

Short Papers

Economic Consequences of the COVID-19 Pandemic and the Economic Ability of a Government as a Factor of Production

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Abstract

The article examines the impact of the COVID-19 pandemic on the economy. The features of the economic crisis caused by the pandemic have been studied. The features of how this crisis differs from the economic crisis caused by the Spanish flu are presented. The main function of the economic ability of a government, as a factor of production, during the current pandemic economic crisis is analyzed.

Keywords

COVID-19 pandemic, economic crisis, factors of production, economic ability of the government

The COVID-19 pandemic caused an economic crisis that almost swept the whole world (e.g., Baldwin, di Mauro, eds., 2020). It should be noted that this crisis is not the result of errors accumulated in the economy. It was caused precisely by a pandemic, when the most effective means of preventing the rapid spread of the coronavirus was to prevent direct communication between people, which caused the lockdown of many sectors of the economy. It is also necessary to take into account that the end of this economic crisis depends entirely on the termination of the COVID-19 pandemic as a result of which the economy is presently a hostage of medicine (Papava, 2020a). Given this circumstance, it can be concluded that the economic crisis caused by the COVID-19 pandemic is atypical (Papava, 2020b). It follows from this that the current economic crisis will not end until medicine overcomes the coronavirus.

There are other atypical economic crises known in history which were caused by various pandemics (Roach, 2020). The one most widely discussed is the economic crisis caused by the Spanish flu

pandemic (Bishop, 2020; De Santis, Van der Veken, 2020; Maas, 2020; Ullman, 2020). There are obvious similarities between the economic crises caused by the Spanish flu pandemics and COVID-19. In particular, both are characterized by the wavy nature of the pandemic which is widespread in many countries of the world and has almost the same impact on the economy.

At the same time, there are significant differences in economic crises caused by these two pandemics (Scheidel, 2020):

- 1) The Spanish flu pandemic began against the background of the end of the First World War; i.e., when the world economy was already in a crisis caused by this war. At the same time, the COVID-19 pandemic was not preceded by a war or an economic crisis.
- 2) With the Spanish flu pandemic, the world was not as globalized as it was with the COVID-19 pandemic. In the 1920s, passenger air transportation was just starting whereas in the twenty-first century almost the whole world is covered by various airlines. Another feature of the globalized world is the presence of international supply chains and value chains which have been severely affected by the COVID-19 pandemic.

Thus, the economic crisis caused by the COVID-19 pandemic is unique (Ajili, 2020).

The role of the government in controlling the COVID-19 pandemic and the economic crisis is essential (Rodrik, 2020). This is quite natural since overcoming the epidemic, implementing anti-crisis measures and initiating post-crisis economic development without the active role of the government is fundamentally impossible (Stiglitz, 2020). The disdain for the economic role of the government and the overestimation of the role of the private sector complicate the situation in crisis management (Mazzucato, 2021).

From a theoretical point of view, it is of interest to consider the role of the economic ability of the government as a factor of production (Papava, 1993; Griffiths & Wall (Eds.), 1997, p. 358) in controlling the spread of the coronavirus and implementing anti-crisis economic measures.

There is a widespread perception that the functioning of a government is not part of a market economy. It is believed that the government complements the market to address problems for which the market is considered powerless. From the point of view of the modern theory of the factors of production, the economic ability of the government is the fifth factor of production along with land, labor, capital and entrepreneurial ability; if the factor income of the land is rent, labor—wages, capital—interest, entrepreneurial ability—profit, then such income on the economic ability of the government is indirect tax on business. For the sake of clarity, we emphasize that direct taxes are deducted from the corresponding factor incomes while indirect taxes on business are directly the factor income on the economic ability of the government (Papava, 2017).

The economic ability of the government as a factor of production is not identical with the concept of government. The government also has other functions (international relations, defense, etc.) that are not directly related to the economy.

If the entrepreneurial ability decides how to combine land, labor and capital in the production process,

then the economic ability of the government organizes the functioning of various entrepreneurial abilities within the framework of the national economy.

In the context of the coronavirus pandemic, the main goal of the economic ability of the government is to preserve the health and life of people or, in the language of factors of production, to support the health of the “carriers” of such factors of production as labor and entrepreneurial ability. Without an active government role, public health care will not be accessible to a wide range of people in need (Stiglitz, Jayadev, & Prabhala, 2020).

For the economic ability of the government, the functions of social support for the needy population, as well as financial support for businesses which are in lockdown mode due to the pandemic, are especially important.

Given the fact that the end of the crisis caused by the COVID-19 pandemic by economic methods is impossible, the development and implementation of anti-crisis measures that can save most of the business are of great importance for the economic ability of the government. In other words, the economic ability of the government must support entrepreneurial ability which is temporarily locked down due to the pandemic.

After the end of the COVID-19 pandemic and the corresponding economic crisis, the development and implementation of post-crisis measures for rapid economic recovery will become a priority for the economic ability of the government. In this context, it is of great importance how the economic ability of the government can cope with the new challenges of the post-crisis situation, especially for economic development which will prove to be more resistant to a possible repetition of the pandemic in the future. And such a danger is not at all excluded. In other words, humanity needs to learn to live and act in a pandemic (Gigerenzer, 2020). It is also very important to comprehend in a timely manner the main challenges of the post-pandemic period which humanity will face (e.g., Zakaria, 2020).

The efficiency of the economic ability of the government of a country largely depends on the level of its economic development. Economically underdeveloped countries need financial and technical assistance from international financial institutions and the world community. It is clear that in the post-pandemic period, the global economic recovery will be uneven (Rogoff, 2021).

There is already a fairly extensive experience of the operation of the economic ability of the government in many countries of the world under the COVID-19 pandemic (IMF, 2021) whose analysis and generalization is of paramount importance for the future.

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