



## THE ROLE OF THE STATE IN THE ECONOMIC RECOVERY AND ENVIRONMENTAL DEVELOPMENT AFTER COVID-19

**Abdelhamid Boulaksili<sup>1i</sup>,**

**Mhamed Hamiche<sup>2</sup>,**

**Ouail El Imrani<sup>2</sup>,**

**Najoua Chaouche<sup>2</sup>,**

**Yousra El Hajel<sup>3</sup>**

<sup>1</sup>Visiting Professor and Doctor  
in Economics and Management,  
University Abdelmalek Essaâdi,  
Tétouan, Morocco

<sup>2</sup>University of Abdelmalek Essaâdi,  
Morocco

<sup>3</sup>PhD in Management,  
University of Mohamed V,  
Morocco

### **Abstract:**

The COVID-19 lead to huge changes in the world economy: destabilization of economies, degradation of the structure of world finance, unemployment and fragility, disruption of logistics chains, near-stop of activities and travel, etc. States are called upon to be below invigilate and flexible in order to put in place adequate policies to adapt to this new unstable context and revive economic activity. At a time when the first signs of an improvement in health are appearing, several countries are beginning to reflect on the next phase of economic recovery and on the role of strong public action to stimulate demand, ensure replacement incomes and promote new investments. This remains a key issue as States have decided to stop a large number of activities during the containment phase. All this pushed us to reflect on the cost of this crisis and mainly on the role of the State after the pandemic to stimulate the economy and promote new investments to return to global equilibrium. An analysis of the different studies reveals a taxonomy of trends and scenarios. While the role of the state is crucial according to experts and officials, the only problem is that they do not completely agree. Through this paper, we try to analyze and decipher the economic impacts of COVID-19 in order to see what the different policies are to be considered by the States to minimize the impact of this pandemic, first of all, and then to revive the economic fabric to return to general equilibrium.

---

<sup>i</sup> Correspondence: email [boulaksili@gmail.com](mailto:boulaksili@gmail.com)

JEL: A11, O11, O40, P11, P24

**Keywords:** state, economic recovery, global balance, COVID-19, new investments

## 1. Introduction

Economic and financial crises are cyclical phenomena, so they can be anticipated especially when a gap is detected between the financial sphere and the real sphere, a classic phenomenon of speculative bubbles. Nevertheless, no one could imagine that a historical situation in its seriousness would come from a health crisis that was thought to have occurred in another era. However, like economic and financial crises, the COVID-19 pandemic is not a new phenomenon. There have been other recent examples, such as SARS, avian flu, H1N1, Ebola, which in the end were less deadly than the epidemics of the previous century, Spanish flu also known as the 1918 influenza pandemic, Asian flu, and so on.

As in each of the crises that have shaken the world, the dogma of the dominant Neoclassical Economy, let the market do its work, is being abandoned, and the liberal rules that it inspired (balanced budgets, central bank independence, etc.) are being thrown out by the developed countries. Patrick Artus, an economist of the Natixis bank, already speaks of "*the end of Neoliberal Capitalism*".

Clearly, the economic and social costs of this pandemic will be considerable: destabilization of economies, degradation of the structure of world finance, unemployment and fragility of entire regions, disruption of logistics chains, virtual stoppage of activities and travel, etc. The question being asked, all the more acutely today, is whether the process of globalization that has been behind the hyper-mobility of people should be reviewed and reversed.

Moreover, this situation has just reminded us that the health of the economy is intimately linked to the health of society, both in a real and symbolic sense. Thus, the choices made by governments to revive their economies, and in particular the search for common social, economic and environmental benefits as part of their stimulus investments, will be a determining factor in rebuilding more solidly.

At a time when the first signs of health improvements are appearing, several countries are beginning to reflect on the next phase of economic recovery and the role of strong public action to stimulate demand, ensure replacement incomes and promote new investment. This remains a key issue as States have decided to stop a large number of activities during the containment phase. All this leads us to reflect on the cost of this crisis and mainly on the role of the State after the pandemic to stimulate the economy and promote new investments to return to global equilibrium.

To answer these questions, a brief presentation of all the economic recessions that have marked the last seven decades will enable us to situate and study the overall cost of the health crisis COVID-19 (2). Certainly, the analysis of the various studies put forward by researchers and international organizations reveals a taxonomy of international trends

and scenarios. However, while the role of the State is crucial according to experts and officials, the only problem is that they do not completely agree. In this sense, we will address the various economic complications of this pandemic and the prospects for economic recovery in the last point (3) by showing the role of the state in this process.

## **2. The cost of the COVID-19 crisis**

Integrated into global value chains, China, the source of the pandemic, with a 15.8% share of global GDP and 12.8% of global merchandise exports is considered one of the most powerful economies as it is now ranked the world's second-largest economy. Following an exponential increase in the number of infections worldwide, containment measures have been adopted to deal with this unprecedented global issue.

No one can deny that the COVID-19 crisis has had a drastic impact on the global socio-economic situation, and continues to have consequences as long as the situation is not yet under control. From a macro-economic point of view, all the indicators have declined sharply, resulting in an increase in public debt, a very pronounced budget deficit, a worsening of the balance of payments gap and a spectacular reduction in national production and foreign currency reserves in the current year.

However, it seems primordial to quantify precisely the adverse implications of the crisis on the world economy. Which means, there is still a huge deal of uncertainty about the timing, magnitude of the crisis and the impact of the criteria taken to mitigate it.

### **2.1 Economic recessions and recovery: lessons from the 70 years of crisis**

There is little work that focuses on the recessions that have shaken the world. In fact, Kose & al. (2020) provide the first comprehensive account of global recessions using a sample of data gathered from around 181 countries from 1950 to 2019. According to this study, there have been four global recessions since 1950: in 1975, 1982, 1991 and 2009. Annual real-world GDP per capita contracted in each of these recessions. Output per capita declined by an average of 1.3% at market exchange rates, while it averaged 2.2% in the expansion years. Taking into account the Purchasing Power Parity (PPP) exchange rate, output per capita declined by 0.8% on average, while it increased by 2.5% on average during the boom years.

It is also worth noting that these setbacks were strongly synchronized at the global level, with severe economic and financial disturbances in several countries. Each of these coincided with a recession in the US.

Moreover, the 1975 crisis had been disregarded by the first oil shock, which was essentially a supply shock. The increase in the price of a barrel of oil led to a veritable inflationary spiral in industrial countries.

As for the 1982 crisis, it was triggered by the confluence of a panoply of factors, not entirely independent of each other, notably the second oil shock, the tightening of

monetary policies, in particular the *Volcker shock*<sup>ii</sup> resulting from the decision to reverse US monetary policy. This monetary tightening and falling commodity prices led to the sovereign debt crisis.

The 1991 recession era was also characterized by a number of factors, such as increased geopolitical uncertainty and the oil shock caused by the Gulf War, the banking crises in the US and Scandinavian countries, the collapse of the real estate bubble in Japan, the tightening of European monetary policies in the wake of the crisis in the European Monetary System and the reunification of Germany, as well as the abrupt transition of former communist bloc countries to market economies following the collapse of the Soviet bloc.

In contrast to the episodes recorded since 1950, only the 2009 recession, which was marked by a fall in global output, was a major event. This sub-prime crisis was triggered by the bursting of housing bubbles and banking crises, initially in the US and then in several other developed countries.

However, the timeframe for economic recovery ranges from six years (in the case of the 1975 shock recovery) to 17 years (in the case of the 1991 recession recovery). Kose & al. (2020) conclude that global recessions and recoveries have not characterized different groups of countries in the same way. During global recessions, per capita output growth declined more in developed countries than in developing countries: East Asia and South Asia even remained expanding.

Thus, the 2009 recession affected different countries differently. Developed countries bore the brunt of the recession as they experienced a weaker recovery in terms of output and output per capita compared to previous global recessions. Several countries have therefore had difficulty in cleaning up their financial systems and experiencing a strong rebound in domestic demand. While developing countries experienced positive output growth during the sub-prime crisis.

It is worth recalling that this recession, which characterized the last decade with the outbreak of the subprime crisis and all the excesses of increasingly globalized financial capitalism, was preceded by the bursting of the speculative bubble in 2000-2001. The latter had effects on the activities of the new economy: shaking of the international economic edifice, fraudulent bankruptcies of large companies which led the States to re-examine their financial security mechanisms, etc. This prompted an attempt to create a new financial system. This has led to an attempt to moralize capitalism and to reforms strengthening financial security.

Underlying this is the fact that while the recent global expansion turned 10 years old in 2019 before COVID-19, it coincides with the longest expansion in US history and the slowest growth in global trade and capital flows.

