



On a tightrope: COVID-19 and the Economic Outlook, with OECD Chief Economist Laurence Boone

Access the podcast at:

<https://doi.org/10.1787/82251fff-en>

Please cite this podcast as:

OECD (2020), "On a tightrope: COVID-19 and the Economic Outlook, with OECD Chief Economist Laurence Boone", *OECD Podcasts*, Duration: 16:02, OECD Publishing, Paris, <https://doi.org/10.1787/82251fff-en>.

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Duration: 16:02

Date: 21 June 2020

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Outlook, with OECD Chief Economist
Laurence Boone**

Intro [00:00:11] Welcome to OECD podcast, where policy meets people.

Rory Clarke [00:00:16] “The world economy is walking on a tightrope.” This is how the OECD summed up the situation when it released its latest economic outlook on June 10. Since the start of 2020, the coronavirus crisis has spread rapidly, costing hundreds of thousands of lives, and causing serious disruption everywhere. Just how badly will COVID-19 affect our economic prospects? Can we hope for a fast recovery? Or could it all go the wrong way?

Rory Clarke [00:00:45] What can policymakers do to help us inch forward to recovery?

Rory Clarke [00:00:52] I'm Rory Clarke. And to help answer these questions, I'm delighted to be joined by OECD Chief Economist, Laurence Boone. Welcome to OECD podcast, Laurence. Or should I say welcome back, because you were with us on OECD podcasts just over a year ago, and that was long before the COVID-19 crisis was on our radars. Now we are talking about the worst recession in 100 years. How bad is that compared to, say, the 2008 financial crisis?

Laurence Boone [00:01:23] So, thanks. It would be a pleasure to be back here, if it wasn't for the crisis. COVID-19 and the shock that hit the economy as a consequence of the shutdown is, I think, the most terrible in this century. First, because the pandemic is hurting many people and a lot are dying, but also because to prepare to be better-equipped with our healthcare system to address this virus and take care of sick people, governments across the world have shut down our economies. And shutting down the economy to the extent that it has never been seen, as I was saying, over the past hundred years.

Rory Clarke [00:02:07] There have been a lot of negative economic forecasts published recently. But you've taken the approach of presenting two alternative scenarios—equally possible scenarios. Why is that? And maybe talk us through some of the numbers.

Laurence Boone [00:02:21] At first, when the virus hit, because we had no treatment, no vaccine and sometimes we didn't have tests and weren't equipped enough, we shut down the economy. To give you an order of magnitude, this was a shock of around 20% to the level of GDP, which is totally unprecedented. That helped levelling up the personal equipment for doctors and nurses, but also tests, drugs, ICU beds, many things. And after six weeks to two months, in most but not all OECD countries, the virus started looking in check. Now, we still are very unclear about the threat of the virus, meaning we don't have a treatment. We don't have a vaccine. We know these things will take at least 12 months. The rate of infection, they seem going up, for example, in Latin America or in Southeast Asia. So to cope with this unprecedented uncertainty, we decided to make two sets of forecasts. So we have one set of forecasts where the virus continues to recede. And with testing, tracking, tracing, and isolating, we keep it in check. And life can resume nearly as normal. And there's another set of forecasts, where we don't manage to keep the virus in check. And it comes back in, in the autumn. So obviously, we're better prepared. We would do more targeted confinement. It would be more limited. But still, it would hurt the economy. And in the first case, when there's no more outbreak, then global GDP contracted by 6%, which is way above the great financial crisis. And in the second case, when the virus comes back, then the contraction is about 7.5% of GDP in this year and the recovery in 2021 is much more.

Rory Clarke [00:04:21] You think that both scenarios have to be treated equally. But aren't there actions that policymakers can take to at least reduce the risk of a second wave.

