LSE
GLOBAL POLICY
LAB

Defeating COVID-19

The pandemic that struck the world

Responding to the COVID-19 intertwined medical emergency and economic crisis.

Prepared in conjunction with the Maryam Forum, virtually launched from London on 2nd July 2020, a multi-year engagement bringing together global leaders, policymakers, students and faculty from across the LSE to build more effective leadership for an uncertain future.

LSE Institute of Global Affairs

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Introduction

Welcome to the COVID-19 World!

Erik Berglof
Professor, Director, Institute of Global Affairs, London School of Economics and Political Science

COVID-19 has changed the world. There was a pre-COVID-19 world and there will be a post-COVID-19 world, but in the meantime, we will have to learn to live with the virus. The pandemic will be with us for many years. While some countries, mainly among advanced economies, are now trying to take first steps in a return to normal, the virus is still raging in many developed economies as well as the developing and emerging world. Even if we do develop a vaccine, we must produce and distribute it in an equitable way. Most likely, we will not be able to reach every corner of the world. There is a distinct risk that the virus will become endemic in some parts of the developing world, and we may not even be able to immunise enough people in rich countries due to vaccination scepticism.

In this issue of the LSE Global Policy Lab, academics and policymakers discuss the lessons learned so far from the pandemic. Coming from different disciplinary perspectives and based on varying geographic contexts, they identify a rich set of policy conclusions. Common for all the contributions is the conclusion that, as Minouche Shafik writes, you cannot solve a global pandemic with national policies. International cooperation will be vital to mitigate the impact of the pandemic, particularly in the emerging and developing world, and in preventing future waves from creating even more damage in terms of loss in human lives and livelihoods. Both the economic and the health response must be global.

In responding to the pandemic politicians can no longer hide behind the scientists, say Tim Besley and Andrés Velasco. Since the first outbreak in Wuhan in December 2019, science has been working full steam. We have learnt a great deal about the virus and how it affects its human hosts, and how the pandemic impacts the economy. Yet much uncertainty remains. In these situations, it is tempting for politicians to retreat and leave matters to representatives of science. Science is never completely certain – and when decisions involve how to trade off lives against livelihoods, prioritise scarce protective equipment and health care capacity, and measures with strong distributional effects – politicians must take responsibility.

But responding to the pandemic is not just the responsibility of the politicians. Indeed the response must be delivered by society at large, as pointed out by Roch Dunin-Wasowiscz. Drawing on numerous examples of how civil society has been vital in mitigating the impact on vulnerable groups, he emphasises the need to sustain these organisations through the downturn.

COVID-19 spares no country, regardless of its level of development. But, as Armen Nurbekyan and co-authors note, emerging markets are particularly exposed to the vagaries of capital flows. Earlier this year they were hit by a "sudden stop" with massive withdrawals, four times larger and more sudden than at any point in the global financial crisis. These flows have now reversed somewhat, but questions about their sustainability remain. At the same time, these economies have limited fiscal space yet are implementing lockdowns that are more severe than those in developed economies, thus reinforcing the external shock.

The international financial institutions, namely the IMF and the World Bank along with the regional development banks, have responded rapidly to the 100+ countries that have applied for emergency assistance. Luckily, many of the multilateral development banks were recapitalised over the last couple of years, and the IMF has some simplified procedures in place for obtaining additional capital. On current predictions, their capacity will not be enough going beyond this year. In my essay, I discuss nine ideas for how to strengthen the institutions financially and bring the development finance architecture and global financial safety net closer together.

COVID-19 has so far impacted some regions less, among them is Central and Eastern Europe. In their contribution, Marek Belka and Piroska Nagy-Mohacsi discuss why many countries in the region so far have weathered the pandemic better. It is too early to say definitively that their record in the end will be superior, but they have had more time to prepare and learn from others. They then followed relatively strict lockdown measures. On the economic side, resilience was strong - many people lived through the much deeper transition recession in the 1990s - and the fiscal stimulus, particularly in Poland, has been very large. The overarching question in the authors' minds is whether the pandemic will feed surging populist nationalism or lead countries to embrace the European Union more firmly.

Much of the developing world was hit by the economic impact from the pandemic before the virus even took hold. The policy challenge has been

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to balance strict lockdown measures and the economic impact from the loss in income and economic decline in the domestic income. These decisions are made in a context where governments have very limited fiscal space plus poor capacity to reach those most vulnerable and enforce lockdown measures. In his piece, Adnan Khan advocates smarter interventions based on data and careful interdisciplinary research in order to understand the local context and involving local actors and communities, and citizens.

COVID-19 has unmasked inequalities in developed and developing countries alike. Redencio Recio and co-authors document how forced mass movements to the countryside and poor support systems have widened existing inequalities in urban communities in Manila, Delhi, and Dhaka. John Siedel also points to how, in a megacity like Manila, the overcrowding of public transportation has created effective pathways for the transmission of viruses. The overcrowding in turn reflects under-investment as well as the microeconomic incentives imposed

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by cartelization and corruption. Thus, transport reform advocates in cities merit strong support from local constituencies, government leaders, as well as overseas development agencies and international financial institutions.

Life on earth has changed fundamentally over the last three months. While in the short run the immediate response to the COVID-19 crisis is paramount, many have started to ask about the impact of the pandemic on the looming climate emergency. Ralf Martin and John Van Reenen explain how a carbon tax could both help pay for the pandemic and encourage 'clean' investment. Crucially, it should be levied in a few years' time when economies have begun to recover. ◆

Erik Berglof

You cannot solve a global pandemic with national policies

Dame Minouche Shafik
Director of the LSE

As we lock ourselves down to contain the spread of COVID-19, it is tempting to think that the solutions to the pandemic lie at a national level, writes Minouche Shafik (LSE Director). But although it will probably stall world trade, the virus respects no borders. International co-operation, woefully inadequate so far, will be vital if the pandemic is not to re-emerge.

One of the paradoxes of this pandemic is that even as we are forced to turn inwards, we need each other's cooperation more than ever. Most of us are becoming more self-reliant — staying at home, engaging less with others, even braving baking and home haircuts. And yet, only if everyone behaves in a collectively responsible manner will we be able to reduce infections and eventually normalise our economic and social lives.

That same paradox applies to the world economy and the global health challenges we face. Nation states too are turning inward and throwing unprecedented resources at containing the pandemic. But the pandemic does not respect borders. Even if one country defeats it, the risks of it returning are high as long as it continues to plague the rest of the world. The world is still interconnected, just in different ways.

What are the implications of the crisis for the world economy? And what does it mean for the balance of solving issues nationally versus globally?

Trade growth has probably peaked

Trade grew faster than GDP for several decades, but recent years have seen that slow. This crisis will accelerate that trend as supply chains will become shorter and more local. There are many reasons for this move toward localisation of

Adaptive rules for dam operation will be needed to deal with greater variability in reservoir inflows, and improved coordination of decisions across water–energy–food sectors will be required to achieve development goals sustainably.

production. Because of the crisis, companies will give greater weight to security of supply over efficiency and cost. Automation is reducing the importance of wages in production costs, making it possible for firms to "re-shore" facilities nearer to home markets. And localisation is also a way to shield oneself from protectionism and trade wars.

Globalisation will become more digital

While the movement of people and goods is likely to decline, trade of online services will grow rapidly. We have already seen the boom of online shopping, entertainment, and financial services during this crisis. The movement of data across borders is increasing exponentially. This makes resolution of issues like digital taxation, profit shifting by platforms across borders, and the prosecution of cross-border digital crime even more imperative.

Interest rates will be low for a very, very long time

Countries will emerge from this crisis with huge debt burdens. In past crises, those debts have been reduced through a combination of budgetary surpluses and economic growth rates that are greater than the rate of interest. Given how large debts are likely to become, it is hard to imagine being able to impose enough austerity to achieve the surpluses necessary to bring debt ratios down. Instead, many countries will likely resort to financial repression whereby savers earn returns below the rate of inflation to make it possible for governments to "inflate away" their debts. This will have implications for cross-border financial flows.

Demand for social insurance will rise

Warren Buffett famously said that when the tide goes in, you can see who is swimming naked. The coronavirus crisis has shown that millions of citizens around the world were in effect swimming naked – with no savings to fall back upon and no public safety net to support them and their families. Both poor and rich countries now have informal labour markets, as flexible modes of working have spread everywhere and employers' commitment to their workers is ever weaker. So much of social policy in recent decades has shifted risks onto individuals in the name of efficiency and flexibility. The years ahead are likely to see a backlash against this as citizens demand that more health, work and old age risks be shared. While these are mainly national challenges, some will spill over into international agreements, especially around trade.

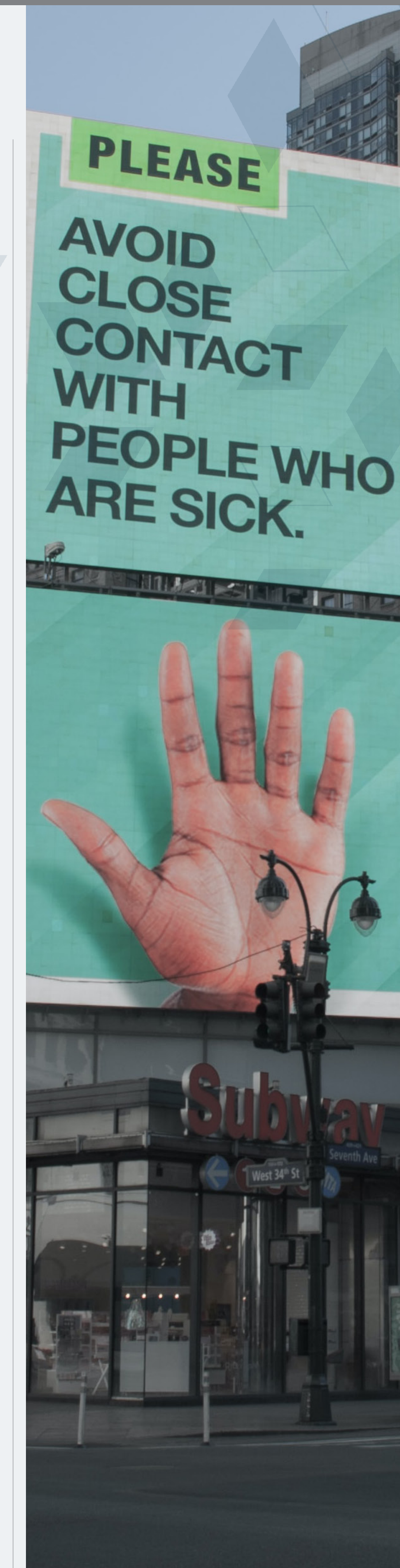
All of these trends will reinforce countries' tendency to focus on their domestic issues. Yet everything we know from history tells us that restoring economic prosperity and global health will require countries to look outwards and cooperate globally.

