Economic perspectives on the end of the pandemic

With the end of the pandemic on the horizon, hopes are also rising for an end to the economic hardships of the past year. Different regions will bounce back in different ways, but for Europe, the Next Generation EU funds could signal a sustainable way forward.

November 26, 2020

The past month has seen three promising COVID-19 vaccine candidates report early results,

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providing a glimmer of hope for beleaguered economies worldwide, many of which have had to introduce new restrictions to battle the second wave. In turn, these restrictions have put businesses back under pressure in the lead-up to Christmas. But, longer term, what can we expect as governments scramble to resume full economic activity? IESE's Alumni Learning Program (ALP) brought together professors Javier Díaz-Giménez, Núria Mas and Alfredo Pastor in a recent installment of the ALP Economic Overview series to discuss what likely lies ahead.

On a global level: optimism

"The worst is over," Javier Díaz-Giménez assured IESE alumni. He was referring to the COVID-19 pandemic and its accompanying economic devastation; with approved vaccination drives likely to start by early next year, the world may soon be able to get on with the business of recovery. Meanwhile, the results of the U.S. election promise to restart transatlantic cooperation and to stabilize geopolitical uncertainty, to an extent.

The overall outlook is positive, but some of that optimism needs to be tempered. China's economic recovery bodes well for other regions as they bring the pandemic under control, and fourth quarter results everywhere may prove to be better than forecast, but Díaz-Giménez cautioned that micro trumps macro when it comes to economic tendencies. In other words, depending on your sector and particular circumstances, there may still be plenty of pain ahead -- and that's compatible with an overall macro trend toward improvement.

Meanwhile, he said he expected geopolitical tensions with China to remain -- for the rest of the century, in fact. And climate change, the main threat before the pandemic hit, "is not going anywhere." In fact, Díaz-Giménez was adamant that the coronavirus was not, in itself, the source of some of the more troubling changes facing the future world of work. A tennis fan, he pointed to a picture of the recent Nitto ATP Finals. What strikes the eye is the stadium, empty due to health restrictions, but the most significant change, Díaz-Giménez insisted, is the lack of linespeople. They've been phased out due to AI, leaving the umpire alone on his chair, managing -- who knows what exactly? He used to have final say on calls, but that is gone.

"What will you manage in the future?" he asked. When the pandemic is a receding memory, the new digital disruptions will be here to stay. Professors Alfredo Pastor and Núria Mas agreed that the future of work would be disruptive, but urged for the focus to be on proactive measures to combat this change. "We can't do much about the technology," said Pastor, "but we can control what we make of it." Mas added that retraining people with the new skills that will be needed to handle all this technology was an important step to future-proofing work.

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For Europe: threats and opportunities

Professor Mas focused on the situation in Europe going forward. Europe, which was originally projected to grow, though somewhat sluggishly, in 2020, has become one of the regions most affected by the virus and economic downturn. In comparing this crisis with the 2008 financial crisis, whose effects are still being felt, she noted that the initial shocks under COVID-19 were much more severe, but that the economic rebound in times when the virus has been under control has been much stronger. There are, accordingly, a few keys to Europe's economic recovery. The first is the pressing need to get the virus itself under control, which may reflect, to a large degree, the experiences of many Asian countries, including China, Taiwan and South Korea -- countries that acted swiftly to control the virus in its early phases and have already shown signs of economic recovery. A point in Europe's favor is the unity of its healthcare systems. Although the United States may be first to get some vaccines, Europe has more effective systems for distributing them and ensuring widespread immunization.

Mas also highlighted the forthcoming challenges, and opportunities, of the Next Generation EU grants which are designed to not only mitigate the effects of the pandemic but also to support green, digital and reskilling initiatives -- a chance to tie economic recovery to other positive social and environmental developments.

Finally, the conversation about Brexit has fallen by the wayside for many amid the dramatic developments of 2020. Mas was less optimistic than Díaz-Giménez (who said he was sure there would be a deal, avoiding a hard Brexit) on the subject. Will there be a deal? "Probably," she said. "But it will probably be temporary and subject to change as things develop." She reiterated that Brexit is very serious" not just for trade, though Europe is the UK's main trading partner, but also for rule of law" in Europe.

For Spain: hard days ahead

Spain has been hit particularly hard by the pandemic, with one of the highest case counts and death rates in Europe. With an economy disproportionately reliant on tourism and hospitality, it has also seen some of the worst economic effects and forecasts.

Professor Pastor suggested that, in the case of Spain, the worst may not, in fact, be over. Recovery from the 2008 crisis has had a long tail in Spain's case, and although there are hopes for a GDP rebound following the pandemic (this year has seen a contraction of 12.4%, next year growth of 5.4% is forecast), unemployment is likely to rise next year and come down very slowly after that, while deficit-to-GDP has risen to over 12% and will likewise come

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down slowly -- a far cry from Spain's aspiration to lower it to 3%.

Spain faces the twin challenges of low productivity and high public debt, now in the range of 120% of GDP. Pastor was adamant that the solution is not to be found in reducing spending, which usually takes the form of cutting back on services such as health and education, but in raising revenues by improving productivity and diversifying Spain's sources of income (overreliance on tourism and construction has proven destructive). The worst may not be over, but he said he was hopeful that Spain would pull through. After all, he contended, Spain has pulled through before, transforming from a dictatorship with widespread poverty and illiteracy in the middle of the 20th century to a large, modern economy today. There are more resources at Spain's disposal now to make good on the transformation needed.

Even so, he was not entirely optimistic about the Next Generation EU funds. The problem for Spain is a dearth of projects that can be presented as business proposals by firms, which is what the EU is seeking. Small firms and research organizations will need to attach themselves to larger companies to produce the kinds of projects likely to receive this money, and past EU funding schemes have often remained incomplete in Spain due to this lack of the right kind of projects.

This is true, Mas acknowledged. But the funds still present a chance for Spain, and all the other EU countries, to reflect on "what they want to be when they grow up." They may be a first step to transforming Europe's future.

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