

# **Covid-19 as a wake-up call: Three considerations going forward**

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*As a part of the Chief Economist Talks series, the OECD hosted [Philippe Aghion, Collège de France](#) on May 11, 2020. This blog presents the takeaways from his presentation. More information regarding the OECD's Chief Economist Talks, including previous speakers, can be found [here](#).*

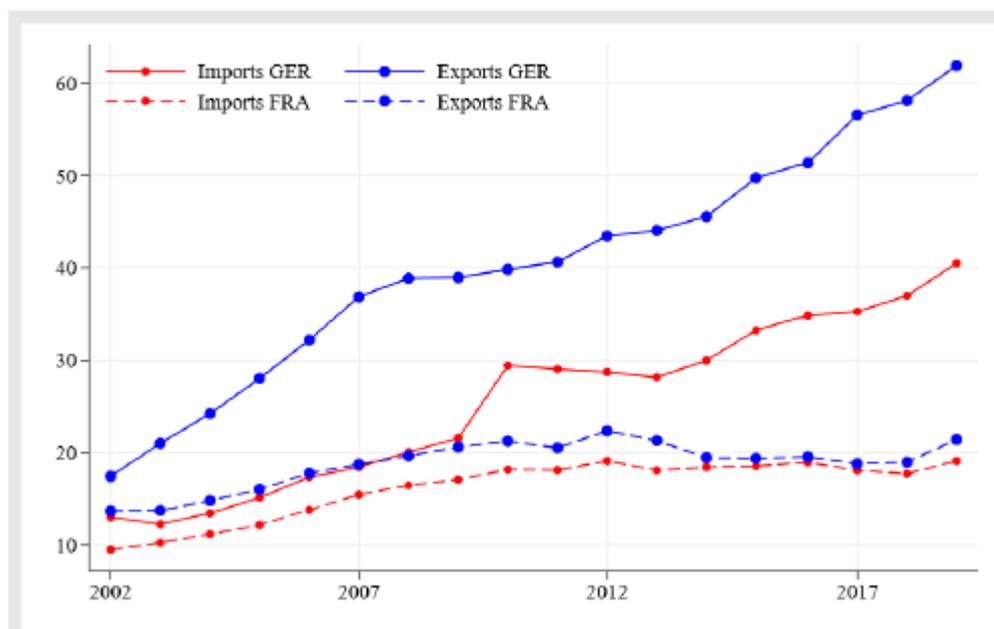
COVID-19 has prompted many difficult questions, chief among which is how we should re-envision the world after the crisis. This pandemic has revealed the shortcomings of our current social, economic and political systems, and addressing these will be central to rebuilding the post-coronavirus society. Notably, there are three, albeit non-exhaustive, areas that merit reflection: trade and value chains, social and health insurance, and civil society and trust.

## **Trade and value chains**

Although COVID-19 has incited criticisms against the international trading and production systems, there is evidence that trade has actually helped mitigate the crisis and may even help countries exit and recover quicker. For example, preliminary estimates suggest that, on average, countries that are net exporters have lower daily cumulative

deaths. The cases of France and Germany are also revealing, as the differences in medical capacity between the two countries mirror their divergence in trade. Whereas Germany entered the crisis with high medical capacity (e.g. 25 000 hospital beds with respirators) and was able to test on a large scale (e.g. 500 000 tests per week), France had much smaller capacity (e.g. 5 000 hospital beds with respirators) and was unable to perform mass testing until recently. This was driven not by any form of protectionism in Germany, but rather a consistent growth in its trade of vital medical supplies, amounting to a trade surplus today of over EUR 20 billion. Meanwhile, French imports and exports of these goods have grown minimally since 2002 (see Figure 1).

**Figure 1.** Trade in pharmaceuticals over time (France vs. Germany)



However, there is some scope for domestic production in strategic sectors to improve resilience to acute shocks. Again, the differences in the value chains of French and German firms for medical supplies are telling. Since 2000, domestic production of pharmaceuticals in France has stagnated while that in Germany has increased substantially.

Simultaneously, German asset holdings abroad (both in terms of number of foreign affiliates and direct investment assets abroad) in the pharmaceutical sector have remained flat over time while those of French firms have grown markedly. Given France's lower medical capacity at the onset of the pandemic, this raises the question of whether French firms outsourced excessively, and whether policies are needed to maintain domestic reserves in strategic sectors. This does not, however, suggest that massive re-shoring of production is needed, but rather that policies concerning the storage of vital goods and investment in domestic industries could be warranted. These include policies to boost investment in automation/robotisation, which generate cost savings for firms and provide incentives to re-shore some production (Kilic & Marin, 2020).