---

<sup>ii</sup> Paul Volcker was the Fed Chairman during the Carter, and Reagan administration. The Volcker Shock was his attempt to defeat inflation that the US economy had been unable to shake in the previous decade. It was successful in its objective but it took quite a sacrifice. This sacrifice mostly fell on the backs of workers across the US and in the global south. Despite the costs, many of which are permanent, the Volcker Shock is rarely if ever seriously interrogated in the mainstream.

## 2.2 Spillover of COVID-19 pandemic on economies: Towards a new global depression?

Global industrial development, that was slowing down in 2019 due to trade tensions between developed countries and China, is expected to continue to decline due to the economic disruption caused by the COVID-19 crisis. Thus, the evolution of the industrial production index is reflected in the table below.

**Table 1:** Index of industrial production (base 2015)

	China	East Asia	Europe	North America	World
Jan 2019	126.5	105.0	107.4	104.9	112.4
Feb 2019	126.5	104.7	107.9	104.4	112.4
Ma 2019	128.2	104.2	108.1	104.3	113.0
Apr 2019	126.8	105.6	107.2	103.4	112.5
May 2019	128.6	106.0	108.0	103.5	113.2
Jun 2019	130.2	104.9	106.9	104.1	113.0
Jul 2019	130.5	106.4	106.9	103.7	113.5
Aug 2019	131.8	104.6	106.6	104.4	113.5
Sep 2019	132.9	106.0	107.1	103.7	114.0
Oct 2019	133.6	103.8	106.8	103.1	113.7
Nov 2019	135.4	103.2	106.0	104.1	114.4
Dec 2019	136.4	104.7	104.2	104.4	114.6
Jan 2020	100.8	106.8	106.5	104.2	105.0
Feb 2020	99.0	103.8	106.8	104.1	104.1
Ma 2020	120.9	103.7	96.5	98.9	105.4
Apr 2020	128.5	94.6	78.6	83.3	95.1
May 2020	132.8	88.4	86.8	86.5	99.7
Jun 2020	136.4	92.7	95.0	93.2	106.5
Jul 2020	139.8	97.2	100.0	97.2	111.1
Aug 2020	142.1	98.5	101.0	98.5	112.7
Sep 2020	144.6	102.9	101.4	98.5	114.7
Oct 2020	146.3	103.5	103.0	99.8	116.2
Nov 2020	147.9	103.8	105.6	100.7	117.7
Dec 2020	149.3	104.6	104.3	101.6	118.3

**Source:** UNIDO STAT (2021, p. 5)<sup>iii</sup>.

This information is based on preliminary seasonally-adjusted data from official indices of industrial production (base year 2015) collected by UNIDO's Statistics Division. The latter limited its analysis to groups of countries affected by social and economic blockages in the first months of COVID-19<sup>iv</sup>. Throughout 2019, the global manufacturing industry was already experiencing a steady decline in production growth. Especially the industrialized countries recorded a notable contraction in production.

China was still posting high quarterly growth rates of over 5% at the end of 2019. Now, in the first two months of 2020, China has seen a sharp reduction in output, which may be explained by the beginning of the lockdown in Wuhan and other regions to

<sup>iii</sup> The most recent monthly data are available on the UNIDO Statistics data portal.

<sup>iv</sup> For more information, see: (The Committee for the Coordination of Statistical Activities, 2021) & The Committee for the Coordination of Statistical Activities - CCSA (2020).

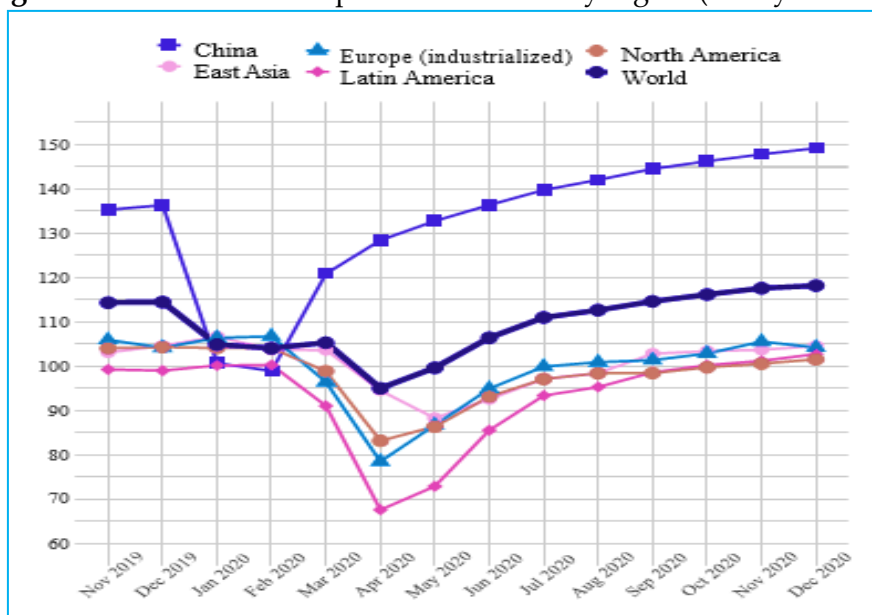
contain the COVID-19 pandemic. It remains to be seen how quickly China will make up for the losses incurred in the first quarter of 2020.

For other industrialized countries, the direct impact of this crisis cannot be measured, based solely on the data in the table above, because most of these countries began economic restrictions in March 2020. Nevertheless, these countries have started 2020 with further declines in industrial production that will be exacerbated by measures essentially taken so far. The global industrial production index also shows a sharp decline caused mainly by China's large contribution to global industry.

On the other hand, according to the data in Table 1 above, global industrial production stabilized after the economic disruption caused by the COVID-19 health crisis, reaching pre-crisis levels in September 2020. Recently released data show that the regional recovery has varied: while China's industrial production achieved year-over-year growth from June, several industrialized countries continue to achieve negative annual growth rates. This is due to the extension of containment measures since the autumn by these countries (The Committee for the Coordination of Statistical Activities, 2021, p. 26).

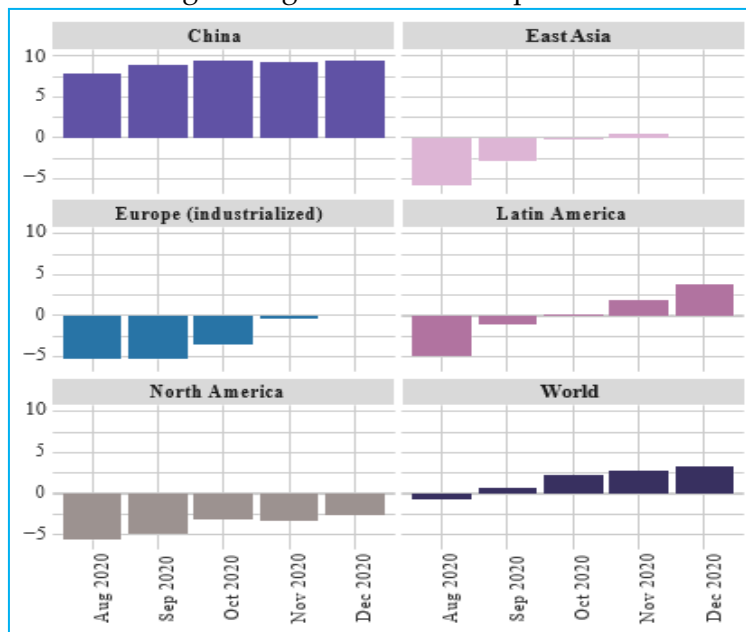
Figures 1 and 2 illustrate the evolution of world manufacturing production and that of certain groups of countries.

**Figure 1:** Global industrial production index by region (base year 2015)



Source: UNIDO STAT (2021, p. 1).

**Figure 2.** Change in industrial production by region,  
 Percentage change from the same period in 2019



Source: UNIDO STAT (2021, p. 1).

Thus, these two figures illustrate clearly the drastic decline caused by the health crisis and the gradual rebound in the second half of the year 2020. In December, global manufacturing output achieved a 3.2% year-on-year growth rate, driven primarily by China's positive performance. However, China's manufacturing sector has recovered quickly, with output growth of more than 9% over the past 3 months. Output trend data for Latin America also suggest that recovery is underway, with a year-on-year growth rate of 3.8% in December 2020.

