

## THE IMPACT OF PANDEMIC COSTS ON WORLD ECONOMIC DEVELOPMENTS AND THE FUTURE RISK

PhD Cand. Elvis XHORI

Logos University College, [elvis.xhori@kulogos.edu.al](mailto:elvis.xhori@kulogos.edu.al)

**Abstract:** *The COVID-19 viral pandemic is an unprecedented global phenomenon that is also a highly personal experience with wide-ranging effects. On September 20, 2021, U.S. viral deaths surpassed the 675,446 total from the 1918 Spanish flu, the previously worst U.S. pandemic related death total on record. The pandemic has disrupted lives across all countries and communities and negatively affected global economic growth in 2020 beyond anything experienced in nearly a century. Estimates indicate the virus reduced global economic growth in 2020 to an annualized rate of around -3.2%, with a recovery of 5.9% projected for 2021. Global trade is estimated to have fallen by 5.3% in 2020, but is projected to grow by 8.0% in 2021. Major advanced economies, comprising 60% of global economic activity, are projected to operate below their potential output level through at least 2024, which indicates lower national and individual economic welfare relative to pre-pandemic levels.*

*Economists measure policy options and their consequences in terms of monetary costs or GDP. But the dilemma policymakers have faced since the outset of the pandemic is fundamentally a moral one, rooted not least in the question of when individual preferences should prevail over collective interests. As the COVID-19 pandemic entered its third year, the United States was enjoying a protracted stock-market boom, and China's global trade surplus had reached record highs. There is reason to believe these trends will not last: notably, with the US Federal Reserve set to tighten monetary policy in the face of rising inflation, the US stock market has tumbled. But even if market ebullience or strong exports in the world's biggest economies were to persist, most people are experiencing hardship and angst. We must not lose sight of that, let alone of the imperative of systemic change. In responding to the pandemic, policymakers have faced an awful dilemma: keep the economy open and risk more COVID-19 deaths, or impose lockdowns and destroy livelihoods. The one way to simplify the trade-off between the benefits of reducing health risks and the costs of economic dislocations is to "monetize" COVID-19 deaths. Although everyone hopes that Pandexit, or the end of the COVID-19 pandemic, will come soon, the economic benefits will not be unalloyed. One plausible downside scenario is that current price pressures intensify and inflation rises further, eventually requiring a monetary response. While mass vaccination points to an end to the COVID-19 pandemic in the next year or so, it does not provide immunity against longer-term economic damage. And research on the aftermath of previous pandemics suggests that the impact on supply and demand is likely to be far-reaching and profound. This report provides an overview of the global economic costs to date and the response by governments and international institutions to address these effects.*

**Key words:** *Recession, accumulation of debt, financial crisis, Pandemic Cost.*

**JEL Classification Codes:**



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## 1. INTRODUCTION

In responding to the pandemic, policymakers have faced an awful dilemma: keep the economy open and risk more COVID-19 deaths, or impose lockdowns and destroy livelihoods. As the Vanderbilt University economist W. Kip Viscusi points out, one way to simplify the trade-off between the benefits of reducing health risks and the costs of economic dislocations is to “monetize” COVID-19 deaths.

Using the value of a statistical life (VSL) as the metric, Viscusi found that the cost of COVID-19 deaths in the first half of 2020 amounted to \$1.4 trillion in the US and \$3.5 trillion globally.

Although the US accounted for 25% of deaths, its share of the global mortality cost was 41%, because richer countries have a higher VSL. An American is valued at \$11 million, and an Afghan at just \$370,700.<sup>1</sup>

If one applies the same measure to officially reported deaths through the end of 2021 – which total about 5.6 million – the mortality cost would be \$38 trillion, or 40% of global GDP. If one takes the Economist’s estimate of actual deaths – close to 17 million – that figure soars to \$114 trillion, or 120% of GDP.

China approached the trade-off very differently from the US, choosing to protect lives with strict lockdowns, even at the expense of greater economic dislocations. If China had the same infection rate as the US, and the same mortality rate (slightly more than 2.9%), its total COVID-19 deaths would have reached 4.1 million, rather than the 4,849 it has officially recorded.