The economic response must be global

Many commentators from emerging markets took to referring to the 2008 financial crisis as the "North Atlantic Financial Crisis" to signal that the problem emanated from the US and Europe and was not truly global. This time is different. The economic consequences of coronavirus will adversely affect every country in the world. Commentators like Gordon Brown and Larry Summers have pointed out that while governments have broken all the economic rules to respond to coronavirus at the national level, the international response has been woefully inadequate. Even in the rich world, highly indebted countries like Italy or Spain have been less able to support their economies and populations than others like Germany or the Netherlands. For poor countries, many of which now have well-developed systems to transfer income to the poorest households through cash transfers and mobile banking, even fewer resources are available. This crisis needs a truly global response that includes more resources for the IMF and other multilateral institutions, comprehensive debt relief for the poorest countries, and a coordinated stimulus for economic recovery.

The health response must be global, too

You cannot solve a global pandemic at the national level. Just as the economic



response must be global, so the health response must include helping the poorest countries´ health systems to cope. The risks of spread in countries where social distancing is not possible (especially in slums, refugee camps and densely populated urban areas) may be devastating. Urgent funding is needed for essential equipment, vaccine development, therapeutics and support for weak health systems and vulnerable populations around the world. Without that, the epidemic will rage in highly populated parts of the world only to reappear in the countries that were hit first.

At a time when there are strong forces pushing inward, we need to remind everyone that it is in their national interest to think outwardly and globally. This is not just about generosity — though that is a great thing — but also self-interest. ◆

This post represents the views of the author and not those of the COVID-19 blog or LSE.

Nemat (Minouche) Shafik is a leading economist, whose career has straddled public policy and academia. She was appointed Director of the London School of Economics and Political Science in September 2017.

She did her BA at the University of Massachusetts-Amherst, her MSc at the LSE and her DPhil at the University of Oxford and, by the age of 36, had become the youngest ever Vice President of the World Bank. She taught at Georgetown University and the Wharton Business School. She later served as the Permanent Secretary of the Department for International Development from 2008 to 2011, Deputy Managing Director of the International Monetary Fund from 2011-2014 and as Deputy Governor of the Bank of England from 2014-2017, where she sat on all the monetary, financial and prudential policy committees and was responsible for a balance sheet of over £500 billion.

Minouche has served on and chaired numerous boards and currently serves as a Trustee of the British Museum, the Supervisory Board of Siemens, the Council of the Institute for Fiscal Studies, and the Economy Honours Committee. She was made a Dame Commander of the British Empire in the Queen's Birthday Honours list in 2015.

Politicians can't hide behind scientists forever – even in a pandemic

Andrés Velasco

Professor of Public Policy and the Dean of the School of Public Policy at LSE

Sir Tim Besley

School Professor of Economics of Political Science, W. Arthur Lewis Professor of Development Economics in the Department of Economics at LSE.

It is dangerous when politicians ignore expert advice. But it is just as dangerous when politicians outsource their judgement to experts, especially if the margin of error is huge and the advice is contested, write Tim Besley and Andrés Velasco (LSE). Ultimately, it is the job of politicians to make the tough decisions about trade-offs.

It is tempting to describe the unfolding response to the Covid-19 virus as a battle between science and politics. When US president Donald Trump suggested that injecting people with household disinfectant might cure them, or when Turkmenistan president Gurbanguly Berdymukhamedov endorsed the view that smoke generated by burning a type of grass called yuzarlik would safeguard against the virus, plain ignorance of scientific facts seemed to be at work.

In other cases, politicians have appeared to be playing… well, politics, ignoring both science and common sense. Mexican president Andrés Manuel López Obrador denied for weeks that the virus was a threat and continued to hug and shake hands with supporters, only to flip suddenly and impose a lockdown without warning. Trump blamed China for the virus and closed off the US to migrants, and his base cheered. Brazil's president Jair Bolsonaro followed the same script, claiming that the coronavirus crisis is a media trick. As an epidemiologist from the University of São Paulo put it: "It's as if everybody's on the same train heading towards a cliff-edge and someone says: 'Look out! There's a cliff!' And the passengers shout: 'Oh no there isn't!' And the train driver says: 'Yeah, there's nothing there!'"

Dhaka's urban poor have not received enough state assistance either, despite the government's promise of a stimulus package of over $11bn to provide soft bank loans and to assist people.

It is easy to see why NYU's Gernot Wagner has argued that it helps to have political leaders with a science background, judging by the success of Germany in managing the crisis under Angela Merkel, who is a trained physicist, or that of Ireland under Leo Varadkar, who is a doctor.

In recent years populist politicians have earned anti-establishment credentials and scored political points by disparaging experts, but the tide seems to be turning. Precisely because scientific and medical knowledge are so obviously necessary when dealing with a pandemic, the crisis has had one healthy byproduct: restoring a modicum of respect toward technical expertise. Both Donald Trump and UK prime minister Boris Johnson and his ministers have made it a habit to hold press conferences with their scientific advisers. Even more striking, Trump has had to endure the indignity of a poll showing that Anthony Fauci, the government's top infectious disease expert, enjoys an approval rating nearly twice as high as his own.

So are science and politics on opposing sides of the tussle to craft the right policy response? We do not think so. Politics uninformed by science quickly becomes quackery. But science unmediated by politics is of limited use when it comes to solving a collective action problem such as a pandemic.

One reason why science needs politics is that in a fast-moving and uncertain situation, not even experts can be sure of what to do. During the COVID-19 outbreak, questions about how extensive the lockdown should be or how long should it last, or whether wearing face masks should be compulsory, are intrinsically contested. Economists tend to discuss policy as if politics is what gets in the way of doing the right thing, and there are echoes of this attitude in debates involving scientists in the current crisis. Such frustration is justified when there is unambiguous consensus about the right policy or right advice, which just requires political will to become a reality. That is not the case today.

A particularly difficult set of issues arise when policies have winners and losers. In the current crisis, many professionals can safely continue to do their jobs (and receive their incomes) from home, but factory workers and shopkeepers cannot, and they suffer the consequences. Similarly, young people who could go out to work with little risk to their health have to stay in for the sake of older people who are most at risk if they contract the virus. How can society adjudicate those difficult distributional questions? What are the proper roles for science and politics?

The conventional wisdom is that trading-off the interests of gainers and losers is a matter of value judgments, so that expert knowledge is of little help in performing this task. That view is not quite right. Many tools of cost-benefit analysis, for instance, can help render judgments about trade-offs both systematic and transparent. Nonetheless, in complex policy decisions where many elements are poorly measured or intangible, cost-benefit analysis is at best a useful guide for policy, not a tablet of wisdom from which simple answers can be read. In short: making distributional choices is the job of politics, but that is a job best done taking judicious advantage of what science and expert analysis have to offer.

Johnson and Trump understand this. They may not be particularly fond of experts, but they keep inviting their own scientific advisors to their press conferences because soft-spoken scientists add credibility. Yet the doctors with their lab coats and charts in turn need the politicians for something else: legitimacy and trust.

The effectiveness of a public institution or policy depends crucially on how much citizens trust it. Just as a central bank can only do its job if citizens trust the currency it prints, the medical profession requires trust. Doctors need patients to follow their guidance, take medicines that they are prescribed and be willing to undergo invasive medical procedures if needed. And while the trust I place in an expert institution matters, other citizens' trust matters just as much or more. If everyone in my neighbourhood trusts medical advice enough to vaccinate their children against measles or mumps, then even if I do not vaccinate my own kids the risk of contagion they face is very low. So private actions have public consequences, something that economists refer to as externalities.

Such externalities are everywhere in the crisis. People who decide to leave home in order to go to work may increase the probability of contagion for others, while people who wash

their hands regularly have the opposite effect. Because staying home and forgoing income or queuing two metres apart all have costs, people will follow lockdown and social distancing orders only if they view those orders, and the process that lead up to them, as legitimate. And that legitimacy can only be provided by political leaders working within the confines of institutions that citizens both respect and trust.

The fact that long before the virus hit most politicians' credibility was at a nadir should not obscure another equally important fact: in modern secular societies, no one else can do the job of generating public trust. And if those modern societies are democratic, accountability is one key source of that trust. While the conventional view is that accountability is a constraint on political action, it is also an enabler. When politicians have announced lockdowns that impose economic costs, the public know that the politicians will ultimately be judged on whether the trade-offs are deemed to have been well-judged. Holding politicians responsible for a decision they have taken can enhance trust in that action.

So it is dangerous when politicians ignore expert advice. But it is just as dangerous when politicians outsource their judgement to experts, especially so if the margin of error is huge and the advice is contested. Making choices involving difficult trade-offs is what politics is all about. Politicians may not do this in a way that pleases many people, but that is in the nature of the beast. Their job today is both to get the balance between expert opinion and political representation right and to communicate the reasoning behind decisions taken.

Some of the distributional effects of COVID-19 and the policies that have been put in place to fight it are only now becoming apparent. Those painful effects will doubtless make politics even more difficult and disputatious in the months to come. And that, unfortunately, is a problem that cannot be solved by injecting people with disinfectant or burning yuzarlik. ◆

This post represents the views of the authors and not those of the COVID-19 blog, nor LSE.

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Sir Tim Beasley is School Professor of Economics and Political Science and Sir W. Arthur Lewis Professor of Development Economics at the LSE. His research spans public economics, development economics and political economy. He is President-elect of the Royal Economic Society and has been President of the Econometric Society and the International Economic Association. He is a fellow of the British Academy and a foreign honorary member of the American Academy of Arts and Sciences. He was also a member of the Bank of England Monetary Policy Committee and is a current member of the National Infrastructure Commission. In 2018, he was knighted for services to economics and public policy.