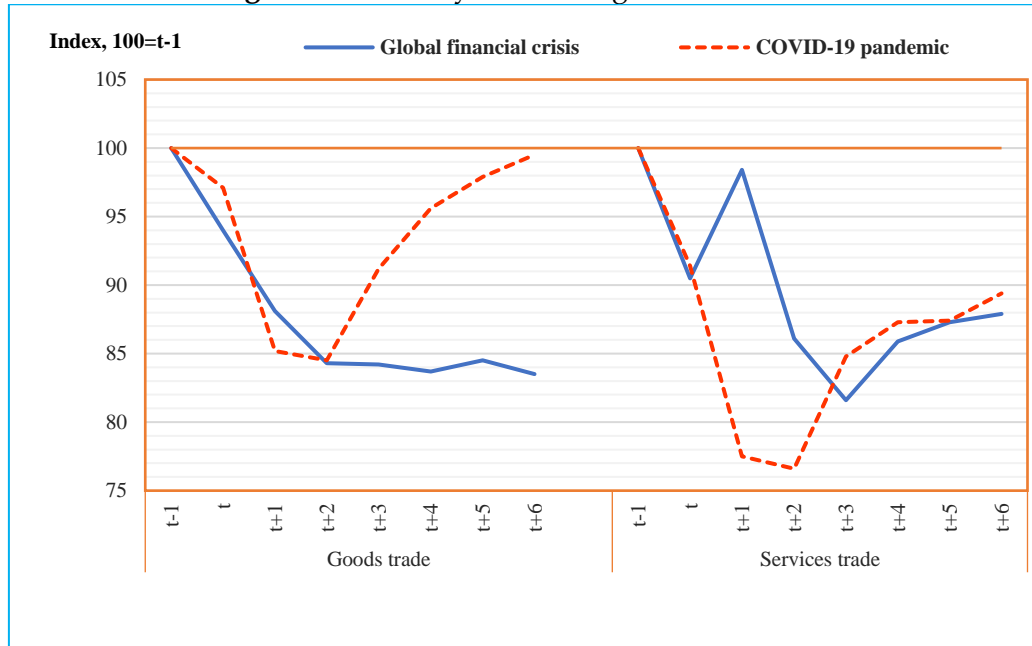
While, the industrialized countries continue to struggle with the ongoing economic and health crisis. Europe with a growth rate of +0.1% and East Asia with 0.0% thus recorded in December 2020 a stagnation of production compared to the same month of 2019. In contrast, North America's production declined by 2.6%. It remains to be seen how the health crisis will unfold and how quickly the vaccination campaigns, which were started at the end of 2020, will ease the economic restrictions still in place in these countries and consequently in the rest of the world<sup>v</sup>. So, any economic recovery will depend heavily on the evolution of the pandemic, which in turn will be influenced by the possibility of effective and widespread vaccination. In China, the economic rebound has been rapid but uneven, with consumer services lagging behind industrial production.

World trade, meanwhile, collapsed last year. Border closures and supply disruptions interrupted the international supply of goods and services. Goods trade fell more rapidly and recovered more swiftly than during the global financial crisis. It benefited from the substitution of demand from services toward manufactures, as well

<sup>v</sup> This is a synchronized crisis, and just as the relentless rise of China over the past four decades has lifted many boats in richer and poorer countries alike, so slowdowns in China, the U.S. and Europe will have global impact on our globalized world. This COVID-19 has ravaged every major economy in the world. Its impact is felt everywhere.

as the resilience of global value chains. In contrast, services trade remains depressed (figure 3), in part owing to travel restrictions constraining tourism (figure 4). A slow recovery in services trade -a key engine of trade growth following the global financial crisis- is expected to reduce the trade intensity of activity.

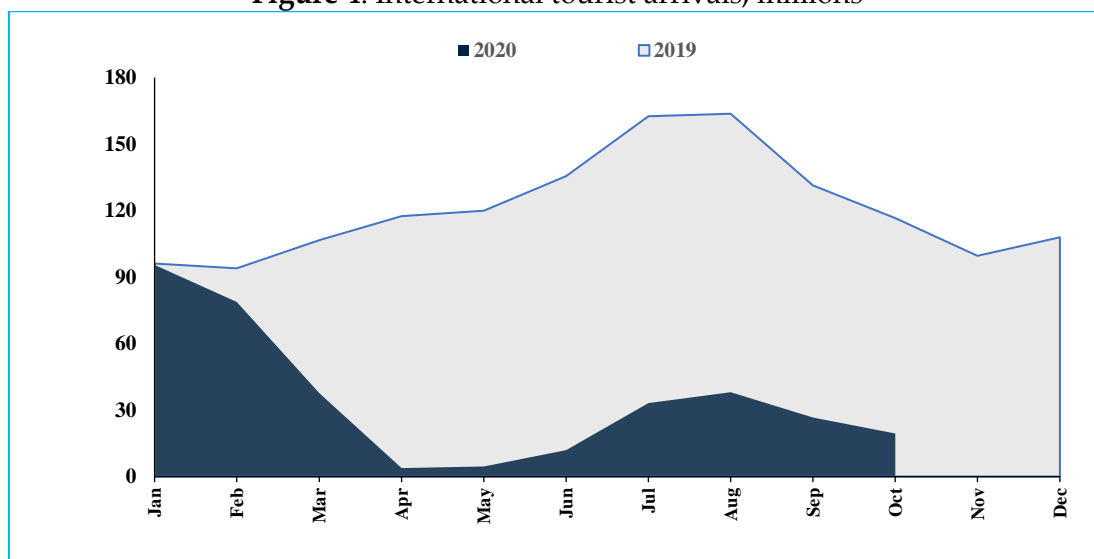
**Figure 3: Year-on-year % change in world trade**



**Sources:** CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; World Bank; World Tourism Organization; World Trade Organization, in. The World Bank (2021, p. 10).

**Note:** Goods trade is in real terms from the CPB Netherlands Bureau for Economic Policy Analysis, whereas services trade is in values from the WTO. For global financial crisis, t = November 2008; for COVID-19, t = March 2020.

**Figure 4: International tourist arrivals, millions**

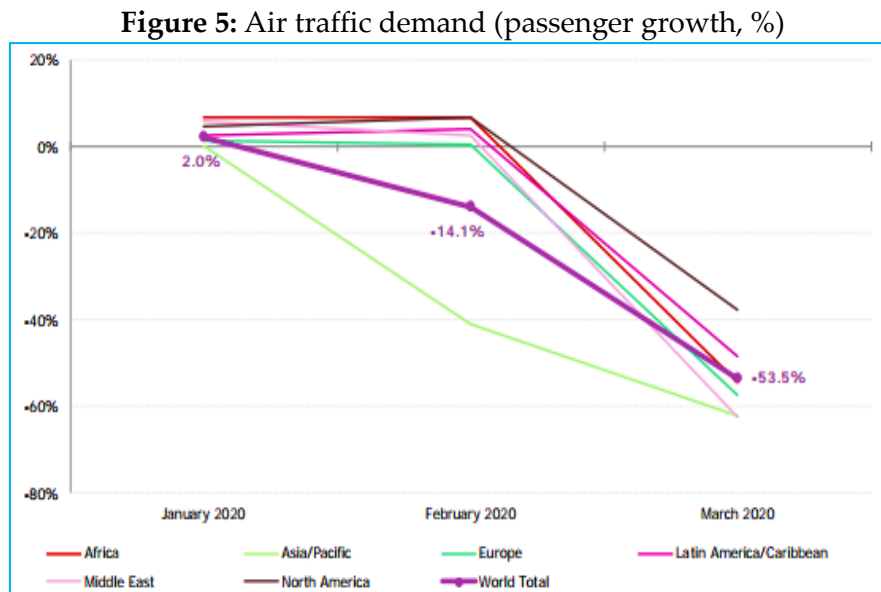


**Sources:** World Bank; World Tourism Organization, in. The World Bank (2021, p. 10).

**Note:** The figure shows international tourist arrivals between 2019 and 2020.



Indeed, as shown in Figure 5, the outlook for air traffic has taken a dramatic downward turn around the world, with a rapid and drastic decline in demand, amplified by strict travel restrictions.



