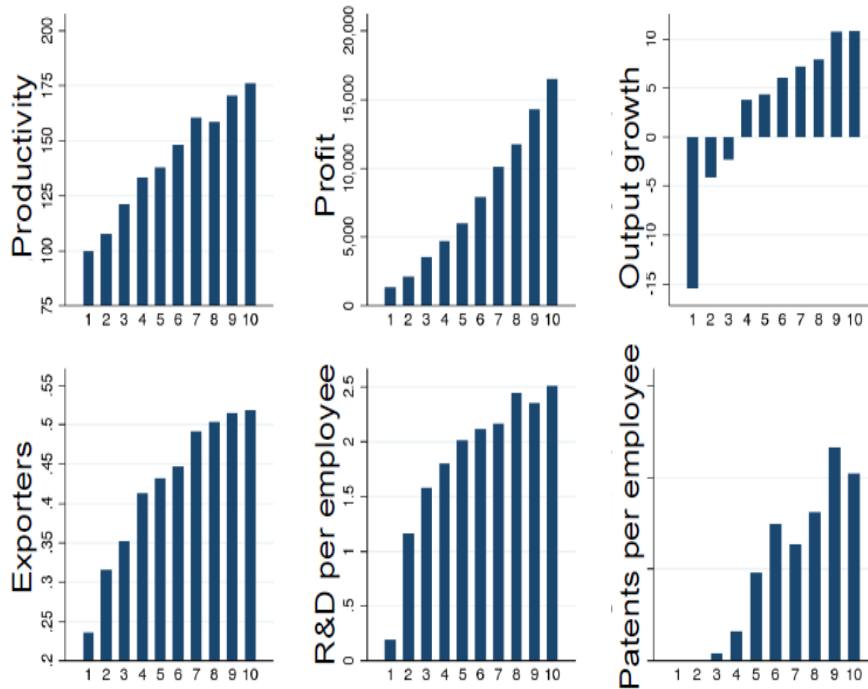


# Management and TFP gap

Management accounts for ~30% of TFP Gap with US



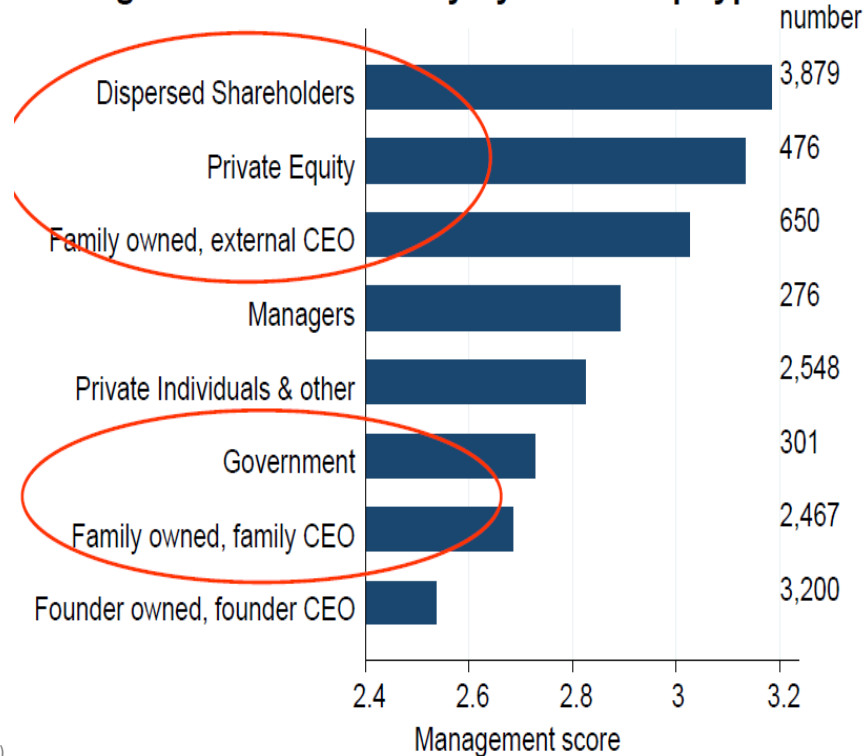
# Management e performance d'impresa



Management score decile

# Managers' performance varies by firm type

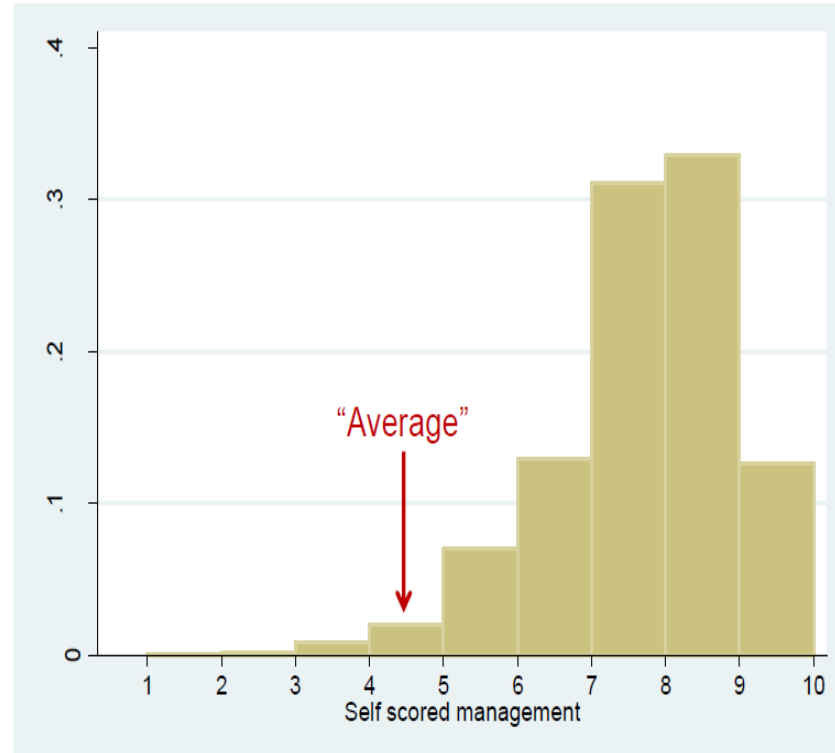
## Management varies heavily by ownership type



# Managers don't know how to evaluate the management of their own firms

- *«Excluding yourself, how would you score the management performance of your firm?»*

# Very optimist



# Critical points

- People are promoted by seniority and not by identifying top performers.
- Managers rewards workers equally and do not fix clear targets and rewards ex-ante.
- Bad performers are rarely removed.
- More senior managers are not evaluated looking at their capability to attract and develop a pool of talents.



**GRAZIE!**