Europe's COVID-19 response must be delivered by society at large, not just governments

Roch Dunin-Wąsowicz

Research Officer at the LSE Conflict and Civil Society Research Unit

So far, the focus has been on the EU's institutional responses to the COVID-19 crisis. Drawing on the Visions of Europe project, Roch Dunin-WĐsowicz (LSE) explains why we need to pay attention to how civil society can survive the pandemic and help shape the response to it.

In recent weeks, calls from society for different modalities of a universal income have gained traction, some more radical, than others. A consortium of formalised civil society actors, led by Europe's trade unions, have called for more European solidarity, especially with front-line staff in the health service, and all those who are socially vulnerable or precariously employed. While civil society groups have been mobilising around the world to deal with the effects of the crisis, it is in Europe where new types of social mobilisation were most able to act both within and across states. European citizens have been showing cross-border solidarity in response to the pandemic when institutions were lacking, including local and informal civic activism.

In Slovakia, civil society organisations such as Mareena and the Human Rights League have been guiding migrants and refugees on the country's response to COVID-19 and on how to get by, but have also engaged them into community response by sewing facemasks for other vulnerable groups. German hospitals in Baden-Wuerttemberg have responded to the call of doctors Alsace's Mulhouse and Colmar that could not cope with the volume of patients and opened their doors to them. In Portugal, the Odemira municipality in Alentejo prepared special quarantine spaces for the region's foreign agricultural

workers, regardless of legal status. Border communities across the Polish, German, and Czech borders campaigned ferociously against the national lockdown restrictions that deprived transnational workers of their livelihood.

These and many other reactions to COVID-19 do not fit neatly into national institutional frames. They underscore how European integration has moved forward since its inception. They also illuminate the shortcomings of the current European construction. While the link between civil society and COVID-19 isn't, of course, unique to Europe, the data gathered through the Visions of Europe project point to the role both national and European civil society might play in the response to the COVID-19 pandemic, and how it can be harnessed to achieve effective recovery. History teaches us that civil society is part of the critical infrastructure of democracy, and thereby an indispensable tool to counter social ills, such as pandemics, in free societies. Nowhere has this been as clear as in Europe, within and across states.

While the COVID-19 pandemic is a humanitarian crisis, disproportionately hitting the elderly and the weakest in society, its lasting effects on the economy, politics, and society might be equally dire. The question of civil society's response is particularly pertinent considering the accumulation of executive power by governments. Civil society will be of crucial importance to keep track on the restrictions put on civil liberties, to ensure they have been implemented within a liberal democratic framework and that authorities do not resort to (neo-)authoritarian measures. And while COVID-19 has deprived civil society of the immediate sociability that catalyses action – country-wide curbs on gatherings put in place throughout Europe since March 2020 have effectively paralysed social life in its physical form – online communication seems to have supplanted most traditional forms of sociality in a matter of days, accelerating familiar dynamics.

- The first and most striking development resulting from the COVID-19 emergency was the nationalisation of responses to its spread, both structural and ideational. This has been matched by a profoundly state-centric focus of expert analysis that places society – including civil society – as a mere recipient of measures put in by respective governments.
- Europe's response: both critics and supporters of European supra-nationalism have castigated the EU for "not doing enough" or "miserably failing" in its response to the pandemic. Equally, many civil society actors have urged more European coordination. A multitude of grassroots petitions and initiatives, coordinated by academics, industry bodies and trade unions, have all been calling for "Europe to do more together" from the very beginning of the pandemic.
- Perhaps the most worrying development of the COVID-19 crisis is the rollback of substantive democracy, democratic backsliding, or outright authoritarian measures that have become part of the emergency responses. Threats to democracy are putting a strain on civic activity, which finds itself in an unprecedented predicament, both in terms of the types of threats it faces and the responses at its disposal.
- One of the modest silver linings of the COVID-19 crisis is the restoration of fact-based policymaking. Civil society institutions have long been a repository of such expert knowledge. In recent years many of them have been cast aside by populist politicians pandering to disenchanted publics. This crisis has the potential to restore their voices to the public debate.
- The COVID-19 crisis brings Europe a step closer to realising what impact unscrupulous economic growth has had on the environment. Civil society will have a pivotal role in ensuring that post-COVID-19 recovery follows the path of green transition, while safeguarding the interests of groups that will bear the brunt of the economic and social turmoil.

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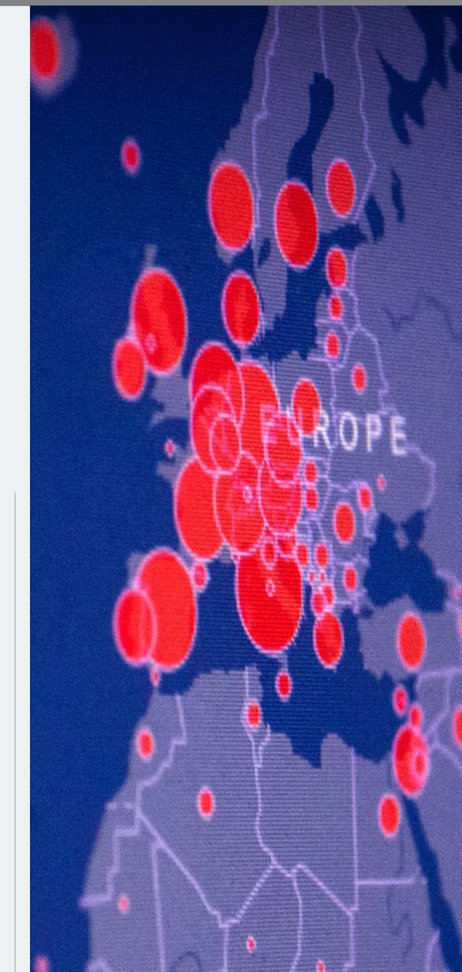

Visions of Europe

These developments are consistent with our findings from the Visions of Europe project, which maps transnational civil society in Europe. Civil society institutions, movements, movement-parties and other non-institutional forms of social mobilisation often equate Europe with the notion of solidarity. The progressive groups we spoke to object to a transactional approach to European integration, which sees it merely as a resource, a playground for inter-governmental bargaining, and a scapegoat for failing national administrations. That approach could not withstand the economic and the existential shocks of 2008 and 2015, let alone the current one. Today, too, reverting to national solutions will only feed regressive political forces that had been capitalising on Europe-wide crises in the past.

In times of a global pandemic, political leaders need to heed civil society and see it, once again, as a source of values and policy solutions. Many of our interlocutors speak of finding "European solutions to European problems," which is the language often used by Brussels. Yet what they are advocating for is bottom-up policy-making and implementation. Their aim is greater inclusion of various perspectives from society and the greatest degree of subsidiarity – decisions should be made and implemented as close to the citizen as possible. One needs to coordinate on a European level, but local actors should have maximum agency in adjusting policy and implementing change on the ground.

Europe's activist civil society may have embraced many of the achievements of the EU they do however insist that there are grave lesson to be learned from the failures of the EU in recent years. Still, many had already seen the crisis of democracy as an opportunity to reignite political engagement before the pandemic erupted. Today, the conditions for civil society to push for solidarity below and across the nation-states seem to be ripe. If it is to be successful, Europe's response to COVID-19 has to be delivered by society at large.◆

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Emerging markets need fiscal stimulus too. The IMF must get more firepower

Armen Nurbekyan
Director of the Macroeconomic Directorate and member of the Executive Committee, Central Bank of Armenia

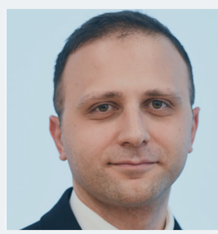
Gevorg Minasyan
Head of the Special Studies Division at the Central Bank of Armenia

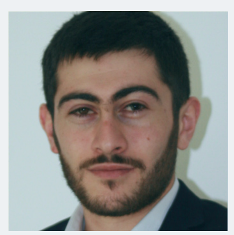
Tatul Hayruni
Economist, Central Bank of Armenia

Countries are borrowing heavily to keep their economies going during the pandemic. But emerging markets like those in Eurasia are struggling to fund stimulus packages due to capital outflows and the drop in oil prices. Armen Nurbekyan, Gevorg Minasyan and Tatul Hayruni (Central Bank of Armenia) make the case for the international community to augment IMF resources.

COVID-19 spares no country, regardless of its level of development. But emerging markets are in an especially precarious position, given that international investors are increasingly risk-averse. Indeed, capital outflows from emergency markets during the current market turmoil have put even post-Global Financial Crisis (GFC) outflows in the shade – roughly US$98bn had flowed out of selected emerging markets by 22 April, according to the Institute of International Finance's estimate, which is four times the GFC level. According to the World Bank, remittance flows to low and middle-income countries will plummet by US$100bn in 2020, a 20% decline. The fact these countries depend more heavily on tourism and commodity exports does not help either.

Despite their limited resources, emerging markets have imposed draconian measures to control the spread of the virus. The Stringency Index developed by the University of Oxford, which shows how strictly governments have responded, shows a similar pattern in high- and low-income countries (Figure 1).





COVID-19 spares no country, regardless of its level of development. But emerging markets are in an especially precarious position, given that international investors are increasingly risk-averse.

The shock will also be comparable. The International Monetary Fund's (IMF) World Economic Outlook for April marked down the 2020 growth rate for advanced economies by 7.7 percentage points (to -6.1%). Emerging markets and developing countries are revised down by 5.4 percentage points (to -1.0%).

Most advanced countries reacted swiftly, announcing sizeable fiscal packages. But can developing countries afford to follow suit?

The preliminary answer is no. The size of fiscal stimulus packages clearly increases with income level (Figure 2). Moreover, the relationship is non-linear, indicating that the richest nations are far ahead of the rest.

The average size of fiscal packages in the lowest third quantile of countries by income is 1.4% of GDP. For the second quantile of countries, the mean size of fiscal stimulus stands at 3.2% —more than twice as high. For the richest group of countries it is 7.5%. Of course, these averages hide a great deal of variation, but the pattern is difficult to ignore.

Resource constraint is only one of many reasons for this: poorer countries, for example, may have implementation problems, as their capacity is lower. But do the ability to borrow – and the tight international financial markets – matter?