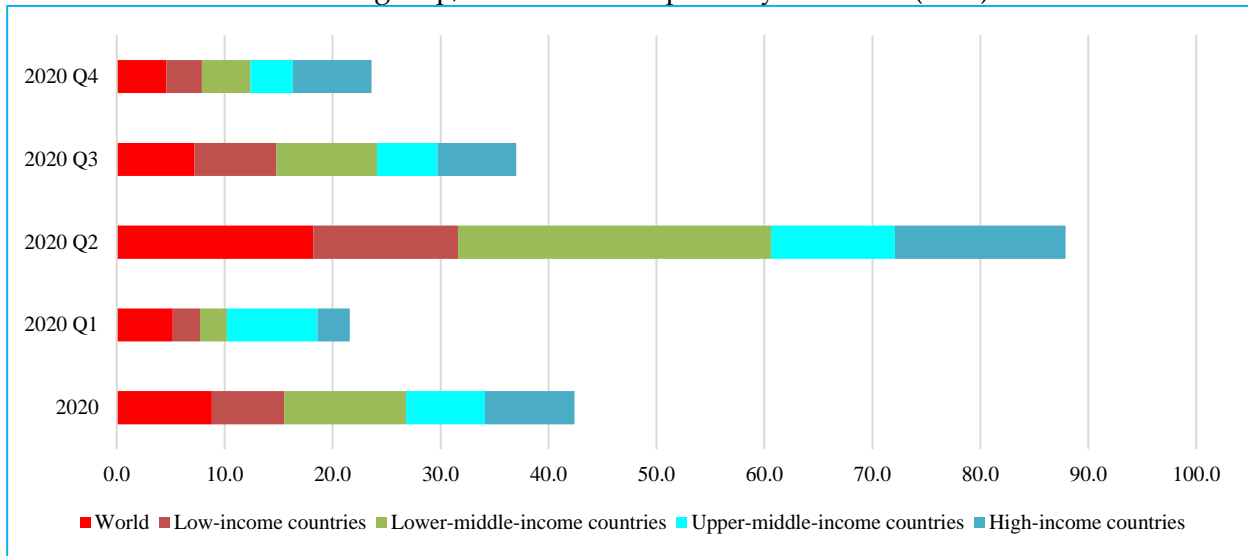
**Sources:** International Civil Aviation Organization /ICAO, ADS-B operational data, in The Committee for the Coordination of Statistical Activities - CCSA (2020).

According to these results from the COVID-19 Aviation Economic Impact Study conducted by ICAO, in the month of March, 38% of seat capacity was reduced globally compared to the same period in 2019. Passenger numbers fell by 54% to 198 million due to lower load factors. Asia Pacific saw the largest decline in passengers (85 million), followed by Europe and North America with 50 million and 35 million passengers, respectively.

In addition, the downturn in air traffic has caused serious financial difficulties for all stakeholders in the industry. Last March, airlines lost almost \$28 billion in revenues, and airports and air transport navigation service providers lost about \$8 billion and \$824 million respectively. Based on the fallout from this pandemic, we have just experienced an unprecedented recession that has ruined economic activity, globally, and consequently labour markets.

Indeed, it's clear that the decline in working hours throughout the world is going to record double-digit percentages of decline in working hours. According to quarterly estimates from the International Labour Organization, half of the total loss of work hours in 2020 occurred in the second quarter of the year (Figure 6).

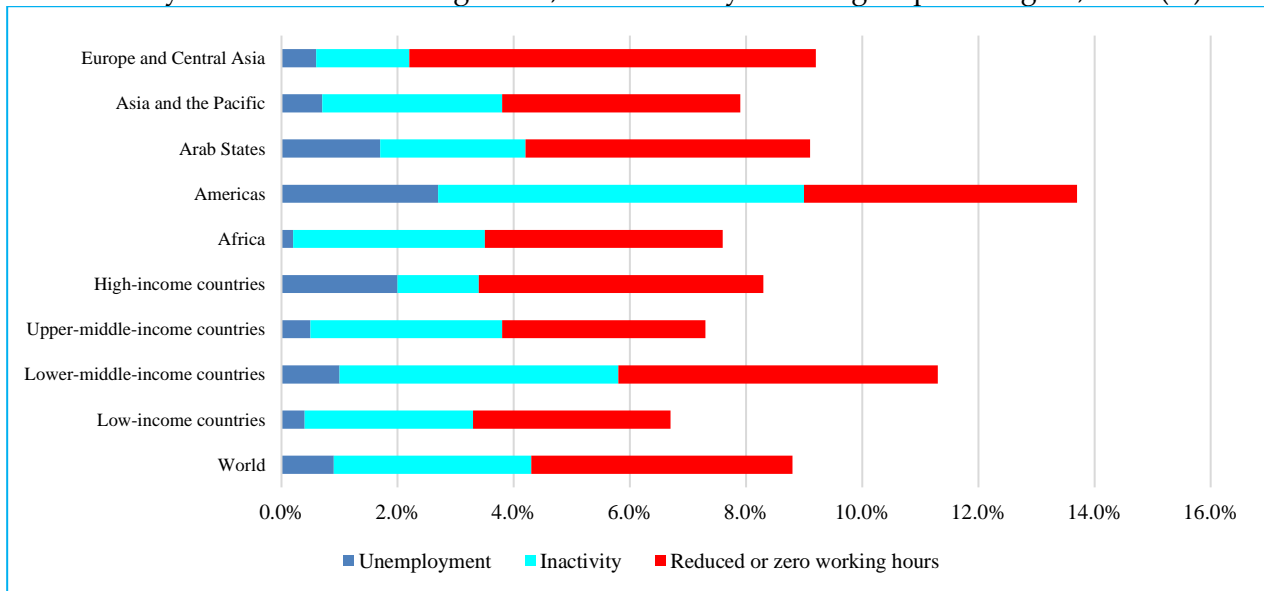
**Figure 6: Working-hour losses, world and by income group, 2020 total and quarterly estimates (in %)**



Source: ILO nowcasting model, in. International Labour Organization (2021, p. 6).

Figure 7 shows the decomposition of working-hour losses into changes in unemployment, inactivity and reduced working hours, world and by income group and region, 2020 (percentage).

**Figure 7: Decomposition of working-hour losses into changes in unemployment, inactivity and reduced working hours, world and by income group and region, 2020 (%)**



Source: ILOSTAT database, ILO modelled estimates, in. International Labour Organization (2021, p. 8).

**Note:** The overall working-hour loss is decomposed into changes in unemployment, inactivity and reduced or 0 working hours. Unemployment plus inactivity equals the total employment loss. Unemployment and inactivity have been transformed into their working hour equivalent using the average working hours per week. The working-hour equivalent of changes in employment, unemployment and inactivity is computed using the estimated average working hours per week, which ranges from 35 to 45 hours per week across the income groups and regions. This differs from the 48-hours FTE equivalent presented in the previous

section, where the same number of weekly working hours is used to make the estimates comparable across regions.

Indeed, there are significant variations across regions. both as a share of the working-age population and in relation to working-hour losses, were highest in the Americas, and lowest in Europe and Central Asia, where reduced working hours have been extensively supported by job retention schemes, especially in Europe.

Despite the adjustment through reduced working hours, job losses in 2020 were nonetheless massive, amounting to a loss of 114 million jobs from pre-crisis employment levels in 2019. However, this estimate underestimates the full extent of the job loss: comparison with a *no pandemic* scenario reveals a much larger deficit of 144 million jobs (International Labour Organization, 2021, p. 8).

This new situation confirms that we are facing the worst global crisis since the Second World War. It is now worrying to note that the COVID-19 pandemic has had a drastic impact on Third World countries, where capacities and resources are severely limited and where it is necessary to review their economic and social policies to avoid the worst-case scenario.

### **3. Global outlook and economic recovery from the covid-19 recession**

The diagnosis of the economic reality presented in the second point leads us to admit that we are facing an economic depression more serious than the one observed during the world financial crisis a decade ago. According to the forecasts, the great containment should still lead to a strong decrease. However, a partial recovery is expected in 2021, with above-trend growth rates, but the level of GDP will remain below trend and the strength of the recovery is highly questionable. Much worse outcomes are likely. This will be the case if the pandemic and the application of containment measures continue, if emerging and developing countries are even more severely affected, if financial conditions remain restrictive, or if there are widespread after-effects from business closures and prolonged unemployment.

Of course, such unforeseen crises will have to be managed in two stages: a stabilization and containment phase to stop the spread of this episode, reconciling sobriety with maintaining a sufficient level of decent jobs, and then an economic reconstruction phase to achieve the necessary economic recovery. During these two phases, public health policy and economic policy are decisive. For Third World countries, it has become imperative to take other measures in addition to these two policies. First of all, a social policy must be put in place to provide the poorest segments of society with the basic conditions for a decent life. Subsequently, it has become necessary to adopt incentive measures to find structural solutions to reduce the informal sector.

#### **3.1 Global economic prospects**

The Fund International Monetary (14 April 2020) forecasts a decline in world GDP growth (-3%) less marked than that of the United States (-5.9%) and the Euro zone (-7.5%)

in 2020. The following table 2 summarizes the evolution of GDP by region (note that the overall growth rates are calculated using GDP weights in constant 2010 dollars).

