

## The conversation we need to have about the recovery from COVID: what's easy, quick and cheap?

This is the third blog I have written on COVID-19. The first, '[Loaded after COVID: priming policy for after the pandemic](#)' was written at the end of March, and focused on what the world might be like after the virus. The second, '[Virus Vision and Virus Realism. In Reverse Order](#)', was written at the end of April, and emphasised the difficulty of recovery. This third contribution attempts to move onto more propositional terrain.

Time to be propositional

There has been a lot of focus on managing the COVID crisis, but it is also important to be propositional about the recovery phase. The Christmas tree is groaning under the weight of [proposals for recovery after the virus](#). But fiscal space is likely to be limited in many poor countries, unless large amounts of new aid are provided. Furthermore, some proposals are administratively complex and will tax weak administrations. And some are slow-burn in terms of their impact. So what is needed is a package which is effective, green, supportive of livelihoods, socially inclusive, and so on - but also, as preconditions, easy, quick, and cheap. The analysis needs to be country-specific, but a traffic light system is proposed as a way to provide an initial gateway to more thorough analysis.

On the range of options, the recent [Oxford study](#) is very useful. It started with 700 fiscal stimulus policies, simplified down into 25 'policy archetypes', of which 19 were classed as recovery options. Note these were fiscal responses only, not monetary or in the realm of the incentive and regulatory framework. The full list of 25 archetypes is shown in Figure 1. The recovery options are in Figure 2.

Figure 1

A	Temporary waiver of interest payments	N	Worker retraining
B	Assisted bankruptcy (super Chapter 11)	O	Targeted direct cash transfers or temporary wage increases
C	Liquidity support for large corporations	P	Rural support policies
D	Liquidity support for households, start-ups and SME's	Q	Traditional transport infrastructure investment
E	Airline bailouts	R	Project-based local infrastructure grants
F	Not for profits, education, research, health inst. bailouts	S	Connectivity infrastructure investment
G	Reduction in VAT and other goods and services taxes	T	Clean energy infrastructure investment
H	Income tax cuts	U	Buildings upgrades (energy efficiency)
I	Business tax deferrals	V	Green spaces and natural infrastructure investment
J	Business tax relief for strategic and structural adj.	W	Disaster preparedness, capacity building
K	Direct provision of basic needs	X	General R&D spending
L	Education investment	Y	Clean R&D spending
M	Healthcare investment		

Source: <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf>

Figure 2

B	Assisted bankruptcy (super Chapter 11)	N	Worker retraining
E	Airline bailouts	P	Rural support policies
F	Not for profits, education, research, health inst. bailouts	Q	Traditional transport infrastructure investment
G	Reduction in VAT and other goods and services taxes	R	Project-based local infrastructure grants
H	Income tax cuts	S	Connectivity infrastructure investment
J	Business tax relief for strategic and structural adj.	T	Clean energy infrastructure investment
L	Education investment	U	Buildings upgrades (energy efficiency)
M	Healthcare investment	V	Green spaces and natural infrastructure investment
		W	Disaster preparedness, capacity building
		X	General R&D spending
		Y	Clean R&D spending

Source: adapted from <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf>

It should be noted that the recovery options presented in Figure 2, at least as synthesised by the authors from the original longlist, focus mainly on green investments, with only some picking up wider issues, like investment in education (L) and healthcare (M), ‘rural support policies’ (P) and general R and D spending (X). This is not a complete ‘New Deal’ package, for example including enhanced social protection – although, as I have argued elsewhere, the terms ‘New Deal’ or ‘Green New Deal’ are being used to cover a [wide and divergent range of environmental, economic and social proposals](#), depending on the authorship. Thus, the US version of the Green New Deal, promoted by Alexandria Ocasio-Cortez, differs significantly from that promoted by the British Labour Party. The Oxford list does not include popular Green New Deal elements like a housing programme, or measures to reduce inequality, or universal access to social services. Nor, by design, does it cover non-fiscal elements of a Green New Deal, like trade union rights, or, in the case of the UK Labour Party version, nationalisation of key industries. Trade policy and migration are not covered.