They do. Grouping countries by risk level (based on the average of rating agencies' assessments) and comparing the stimuli packages shows that the size of the packages decreases with the size of the risk (Figure 3). A more formal regression analysis for a sample of 127 countries is also revealing. The level of per capita income does play a role, but that effect vanishes when credit ratings are included in the regression (Table 1). This suggests that the capacity to borrow significantly affects decisions about economic support.

A closer look at the Eurasian Economic Union (EEU), of which Armenia is a member, vividly illustrates the general point. The EEU consists of oil and gas exporters (Kazakhstan and Russia) as well as oil importers (Armenia, Belarus and Kyrgyzstan). The 65% drop in oil prices since the COVID-19 outbreak added greatly to economic stress in oil-exporting countries. The IMF now expects the Russian economy, the largest in the union, to contract by 5.5% in 2020, compared to 1.9% growth forecast last October. Oil importers are expected to benefit somewhat from lower oil prices. But, as the 2015 oil price shock illustrated, the negative spillovers through trade and remittances from Russia will significantly outweigh the gains.

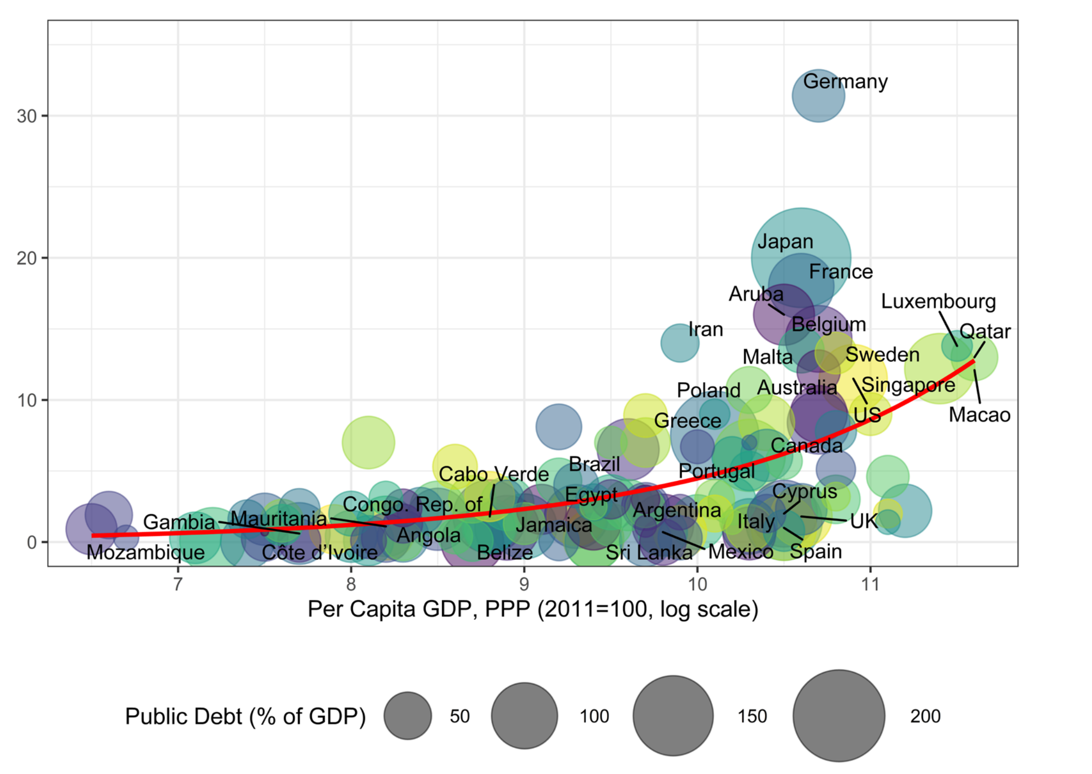
The drop in oil prices resulted in significant exchange rate depreciation – the US$ nominal exchange rate depreciated on average by about 10% in the EEU. Monetary policy had very limited ability to respond. Armenia reacted swiftly and was the only country able to cut the policy rate until 24 April; Kazakhstan initially raised the rates by 2.75 percentage points, but later reduced it again by 2.5 percentage points. Russia cut interest rates by 0.5 percentage points on 24 April. The average fiscal stimulus will amount to around 2.5% of GDP. The case of Georgia is similar in many respects.

The IMF was among the first to provide emergency financing. Kyrgyzstan, for example, secured US$120.8m through the IMF's Rapid Financing Instrument (US$80.6m) and Rapid Credit Facility (US$40.3m), amounting to 1.5% of GDP. Armenia reached a preliminary agreement to extend its existing US$240m standby arrangement by nearly US$180m (1.3% of GDP), of which US$280m will be available as soon as the IMF's executive board makes the decision. IMF support to Georgia increased ›

Figure 1: Government Response Stringency Index (higher values indicate stricter measures)

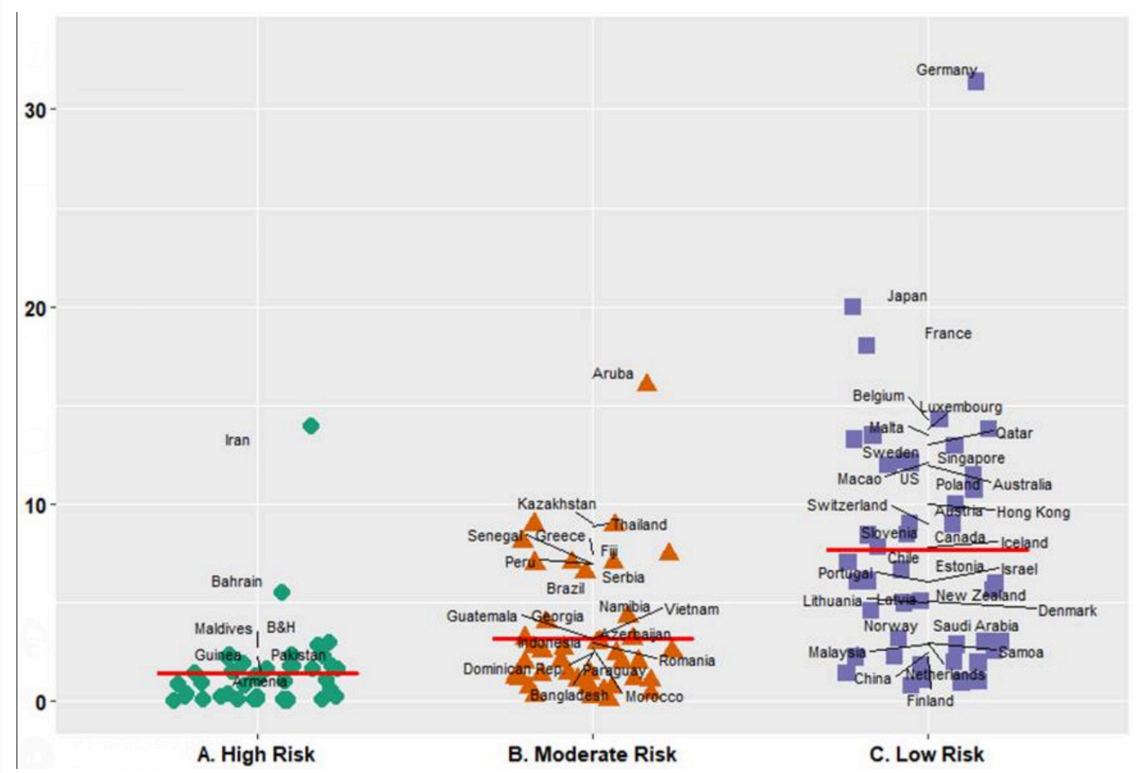
Source: The World Bank, University of Oxford Coronavirus Government Response Tracker and authors' calculations.
Note: The classification of countries by the level of development is based on 2018 PPP per capita GDP (2011=100) levels. Income groups correspond to respective quantiles.

Figure 2: Announced fiscal stimulus and income (% of GDP)



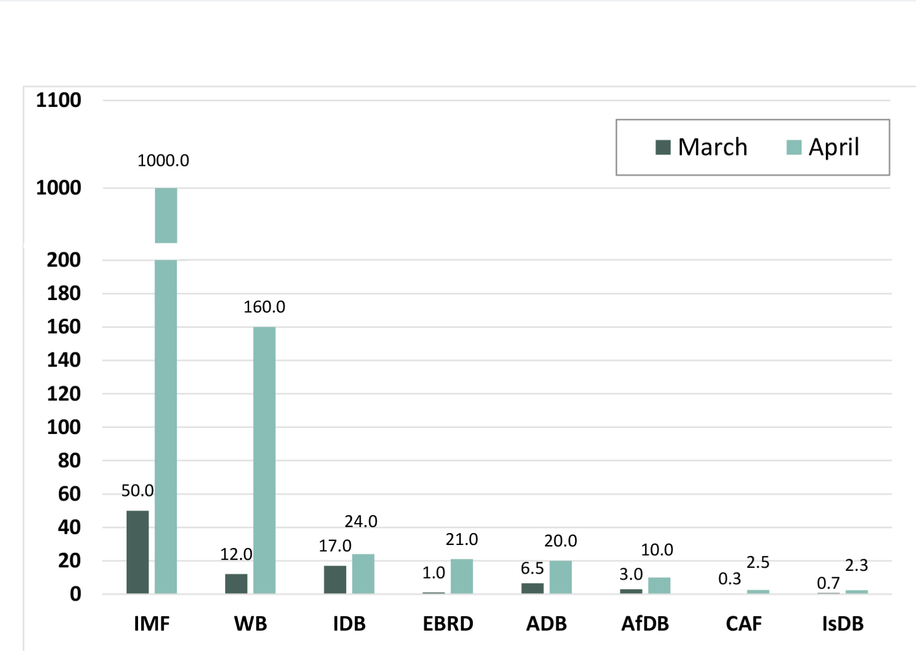
Sources: The World Bank, IMF Global Debt Database, IMF Coronavirus Government Response Tracker and authors' calculations

Figure 3: Announced fiscal stimulus and risk (% of GDP)



Source: IMF Coronavirus Government Response Tracker, Trade Economics (TE) and authors' calculations
Note: The methodology of TE was used to convert agency ratings into a numeric scale between 100 (riskless) and 0 (likely to default).