**Table 2:** World economic prospects: an overview  
 of projections (% change, unless otherwise noted)<sup>1</sup>

	2018	2019	2020e	2021f	2022f	% point differences from June 2020 projections	
						2020e	2021f
<b>World</b>	3,0	2,3	-4,3	4,0	3,8	0,9	-0,2
<b>Advanced economies</b>	2,2	1,6	-5,4	3,3	3,5	1,6	-0,6
United States	3,0	2,2	-3,6	3,5	3,3	2,5	-0,5
Euro area	1,9	1,3	-7,4	3,6	4,0	1,7	-0,9
Japan	0,6	0,3	-5,3	2,5	2,3	0,8	0,0
<b>Emerging market and developing economies</b>	4,3	3,6	-2,6	5,0	4,2	-0,1	0,4
EMDEs excluding China	3,2	2,3	-5,0	3,4	3,6	-0,7	0,1
Commodity-exporting EMDEs	2,0	1,6	-4,8	3,0	3,2	0,1	0,0
Other EMDEs	5,7	4,8	-1,3	6,1	4,8	-0,2	0,6
Other EMDEs excluding China	4,8	3,2	-5,3	3,9	4,1	-1,7	0,1
East Asia and Pacific	6,3	5,8	0,9	7,4	5,2	0,4	0,8
China	6,6	6,1	2,0	7,9	5,2	1,0	1,0
Indonesia	5,2	5,0	-2,2	4,4	4,8	-2,2	-0,4
Thailand	4,1	2,4	-6,5	4,0	4,7	-1,5	-0,1
Europe and Central Asia	3,4	2,3	-2,9	3,3	3,9	1,8	-0,3
Russian Federation	2,5	1,3	-4,0	2,6	3,0	2,0	-0,1
Turkey	3,0	0,9	0,5	4,5	5,0	4,3	-0,5
Poland	5,4	4,5	-3,4	3,5	4,3	0,8	0,7
Latin America and the Caribbean	1,9	1,0	-6,9	3,7	2,8	0,3	0,9
Brazil	1,8	1,4	-4,5	3,0	2,5	3,5	0,8
Mexico	2,2	-0,1	-9,0	3,7	2,6	-1,5	0,7
Argentina	-2,6	-2,1	-10,6	4,9	1,9	-3,3	2,8
Middle East and North Africa	0,5	0,1	-5,0	2,1	3,1	-0,8	-0,2
Saudi Arabia	2,4	0,3	-5,4	2,0	2,2	-1,6	-0,5
Iran, Islamic Rep. <sup>3</sup>	-6,0	-6,8	-3,7	1,5	1,7	1,6	-0,6
Egypt, Arab Rep. <sup>2</sup>	5,3	5,6	3,6	2,7	5,8	0,6	0,6
South Asia	6,5	4,4	-6,7	3,3	3,8	-4,0	0,5
India <sup>3</sup>	6,1	4,2	-9,6	5,4	5,2	-6,4	2,3
Pakistan <sup>2</sup>	5,5	1,9	-1,5	0,5	2,0	1,1	0,7
Bangladesh <sup>2</sup>	7,9	8,2	2,0	1,6	3,4	0,4	0,6
Sub-Saharan Africa	2,6	2,4	-3,7	2,7	3,3	-0,9	-0,4
Nigeria	1,9	2,2	-4,1	1,1	1,8	-0,9	-0,6
South Africa	0,8	0,2	-7,8	3,3	1,7	-0,7	0,4
Angola	-2,0	-0,9	-4,0	0,9	3,5	0,0	-2,2
<b>Memorandum items:</b>							
<b>Real GDP<sup>1</sup></b>							
High-income countries	2,2	1,6	-5,4	3,2	3,5	1,4	-0,6
Developing countries	4,4	3,7	-2,3	5,2	4,3	0,1	0,5
Low-income countries	4,4	4,0	-0,9	3,3	5,2	-0,8	-0,6
BRICS	5,4	4,7	-1,1	6,1	4,5	0,6	0,8
World (2010 PPP weights) <sup>4</sup>	3,6	2,8	-3,7	4,3	3,9	0,4	0,0

**Source:** The World Bank (2021, p. 4).

<sup>1</sup> Headline aggregate growth rates are calculated using GDP weights at 2010 prices and market exchange rates.

<sup>2</sup> GDP growth rates are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labelled 2019 refers to FY2018/19.

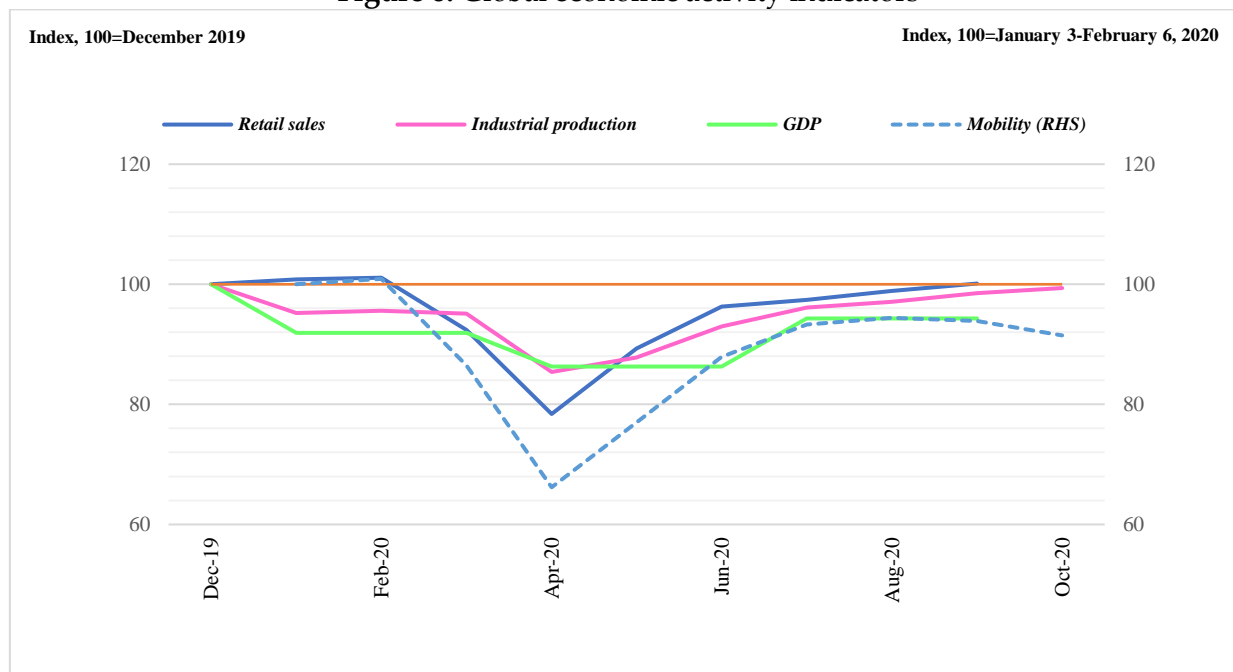
<sup>3</sup> The column labelled 2018 refers to FY2018/19.

<sup>4</sup> World growth rates are calculated using purchasing power parity (PPP) weights, which attribute a greater share of global GDP to emerging market and developing economies (EMDEs) than market exchange rates.

**Note:** e = estimate; f = forecast. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given date.

COVID-19 pandemic has continued to spread, with sharp resurgences in some areas<sup>vi</sup>. Global economic activity, which started to rebound in mid-2020, has moderated. Nevertheless, figure 8 summarizes the evolution of some indicators related to this recovery.