China’s VSL of \$2.75 million implies that this would have meant additional losses of \$11.3 trillion, or 67% of 2021 GDP. Given that China’s economy has performed relatively well during the pandemic despite lockdowns, it seems fair to conclude that China’s approach led to lower overall costs. In any case, the actual costs of the COVID-19 pandemic are higher than VSL scores indicate.

Aggregating mortality, morbidity, mental-health conditions, and direct economic losses, former US Treasury Secretary Larry Summers and Harvard economist David M. Cutler estimate that the US bore losses of \$16 trillion – the equivalent of 90% of GDP – in 2020.

Despite these high costs, the dilemma faced by a country like the US or China is less stark than that faced by poorer developing economies.

With large debts and limited ability to borrow, these countries’ governments have had few options for propping up their economies. Vaccine shortages and weak health systems have left them even more vulnerable.

The International Monetary Fund<sup>2</sup> recently warned that, because of the pandemic, incomes in 40 fragile and conflict-affected states are falling even further behind the rest of the world. It is not difficult to discern why: such countries lack the institutional capacity or resources to manage or mitigate social, economic, political, security, or environmental risks effectively. Already, violence is at a 30-year high globally. Fragile states – home to nearly one billion people – may account for 60% of the world’s poor by 2030<sup>3</sup>.

All of this is taking its toll on the global economy.

The latest edition of the World Bank’s Global Economic Prospects report cautiously predicts that global growth will slow from 5.5% in 2021 to 4.1% in 2022 and 3.2% in 2023.<sup>4</sup>

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<sup>1</sup> <https://www.project-syndicate.org/commentary/how-much-has-the-pandemic-cost-by-andrew-sheng-and-xiao-geng-2022>.

<sup>2</sup> <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

<sup>3</sup> <https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022>

<sup>4</sup> <https://openknowledge.worldbank.org/handle/10986/36519#:~:text=The%20Global%20Economic%20Prospects%20is,emerging%20market%20and%20developing%20economies.>

Behind this forecast are the threats posed by new COVID-19 variants, rising inflation, mounting debt, widening inequality, and worrying security challenges.

Economists like Viscusi, Summers, and IMF and World Bank staff measure policy options and their consequences in terms of monetary costs or GDP. But the dilemma policymakers face is fundamentally a moral one, rooted not least in the question of when individual preferences should prevail over collective interests.

Moreover, despite the apparent straightforwardness of cost-benefit calculations, the pandemic is ultimately a systemic challenge that is entangled with others, from inequality to climate change.

There are no simple solutions. As Minouche Shafik, the director of the London School of Economics and Political Science, recently argued, the pandemic has made plain the need for a new social contract fit for contemporary challenges.

## 2. IMPACT ON WORKERS

In a report prepared for the January 25-29, 2021, World Economic Forum, the International Labor Organization (ILO) estimated that 93% of the world's workers at that time were living under some form of workplace restrictions as a result of the global pandemic and that 8.8% of global working hours were lost in 2020 relative to the fourth quarter of 2019, an amount equivalent to 255 million full-time jobs. The ILO estimated the loss in working hours was comprised of (1) workers who were unemployed, but actively seeking employment, (2) workers who were employed, but had their working hours reduced, and (3) workers who were unemployed and not actively seeking employment. Based on this approach, the ILO estimated that unemployment globally was equivalent to 0.9% of total working hours lost in 2020, while inactivity and reduced hours accounted for 7.9% of total working hours lost.

Total working hours lost in 2020 compared with 2019 were highest in Europe (14.6%) and the Americas (13.7%), where quarantines and lockdowns had been extensive, followed by lower middle income economies.

The ILO also estimated that global job losses totaled 114 million jobs in 2020 relative to 2019. The share of lost worker hours due to higher rates of unemployment were highest in Europe (6.0%), the Americas (2.7%), including the United States, and Arab States (1.7%).<sup>5</sup>The ILO also estimated that an increase in global economic activity through part of the fourth quarter was equal to an increase of 130 million full-time jobs.