Laurence Boone [00:04:33] So this is a really good question. I think there's a couple of essential things to do if we want to avoid a second wave of the virus. And the first one is to test, track, trace, and isolate people, which works pretty well when the rate of infection is low. As you can see from Korea's example, and complete that with physical distancing and obviously wearing masks. If we all do that, we can hope to keep it in check. Also, as I was saying, that also means that everybody globally has to do that, and not everybody globally is able to do it consistently and with great efficacy. So that also means that some borders will remain closed. So even if we don't have a second wave, I think one of the messages of the economic outlook is life will not resume as it was before.

Rory Clarke [00:05:29] Now, even if you have a single wave, that's still a crisis, that's still a very deep recession. Are policymakers doing all they can on the economy? Or is there more they could do?

Laurence Boone [00:05:38] We should first and foremost praise the rapidity and magnitude of government action to buffer the shock to the economy. Across all OECD countries, we've seen them levelling up healthcare equipment, and staff and organisation. We've seen them putting in place either job retention scheme, or schemes to wire cash to people who are not in some form of employment, so protecting people's income. We've also seen them actually protecting firms to make sure that it would not be because they would run out of cash, that they would go under. So that has really buffered the shock. So all these job retention schemes mean that not only people on the losing their income, but they're not losing their tie with their jobs. And when the economic activity starts again, they can stop working very quickly. Now, having said that, some activity will remain very limited, like those involving mass gathering, like festivals, theatre, cinema. You also have a lot of new restrictions on hospitality, restaurants and mass tourism. So there's a whole lot of sectors which will not be able to work as before. And that means some firms will not be able to survive, and that mean some people would lose their job. What we hope to do was to provide advice for policymakers to remain very flexible, very agile, protecting people's income while helping them to all those who are in sectors who will not be working as before, to relocate to other sectors. And the same, if you have your own firms and they cannot survive in this new COVID world that you can, you know, restructure their firm and move into some other activities. It's difficult. It's a challenge. But I think if we want to avoid mass unemployment and a massive increase in inequality, governments still have a lot of work to do.

Rory Clarke [00:07:44] What is the outlook saying about unemployment in particular on the most vulnerable groups?

Laurence Boone [00:07:49] So this this is a very interesting question and one which raises a lot of anxiety for us. The unemployment rate would rise, right, as governments withdraw their support, at least to some extent.

Laurence Boone [00:08:01] I don't think it would be by as much as what we've seen in the global financial crisis, in proportion to the loss of GDP. But it will still be a lot, and that's probably because governments have put in place measures for these job retention schemes. So they increase, but much less than we

have feared. And the sectors which are most hurt, are the one where physical distancing is tough. So in manufacturing, you're ok. E-commerce, probably thriving. Care, thriving. We've seen we need more care people, for older people. On the other side of the spectrum, hotels, restaurants, mass tourism—that's going to be impaired for a very long time, in fact as long as the virus hangs around. It is in those sectors that you see the most non-standard forms of employment, like fixed-term contracts, or self-employed. It's also where there is the highest concentration of low-qualified people, as well as young people. And that is a great cause of concern. It is very important that policymakers target their support to the most vulnerable people so that nobody is left behind.

Rory Clarke [00:09:17] What if there is a faster recovery than expected? Would any of these groups of people find work more quickly?

Laurence Boone [00:09:24] Governments across the world are actually looking at measures to help young people. You can think about measures like keeping them studying longer, you subsidise their wage with their employer, or you help them set up their firms. So there are many things that can be done. The other thing is, if the recovery is faster, for example, because people are confident that they are safe, then we could see more consumption and more investment than we imagine. And for that, I think it's key that the governments support this confidence, that they give some clarity on what's happening with the disease, that they really increase the capacity to test the isolate, that they provide the maximum certainty around the virus on which we know so little.

Rory Clarke [00:10:12] What about the overall global economic system? We see countries turning inward to tackle the crisis. Closing borders, protecting your health services and so on—all essential for controlling the spread of coronavirus. But does this concern you, in any way for the next phase?