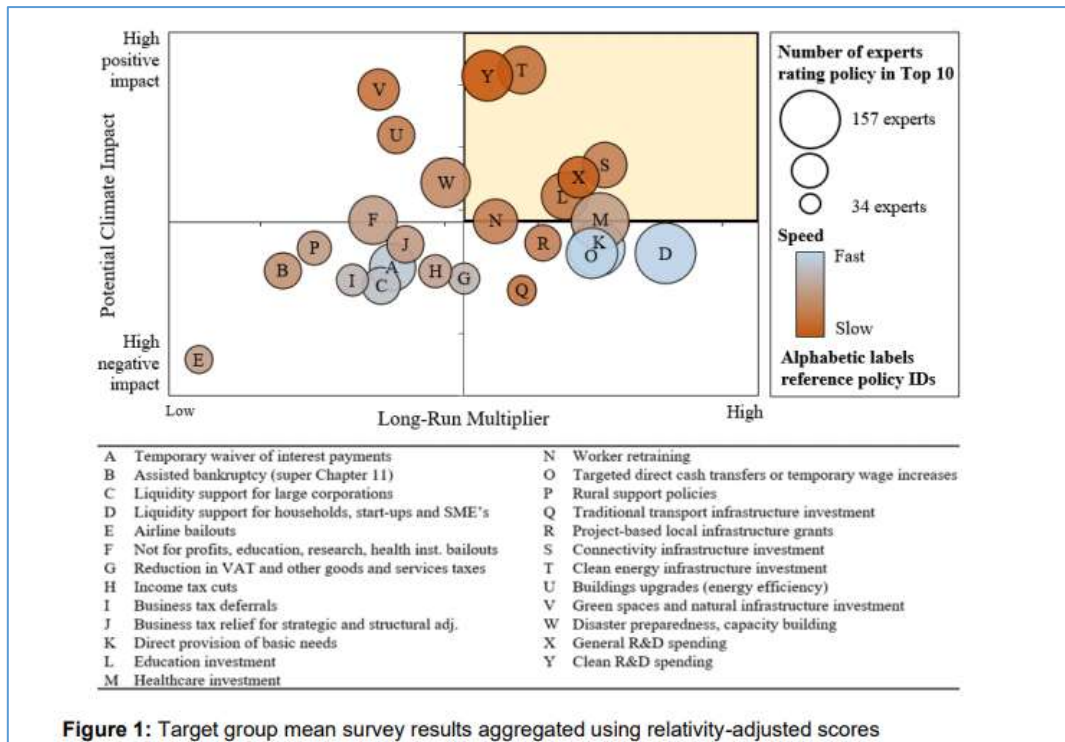
But, anyway, this is not about the comprehensiveness or otherwise of the Oxford list, but rather about the wide range of options on the agenda for recovery. As I noted back in April, the visions on offer amount to ‘[a reaffirmation of both the idealistic underpinning and practical target-setting of the Sustainable Development Goals](#)’. And the key point is this: the interventions proposed vary greatly in speed, scale and administrative complexity.

There is a further point, that the transition from ‘rescue’ to ‘recovery’ will inevitably be messy. The so-called ‘scarring’ will be more evident in some sectors than others, and some countries than others, but in some cases very serious. For example, it is hard to imagine countries dependent on long-haul tourism being dormant one minute and wide-awake the next. Similarly, [the clothing sector is likely to take a long time to recover](#). There will be a lot of pressure to help re-establish the status quo ante, rather than try new things.

#### Complex decision-making

The [Oxford study](#) recognised the complexity of decision-making. It noted that ‘several factors are relevant to the design of economic recovery packages: the long-run economic multiplier, contributions to the productive asset base and national wealth, speed of implementation, affordability, simplicity, impact on inequality, and various political considerations’. For purposes of analysis, however, the study focused on three criteria, viz (a) the long-run multiplier (effectively growth), (b) climate impact, and (c) speed. The packages were tested against these criteria via an expert survey, with the overall results given in Figure 3. None of the best options in the top right hand quadrant is fast, but R and D spending comes out well, as do investment in clean energy and connectivity, and health care investment. For low and middle income countries, the same priorities feature, but mostly with lower impact on both dimensions.

Figure 3



Source: <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf>

We can take the discussion further: first, by looking more carefully at criteria; and, secondly, by seeing what options, fiscal and non-fiscal, might fit the mould.

On the first, there is a large literature on multi-criteria decision-making. The field has expanded greatly since, inspired by Robert Chambers' work on rural development, we used multi-criteria tables in food security planning. This goes back to the 1980s, with the [criteria](#) being: scale; speed; cost-effectiveness; equity; consistency with Government policy; administrative feasibility; and sustainability. I have just checked. There are now over 250 million hits on Google for multi-criteria decision-making. There is even a [Wikipedia entry](#), listing more than 40 different approaches, many supported by software. Lots of issues arise, including about scaling and weighting of different criteria. Some items can easily be quantified, but some cannot. Politics is often central.

Not to make things too complicated, however, let me focus on the 'easy, quick and cheap' in the title of this piece. Easy because administrative capacity is limited in many countries. Quick because the recovery needs to start as soon as possible. And cheap, because resources are always limited.