In June 2021, the ILO published an updated report that estimated employment levels globally remained below pre-pandemic levels through the first half of 2021, due to waves of COVID-19 infectious cases.

Consequently, the ILO estimated that working hours fell by 4.8% in the first quarter of 2021 and by 4.4% in the second quarter of 2021, or an amount equivalent to 140 million jobs and 127 million full-time jobs, respectively. The ILO also estimated the loss in total hours worked in the first half of 2021 was equivalent to 5.3% loss in global worker income, exclusive of government transfer payments and benefits, or an amount equivalent to \$1.3 trillion.

Despite a projected rebound in job growth in 2021 and 2022, the ILO estimated that employment levels would fall short by 75 million jobs in 2021 and 25 million in 2022 compared to the number of jobs that had been projected to be created in the absence of the pandemic.

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<sup>5</sup> *ILO Monitor: COVID-19 and the World of Work*, Seventh Edition, International Labor Organization, January 15, 2021

Similarly, the OECD estimated in July 2021 the pandemic-related recession cost 22 million jobs in OECD countries in 2020 and that 114 million jobs had been lost globally, compared with 2019.<sup>6</sup>

The estimate concluded that unprecedented government fiscal policies supported worker's incomes, thereby likely limiting the impact of shutdowns and social restrictions on labor markets.

Nevertheless, the OECD concluded the unique nature of the crisis accentuated and deepened economic and social divides along skill levels, education, income, and gender bases in OECD countries and amplified longstanding trends toward increasing economic inequalities in many OECD countries.<sup>7</sup>

A number of economists and others estimated that pandemic-related disruptions to labor markets in developed and developing economies could have long-lasting effects.

One group of economists estimated that even after the pandemic recedes and economic activity ramps up, firms may not abandon the labor-saving lessons they learned, with fewer jobs created in retail stores, restaurants, auto dealerships, and meat-packing facilities, among other places. Other analysts estimated the pandemic could affect the structure of work in three main areas by

1. Creating a permanent presence of telework, which could account for 20% to 25% of workers in developed economies and 20% in developing economies working from home three to five times per week, which could reduce demand for public transportation, restaurants, and retail stores;

2. Increasing the level of e-commerce that could disrupt jobs in travel and leisure, low-wage jobs in brick-and-mortar stores and restaurants, and increase jobs in distribution centers.

3. Accelerating the adoption of artificial intelligence (AI) and robotics.

Analysts with the Pew Research Center surveyed American workers in January 2021 who were unemployed and looking for work. The results indicated that half of those surveyed were pessimistic about finding another job in the near future and two-thirds had considered changing their occupations, a sentiment shared across income levels. The other third indicated they had already engaged in re-skilling through job retraining programs or educational activities.

### **3. OTHER AFFECTED SECTORS**

Since early 2000, concerns over the spread of the virus led to self-quarantines, reductions in airline and cruise liner travel, the closing of such institutions as the Louvre, and challenges to existing parental leave policies.

Work from home arrangements reportedly caused some businesses to consider new approaches to managing their workforces and work methods. These techniques build on, or in some places replace, such standard techniques as self-quarantines and travel bans.

Some firms adopted an open-leave policy to ensure employees receive sick pay if they are, or suspect they are, infected.

Other firms adopted paid sick leave policies to encourage sick employees to stay home and adopting remote working policies.

Microsoft and Amazon initially instructed all of their Seattle-based employees to work from home until the end of March 2020, but Microsoft indicated in October it would allow a large share of its employees to work from home permanently.

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<sup>6</sup> *World Employment and Social Outlook, Trends 2021*, International Labor Organization, June 2021.

