Expert opinions on the economic consequences of the coronavirus pandemic

Prof. Dr. Mario Larch is chair of Empirical Economic Research at the University of Bayreuth. The economist focuses on the empirical analysis of international trade, international migration, and multinational corporate activity. In his view, the measures taken for the next three weeks due to the coronavirus pandemic will lead to a temporary drop in GDP of six percent or € 206 billion. However, Larch expects that this can be partially offset in the second half of the year. Among other things, this would require temporary tax relief. However, this does not take into account effects on the financial markets.

In your view, what are the consequences of the pandemic for international trade, international migration, and multinational business activity?

In the short term, there will certainly be significant effects. Due to the increased splitting of value chains and more and more companies operating internationally, the restrictions in travel are of course tangible. If this continues for a couple of weeks, then it will certainly be possible to make up for some of it, if not everything, and thus to limit the losses to some extent. It should be noted, however, that the economies in both Europe and the USA were already weak beforehand. If difficulties due to COVID19 are added to this, it will exacerbate existing structural problems, and may lead to a faster and more severe slowdown than would have been the case without COVID19.

What sort of consequences do you foresee?

For an accurate assessment of the consequences, it is still necessary to wait for the actual extent, and the actual course of events. If we can now slow down until Easter through the measures taken, then this will indeed cost us the immediate and serious loss of three working weeks (or six percent of gross domestic product (GDP)). If one assumes a more or less complete loss of working hours, and that we have 50 working weeks per year, then one working week costs us about two percent of economic output. However, this does not take into account the effects on the financial markets.

What does that mean in concrete terms?

Germany’s gross domestic product in 2019 was about € 3,436 billion. Six percent of this would then be about € 206 billion. So, if we can slow down until Easter, it may cost us up to € 206 billion in GDP, but hopefully it will prevent more severe effects in the longer term. If the measures are successful, it will certainly be possible to make up some of this six percent in the second half of the year.

Have there been comparable situations before, by which companies and decision-makers can be guided?

There have, of course, been repeated temporary shocks in the past affecting world trade and international migration due to epidemics. More recently, SARS 2002/2003, a bit longer ago, the Spanish flu of 1918/19, and even the plague a lot earlier. Of course, the latter two in particular took place in a different economic and institutional context. However,
there is, for example, quite solid evidence that the plague of 1346-51 was spread along trade routes by traders as primary vectors. This does not sound so dissimilar to the current situation - although hopefully the consequences will be much less dramatic.

What measures do you consider to be appropriate now to avoid the worst economic damage?

Regional trade agreements, changes in legal institutions, and investment protection agreements are unlikely to be on the agenda at the moment. In this respect, I believe that for temporary problems, measures are needed that are quick in effect, but that, at the same time, are only effective for a limited period. Temporary tax relief, one-off aid to companies, one-off contingent liability, or short-term credit assistance could all be appropriate measures here.

At what level - EU, federal, state, or local - should these measures take effect?

As I believe that this is a temporary problem, which will certainly affect different regions differently, it makes perfect sense to take measures at different levels. Tourism, for example, which is certainly one of the sectors that is most severely affected, is not equally prominent or structured in every region. Regional measures can certainly be more effective here, and also more targeted, than measures enacted at a higher level. In order to slow down the spread of the disease, measures taken at an EU or even international level would certainly be beneficial and probably more effective.

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