Figure 4: Available resources of international organisations (US$bn)



Sources: Announcements from international organisations and authors' calculations

› by about US$375m (2.4% of GDP) to help finance health and macroeconomic stabilisation measures. With the financing available to Georgia on completion of the review, total disbursements under the arrangement will amount to US$450m.

Tight international financial markets mean emerging markets are finding it difficult to support their economies. The procyclicality of financial markets is, of course, not news, but the nature of this shock and the associated uncertainty is extraordinary. The packages announced by the governments of developing countries are limited by these tight constraints, and are paltry in comparison to those in advanced economies. Of course, it is hard to blame developing countries for somewhat muted responses — the possibility of several waves of the pandemic means they may do well to keep their powder dry.

A significant increase in public debt across the board after the end of the pandemic is, however, inevitable. Advanced countries historically dealt with this problem by using a combination of generating fiscal surpluses, as well as financial repression — essentially inflating away debt by keeping interest rates low. This is yet another respect in which emerging markets differ. Inflating the debt away is hardly an option, as most public debt in emerging markets is external and denominated in foreign currency.

Emerging markets will try to strike a delicate balance between fiscal prudence and decisive moves to pull people and business out of chaos. Yet the social consequences of this shock are unprecedented, and insufficient efforts to address them may result in tectonic shifts in the social contract, which is the last thing governments need during a pandemic. Governments should act confidently, as the confidence effects of their actions during times of uncertainty are sizeable. To quote Zig Ziglar, "confidence is going after Moby Dick in a rowboat and taking the tartar sauce with you".

The IMF with its US$1trln firepower is by far the best institution suited to help developing countries and was the quickest to respond (Figure 4).

The international community must back up the IMF and increase its resources: international organisations like the IMF hold the key to ensuring that developing countries are able to withstand the shock. If not now, when?

The authors would like to thank Martin Galstyan, Vahagn Grigoryan and Nerses Yeritsyan for valuable discussions which helped to write this note. Piroska Nagy Mohacsi was instrumental in focusing and shaping the note. Ros Taylor's valuable edits significantly improved this post. ◆

This post represents the views of the authors and not those of the COVID-19 blog, nor LSE, nor the Central Bank of Armenia.

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Nine ideas to strengthen our global firepower against COVID-19

Erik Berglof
Professor, Director, Institute of Global Affairs, London School of Economics and Political Science

The two sides of the COVID-19 crisis – the medical emergency and the economic impact – are closely intertwined. Many emerging and developing economies feel the economic impact first. Falling commodity prices, drops in tourism revenues, reduced remittances from citizens abroad, and the rapid outflows of capital are ravaging their economies, even before the virus has taken hold. In turn, the economic devastation will undermine their capacity to respond to the virus and threaten social and political stability in the medium term.

The pandemic is exposing the global financial safety net and development finance architecture – of which the IMF and the World Bank are central elements – to the most serious shock since the two institutions emerged out of the ruins of two world wars and the Great Depression. The G20 finance ministers presented a Global Action Plan to fight the COVID-19 crisis ahead of the IMF/World Bank (virtual) Spring Meeting in April. The Plan is a good first step, but we need far, far more. We must urgently find new and innovative ways of putting global financial muscle, including the private sector, behind our multilateral institutions. This will require the same kind of bold leadership, innovative thinking and institution-building that marked their founding.

The initial responses from the IMF and the World Bank, and the regional development banks, have been powerful. But the demands on them will only increase as the crisis accelerates, especially in the emerging and developing world.

There have been many ideas for how to strengthen the development finance architecture and the global financial safety net.

There have been many ideas for how to strengthen the development finance architecture and the global financial safety net. Several of them were discussed in the final report from the G20 Eminent Persons Group on Global Financial Governance (EPG), presented in October 2018. Here I suggest three measures for each of the global financial safety net, development finance architecture, and the capacity of the core institutions to 'crowd in' private and institutional capital.

Three ideas on how to strengthen the IMF's firepower
The global financial safety net – with the IMF at the core, complemented by a patchy and incomplete system of regional arrangements mainly in Europe and Asia – is critical in providing liquidity and maintaining financial stability. Yet the IMF's current firepower is not enough to deal with the magnitude of this crisis.

1. Establish liquidity support lines: Create a liquidity facility to which pre-qualified countries in need could turn. Pre-qualification could avoid the stigma associated with applying for support. Such liquidity lines could be supplemented by IMF intermediating support lines, from systemic central banks to central banks, in well-run emerging economies with liquidity problems.

2. Issue Special Drawing Rights (SDRs): The current arrangements, which rely on the IMF's existing resources, do not meet the expected liquidity requirements and eventual solvency threats in many countries. The most direct way to provide additional capital to the IMF would be to issue additional Special Drawing Rights, which would both increase firepower and offer a valuable stimulus to the global economy.

3. Transfer unused Special Drawing Rights: Many countries, particularly advanced economies, do not borrow up to their quotas with the IMF. These unused quotas could be transferred to countries with greater needs, either through an arrangement within the IMF or an external vehicle. This could also be part of an issuance of new SDRs to ensure that new resources really go to the countries most in need.

Three ideas on how to enhance the lending capacity of MDBs
The multilateral development banks (MDBs) also need reinforcement. The World Bank has responded with a massive effort to help address both the medical and economic emergencies. It has strong expertise in cash transfer programmes and local community schemes in many countries, which can be used to reach the most vulnerable. As the economic impacts of lockdowns and supply disruptions make themselves felt, financing needs will increase dramatically. While many MDBs were recently recapitalised or have the short-term capacity to respond, the MDBs will run out of "headroom" on the current trajectory, impeding their ability to respond.

1. Establish a liquidity backstop for MDBs: Unlike commercial banks, most multilateral development banks lack automatic access to liquidity support from governments. Rating agencies would upgrade them if a group of central banks came together, possibly intermediated through the IMF, and provided a liquidity facility.

2. Introduce a new form of equity capital: A related proposal would be to provide the development banks with a new form of capital. Rather than paid-in capital or callable capital, it would be useful to have an intermediate form of capital that could be called upon when banks are exposed to a shock like this one.

3. Make a G20 "whatever-it-takes" statement: Even if these two ideas cannot be realised at the moment, the G20 could, with support from other key shareholders, make a "whatever-it-takes" statement, promising that additional capital would be forthcoming if the situation deteriorated further. This would inspire innovation and big ideas and reassure governments in the worst -hit emerging and developing economies that resources will be forthcoming.

Three ideas on how to leverage the private sector
Yet the governments behind both

the IMF and the development banks are also weakened by the crisis, and domestic needs will be gigantic. New ways must be found to 'crowd in' private and institutional capital. The EPG Report pointed to steps that could be taken.

1. Allow the IMF to borrow from the markets: The IMF could be allowed to borrow in the capital markets, potentially using currently unused SDRs as collateral, which could with appropriate safeguards significantly increase IMF firepower.

2. Pool balance sheets to increase MDBs' borrowing capacity: On the side of the development finance institutions, there should be scope for more pooling of balance sheets. There are limits to what can be achieved through such efforts, but this could prove very important for smaller institutions with concentrated portfolios. As a by-product, the participating institutions would be encouraged to standardise loan agreements and generally become more coherent as a system.

3. 'Crowd in' private and institutional capital on country platforms: A core EPG proposal is to establish country platforms where governments can coordinate their collaboration with international financial institutions, including bilateral donors and the entire UN system. These platforms, now being piloted, should be opened up to the private sector and be used to 'crowd in' private and institutional capital by using the international financial institutions to mitigate risk for investors. This would also ensure that agreed governance standards are enforced, and debt sustainability requirements respected.

When the EPG was first set up, some questioned why the group should deal with both development finance architecture and the global financial safety net in the same report. The COVID-19 crisis has proven how intimately linked they are. These nine ideas would bring together the global financial safety net, the development finance architecture and the private sector to create a powerful global response. ◆

This post represents the views of the author and not those of the COVID-19 blog, nor LSE. A longer version of this blog was published as an article by the World Economic Forum.

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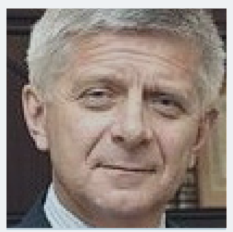
COVID-19 may strengthen Central-Eastern Europe – will it embrace the EU or nationalism?

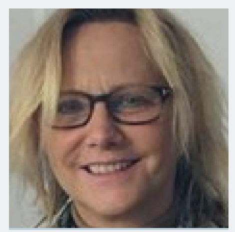
Marek Belka
Member of the European Parliament and Professor of Economics
Piroska Nagy-Mohácsi
Macroeconomist and Programme Director of the LSE Institute of Global Affairs

The COVID-19 pandemic may actually strengthen Central and Eastern Europe in relative economic terms, and Poland in particular, argue Marek Belka and Piroska Nagy-Mohacsi (LSE). Politicians in the region should not waste this opportunity by turning away from the EU.

Poland, and the region of Central-Eastern Europe (CEE) in general, has managed to contain the COVID-19 pandemic relatively well so far. Similar crises in the past generally tended to accelerate closing the gap between the West and East of Europe – between "us" and "them", as many still see the post-communist divide in the region. The COVID-19 pandemic may too actually help Poland and the surrounding CEE countries to boost their relative position in Europe, at least in economic terms.

Since the last great upheaval in the world's economic affairs over a decade ago, Poland has been a clear beneficiary of the changes that ensued after each subsequent crisis. The 2008 Global Financial Crisis brought about a stark recession in Europe's more advanced economies. Poland weathered the storm, earning for itself the glorious "green island" nickname. The immigration crisis of 2015-16 shook Mediterranean Europe politically and economically, but the spillover into the CEE region was only political – deplorable as it was – and not economic. To the contrary, notwithstanding the anti-immigration rhetoric of the Polish far-right government, in fact it has allowed for a massive inflow of seasonal (and not that seasonal) workers from Ukraine and other emerging economies in the face of emerging labour shortages in





Poland. Hungary too has welcomed guest workers while maintaining anti-migrant rhetoric. But migration-related social tensions in Poland are almost nonexistent, while the economic advantage is enormous. The demographic misery of the region (an unprecedently low birthrate compounded by labour emigration) has been, at least temporarily, attenuated. Overall, Central-Eastern Europe, though on the downside of the business cycle, was booming before COVID-19, and GDP growth in 2019 exceeded 4 per cent in Poland, Hungary and some other CEE countries.

