The Economic Response to Covid-19
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As you are all aware the Covid-19 pandemic has had a huge economic impact on all countries around the globe. There has not been any aspect of life which has been untouched, which means that the economy has been affected though many different channels. The pandemic has not only affected overall economic activity but has had different impacts on different segments of the population which will lead to a deterioration of income and wealth distributions with all the challenges which those pose.

Usually when there is a disaster in one part of the world, it is possible for other parts of the world to render some assistance, a sort of insurance plan. However, when all countries are affected, the capacity of countries to offer assistance to others is greatly reduced. The IMF has already responded to 102 countries for emergency financing so far since March 2020, committing approximately US$100 billion. The Fund is making US$250 billion (a quarter of its lending capacity) available to member countries. Jamaica had US$520 million in assistance approved on March 15, 2020. The Government of Jamaica is also engaging with other multilateral institutions such as the Inter-American Development Bank and the World Bank for financial assistance.

Economic activity has been greatly curtailed by the pandemic, which has affected incomes of individuals as well as tax revenues of governments. It is true that Jamaica's quarterly GDP has been declining before the onset of the pandemic, moving from 1.7% growth in Q1 2019, to 1.3% in Q2, to 0.6% in Q3 and then 0% in Q4. However, the onset of the pandemic has resulted in GDP in Q1 2020 falling by 2.3%. Recall that we did not shut down until the 3rd week of March. The outbreak of COVID-19 in the USA and other countries did cause a slowdown in tourism for the first quarter of this year, and that would have had a knock on effect. The major downturn in the economy is expected to be felt in Q2. The PIOJ is expecting Q2 GDP to fall by 12 – 14%. It is anticipated that the economy should contract by 4-6% for the fiscal year. The US has just announced that its economy shrank by 9.6% during the April-June quarter. It is expected that Jamaica will experience the worst annual economic decline in at least 40 years. The IMF, PIOJ and BOJ all project that baring no other shocks, and a recovery of the world economy in 2021/22, and if the local tourism sector recovers in 2022/23, Jamaica will attain pre-COVID-19 levels of economic output by March 2023.

Since government revenue is a faction of economic activity, as economic activity decreases the revenue flowing into the government's coffers also decreases. The Ministry of Finance and the Public Service estimates that for the financial year 2020/21, revenues will be approximately J$81 billion below the approved estimates. It anticipates that other inflows will be lower by J$5 billion, while expenditure will increase by J$34 billion. So the COVID situation will cost the Government of Jamaica J$120 billion. The primary fiscal surplus target for 2020/21 has been relaxed from 5.4% of GDP to 3.5% to accommodate the emergency expenditure. In fact the target of reaching a debt/GDP ratio of 60% has been pushed back by two years to 2027/28. Preliminary data suggest that Government revenues for May 2020 was 27% below budget. There are three broad tax categories: Income and Profit taxes; Production and Consumption taxes; and Border Related Taxes which would include import duties, tourism taxes and any other tax which deals with cross border transactions. This latter category usually accounts for 40% of total taxes declined by 44% in May. The tourism sector has been particularly hard hit by the pandemic. This sector is expected to contract by 85% in the second quarter of this year.

Jamaica's three major sources of foreign exchange are: tourism, remittances and Global Services and Business Outsourcing. It is anticipated that foreign exchange earnings will decline by US$2 billion during this fiscal year. Interestingly we haven't yet seen a falloff in remittances, in fact there was approximately 5.5% increase between March and June. The global slowdown in economic activity has resulted in a fall in international oil prices (actually becoming negative at one point). Jamaica is expected to spend US$700 million less this year on oil. In spite of this the current account deficit is expected to move from 2 – 3% of GDP to 6.5 – 7% of GDP during this fiscal year.

Reduced economic activity also results in a decline in the demand for labour. We can therefore expect a significant increase in the next set of unemployment figures which would be for March 2020. The Ministry of Tourism indicates that at least 50,000 direct employees have been laid off in the hotel sector as well as tens of thousands more in other sub-sectors of the tourism sector. The GSS/BPO sector has shed approximately 6,000 workers already. Because of COVID-19 the employed labour force is likely to decline by in excess of 100,000. A Don Anderson Poll done between July 15 and 20, 2020, found that 56% of respondents confirmed that their standard of living has decreased due to COVID-19.

