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## Article

## Editorial to the special issue

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## Editorial to the special issue

### The COVID-19 crisis: macroeconomic implications and policies for sustainable recovery

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After a decade dominated by the Great Recession and the very different recovery pathways taken by economies across the globe, everyday lives have again been shaken by a major crisis. This time it was triggered by a virus that reminds us painfully of both the power of globalization and the unpreparedness of the world economy and nation states in the face of major shocks. Healthcare systems that had in many cases suffered under the credo of international competitiveness ran out of capacity. Global value chains broke down from one day to the next. While digitalization laid the grounds for a major push towards remote work and online consumption, blue-collar workers around the globe faced large-scale unemployment or exposure to health risk at their unsafe workplaces. Many self-employed and small businesses faced existential uncertainty or insolvency. While governments in advanced economies, facing a difficult dilemma between virus containment and calls for reopening business operations, prepared stimulus packages of unprecedented size, many countries in the Global South suffered from uncontrolled virus spread and demand shortages from the north. Only a few countries managed with resolute action to control the virus, and they were forced to largely close their borders.

What are the effects of COVID-19 for inequality and development? How can governments and central banks respond over the medium term? How will the pandemic affect our modes of trade, production and global capitalism at large? And will there be a lasting impact of the COVID-19 shock on the planet's ecosystems? This special issue draws on selected contributions to the 24th conference of the Forum for Macroeconomics and Macroeconomic Policies on 'The Corona Crisis: Macroeconomic Implications and Policies for Sustainable Recovery', which was held online between 28 and 30 October 2020.

The authors of this editorial, who have been involved in the organization of the conference, would especially like to thank the organizers of special sessions to the conference: Peter Bofinger, Svenja Flechtner, Barbara Fritz, Eckhard Hein, Miriam Rehm, Elisabeth Springler and Andrea Terzi.

In his paper, Peter Bofinger reviews the debate about updating the strategy of the European Central Bank (ECB), recently initiated by the ECB. He argues that the debate is overdue since the last update in 2003 was minor and long ago. The author makes three main points. First, the old strategy was the two-pillar approach, with monetary targeting as the first pillar, after 2003 as the second pillar. The new first pillar looked at many indicators and remained rather vague, not reflecting what the ECB really did in practice. Hence this 'strategy' should be abandoned. Second, the single-target strategy should be maintained, but now with a medium-term symmetric target of 2 per cent inflation. Additional 'green' targets must not compromise the main target or reduce the efficiency of the conventional policy tools. Third, *de facto* the ECB has followed inflation targeting without its own explicit inflation forecast. Instead of this 'camouflaged inflation targeting', an explicit commitment is called for, thereby also rejecting the Taylor rule and monetary targeting and also a dual mandate as in the United States (US).

In his contribution, Luiz Fernando de Paula addresses the impact of the COVID-19 crisis on the Brazilian economy, with a focus on the anti-cyclical policy measures taken in 2020. He shows that Brazil was an outstanding case, not only as one of the largest emerging-market economies, but also in terms of the size of counter-cyclical spending, where it performed well in comparison to most other emerging economies, despite a government which explicitly played down the negative health effects of the pandemic. While crisis containment was largely successful in economic terms, due to the pragmatic return to unloved Keynesian stabilization policies, he concludes that the administration's strategy not to contain the virus and a missing perspective for government investment will negatively impact upon the economy and inequality for years to come.

Daniele Tavani considers the links between secular stagnation, rising inequality, the sluggish recovery after the Great Recession and the vulnerability of the US economy to the COVID-19 shock. The pre-COVID-19 period ('before times') are shown to have been characterized by insufficient policy responses to aggregate demand deficiencies; he shows that such policies not only suppress the labour share in national income, but consequently also dampen induced technical change with permanent effects on economic activity. Diagnosing a persistent underutilization of productive capacities, he draws lessons for the 'after times', in particular the expected impacts of the major stimulus packages considered by the Biden administration. Tavani reveals the inconsistencies in the arguments of influential economists like Larry Summers who had long argued the case for insufficient aggregate demand and secular stagnation but now warn of overheating and severe inflation in the US.

Laike Yang and Bo Xu concentrate on the positive role of trade in fighting the pandemic. They use very timely trade data from the UN Comtrade database in order to analyse the effects of medical products' imports from China on the detection of COVID-19 cases and COVID-19-related cases of deaths, covering more than 200 countries. Based on daily data for the year 2020, they show in a fixed-effects model that imports of protective equipment decrease new COVID-19 cases as well as COVID-19-related cases of death in a statistically significant way. Imports of testing equipment increase the detection of cases, yet, at the same time, decrease the number of COVID-19-related deaths.

Steven Fazzari and Ella Needler compare inequality in US employment across demographic groups in the Great Recession and the COVID-19 pandemic. Based on a measure that captures both how much employment declines during a recession and the persistence

of employment losses, they show a significant shift of job loss from men in the Great Recession to women in the COVID-19 lockdown. White workers fare better than other racial/ethnic groups in both recessions. Less-educated workers had modestly worse outcomes in the Great Recession but suffered much more severe employment consequences than more-educated groups during COVID-19. They discuss long-term effects of employment inequality – notably the likely higher impact on demand due to the higher marginal propensity to consume of lower-skilled workers – and how these findings relate to debates about policy responses. In particular, they call for greater targeting of relief measures to disadvantaged groups.

Alicia Garcia Herrero discusses the effects of the COVID-19 pandemic in Asia and related policies. The strongest macroeconomic policy response to the COVID-19 crisis was – except in Japan and Singapore – in the field of monetary policy. Asian countries were hit hard by the pandemic but overall a strong medium-term or even short-term recovery is likely, although several risks remain. Risks include the lack of vaccine as well as new mutations of the COVID-19 virus. Supply constraints in global value chains could also slow down the recovery. High uncertainty is created by the trade war between China and the US and other regional geopolitical conflicts. Last but not least, in many Asian countries aging societies may lower medium-term growth.