The global pandemic hit Europe in March, but the CEE region so far seems to be weathering it better than much of Europe. The number of infections and deaths seems disproportionately lower than in many European countries. It is, however, too early to say why. Maybe it is the way deaths are reported, maybe it is the lower number of tests performed, or maybe the peoples of the region underwent obligatory immunisation in the communist past, which resulted in lower vulnerability to infectious diseases – although a recent CEPR paper by Bluhm and Pinkovskiy seriously questions this hypothesis. Perhaps it is because state institutions in those countries, including healthcare, are stronger than we thought. Other factors that may have played a role are the extra time for response as the virus was spreading from western Europe to the CEE, or lower population density relative to the rest of the EU.

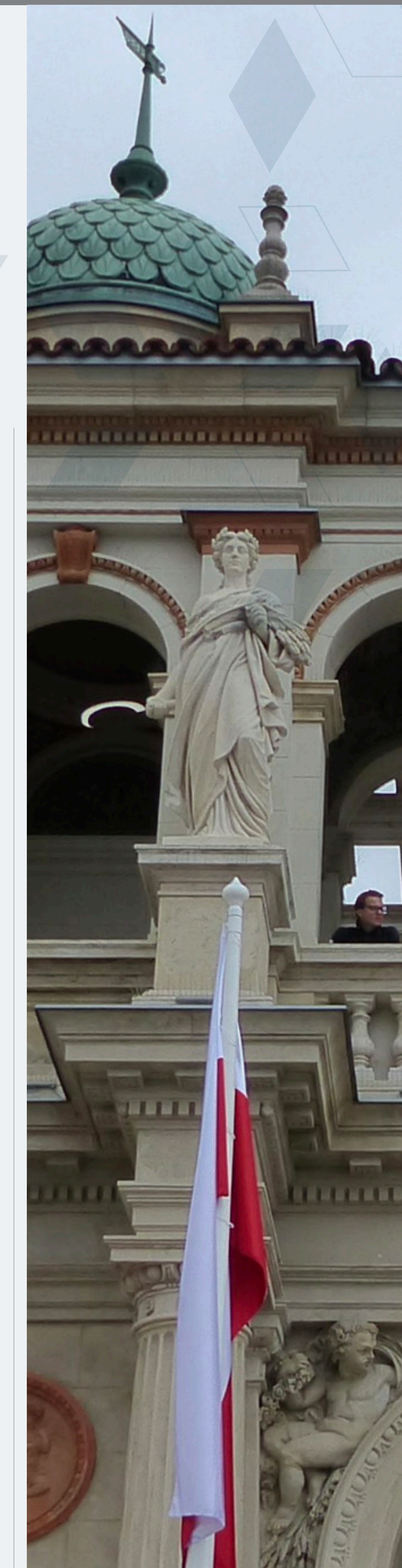
The policy response in Poland, and other CEE countries, has involved a quite strict lockdown around mid-March and introduction of discretionary fiscal measures both on the revenue side (easing/delays) and spending. Poland's overall stimulus package is very large and stands at about 15% of GDP according to the EBRD; other countries' packages are smaller but also sizeable, and the IMF warns such large outlays require vigilance over corruption risks. Central banks have reduced interest rates and, as the BIS points out, are introducing variants of quantitative easing, some similar to what advanced economies' central banks have been doing. Now the economies of the CEE are being reopened and normal life is gradually being restored. Politics do matter, however: in Poland, the fight against COVID-19 and its economic aftermath has been contaminated by the political scheming of the government, which had pushed for a presidential election amid the height of the pandemic. They expected to easily win it due to national mobilisation around the virus. In Hungary, the government introduced a state of emergency (a form of martial law) in March, which many observers consider a quasi-authoritarian power grab.

The immediate shock of COVID-19 will no doubt be harsh and even devastating, but several factors point to the potential for a relatively speedy and sustainable recovery. Firstly, the

Since the last great upheaval in the world's economic affairs over a decade ago, Poland has been a clear beneficiary of the changes that ensued after each subsequent crisis. The 2008 Global Financial Crisis brought about a stark recession in Europe's more advanced economies.

CEE region, with its decent public debt situation, is able to afford a powerful fiscal stimulus which lessens the fear of long-term destabilisation. Secondly, the ECB's strong monetary stimulus increases the monetary space the region's central banks can use without immediate risks to inflation and exchange rate volatility. Thirdly, close economic links to the EU's economy, Germany, can help when the expected onshoring of production from China takes place. Indeed, the CEE region may actually take over some of the manufacturing from Asian production centres in the future. Lastly, the recently announced EU recovery funds, including the Next Generation EU, are set to allocate large money transfers to leading CEE countries, such as Poland or Hungary, equivalent to around 10% of their GDP, even though they have been less affected by the pandemic so far.

At this point, most professional forecasts imply that a recession in the CEE region will be relatively shallow and the forthcoming recovery will be faster than elsewhere in Europe. If this is so, it would be a tragic waste of an opportunity for Poland, and the CEE region in general, to turn to more nationalism and deliberately marginalise themselves in the European Union, instead of taking a more prominent role in leading it. ◆



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Piroska Nagy-Mohácsi is a macroeconomist and Programme Director of the Institute of Global Affairs at the London School of Economics and Political Science, where she is responsible for various global policy initiatives on financial resilience, growth and migration. She was Policy Director of the European Bank for Reconstruction and Development (EBRD), overseeing strategic directions in Emerging Europe, Central Asia and North Africa as well as major policy initiatives.

LSE Institute of Global Affairs

What are the smart COVID-19 containment options for developing countries?

Adnan Q. Khan
Professor in Practice, School of Public Policy, LSE

What are the smart COVID-19 containment options for developing countries? Adnan Q. Khan (LSE) writes that the pandemic has pushed policymakers there into an environment of great uncertainty. Not surprisingly, many governments have been emulating the policies of other countries before them. However, while continuing with blanket enforcement of lockdown measures may temporarily stop the spread of the virus, it could quickly generate a new kind of crisis in the form of a rise in non-COVID diseases, deprivation, and hunger, especially in the developing world.

Following the herd is often perceived as less politically costly rather than announcing an independent response, though it may be seen as signalling competence and control. However, many governments have discovered that uniform policy responses are not delivering and, in fact, generate unintended consequences and resentment. Furthermore, they have realised that their hands are tied since they neither have the fiscal space, nor the state capacity to undertake grand, expensive plans that the developed countries have been able to undertake. This is all the more reason why developing countries should adopt policies that tailored to different local contexts, and that are effective yet feasible.

The pandemic has forced leaders to confront two untenable options – lockdown and risk livelihoods, or open up and spread the disease. With many already living on the edge of subsistence, and with a range of pre-existing health issues, the likelihood of adverse health consequences as a result of the response to the pandemic may

be comparable to the pandemic's morbidity itself. The trade-off for developing countries is not just lives vs the economy, but lives versus lives.

We argue the choice when it comes to containment does not have to be all or nothing. We propose a 'smart' containment approach for developing countries that is underpinned by active learning and a data-responsive graded response that tailors policy responses to different local contexts within countries with policy flexibility but it will have to be supported through the intense use of data in policy design and implementation.

Within a framework of active learning, even governments with limited capacity can develop localised smart containment policies. Once operationalised, these plans will help generate further evidence for policymakers to learn from, and lead to better contextualised and sustained policy responses. This is how we can escape the curse of a binary choice between lockdown and no lockdown.

A 'smart' containment strategy

First and foremost, a smart containment strategy should be underpinned by data. Most countries do have existing administrative data that can be drawn upon to help determine initial estimates of different health and risk profiles. This needs to be bolstered by regularly collecting data on health outcomes – both COVID prevalence, as well as health morbidity due to lockdowns – and socio-economic outcomes to provide a powerful evidence base to support decision-making in uncertain times.

Second, this data can be used to better understand prevalence and risk across different geographies, sectors or even age cohorts and thus employ targeted, graded approaches. This allows for flexibility and the ability to tailor the containment response to the needs of a locality. Furthermore, operationalising such an approach is far less economically costly as unaffected sections of the economy can continue working. And for those affected sectors, data should be used inform the lifting of lockdowns as soon as the risk profile has changed.

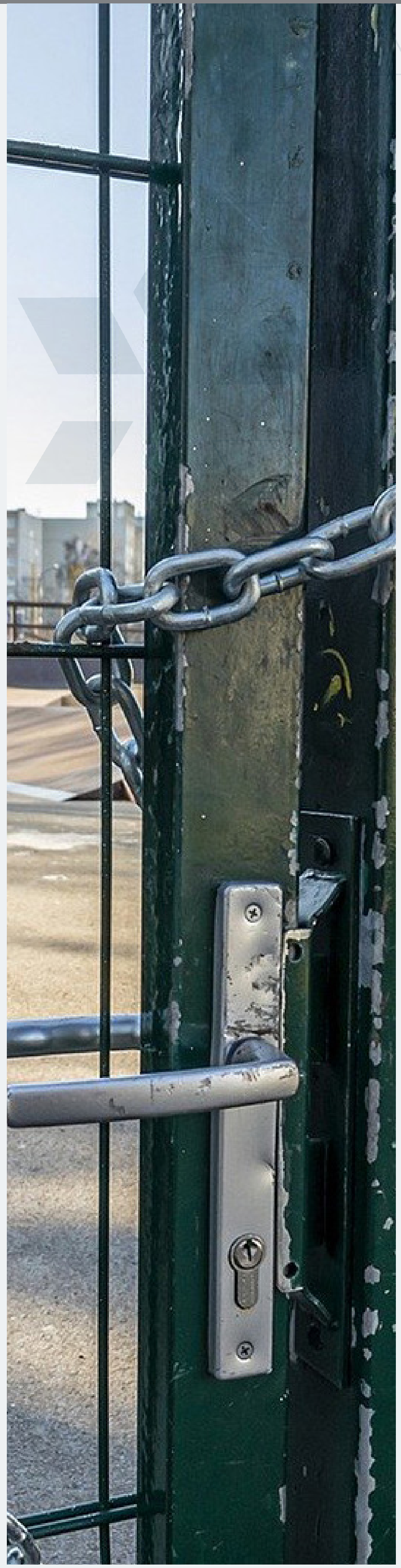
Finally, it is important to recognise that each policy response will generate new data and learnings. Responding to this evidence by continuously evaluating the need to impose and lift measures in specific places is core to a smart containment policy. This process of active learning, involving the adaptation of strategies, is key to ensure any containment measures mitigate the economic consequences whilst still prioritising health considerations.