#### Fiscal space

'Easy' and 'quick' do not need much discussion at this stage of the pandemic, but 'cheap' needs a brief review. This is because fiscal space to implement recovery packages is likely to be a dominant theme in future decision-making. Fiscal space, remember, is [defined by the IMF](#) as 'the room for undertaking discretionary fiscal policy relative to existing plans without endangering market access and debt sustainability': so it not just about the investment and current spending, but also about domestic and foreign debt payments.

Personally, I remain of the view that fiscal space will be a major issue after COVID, even in rich countries. That is despite reading the many articles saying that interest rates will either be low naturally, or can be manipulated down, and that rich countries can live with much higher levels of debt than at present, and even

constantly rising debt (see e.g. Paul Krugman, [here](#)). Maybe. But maybe not: see, for example, William Buiter, on why [paying for the pandemic will be painful](#)). And even if countries decide to carry on increasing debt, what are the realistic prospects for aid in the years ahead?

In any case, the argument may not apply to developing countries which are already heavily indebted and already have limited fiscal space. Some countries will be hit harder by the virus than others. The most vulnerable countries will be those which face a larger shock to GDP and simultaneously have less fiscal resilience. The fragility of the exchange rate will also be an issue if countries borrow in foreign exchange.

Thus, [the IMF warned at the beginning of May 2020](#) that

‘Supporting the recovery with fiscal tools while managing higher government debt levels is a delicate balancing act. For advanced economies with ample room in the budget such as Germany and the Netherlands, spending more on public investment is worthwhile because the value of the resulting assets will likely exceed the liabilities incurred given how low interest rates are. . . . In emerging markets and developing economies such as Brazil and South Africa, high debt levels and rising interest payments call for financing development in a prudent and sustainable way. These countries should try to achieve more with less. Raising tax revenues over the long term would be crucial for low-income developing countries such as Nigeria.’

Similarly, and with specific reference to Africa, the [World Bank Africa Pulse report of April 2020](#) devoted a chapter to ‘Finding the Fiscal Space to Fight COVID-19 Amid Heightened Public Debt Vulnerabilities’. It said that ‘the COVID-19 pandemic is putting unsustainable pressure on governments with large fiscal deficits, heightened debt vulnerabilities and weak health systems. The massive fiscal costs could lead several governments to default on their debt’. Specifically,

‘If the bulk of the policy responses to COVID-19 will be shouldered by African fiscal policy makers, it bears asking how countries in the region will find the space needed to finance these actions. Assuming that deficits in excess of 5 percent of GDP put macroeconomic stability in jeopardy, it can be broadly gauged how much African governments can expand their spending by comparing their 2019 fiscal balances with the threshold deficit mentioned above. In 2019, the majority of Sub-Saharan African countries (38 of 47) registered a fiscal deficit, and 13 countries had a fiscal deficit that exceeded 5 percent. The average fiscal expansion—as measured by the gap between the 2019 fiscal balance and the threshold of -5 percent of GDP—for countries in the region is about 2.6 percent. Countries with the smallest margin to expand fiscally (the bottom tercile) can spend, on average, 0.1 percent of GDP. In contrast, the countries with the largest margin of fiscal expansion (the top tercile) can deploy an average of 5.6 percent of GDP. Some of the African countries in the bottom or top terciles are in risk of debt distress or already in debt distress. In this context, conducting countercyclical policies will come at the cost of rendering public debt unsustainable. Fighting COVID-19 in Sub-Saharan Africa will require bold policy actions. It is likely that most of the countries in the region may be unable to finance these actions without jeopardizing macroeconomic stability and debt sustainability’.

These problems are not confined to Africa. For Bangladesh, for example, Debapriya Bhattacharya identifies the hunt for fiscal space as the ‘[defining task](#)’ of the budget process, even though the country has a relatively sustainable debt level. Indian Government Departments have apparently been told to [cut budgets](#) in order to free spending to fight the virus, by up to 60%: that will undoubtedly cause longer-term scarring when it comes to the recovery,

Fiscal space is not set in stone. Externally, it can be increased by cash grants, debt relief or additional loans. If the IMF decides to issue additional SDRs, that will be equivalent to a grant. Internally, countries can resort to

higher taxes, additional lending, or, as Bhattacharya reports for Bangladesh, lower reserve ratios which allow banks to lend more. Sherilyn Raga at ODI maintains trackers of [country](#) and [donor](#) responses to the virus, and, with Dirk Willem te Velde, has reviewed the state of play with regard to [donor allocations](#). Mark Miller at ODI [tracks the debate about fiscal responses](#), and has proposed [appropriate fiscal strategies](#).