Disruption in day to day activities have had serious implications for some of our social services. Schools had to be closed, with a shift to online teaching. Many claim that this is the future. Online teaching is however a very poor substitute for face to face teaching, especially among younger children. The shift to online education exposed a digital divide which existed in the country. Not all students were able to access online classes, because of a lack of computer equipment, or internet connectivity. The country is not 100% blanketed with internet connection. Combined with these problems we also had to add interruption in electricity supply. An often overlooked issue is the ability of caregivers at home to help students with online learning. Some parents are required to leave the home for work, and therefore are not available to supervise and assist their children (particularly the younger ones) with online classes. Some parents, even if they are home, are unable to help with the education process, because of their own levels of education. In many instances, even if parents are available and willing, there is usually only one computer for multiple children, whose classes are all taking place simultaneously, therefore not all can participate consistently. All of these challenges, mean that the very unequal education system is made even more unequal, by a sudden need to move outside of a physical space for education. We can speak of a digital divide, or an educational divide, or an access divide, but in the end it is an income divide, with the relatively more affluent children having access to education and the rest being left behind. An interesting question is if the gap exacerbated by this digital divide can be reversed when normality returns? Or will this situation simply increase the intergenerational income and wealth inequality?

Fortunately, our health system has not come under extreme pressure from the virus so far. We know that our health care system comes under tremendous pressure in normal times. Would we be able to deal with 200 persons or even 100 persons in Kingston requiring ICU treatment at the same time? What happens as we move outside of Kingston?

There has been a move to working from home. This mode of operations is only suitable for some type of jobs. Jobs such in manufacturing, public transportation, agriculture and law enforcement, cannot be done remotely. A stay at home order would reduce activities in these areas, with temporary or even permanent displacement, and loss of income. Those who can work remotely are more likely to keep their jobs, thus increasing the income inequality between those who can work remotely and those who can't. Interestingly many of the jobs which can be done remotely are done by people with higher levels of education and many of those which require a physical presence are done by people without higher education.

How much of the economic downturn is due to supply shocks and how much is due to demand shocks? Would the government declaring that the economy is open in fact lead to increased economic activity? Interestingly, two professors from Chicago Booth School at the University of Chicago, Austan Goolsbee and Chad Syverson, in a recent paper presented at the National Bureau of Economic Research Summer Institute, entitled "Fear, Lockdowns and Diversion: Comparing the Drivers of Pandemic Economic Decline" gives us some insight into this question. They are investigating how much of the COVID-19 Economic Collapse was driven by policy and how much from individual fear. They have access to GPS data from cellphones so that they are able to track movements of persons. They looked as visits to businesses in the same metro area during the same week but across state borders where there were policy differences. They were able to tack weekly consumer visits to 2.25 million businesses spanning 110 industries. They exclude non-profits, manufacturing and other businesses where consumer visits is not a measure of economic activity. Visits to stores dropped by 60% between January and April 2020, which matched closely huge rises in unemployment and reduced credit card activities. The metro area covered Bock Island, Moline and East Moline on the Illinois side of the Mississippi River and Davenport and Bettendorf on the Iowa side. Illinois had a stay at home order while Iowa did not. They observed that there was a fall of 76% visits to beauty salons on the Illinois side of the river and a 69% fall on the Iowa side. They conclude that the say at home order did not account for a fall of 76% in visits to beauty salons, but rather only 7% fall. They also looked across time at the same place which at one time had a stay a home order and at another time no such order. The stay at home order accounted for only an 8% decline in visits. They further report on places which lift their stay at home orders and saw only a 5% rise in commercial visits.

They therefore conclude that it is fear of the virus rather than government policy which was driving the economic collapse. They report some other interesting findings: 1. that while all commercial visits declined, the decline was greater to those activities which were deemed to be nonessential. 2. visits to restaurants and bars fell by about the same as increased visits to non-restaurants food and beverage stores. 3. Consumers seemed to be substituting smaller retailers for larger ones where more people would gather. 4. Decline visits were larger the higher the reports of contraction, hospitalization and deaths within an area. These findings indicate that the ability of governments by policy to command the restart of economic activity is limited. Consumers are reacting to the pandemic independently of government policy. There are therefore demand shocks at work, and not simply supply shocks in response to public policy. The implications are that economic activities, will be greatly affected by how safe people feel to participate in such activities. The Jamaican government has reopened the tourism sector. An interesting question, still unanswered is how fearful will tourists and workers be? And what impact will those fears have?

Many governments have sort to support persons and entities whose incomes have been reduced. This is sometimes called a stimulus package, but this is really a relief package. The Government of Jamaica's economic policy response has included what it calls a J$31 billion stimulus consisting of approximately J$15 billion in tax cuts and spending stimulus of J$16 billion. In addition, health expenditures of J$6 billion and public bodies support of J$3 billion, totally approximately J$40 billion. These spending are not likely to stimulate additional economic activity, although it might prevent further decline. The fear of interacting while the virus is spreading is likely to be a significant drag on economic activity. Normally a government engaging in stimulus spending hopes that increased economic activity would result in an increase in revenue flows to the government. In the time of COVID there is not likely to be an increase in economic activity which will generate additional government revenue, so increased government spending for relief is likely to increase the government deficit both in the short and the long run.