To operationalise more graded and localised policies, clear, transparent, and regular communication will be

First and foremost, a smart containment strategy should be underpinned by data. Most countries do have existing administrative data that can be drawn upon to help determine initial estimates of different health and risk profiles.

needed to coordinate actions among different actors and to leverage the agency and self-efficacy of citizens. Effective community messaging and compassionate enforcement are critical to ensure voluntary compliance among citizens. As the positive outcomes are realised, this will further increase trust in authorities, popular understanding, and support.

Continued blanket enforcement of lockdown measures may temporarily stop the spread of the virus, but could quickly generate a new kind of crisis in the form of a rise in non-COVID diseases, deprivation, and hunger. A functioning economy, especially in highly vulnerable communities, is crucial to population health. As we move forward in the next few months, it is critical that containment options are tailored to local conditions. This is not easy but can be done by exercising adaptive leadership, by bringing expertise from different disciplines, by empowering local actors and communities, and by trusting citizens. If developing countries are to succeed, they should learn from others but importantly, chart their own way based on data and evidence.



To operationalise more graded and localised policies, clear, transparent, and regular communication will be needed to coordinate actions among different actors and to leverage the agency and self-efficacy of citizens.

This post represents the views of the author and not those of the COVID-19 blog or LSE. It is based on policy proposals described in more detail in the following documents – "Policymaking in uncertain times" and "Smart containment with active learning". ◆

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Widening Urban Divide COVID-19 and the Unequal Citizenship

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"COVID-19 lockdown means starvation," laments Lila, a street vendor in Manila, in the Philippines. Lira has previously weathered police harassment and countless evictions. But the COVID-19 crisis, she says, is a different catastrophe. In Dhaka in Bangladesh, domestic worker Shamima echoes Lila's concern: "We have to drink poison if we cannot go out for work. Who will save us from hunger?" These accounts reflect the sentiments of many informal workers in Asian megacities which have recorded high number of cases in their countries. As governments scramble for an effective approach to combat the pandemic, millions of urban poor like Lila and Shamima endure its impact with limited state assistance and unjust policy enforcement.

Inadequate state support

On 1 April, twenty-one residents of San Roque, an informal settlement of 30,000 people in the northern part of Metro Manila, were jailed for voicing discontent and seeking aid to fight hunger. While the national government has distributed PhP8,000 (US$157 per household) to the most impoverished families, around five million households have been excluded from the list of beneficiaries. In many areas, cash aid distribution has been marred by irregularities.

Dhaka's urban poor have not received enough state assistance either, despite the government's promise of over $11 billion stimulus package to provide soft bank loans and to assist people. The government's food assistance for 10.25 million

Dhaka's urban poor have not received enough state assistance either, despite the government's promise of a stimulus package of over $11bn to provide soft bank loans and to assist people.

people has also not benefited all poor residents. Many urban poor had to rely on the NGOs to fill this void. However, local NGOs have only provided financial aid to the most vulnerable groups.

In Delhi, migrants protested about the lack of money and food due to the abruptness of lockdown, and demanded transport to go back to their villages. Amid international criticism, the government announced relief measures for the poor and transport facilities for the migrants. However, experts have warned that the aid package for the poor is insufficient, as many undocumented urban poor people cannot access the funds. Similarly, travel arrangements have been fraught with inconsistencies. Opportunist agents have sprung up swindling the migrants for a ticket back home.

These incidents exposed the dire condition of daily-wage earners, who have been forced to stop working due to tough movement restrictions. The limited state assistance has compelled some urban poor to set up community kitchens, spend their own savings and rely on aid from civic groups to arrest hunger.

Urban exodus

With fears that COVID-19 would spread rapidly in poor, dense urban settlements, Philippine President Rodrigo Duterte issued an Executive Order reviving the 'Balik Probinsya' (Return to the Provinces) programme. This policy was intended to de-congest Metro Manila and drive balanced and inclusive urban and rural development. However, critics claim this rehashed scheme to dump the urban poor in the provinces is unlikely to succeed without significant development and job opportunities in rural areas.

In Bangladesh, the government's declaration of a 10-day holiday beginning on 26 March impelled many urban poor, including garment workers, to rush to their rural homes two days earlier. The government later banned travel on water, rail, and air routes and suspended road transportation. This situation forced many garment workers to walk hundreds of miles to return to Dhaka to save their jobs.

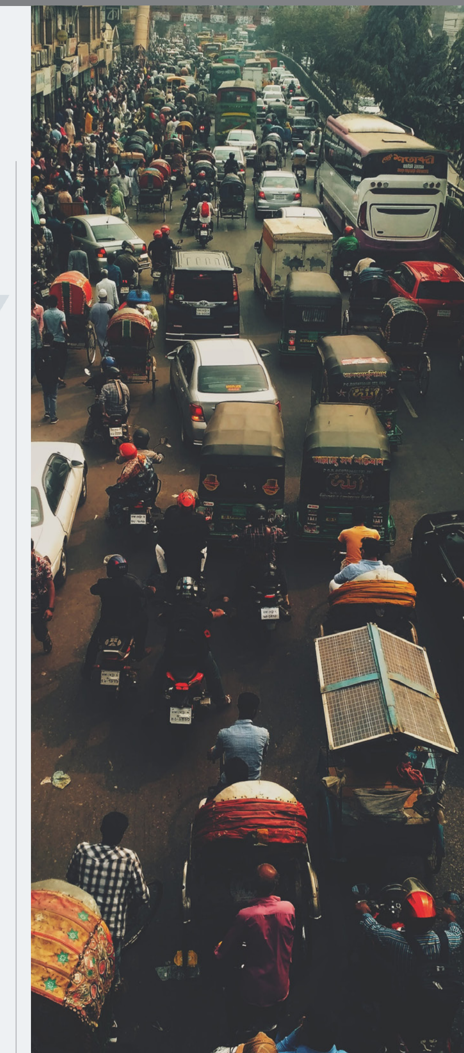
In India, the national lockdown left many urban poor at the mercy of their employers, most of whom had abandoned them. Exposed to hunger, thousands of migrants walked for miles, while some rode on bicycles for days to return to their rural hometowns. As one migrant, Jai, put it, "for the poor, the choice is between dying of hunger or exposure to coronavirus". As reports of the migrant exodus began circulating in the media, the government urged them to stay put and promised food and shelter, fearing they would spread the virus. But the assurance came very late; many migrants who stayed put had to beg for survival.

Unjust enforcement of lockdown rules

The limited state assistance and forced urban exodus have been exacerbated by an inequitable and violent response to the crisis. In the Philippines, over 100,000 people have been arrested for violating curfew and quarantine restrictions since the lockdown was enforced. The United Nations has described the country's approach as highly militarised, with reported human rights abuses. Some local officials locked quarantine violators in dog cages and coffins. This heavy-handed approach is in stark contrast to how the government has handled violations committed by some state officials.

In Bangladesh, the urban poor faced discrimination when the Dhaka Metropolitan Police allowed hotels and restaurants in the capital to sell iftar (a meal taken by Muslims at sundown to break the daily Ramadan fast) items on 27 April. However, they did not allow small eateries to set up stalls on the footpaths. This means the informal food traders are not allowed to operate any business in public spaces.

Returning migrants in India were exposed to inhumane quarantine practices, both on their way home and once they reached their villages. Images of workers being sprayed with disinfectant have emerged from different parts of India. In some



villages, they were forced to quarantine on trees and in fields, far from the residential clusters. The bias against the poor was evident since the middle class and rich returning by air were not subjected to this kind of discrimination, even though the virus had reached India by air passengers.

Unequal experiences of (urban) citizenship

These accounts reveal a fundamental issue in many Global South cities – the uneven experiences of urban citizenship. Inadequate state support, leading to a 'voluntary' exodus, and the 'return to the provinces' approach reveals how governments consider the urban poor as a burden, with little recognition of their contribution to the urban economy. The 'stay-put' strategy without offering provisions or giving any assurances shows how migrants are treated as dispensable.

Double standards prevail in the administration of justice in unequal cities. The poor and vulnerable are criminalised and punished, while those in power are treated with compassion. In India and Bangladesh, the sudden imposition of lockdown without warning or adequate assistance exposes how the poor are invisible to the state gaze.

It is important to end by emphasising how solidarity-based initiatives – e.g. community kitchens and NGO assistance - create spaces of urban belonging and enable the poor to cope with the onslaught of COVID-19. Yet they also reveal the enduring struggle of impoverished urban residents to realise the substantive meanings and practices of being a 'citizen' in the city. COVID-19 reminds us how informal employment and deep-rooted inequality in these megacities mean the vulnerabilities and opportunities to recover from the pandemic are unevenly distributed. ◆

All names of the interviewees in this article are pseudonyms we used to protect their identity.

We thank Ravish Alam, Parul Sharma and other participants for their inputs.

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What are the challenges faced by urban transport of the densely populated metropoles of the Global South in the face of COVID-19?

John T. Sidel
Sir Patrick Gillam Professor of International and Comparative Politics
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How can urban transportation systems in the densely populated metropoles of the Global South be reorganized to meet the challenges of COVID-19? Across the Global South, transport systems were already under considerable strain before the global pandemic. With public investment in transport infrastructure lagging behind demographic and economic growth, millions of urban and suburban residents and workers have been shouldering higher and higher costs – in money, time, and health – for their daily commutes with every passing year. With a privileged minority clogging the roads in their air-conditioned cars, the majority of commuters in such cities have been paying heavily for 'motorization' and for the cartel-like arrangements and petty corruption prevailing in public transport.