Laurence Boone [00:10:28] This is something that was going on before. As you know, we have trend tensions which have been mounting for the past two years or so.

Laurence Boone [00:10:37] And when we had the virus outbreak, a lot of restrictions were put on exports of medical equipment. It's true that the production of medical equipment is very concentrated in this handful of countries. And it's better to be more resilient to source this equipment in a more diverse set of countries. So diversifying supply chains is actually helpful. What we learned as well now is that if you put barriers to trade, you're putting barriers to some components that gets, for example, in the fabrication of masks. But if components cannot freely flow, then you cannot use them. So barriers are actually lowering global supply rather than increasing it, when demand is increasing. And I think that also governments learned that for some special sectors, you the wen it relates to the national security, like health, energy, cybersecurity. They may be helpful to have some unit of production at home.

Rory Clarke [00:11:44] So this is like that “just in case” idea isn't it, rather than just in time?

Laurence Boone [00:11:47] I think it's moving from “just in time” to “just in case.” Yes.

Rory Clarke [00:11:53] And how important would you say international cooperation at the political level is in this? Is there any initiative that you would encourage or any dialogue that you would like to see stepped up?

Laurence Boone [00:12:03] International cooperation is always helpful, but I think in that case, it's really indispensable. The first thing is to make sure that every single country has access to productive medical equipment and is in a position to actually really reduce the number of infection and keep the virus in check, if not eradicated. And for that they need material. So countries which have low income, or are developing, international cooperation should really seek to help them beef up their capacity to address the health crisis. And we've seen some initiative in that respect. There's a vaccine initiative, there's a lot of things going on. It's also the case that emerging markets and developing economies are being hurt much more than the others by this crisis. First, because they usually don't have the same healthcare capacity. So there's a huge share of former workers and it's very difficult to do confinement and protect workers when there is a lot of informality. And a lot of them also rely on commodity exports.

Laurence Boone [00:13:10] And as you know, commodity prices have collapsed. So here, when really international cooperation to keep them afloat. And here, there's been some international initiative as well. The group of the G20 have put a moratorium on that, which is a good first step.

Rory Clarke [00:13:27] Now, we clearly cannot go back to the pre-COVID world with social distancing restrictions on movement of people and so on. But are there opportunities that you see out there, on the environment or in business, that you think could take off in the next few years?

Laurence Boone [00:13:45] It's always very interesting to see how a crisis actually is generally not a revolution, but it's accelerating some trends. And we are seeing economic activity really soaring into e-retail, e-trade, [inaudible]. And on the environment also, I think something very interesting is happening. When countries had to address the global financial crisis, all they wanted to do to support their economy no matter the environmental costs. So there was a lot of money being poured, for example, in the automobile industry without any condition linked to sustainability. This time we've seen many countries, including France, Germany, Italy, in effect, showing up and helping their automobile industry, but with a condition that they would make a significant [inaudible] of green growth, meaning the usual, you know, cash that you can get to buy a car this time when he goes to [a] clean car.

Rory Clarke [00:13:48] Since you've launch the economic outlook, you've seen media reaction. You've listened. You've spoken with people. You've met a lot of people. If there is one message that you would like to get across. What would it be?

Laurence Boone [00:14:57] One is a much greater demand for equity and fairness. That would be my strongest message. Equity and taking Care of the Future.

Rory Clarke [00:15:08] Laurence Boone, OECD chief economist, it's been wonderful talking to you. You've certainly given us a lot to take in. Let's all hope that the next time we welcome you on OECD podcasts, that our economic outlook will be brighter. Thank you very much for your time.

Laurence Boone [00:15:24] Thank you. Thanks a lot.

Outro [00:15:28] The OECD will be monitoring economic developments as closely as possible. Expect an update in September, and a new edition of the OECD Economic Outlook in November. And, of course, you can keep up by visiting our websites, as always, at oecd.org/economic-outlook and oecd.org/coronavirus.