**Figure 8:** Global economic activity indicators

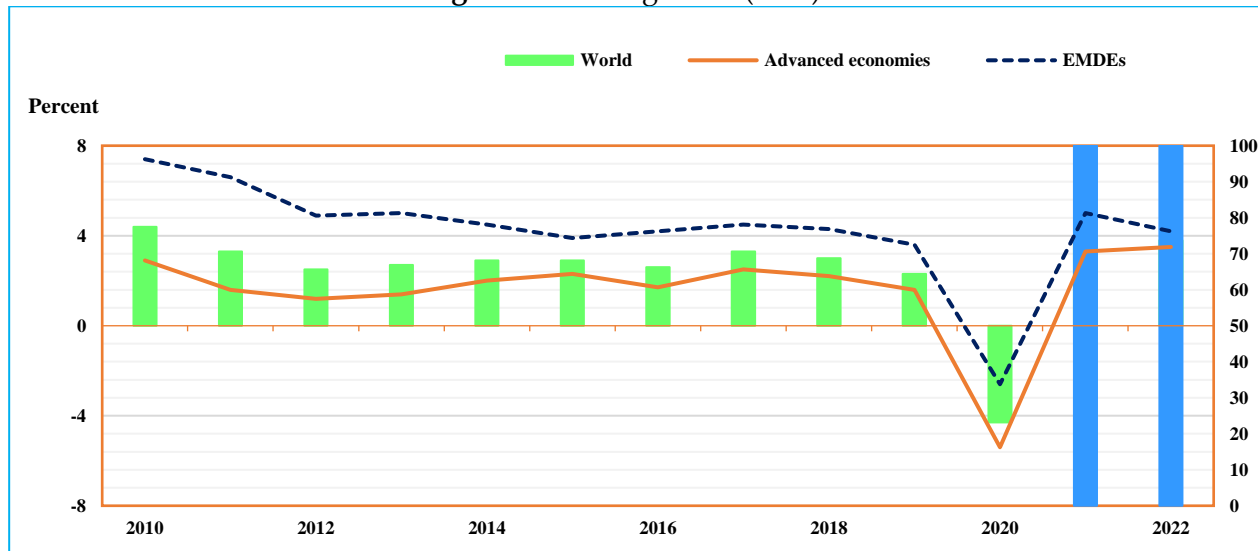


**Source:** Google COVID-19 Community Mobility Reports (database); Haver Analytics; Our World in Data (database)- The World Bank (2021, p. 10).

In aggregate, the world economy contracted by 4.3% in 2020, according to the World Bank's estimates, a 0.9% smaller collapse than that projected in the June forecast (figure 10). In the advanced economies, the initial contraction was less severe than expected, but the subsequent recovery was held back by a significant resurgence in COVID-19.

<sup>vi</sup> It should be noted that substantial there has been substantial progress in the development of effective vaccines, and inoculation has begun in some countries.

**Figure 9: Global growth (in %)<sup>vii</sup>**



**Source:** Google COVID-19 Community Mobility Reports (database); Haver Analytics; Our World in Data (database)- The World Bank (2021, p. 10).

As a reminder, Maliszewskan, & al. (2020) have already tried to determine the impact that the pandemic is likely to have on the evolution of GDP and exports of the major regions of the world. To do this, they put forward two scenarios. The first corresponds to a shock that lasts 8 to 12 weeks and is not synchronized between countries. According to this vision, GDP will fall by 2.1% for the world, by 2.5% for emerging countries, by 1.8% for industrialized countries and China will see its GDP fall by 3.7%. Of course, the greatest losses are expected in East Asia and the Pacific countries, because of the importance of trade and tourism flows with the Chinese economy.

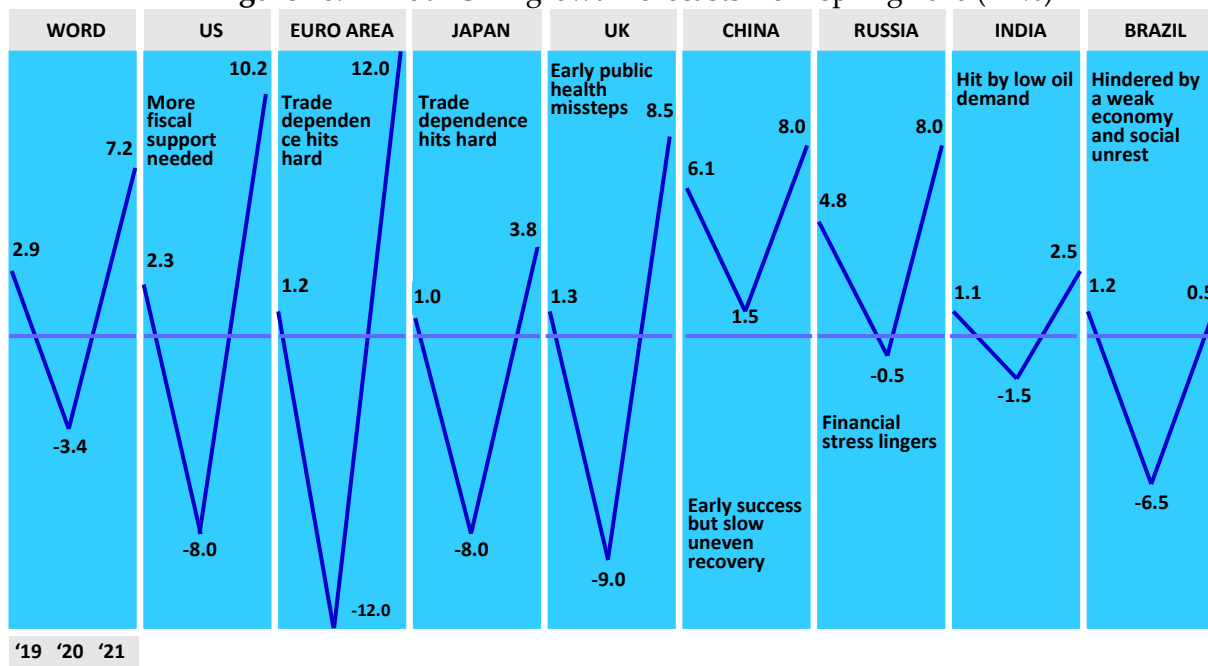
The second scenario suggests that the pandemic lasts longer and that the shocks are more synchronized between countries. Thus, GDP falls would be twice as high as in the first scenario and contractions would be 3.9% for the world economy and 4.3% for the Chinese economy. Indeed, countries that depend more on foreign trade and tourism will suffer drastic losses. Alas, this most pessimistic scenario seems close to the reality that has just materialized today.

This observation has just been supplemented by the ILO (2020). The latter suggests that the COVID-19 pandemic could increase the number of unemployed people in the world from 5.3 million (according to its most optimistic scenario) to 24.7 million (according to its most pessimistic scenario), which in the latter case is much more than in the wake of the 2008 financial crisis. U.S. Treasury Secretary Steven Mnuchin predicts a 20% increase in unemployment in the coming months (the record since 1945 was 10.8% in 1982).

<sup>vii</sup> EMDEs = emerging market and developing economies. Shaded area indicates forecasts. Data for 2020 are estimates. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates.

However, Warwick & Roshen (2020) explores seven more extreme scenarios<sup>viii</sup> of the possible evolution of the COVID-19 pandemic over the coming year to examine their impacts on macroeconomic outcomes and financial markets in a hybrid general equilibrium model. According to the results found, Chinese GDP will fall by more than 6%, US GDP by more than 8% and Japanese GDP by almost 10%. This pessimism is shared by Dyanan (2020) when presenting the new forecasts of the Peterson Institute for International Economics (PIIE). According to the results of this study presented in the figure below, the world economy is indeed expected to experience a recession that is more severe than the global financial crisis. After an increase of 2.9% in 2019, global GDP is expected to fall by 3.4% in 2020 and then jump by 7.2% in 2021.

**Figure 10:** Annual GDP growth forecasts from spring 2020 (in %)



Source: Consensus Forecasts for 2019, PIIE: Peterson Institute for International Economics for 2020-21.

On their side, Hoy, & Ortiz-Juarez (2020) sought to estimate the short-term impact of the COVID-19 pandemic on global poverty through contractions in per capita household income or consumption. Their estimates are based on three scenarios: The first is a 5% contraction in income or consumption, the second is a 10% contraction, and the third is a 20% contraction. In each scenario, the researchers observed the likely evolution of poverty using three different international poverty lines: \$1.90, \$3.20 and \$5.50 per day. Their estimates show that the COVID-19 pandemic poses a real challenge to the United Nations' sustainable development goal of ending poverty by 2030, as global poverty could increase for the first time since 1990 and, depending on the poverty line, this

<sup>viii</sup> These scenarios show the magnitude of costs that could be avoided by greater investment in public health systems in all economies, but particularly in less advanced economies with less developed health care systems and high population densities. This observation leads us to the need for a radical rethinking of the economic and social policy pursued, to date, in our country.

increase could represent a reversal of about a decade in the progress made globally in reducing poverty.

In some regions, the negative effects could result in poverty levels similar to those recorded 30 years ago. In the most extreme scenario of a 20% contraction in income or consumption, the number of people living in poverty could increase by 420 to 580 million, compared to the latest official figures recorded for 2018<sup>ix</sup>.

Overall, the 2020 global recession was somewhat less pronounced than previously expected due to shallower contractions in advanced economies and a more robust recovery in China, whereas most other Emerging Markets and Developing Economies experienced deeper recessions. Global activity is forecast to remain well below pre-pandemic projections as the recovery is hampered by the pandemic's lingering effects.