<sup>7</sup> *OECD Employment Outlook 2021: Navigating the COVID-19 Crisis and Recovery*, Organization for Economic Cooperation and Development, July 2021

The drop in business and tourist travel caused a sharp drop in scheduled airline flights by as much as 10%; airlines estimated they lost \$113 billion in 2020, an estimate that could prove optimistic given various restrictions on flights between Europe to the United States and the growing list of countries that similarly restricted flights. Airports in Europe estimated they lost \$4.3 billion in revenue in 2020 due to fewer flights.<sup>8</sup>

The loss of Chinese tourists was another economic blow to countries in Asia and elsewhere that benefitted from the growing market for Chinese tourists and the stimulus such tourism provided.

The decline in industrial activity in 2020 reduced demand for energy products such as crude oil and caused prices to drop sharply, which negatively affected energy producers, renewable energy producers, and electric vehicle manufacturers, but generally was positive for consumers and businesses.<sup>9</sup>

In March 2020, Saudi Arabia pushed other OPEC (Organization of the Petroleum Exporting Countries) members collectively to reduce output by 1.5 million barrels a day to raise market prices. U.S. shale oil producers, who are not represented by OPEC, supported the move to raise prices.

An unwillingness by Russia to agree to output reductions added to other downward pressures on oil prices and caused Saudi Arabia to engage in a price war with Russia that drove oil prices below \$25 per barrel at times, half the estimated \$50 per barrel break-even point for most oil producing countries. Rising oil supplies and falling demand combined to create an estimated surplus of 25 million barrels a day and overwhelmed storage capacity at times and challenged the viability of U.S. shale oil production.<sup>10</sup>

In 2019, low energy prices combined with high debt levels reportedly caused U.S. energy producers to reduce their spending on capital equipment, reduced their profits and, in some cases, led to bankruptcies.

Reportedly, in late 2019 and early 2020, bond and equity investors, as well as banks, reduced their lending to shale oil producers and other energy producers that typically use oil and gas reserves as collateral.

As economic activity began recovering in 2021 and demand for energy increased, energy prices rose to surpass the levels reached prior to the onset of the pandemic and put pressure on OPEC producers to increase output. Disruptions to industrial activity in China reportedly caused delays in shipments of computers, cell phones, toys, and medical equipment.

Factory output in China, the United States, Japan, and South Korea all declined in the first months of 2020. Reduced Chinese agricultural exports, including to Japan, created shortages in some commodities.

In addition, numerous auto producers faced shortages in parts and other supplies, including semiconductor chips that have been sourced in China, leading to calls by some producers for subsidies to restart production in the United States.

Reductions in international trade affected ocean freight prices, causing some freight companies to face the prospect of shuttering businesses. Disruptions in the movements of goods and people reportedly caused some companies to reassess how international they want their supply chains to be. According to some estimates, nearly every member of the Fortune 1000 was affected by disruptions in production in China.

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<sup>8</sup> Taylor, Adam, "Airlines Could Suffer up to \$113 Billion in Lost Revenue Due to Covid-19 Crisis, IATA Says", Washington Post, March 5, 2020. <https://www.washingtonpost.com/world/2020/03/05/Covid-19-live-updates/>.

<sup>9</sup> "Airlines Slash Flights to Cut Costs as Covid-19 Hits Travel Demand", Financial Times. <https://www.ft.com/content/c28b5790-62c6-11ea-a6cd-df28cc3c6a68>.

<sup>10</sup> Brower, Derek, "Cash-Strapped US Shale Producers Pray for OPEC Aid", Financial Times, March 3, 2020. <https://www.ft.com/content/9161e62c-5cb1-11ea-b0ab-339c2307bcd4>.

#### 4. CONCLUSION

According to numerous indicators, significant parts of the global economy appear to have weathered the worst of the economic recession that resulted from the unprecedented COVID-19-related social distancing and business lockdowns in early 2020. However, rolling epidemic hotspots and the emergence of new and virulent mutations of the COVID-19 virus continue to add to the overall economic and human costs of the pandemic and to uncertainties about the timing of a sustained recovery.

Over the course of the pandemic, governments adopted policies to curtail the virus's spread that inadvertently caused an economic recession and temporarily altered the daily patterns of peoples' lives.