The virus has also unearth some phenomenon which on the surface looks quite bizarre, but have quite rational economic explanations. In the US it was noted that the lockdown resulted in a shortage of toilet paper. The Corona virus was not expected to lead to excessive diarrhea, so why were people trying to stock up on toilet paper when asked to stay home? Some journalists investigated and discovered a possible explanation. Approximately 40% of bathroom use in the US is away from home. The toilet paper used at home in the US is very different from the industrial type usually found in offices, airports etc. With a stay at home order, bathroom use at home increased significantly and so too, the demand for home toilet paper. Unfortunately, home bathrooms are not equipped to use industrial toilet paper, and manufacturers of industrial toilet paper cannot easily shift to making home toilet paper, without additional spending. If this spending is significant and the manufacturers are uncertain as to the length of time in which there would exist this additional demand, they would not be willing to make the investments necessary. Likewise, the manufacturers of home toilet paper are also unwilling to make additional investments if they are unsure of the time horizon involved. This resulted in an increase in demand for home toilet paper, without a commensurate increase in its supply, hence a shortage. Standard economic principles should dictate that there should be a rise in the price so as to provide an incentive for making the required investment to meet this demand, but this would be seen by many as price gouging and many societies frown on this.

We did not experience a toilet paper shortage in Jamaica, because the toilet paper used at home is very similar to the ones used outside of the homes, so there was no great difficulty in shifting from outside the home use to home use. We did however, experience similar types of problems in our food distribution. Much of the output of the agricultural sector is aimed at the industrial market (hotel, schools etc). The packaging required for this market segment is very different from the retail market (supermarkets). Hotels buying in bulk do not require retail packaging and labeling. The closure of the industrial market for agricultural products meant that it was very difficult for those products to be shifted into supermarkets. The TV news had many stories of famers with pigs, chickens and eggs which they could not sell because of the closure of hotels and schools. There were many voices calling for the banning of imported foodstuff since Jamaican farmers had unsold products on their hands. Again the difficulty was that these farmers were not equip to prepare their products for the retail market. To do so would require additional expenditure, which would only make economic sense if the prices were allowed to rise. Supermarket chains also had to consider what is likely to happen to their supplies when hotels reopen, would the local farmers abandon them for the more lucrative tourism sector? Would their foreign suppliers still be willing to do business with them after they had disrupted the supply chain? Consumers of course would not welcome any price increase, especially those who would have had their incomes greatly reduced.

All around the world, in response to the COVID-19 crisis there are voices calling for localization of supply chains. This phenomenon started before the pandemic, in economic nationalism, which was a growing political trend, a call to roll back globalization, usually under the guise that globalization had been responsible for the movement of jobs and wealth to other countries. The pandemic and the disruption of international supply chains with the closure of sea and airports have fueled this sentiment. Such calls are however misguided. Growth is fastest and more sustainable when we are limited only by the global market and not individual national markets, and when we can source inputs from everywhere in the world. We can learn lessons from our forefathers. Observe rural villages. Churches built 200 – 300 years ago have very thick walls compared with other buildings. These churches were constructed with a secondary purpose in mind, a shelter in times of crisis especially from extreme hurricanes which are likely to occur fairly infrequently. No attempt was made to build other buildings to the same specification. To do so would be prohibitively expensive and keep the community in a very poor state even if they managed to do so. Their model was not to subjugate all activities to the possibility of a calamity, but rather to have some kind of emergency plan, if needed, and to pursue a wider social and economic agenda. Seeking to localize our supply chain is akin to constructing all buildings with walls that are three feet thick. It is best for us to seek to advance our economic wellbeing as fast as possible, being fully aware that from time to time we will face crises.

Immediately there needs to be significant new spending to support the education system in these difficult times. We have to put in place a technology infrastructure that would allow more equitable distance learning. This is not just equipping each student with a computer or tablet, but ensuring that there is broadband access which would allow that computer or table to be useful in the educational process. In order to preserve social distancing at schools, changes will have to be made: it might not be possible to accommodate the entire student body at school at the same time. Will there be a return to the shift system? Will there be a blend of some students in the classroom while other are online? What are the implication for teachers for a shift system or managing face to face and online learning simultaneously? We are trying to figure out the answers to these and other questions are we go along. There is no set playbook to guide us.

Moving forward, we can't simply wait for 'normality' to return. What is clear is that solving or at least managing the health issues is vital for improved economic activity. We have no idea how long the crisis will last. We have to be prepared to live with government deficits larger than we would otherwise like to, but even here there are limits. It is clear that sustaining a social safety net with some sort of income support for those who have been displaced is required. Our ability to do this is however much constrained. We have to engage in best practices for managing the virus and be willing to change as the science reveal new insights. Managing the virus means that more economic activity will be possible, and less pressure on the health care system. Unfortunately, images which we see on TV from time to time, of crowded market places with little concern for social distancing and wearing of masks indicate that we have not all internalized the dangers which this virus pose not only to our livelihoods but to our very lives.