### **3.2 The state and economic recovery**

The global economy came to a screeching halt in the wake of government policies to reduce the impact of COVID-19 (Baldwin & Weder di Mauro, 2020). This has caused negative repercussions on the economic and social sphere of countries around the world. Since this is an external shock, one could also expect a rise in inflation after containment, due to astronomical debts, disruption of supply chains as was the case after the two world wars.

The risk is that when the recession ends, consumption will rise again, not only because of the deferral effect, but because the primary economic engine of our societies is consumption. Thus, if purchasing power continues to be preserved as a result of partial unemployment, each increase in household demand will contribute to price increases, as production will not be able to keep up with the current conditions.

The recession is not only a supply shock but also a demand shock. Thus, it is not certain that demand for goods and services will return more vigorously than supply (Miles & Scott, 2020). This observation joins a series of arguments against a revival of inflation. The attacks on labour laws in a number of countries are putting negative pressure on wages, and thus on prices. Thus, the crisis mainly affects older people in capitalist countries, who are much more consumers than producers. To this, we can add another argument that a large amount of the money created will be diverted to non-inflationary assets, namely financial and real estate assets. It could be that deflation is more likely than inflation, as former IMF chief economist Ken Rogoff notes that we are facing a collapse in commodity prices and world trade the likes of which we have not seen since the 1930s<sup>x</sup>.

This diversity of expert views in the era of recessions brings to the forefront one of the dimensions of scientific activity, that of the controversies that are consubstantial with it. In economics, experts and managers are formal, the only problem is that they do not

---

<sup>ix</sup> Under the first scenario, the number of poor people worldwide would increase by 85 to 135 million people compared to 2018. If income falls by 10%, the poverty rate would increase by 2% to 4% depending on the poverty line. Under the second scenario, the number of poor people in the world would increase by 180 to 280 million people compared to 2018.

<sup>x</sup> For more details, please see The Wall Street Journal, April 9 2020.



agree. This difficulty must be faced by politicians and managed in such a way as to build a collective consensus at least at the level of each country.

Certainly, a careful definition of any economic reconstruction by the States will have to retain three fundamental elements, namely: The question of security, the problem of financing the budget deficit, and therefore that of indebtedness, and the famous problem of the dynamic balance of supply and aggregate demand. The figure below traces the different relationships that link the different economic agents involved in this operation and the implications of COVID-19 on the macroeconomic circuit (Boulaksili, 2020).

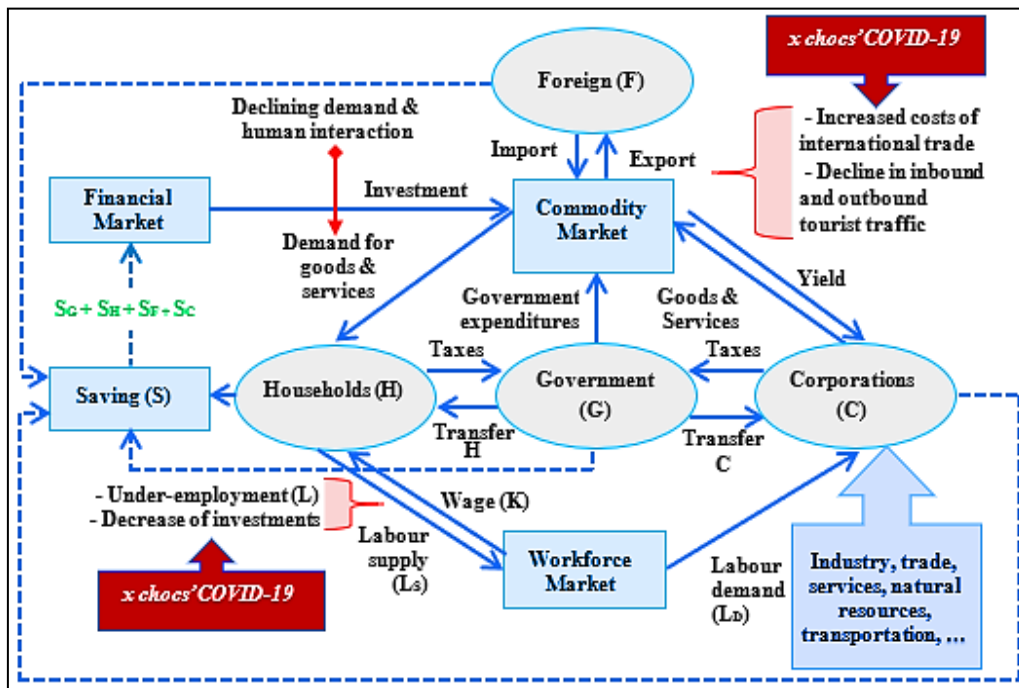


Figure 11: Implications of COVID-19 shocks on the macroeconomic circuit

The general equilibrium model is built on the basis of a so-called microeconomic approach, i.e., the behavioral hypotheses of the agents are taken in isolation. This model therefore allows us to describe the economic mechanisms and the conditions of a regular evolution. And as we are in the middle of the COVID-19 crisis, we are already outside this global macroeconomic equilibrium. This situation obliges the States to put in convergence the supply and the global demand<sup>xi</sup>. We are therefore witnessing a return to the strategic role of the State and consequently to the famous Keynesian model and the theory of imbalances. If the State must ensure the adjustment between supply and global demand, it must also allow economic operators in a secure and sustainable way to offer the necessary number of decent jobs.

The current pandemic has highlighted the importance of security, care and personal services, alongside basic commercial activities and logistics. Thus, new digital

<sup>xi</sup> For more details about the macroeconomic implications of COVID-19, see: (Guerrieri, Lorenzoni, Straub, & Werning, 2020).

technologies have shown their decisive role in times of containment and will continue to massively increase telework/remote working in all sectors.

Moreover, the dynamic adjustment of supply and demand will be even more acute in the economic reconstruction of energy systems. To achieve the goals of sustainable development, it will be necessary to disinvest from the fossil fuel sector and invest massively in other green energies. Therefore, the best choice to ensure that the economic reconstruction after the crisis of COVID-19 will be successful is to go green as concluded in a large study by Oxford University economists, and supported by Joseph Stiglitz, Nobel Prize in Economics 2001<sup>xii</sup>. This conclusion is based, on the one hand, on the idea that insists on conditioning all aid to these sectors to concrete efforts to preserve the environment, and on the other hand on the procession of decision-makers and international organizations that plead in favor of recovery plans that massively integrate investments in renewable energies.

This energy transition will also create jobs. But the main questions that arise are related to at least two aspects: First, the assurance of an orderly timing between the reduction of demand and the reduction of production capacities. Secondly, the new drastic situation of the exporting third world countries, which have neither sufficient reserves nor alternative resources to meet future demands. Hence the importance of careful economic analysis, in addition to the need to maintain international cooperation to coordinate between countries.

### **3.3 Summary of economic stimulus policies**

While the containment was initially a negative (and therefore inflationary) supply shock by preventing certain types of firms from producing, the subsequent effects are similar to those of a negative (and therefore deflationary) demand shock. The recession is not only a supply shock but also a demand shock. Thus, it is not certain that the demand for goods and services will return more vigorously than supply. From an economic point of view, this situation is extremely serious because it can lead us into a vicious circle (the decrease in activity will lead to an increase in the number of unemployed people, which in turn will lead to a decrease in consumption and investments, which will further decrease economic activity and so on).

Therefore, such a crisis of the magnitude of Covid-19 requires large-scale policies, namely: budgetary policy, monetary policy and macro-prudential policy.

#### **a. Budgetary policy**

This policy consists of varying expenditures and revenues to influence the economic situation (stimulating economic activity: lowering taxes to encourage consumption and investment). In times of crisis, this policy must intervene in a more massive way to revive the economy. To respond to the 2008 subprime crisis, budgetary policy in developed countries combined two mechanisms, one described as direct via government investment

---

<sup>xii</sup> Cf. Hepburn & al (2020).

in major infrastructure projects, and the other described as indirect by reducing taxes and increasing social benefits.

But the scale of COVID-19 requires a massive economic support plan, similar to the Marshal Plan implemented in the United States for the countries of Western Europe after the Second World War. All of the budgetary stimulus measures decided upon in the midst of the crisis generated large public deficits. Faced with this situation, countries are faced with the need to finance these deficits, whether through debt or loans from financial markets. In normal times all countries issue bonds to borrow money on the financial markets against an interest rate.