## **Social and health insurance**

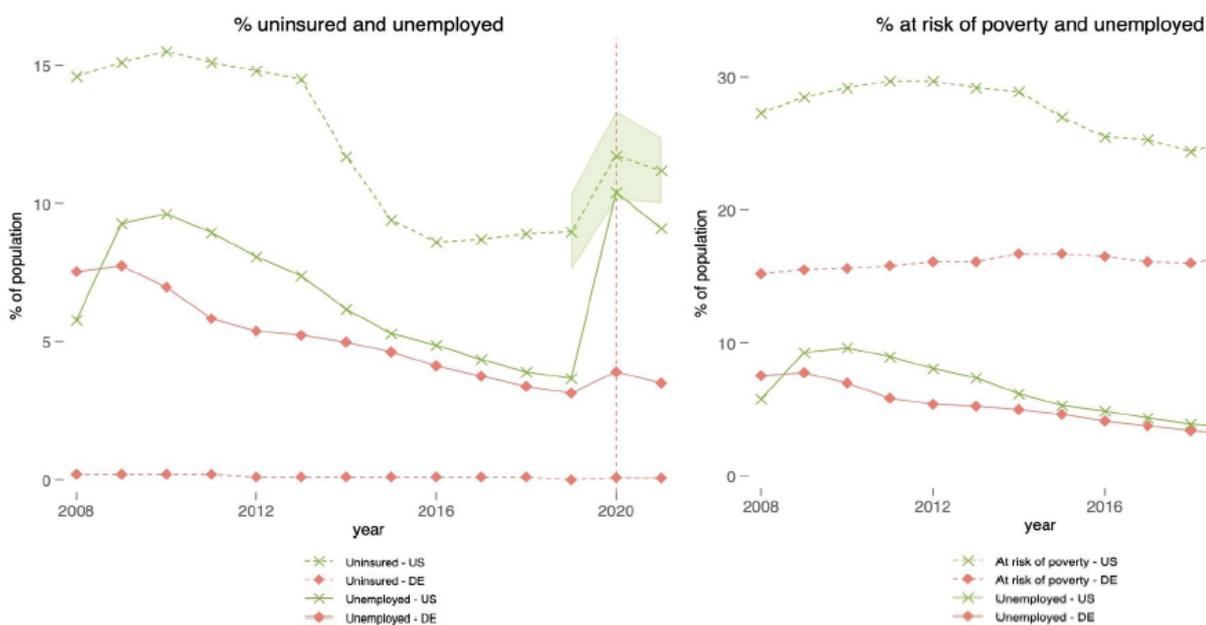
COVID-19 has also elucidated the importance of social safety nets to protect against unexpected shocks and their adverse impacts on employment, health, and poverty. Social protection mechanisms tend to vary by country. A clear dichotomy is apparent between the United States and Germany, even prior to the crisis, as the former is much less protective than the latter. This is reflected in outcome indicators such as the Gini index for inequality (0.39 in the U.S. vs. 0.289 in Germany) and the poverty rate (0.178 in the U.S. vs. 0.104 in Germany).[\[1\]](#)

These differences in social protection systems have been made abundantly clear by the crisis. Forecasts show that the unemployment rate in the United States is set to jump sharply in 2020, compared to a much smaller increase in Germany (Figure 2). Furthermore, empirical estimates extrapolating

from past relationships between unemployment and poverty risk and healthcare coverage indicate a substantial increase in 2020 in the share of uninsured population in the United States, owing to the bundling of health insurance with employment, as well as in the percentage of population at risk of poverty. In Germany, no such increase is evident. These differences hold even when comparing the United States with other European countries, such as France, Italy, Spain, and the U.K.

What this data reveals is that the American system has less social protection relative to Europe. This lack of protection increases the vulnerability of its citizens, especially in times of crises. There is, thus, a need to reform the American social insurance system to incorporate more safeguards. Doing so is not only key for social wellbeing, but also can foster the innovation that is often considered the hallmark of American capitalism, for example by boosting education and quality of work.

Figure 2. Relationship between unemployment, poverty risk, and healthcare coverage (U.S. vs. Germany)



## Trust and civil society

COVID-19 has revealed the extent to which society rests on a bedrock of trust and social norms, for which civil society is indispensable. Practices used to limit the spread of the virus include many voluntary actions that are dependant on mutual trust and respect. Countries that were most successful in limiting the spread of the virus, such as Germany and South Korea, have civil society systems that played an important role in instilling self-discipline and civic spirit needed for the implementation of measures like large-scale social distancing. While market incentives and government actions are important elements of addressing the pandemic, they alone cannot prevail without a fundament role for civil society and the values of community, fairness, and reciprocity that it promotes (Bowles & Carlin, 2020).

The importance of civil society should be well-reflected in how we address future problems and make policy decisions. Existing research already shows that too much government coercion engenders distrust. For example, on average, countries with higher levels of regulation for firm entry, rigidity of employment, and court formalism show higher levels of distrust (Aghion, Algan, Cahuc, & Shleifer, 2009). This suggests an important role for social dialogue in decision-making. Moreover, decentralised decision-making and effective coordination between local and central governments may also help promote civil society and trust, especially as trust tends to be higher at lower levels of government.

As countries begin to emerge from stringent containment measures and chart a path to recovery, it is important to address some of the underlying lessons that COVID-19 has highlighted. First, turning inward towards protectionism is

not the answer; on the contrary, this may have worsened the crisis and slowed the recovery. However, domestic reserves in strategic sectors may be justified. Second, social safety nets are indispensable in protecting and safeguarding against downturns and hence, should be bolstered. Finally, while governments and markets are important elements of society, civil society should not be overlooked, as strong civil society systems are needed to foster cohesion and trust, which can help navigate shocks like this pandemic.

## **Bibliography**

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[\[1\]](#) Data for 2017.