After a year and a half, it remains unclear how quickly and to what extent people will return to their pre-pandemic patterns. For Members of Congress, the pandemic-related economic and social costs could influence public policy debates long after the crisis itself has passed. While various policy debates may emerge from seemingly unlikely sources, some areas could include the following.<sup>11</sup>

During the pandemic, segments of the labor force shifted from work on-site to work at home. After a prolonged period of working off-site, some workers question the need to return to pre-pandemic labor arrangements. Should new labor arrangements and work patterns become embedded in the economy, it potentially raises questions about the impact on housing, traffic patterns, including public transportation, labor force participation rates, and child care arrangements. What role should Congress play in assessing and addressing such potential changes to the economy?

The pandemic exposed weaknesses in supply chains and the production of certain types of equipment, including personal protective equipment that previously had not featured prominently in national security priorities.

Arguably, the pandemic raised the profile of public health as a national security issue. It also highlighted the importance of improving domestic health care-related supply chains and potentially relocating parts of the health care supply chain from abroad. This shift in emphasis presents Congress with questions about the manner and extent to which government policy should alter existing production and supplier arrangements.

In particular, Congress could consider the costs and benefits of adopting policies that attempt to reallocate resources within the economy toward developing domestic production of goods currently being imported, possibly at the expense of other domestic economic activities. Alternatively, Congress could reinforce U.S. support for global trade arrangements and agreements, while also supporting the global presence of U.S. firms and encouraging U.S. firms to utilize a greater diversity of foreign suppliers.<sup>12</sup>

The pandemic emphasized the interconnected nature of the global economy. Typically, these global connections facilitate a seamless flow of goods and services to the broadest number of people. However, during the pandemic-related recession, these global supply channels were disrupted, exposing their vulnerabilities. In turn, these disruptions raised questions concerning the role and importance of certain industrial activities amid shifting concepts of national security and the extent to which domestic economic policy should attempt to sustain or subsidize certain industrial activities. Congress could consider whether and to what extent it should engage in a direct role in reallocating resources in the economy.

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<sup>11</sup> <https://sgp.fas.org/crs/row/R46270.pdf>

<sup>12</sup> Congressional Research Service, *Global Economic Effects of COVID-19*, Updated November 10, 2021 <https://crsreports.congress.gov/R46270>

The pandemic had a disproportionate impact on various industrial sectors of the economy and on workers in those sectors. These included certain segments of the labor force, including women, minority populations, and workers in less skilled jobs. The depth and duration of the recession challenged the effectiveness of customary worker assistance programs. Congress may consider reviewing these programs to determine what if any changes may be necessary to align the programs more closely with the needs of workers experiencing similar periods of extended dislocations.

Global trade activity fell sharply as a result of the global economic recession, which added to the depth and extent of the economic disruption. The impact on global trade raised questions concerning what actions, if any, Congress could take through U.S. trade policy that might strengthen the role of international trade and consultative bodies such as the WTO, the IMF, and the OECD, in facilitating a return to pre-crisis levels of activity during similar international crises.

The economic recession placed increased demands on developed and developing economies to abandon traditional deficit spending guidelines to stimulate their economies. While the fiscal spending likely lessened the impact of the crisis, it sharply increased the debt burden of developing countries, in particular, that could well outlast the health-related crisis. This debt burden could constrain the ability of developing economies to provide additional fiscal stimulus should the health crisis persist, which could delay a global economic recovery with spillover effects on developed economies. Developing economies could face rising costs for refinancing their accumulated debts if developed economies begin tapering off low-interest rate monetary policies. Congress could consider examining the performance and the adequacy of resources of international financial institutions in addressing the financial and debt servicing needs of developing economies.

During the initial stages of the economic crisis, global financial markets were severely disrupted, requiring central banks to take unprecedented actions. Following the 2008-2009 global financial crisis, central banks and other financial market participants adopted wide-ranging reforms to strengthen the ability of financial institutions to withstand an economic crisis. The pandemic-related global economic crisis presents Congress with an opportunity to assess the effectiveness of these reforms and to determine if they were adequate in preparing financial market participants to withstand a severe disruption to the global economy or whether additional reforms are necessary.

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