However, the question arises that some countries will be more affected than others by this crisis. This means that some countries will have more public debt than others. If the financial markets are distrustful, they will demand high-interest rates. When this arbitration mechanism occurs, we will have a kind of infernal circle that will contribute to penalizing the most affected countries. We will therefore have an anti-solidarity, in other words, an inverted solidarity. It is therefore a mechanism that is completely unfair. To guarantee an economic recovery based on solidarity, and consequently to avoid competition between European states, the European Parliament has proposed to issue Corona bonds at the European level. This is the creation of a common European debt whose main objective would not only be to finance health aspects but also to finance the recovery plan. Borrowing on the financial markets as a Union, it must also be able to pay back as a Union. Progressives in the European Parliament advocate the creation of new own resources to feed the EU budget (a tax on the income of large multinationals, a tax on digital services, the fight against tax evasion, etc.).

### **b. Monetary policy**

In phases of extreme uncertainty, monetary policy performs better when it responds only to current inflation and not to inflation forecasts, which are unreliable. For central banks with policy rates already close to zero, several researchers have argued again for negative policy rates when markets no longer believe that quantitative easing is sufficient to keep inflation on target<sup>xiii</sup>.

### **c. Macro-prudential policy**

The macro-prudential policy must accompany monetary and budgetary policy to limit economic collapse. A recent study by Drehmann & al. summarizes the range of tools currently available to macroprudential authorities and argues that banks should be allowed to use liquidity and capital buffers to lend more to the real economy. Thus, the crucial role of public support for the banking system, including the suspension of prudential standards, asset guarantees, and public ownership, is emphasized to facilitate the return of the real economy to normalcy.

---

<sup>xiii</sup> Cf. Lilley & Rogoff (2020).

#### 4. Conclusion

The COVID-19 pandemic has been reminding us that the choices to be made by States to rebuild an economy, and consequently a more sustainable society, can only be made by imagining progressive transitions. Of course, these phases must be as effective and rapid as possible to return to equilibrium in the first instance, and to seek more re-localized social and economic co-benefits in the long term by projecting themselves into sustainable recovery investments.

Faced with real problems and financial stress, any economic reconstruction must retain the needs of two temporal imperatives: the short-term needs to balance supply as quickly as possible to create decent jobs and to revive the demand for goods and services (partial unemployment). While cutting interest rates is a possible response for central banks, the shock is not just a demand management problem, but a multifaceted crisis that will require monetary, budgetary and macro-prudential policy responses. Thus, longer-term needs must ensure sustainable economic growth and greater prosperity.

Thus, the choices that governments make to revive their economies, including the pursuit of shared social, economic and environmental benefits in their stimulus investments, will be critical to building back stronger.

However, the COVID-19 crisis has revealed both shortcomings and fragilities, particularly with regard to the informal sector, and the crucial role of the state in tracing a new, more equitable, supportive and sustainable model to protect workers, the state, businesses and other disadvantaged social safety nets.

In this sense, let's recall here that if the employees in telework or in technical unemployment, during the phase of confinement at the level of the developed countries, continued to assure their incomes and the patients their benefits. While for underdeveloped countries, the containment becomes practically impossible or dramatic. The economic losses will therefore be heavier, hence the need to review more specifically the role of the State within these countries and to set a true model of sustainable development, making man the real wealth and good governance the core of this new trend, respecting the dignity of their people.

This cannot be achieved in isolation; this great return of the role of the State must not, therefore, sign the end of international cooperation. On the contrary, this new recession will require an enormous collective effort, made possible by the inevitable reflection on social ties and cooperation that the crisis imposes on citizens and states alike. In fact, poverty kills the poor, but the COVID-19 pandemic has just reminded us that if diseases are generated in poor countries due to overpopulation, poor living conditions and public health, these diseases can kill people from all socio-economic groups around the world and collapse their economic and productive systems.

There is therefore a need for much more investment in public health and scientific research and a need to moralize capitalism by implementing more equitable and sustainable development models in the richest countries but also, and especially, in the poorest countries.

### Conflict of Interest Statement

The authors declare no conflicts of interest.

### About the Authors

**Abdelhamid Boulaksili** is Doctor in Economics and Management, University Abdelmalek Essaâdi, Tétouan, Morocco; visiting professor at the Faculty of Law, Economic and Social Sciences of Tetouan; temporary professor at the Higher Normal School of Tetouan, University of Abdelmalek Essaâdi, Morocco. Author of several articles in various disciplinary areas: economics, management and sustainable development, finance and governance, corporate and market finance, conventional and Islamic finance, etc.

**Mhamed Hamiche** is a Professor of Higher Education at the Faculty of Law, Economics and Social Sciences of Tetouan, Morocco.

**Ouail El Imrani** is a Professor at the Faculty of Law, Economics and Social Sciences of Tetouan, Morocco.

**Najoua Chaouche** is a Doctor in Private Law, University Abdelmalek Essaâdi, Tétouan, Morocco and visiting professor at the Faculty of Law, Economic and Social Sciences of Tanger, Morocco.

**Yousra El Hajel** is a Doctor in Management, University of Mohamed V, Morocco.

### References

- [1] Baldwin, R., & Weder di Mauro, B. (2020). Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes.
- [2] Boulaksili, A. (2020). La reconstruction économique après la crise du Coronavirus (Covid-19) : Le grand retour de l'Etat. In C. p. Ouvrage Collectif, *Rôles de l'Etat et des Collectivités Territoriales à l'ère du Coronavirus* (pp. 137-158). Imprimerie El Maârif Al Jadida 2020.
- [3] Dyman, K. (2020, April 10). Peterson Institute for International Economics (PIIE). *The pandemic will plunge the world into recession; recoveries will be mixed*.
- [4] Fund International Monetary. (14 April 2020). *World Economic Outlook*.
- [5] Guerrieri, V., Lorenzoni, G., Straub, L., & Werning, I. (2020, April). Macroeconomic implications of COVID-19: can negative supply shocks cause demand shortages? (N. B. Research, Ed.) *NBER Working Paper Series* (26918).
- [6] Hepburn, C., O'Callaghan, B., Stern, N., Stiglitz, J., & Zenghelis, D. (2020, May 08). Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change? (O. U. Press, Ed.) *Oxford Review of Economic Policy*, 2-48.
- [7] International Labour Organization. (2021). *ILO Monitor: COVID-19 and the world of work. Seventh edition*.
- [8] Kose, M. A., Sugawara, N., & Terrones, M. E. (2020, March). Global Recessions. (W. B. Group, Ed.) *Policy Research Working Paper* (9172), 71.

- [9] Lilley, A., & Rogoff, K. (2020, April 17). Negative interest rate policy in the post COVID-19 world.
- [10] Maliszewskan, M., Mattoo, A., & van der Mensbrugghe, D. (2020, April). The Potential Impact of COVID-19 on GDP and Trade: A Preliminary Assessment. (W. B. Group, Éd.) *Policy Research Working Paper* (9211).
- [11] Miles, D., & Scott, A. (2020, April 04). Will inflation make a comeback after the crisis ends?
- [12] Sumner, A., Hoy, C., & Ortiz-Juarez, E. (2020, April). Estimates of the impact of COVID-19 on global poverty. *WIDER Working Paper*, 43/2020.
- [13] The Committee for the Coordination of Statistical Activities - CCSA. (2020). How COVID-19 is changing the world: a statistical perspective.
- [14] The Committee for the Coordination of Statistical Activities. (2021). *How COVID-19 is changing the world: a statistical perspective Volume III*.
- [15] The World Bank, I. B. (2021). *Global Economic Prospects*.
- [16] UNIDO STAT. (2021). *World Manufacturing Production in December 2020*. Retrieved Mars 31, 2021, from <https://stat.unido.org/content/publications/world-manufacturing-production-in-december-2020>
- [17] Warwick, M., & Roshen, F. (2020, March 2). The Global Macroeconomic Impacts of COVID-19: Seven Scenarios.

Creative Commons licensing terms

Authors will retain copyright to their published articles agreeing that a Creative Commons Attribution 4.0 International License (CC BY 4.0) terms will be applied to their work. Under the terms of this license, no permission is required from the author(s) or publisher for members of the community to copy, distribute, transmit or adapt the article content, providing a proper, prominent and unambiguous attribution to the authors in a manner that makes clear that the materials are being reused under permission of a Creative Commons License. Views, opinions and conclusions expressed in this research article are views, opinions and conclusions of the author(s). Open Access Publishing Group and European Journal of Economic and Financial Research shall not be responsible or answerable for any loss, damage or liability caused in relation to/arising out of conflict of interests, copyright violations and inappropriate or inaccurate use of any kind content related or integrated on the research work. All the published works are meeting the Open Access Publishing requirements and can be freely accessed, shared, modified, distributed and used in educational, commercial and non-commercial purposes under a [Creative Commons Attribution 4.0 International License \(CC BY 4.0\)](https://creativecommons.org/licenses/by/4.0/).