### Intervention options

Turning to intervention options, it is easy to identify measures which do not fit the criteria. A wealth tax, which would take years to design and implement . . . universal basic income, ditto, and expensive to boot . . . banning coal outright, which comes with huge transition costs . . . better social protection packages, unless the infrastructure is in place. Some of these might be long-term options, but will be problematic in the short run.

It is also not difficult to find discussion of measures which fit the criteria, but might also have perverse consequences. For example, the [Indian state of Uttar Pradesh has suspended labour laws](#), presumably reducing protection for the labour force. There are alarming lists circulating with examples of subsidies to dirty industries (for example delaying tax payments by the oil industry in Norway) or regulatory roll-back, especially environmental (examples include Indonesia, US).

So, what might be better, later this year or early next? There are many lists of options available, including from the Oxford study. See also the IMF IDEAS model (Invest for the future—in health systems, infrastructure, low carbon technologies, education, and research; adopt well-planned Discretionary policies that can be deployed quickly; and Enhance Automatic Stabilizers, which are built-in budgetary tax and spending measures that automatically stabilize incomes and consumption.). Many green groups have proposed environmental interventions. In the UK, The Committee on Climate Change has proposed six [Principles for Recovery](#), as in [Box 1](#).

### Box 1

#### Principles for Recovery

1. **Use climate investments to support economic recovery and jobs.** The CCC has previously identified a detailed set of investments to reduce emissions and manage the social, environmental and economic impacts of climate change. Many are labour-intensive, spread across the UK and ready to roll out as part of a targeted and timely stimulus package.
2. **Lead a shift towards positive, long-term behaviours.** The Government can lead the way to new social norms that benefit wellbeing, improve productivity and reduce emissions. This includes actions to support home-working, remote medical consultations and improve safety for cyclists.
3. **Tackle the wider 'resilience deficit' on climate change.** Strong policies are needed to reduce the UK's vulnerability to the destructive risks of climate change and to avoid a disorderly transition to Net Zero. They must be implemented alongside the response to COVID-19 and will bring benefits to health, well-being and national security.
4. **Embed fairness as a core principle.** The benefits of acting on climate change must be shared widely, and the costs must not burden those who are least able to pay, or whose livelihoods are most at risk as the economy changes. Lost or threatened jobs of today should be replaced by those created by the new, resilient economy.
5. **Ensure the recovery does not lock-in greenhouse gas emissions or increased risk.** As it kick-starts the economy, the Government should avoid locking-in higher emissions or increased vulnerability to climate change in the longer-term. Support for carbon-intensive sectors should be contingent on them taking real and lasting action on climate change, and all new investments need to be resilient to future climate risks.
6. **Strengthen incentives to reduce emissions when considering tax changes.** Revenue could be raised by setting or raising carbon prices for sectors of the economy which do not bear the full costs of emitting greenhouse gases. Low global oil prices provide an opportunity to increase carbon taxes without hurting consumers.

Source: <https://www.theccc.org.uk/2020/05/06/take-urgent-action-on-six-key-principles-for-a-resilient-recovery/>

I find it helpful to think of positive and negative actions, in fiscal policy, monetary policy, and the incentive and regulatory framework. What can be dropped (apart from labour rights)? What can be introduced?

Some examples might be:

- Increase the congestion charge in big cities which already have systems in place, to reduce traffic and improve air quality (but NB make sure to protect poor people who need access to the city's roads) – London is doing this;
- Reduce the regulatory cost of starting a business (but see above re labour rights);
- Using existing aid money to make quick investments which reduce transactions costs e.g. in trade (Aid for Trade);

Other ideas are needed. It would be good to complete the traffic-light table below. The traffic lights could form the basis for a seal of approval, a gateway to more detailed analysis. In other words, these three conditions, easy quick and cheap, are preconditions for any measure to be included in a recovery package.

	Traffic light (red, amber, green)		
Intervention	Easy	Quick	Cheap


However, the analysis has to be context-specific, taking account of the impact of the virus in different places. As economic analysis has demonstrated, countries are affected in very different ways: commodity exporters, including oil exporters, suffering a drop in prices; textile or flower exporters, experiencing a fall in demand; tourist-destination countries with fewer or no visitors; and so on. The ODI country case studies provide excellent background material: there are now more than 30 of these for different countries in all regions of the developing world.

It would be useful to have some recovery case studies. How will the agonising choices and trade-offs be resolved?

And what's next?

And a final point. Once the immediate rescue and recovery plans are set, it may or may not be the case that 'easy, quick and cheap' delivers tangible progress towards the SDGs. My guess is mostly not. In that case, a further conversation looms. Not so much 'what is easy, quick and cheap?', but rather, 'what will it now take to deliver the SDGs?'. That is for next time.

Image: 123RF: 34538586