By early 2020, everyday life in cities across the Global South involved long queues at stations and terminals, overcrowded trains and buses, and interminable traffic jams. Against this backdrop, the dangers of persistent transport gridlock necessitated the harsh forms of lockdown or quarantine imposed across many countries of the Global South in response to the COVID-19 pandemic. Thus the question arises: if months ahead see relaxation of restrictions on movement in country after country, how can transport systems in the Global South be reorganized to prevent them from serving as transmission belts for a second wave of COVID-19 infections?

The case of Metro Manila, the national capital region of the Philippines, is instructive. As of early 2020, intensifying congestion had landed Metro Manila second-worst ranking in a global survey of traffic

> **Against this backdrop, by early 2020, a network of transport reform advocates had emerged.**

conditions and generated estimates of costs to the Philippine economy at PHP3.5 billion (US$67 million) per day. With automobile and motorcycle sales putting hundreds of thousands of new private vehicles on the roads every year, and sustained demographic and economic growth leading to intensified urban and suburban sprawl, so-called 'carmageddon' was inevitable.

Meanwhile, Metro Manila's extremely limited over-ground rail transit system has grown at a snail's pace and suffered from recurring service interruptions. Thus commuters have remained reliant on overworked, underpaid bus and jeepney drivers competing kerbside for passengers – to pay the 'boundary' (daily rent) to risk-averse vehicle-owners – and roadside for space amidst an ever thicker flood of cars and motorcycles, thus leading to traffic gridlock.

Against this backdrop, by early 2020, a network of transport reform advocates had emerged, attracting a growing audience of supporters via social media. Established transport gurus were joined by a younger generation of urban planners and transportation specialists in new transport reform advocacy groups. These groups engaged in reform advocacy, ranging from lobbying in Congress and the Department of Transportation (DOTr) to media interviews, social media postings, petitions, surveys, and videos. These transport reform advocates developed a clear blueprint for reorganization of Metro Manila's transportation system to promote mobility of people – rather than vehicles – by shifting traffic from private automobiles into a more organized, efficient, equitable, and eco-friendly public transport system.

Since the onset of the COVID-19 pandemic, these transport reform advocates have produced an equally coherent blueprint for the reorganization of Metro Manila's transportation system in the context of the crisis. Through the newly formed #MoveAsOne Coalition, this blueprint has been presented to DOTr officials, key legislators and other policymakers, and the public. Some Coalition recommendations are self-evidently sensible and straightforward, involving regulations to ensure social distancing and maintenance of hygiene on public transport. But the Coalition also recommends a more systemic overhaul, to control the supply of public transport and constraining kerbside competition for passengers, counter economic pressures on drivers to overload vehicles, and eliminate the risks of virus transmission accompanying cash payment of fares.

Thus:

- A shift of all road-based public transport to government-contracted vehicles operating as a public service, both on trunk routes contracted by DOTr and feeder routes contracted by local governments;
- Free bus and jeepney rides until a cashless fare collection system is established;
- A network of 'safe streets' closed to vehicular traffic, improved and widened sidewalks, and protected bicycle lanes.

The Coalition's advocacy work produced some results, such as a 'service contract' system for buses on major routes, even as jeepneys remain banned from the roads. New DOTr guidelines have established bicycle lanes across key areas of Metro Manila. But much more remains to be done to meet the huge demand for public transport, as seen in long queues on major thoroughfares. The onset of the rainy season also inhibits bicycle and pedestrian traffic in the absence of covered bicycle lanes and walkways. Middle-class passengers commuting in private automobiles will remain far less affected than workers relying on the very limited forms of public transport allowed on the roads for their daily commutes, which are even more difficult and dangerous than ever.

Unfortunately, multiple political obstacles impede full implementation of the Coalition's recommendations, at least the more ambitious – and costly – measures requiring public investment in Metro Manila's transportation system. Commentators often allude to the limited receptivity of DOTr Secretary Arthur Tugade. But the underlying impediments to reorganization of Metro Manila's public transportation system are structural and systemic.

On the one hand, the institutional bases for government oversight of, and investment in, Metro Manila's transportation system are woefully inadequate. DOTr has very limited plantilla, institutional memory and capacity, relying heavily on contractors and consultants. DOTr, moreover, shares authority over Metro Manila's

transportation system with other agencies, whose heads enjoy formal prerogatives and political linkages which undermine effective oversight by the DOTr Secretary. Metro Manila's seventeen cities and the Metro Manila Development Authority (MMDA) also engage in traffic enforcement and transport regulation overlapping and conflicting with the powers of DOTr and other agencies.

On the other hand, a cluster of diversified conglomerates have vested interests in the automobile sales (and private toll roads) flooding Metro Manila's thoroughfares with private cars, and they control the slow, selective expansion of the limited rail system in line with their real-estate and retail interests. A cartel of bus companies protects its lucrative franchises and the 'boundary' system that leaves financial – and now physical – risks with bus drivers and ticket collectors, while ensuring a steady daily 'rent' for their fleets. These private interests are heavily invested in the status quo, politically powerful, and ill-disposed towards holistic transport reform. Overall, the challenges of reorganizing transportation systems in densely populated cities of the Global South like Metro Manila are not only technical but also political. The problems of intensifying traffic congestion in the years preceding the global COVID-19 pandemic reflected government policies systematically favouring private automobiles and a privileged set of interests organized around automobile production, sale, and ownership over the greater good represented by public transportation via integrated bus and rail systems and various forms of non-vehicular micro-mobility. The overcrowding of buses and other public utility vehicles has reflected these conditions as well as the microeconomic incentives imposed by cartelization and corruption on overworked and underpaid drivers.

These underlying pre-conditions now threaten the transmission of a second wave of COVID-19 among millions of commuters in transportation systems dangerously clogged up by the privileged – and protected – few 'social distancing' on the roads in their private automobiles. Thus transport reform advocates in cities across the Global South merit strong support from local policymakers, overseas development agencies, and international financial institutions as they promote innovative solutions to the COVID-19 crisis and more longstanding and deeply rooted problems with transportation systems across the world. ◆

This post represents the views of the author and not those of the COVID-19 blog or LSE.

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The case for a COVID-19 carbon tax

John van Reenen

Ronald Coase School Professor, London School of Economics and the Gordon Billard Professor Massachusetts Institute for Technology

Ralf Martin

Associate Professor of Economics at Imperial College Business School and the Director of the Growth Research Programme at the Centre for Economic Performance of the London School of Economics

Ralf Martin and John Van Reenen (LSE) explain how a carbon tax could both help pay for the enormous costs of the pandemic and encourage 'clean' investment. Crucially, it should be levied in a few years' time, when the UK economy has begun to recover.

Life on earth has changed fundamentally over the last three months. While in the short run the immediate response to the COVID-19 crisis is paramount, many have started to ask about the impact of the pandemic on the looming climate emergency.

Optimists hoped that the shock of the pandemic coupled with the experience of lockdown translates into a new momentum for the transition to a clean economy. Attitudes towards scientific advice might have changed, new – less pollution intensive – ways of working remotely might have been learned. Governments might embark on stimulus spending with a strong emphasis on investments in clean infrastructure and innovation.

However, our big concern is that, despite good intentions, governments and business will be severely constrained in their spending once the immediate crisis is over, due to the extraordinary financial burden of the lockdown. Hence, far from an increase, this could lead to reductions in investments needed for the transition to a clean net zero carbon economy. In this situation, a moderate carbon tax (of say £50/Đ56 per tonne of CO2, as proposed by the Grantham Institute) announced now, but imposed only at some point well into the recovery period (say around 2025)

could solve several problems simultaneously.

First, it would help governments to bolster the public finances. For example, the UK government put together a package of around £400 billion to help the COVID-19-stricken economy. If the UK reaches its net zero carbon goal by 2050 the total remaining revenue from a £50 carbon tax starting in 2025 would amount to something on the order of £150 billion, recovering a large chunk of the government's COVID-19 spending.

Secondly, it will send the right signals to businesses and households to invest in reducing carbon emissions. It will also safeguard against the potential threat to 'clean' investments due the low cost of fossil fuels in response to the COVID-19 fallout (i.e. negative oil prices). At same time, it will not have cash flow implications for businesses struggling with the fallout from the crisis, as no actual tax will be levied immediately.

Thirdly, it will help promote growth. In our research, we have identified that carbon and fuel price increases spur clean innovation and deter dirty innovation with a net positive impact. Furthermore, we have evidence that clean innovation also raises productivity elsewhere in the economy. Moreover, some of the revenues raised by the tax can be used to subsidise green technologies. Since innovation is the key driver of sustained economic growth, a carbon tax is therefore likely to lead to more economic growth, which is exactly what is needed to recover post-lockdown.

Fourthly, while the efficiency-improving elements of a carbon tax or other forms of carbon pricing have long been stressed by economists, political opposition has hampered their widespread adoption. However, if done carefully, the post pandemic economic and political landscape might prove an opportune environment for carbon pricing. People realise that the crisis spending must be recouped in the long run, so some revenue raising will be inevitable. In this case, why not do it in a way that helps tackle the climate crisis?

Success will in part depend on how fairly the carbon tax is implemented as well as how it is communicated. For fairness, we must address the distributional impact of carbon pricing to avoid the poor being hit harder than the rich. This can be accomplished by paying back some of the revenue in the form of an allowance to lower-income households. This provides also an opportunity for making a carbon tax popular – as the recent experience of British Columbia seems to indicate.

Our efforts must also be sensitive to existing carbon-pricing schemes. Even though in terms of impact on the climate it does not matter how a given unit of a greenhouse gas is emitted, existing regulations treat different emitters (and even different emissions from the same emitter) vastly differently. This makes carbon regulation inefficient and therefore

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more expensive than it needs to be. A COVID-19-related general increase in carbon pricing could be used to rectify some of these differences.

To successfully implement this policy in the future will need a cross-party consensus. This is feasible in the UK as the Conservatives have recently committed to the net zero carbon target by 2050 and Labour has been championing climate change action over recent decades.

Is paying down the government's COVID-19 debt the best use for the carbon tax revenue? We think so, as this could be part of a new "Marshall Plan for Growth" after the pandemic, one that is tilted towards the green transition. By providing an additional form of tax revenue, this opens fiscal space for governments to rise to the challenge of rebuilding our shattered economy. ◆

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Success will in part depend on how fairly the carbon tax is implemented as well as how it is communicated. For fairness, we must address the distributional impact of carbon pricing to avoid the poor being hit harder than the rich.

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