

Module 4 Video Class 4 - Interview with Luis Felipe Lopez-Calva.mp4

Hello. Welcome back to another of our video segments, one of the last of our course, Journalism In A Pandemic: Covering COVID-19 Now And In The Future. Now we're talking about the world from here. And one of the most important questions in that is what do the social and economic impacts of COVID-19 look from this point on. To explore that, we're going to speak right now to Luis Felipe Lopez-Calva. He is the regional director of the United Nations Development Program and an assistant United Nations secretary-general. Director Lopez-Calva, thank you so much for joining this course.

Thank you for the invitation.

So the first thing I'd like to ask is just can you tell us what are the main socio-economic impacts of COVID-19 that have been perceived or recorded to this point?

OK. I think it is different across regions. So the first thing I'd say is that, as you know, the control of the pandemic—because of the uncertainty, because of the magnitude, and where the main hotspots are in terms of contagion—leads to a complete lockdown in many cases. Certainly in the Latin American region, in Europe, in many cases, there have been very strict measures of lockdown, which, as Nobel Prize economist Paul Krugman said, "It's like improving the economy in an induced coma." So in a way, you're basically shutting everything down, so people can stay at home and you can identify where their hotspots are and try to control the pandemic.

So the health emergency basically becomes the most important element, and then you basically stop the economy. So how does that affect people, as you are asking? So certainly the economy contracts...But in many cases, what happens is the whole expenditure is contracted, so businesses start to have liquidity problems. They cannot pay salaries. Eventually, they have to fire people. So the whole economic fiber, let's say, or the economic structure starts to be calmed.

So people concretely start losing jobs, start to stop getting wages. And some of them have savings to deal with it, but many of them don't. So that large population groups that are hit very harshly by these situations, certainly mainly middle-income and low-income countries where, for example, we have unemployment insurance or we have very limited mechanisms to protect these people. Governments are reactive, but even with that reaction, we try to transfer an income. And so the people, the main, first-level impact has to do with monetary poverty.

So we have in Latin America if you take national poverty lines, close to 30 million people are predicted to fall back into poverty after a period of poverty reduction for 15 years. If you look at very, very low levels, like what the World Bank calls "extreme poverty," which is \$1.9 dollars per day per person, which is a very low monotype poverty. Sub-Saharan Africa will have close to 24 million people falling into that level of extreme poverty. So that, I would call, is the main first-round impact of the pandemic.

Of course, then you look into education. So education systems are also shut down. In many cases, you can do these online technologies that we're doing. But in many, many countries, groups of populations don't have access to this type of mechanism. So it's having a second round of emphasized impact is a large hit on the capacity of individuals, kids, young people to continue their schooling. And these, of course, eventually can be recovered, not at a low cost. But many people predict that it will lead to dropouts. People, you know, children and young people get discouraged, and they may actually drop out. So we still don't know exactly, but I think the second large impact is going to be on education, human capital for societies.

And of course, eventually, if we start to look into bankruptcies and firms [not having the capacity to pay their loans and so on, we're going to see also potentially a big hit on the financial sector.

So, you know, we have the three aspects of perhaps some others, but three very important aspects in which the pandemic is really hitting the economies and individuals very harshly.

I really appreciate your going into such detail with that. Thank you very much. As you look at these impacts that you've just outlined, do you see them, any one particular impact hitting any

one region of the world, more or less? Are there places where small businesses have been chilled more versus flow of capital versus trade, perhaps?

In terms of, according to World Bank prediction, in terms of poverty increase, certainly Africa is being hit. I would say that in terms of economic impacts, as we see Europe is impacted, not with such a large effect of poverty because they have mechanisms to protect people such as unemployment insurance, but I would make a point for middle-income countries in that sense. The region where I work in Latin America and the Caribbean, mainly the regions with what we call middle-income countries. This is also a region that has not been able to consolidate middle-class societies. So we should not, you know, make an analogy between being middle-income country and having a strong middle class. Middle-income countries with large sectors of population that are vulnerable. Because it is latched in formality, because there are a lot of people that depend on the daily capacity to go out and generate some income. And also middle-income countries are not eligible for concessional financing, for example. So in a way, all the responses, you know, the banks, for example, the response that the IBF and the World Bank has put together to try to provide debt relief to countries is mainly focused on low-income countries and less-developed countries, but they cannot apply to middle-income countries. So middle-income countries have been responding to all these effects that I mentioned before, trying to protect people, to transfer cash to people, to protect firms by giving lines of credit, provide liquidity. All these aspects that are having an impact on their fiscal capacity without having that relief in terms of access to funding. So what we foresee is a very serious fiscal situation for this large group of countries in the middle-income range because they will definitely be running out of capacity to respond because of the fiscal space.

So I would argue that in terms of the macro situation, middle-income countries will be harshly hit, particularly if this crisis lasts a long time. And in the very short term, I would say that regions with large levels of informality and the capacity to react like in Sun-Saharan Africa are having an impact on the poverty level of people.

So it's really fascinating to me what you're saying about the degree to which a national economy can be made up of essentially informal earners, and how much of a country's. I suppose, GDP that represents. And how much that means if people are informal earners, they are not registered in any way with any kind of national system that might attempt to create even a one-time safety net. Are there any more complexities in that? So I don't know if you've been told, but we have students from more than 160 countries in this course, almost 10,000 students at this point, I believe, and so many of them certainly are coming from countries where informal earnings, informal income structures are very important.

Secondly, I think one of the structural aspects that will correlate very strongly with the impact of this crisis is going to be the large size of the informal sector. So what does that mean? That means that having in Latin America, it is originated in the lowest level would be let's say Uruguay, the level would be between 25 to 30 percent of the labor force informality. But then you go up to leverage like 60 or 70 percent of the labor being formal. That means they work in very small firms with very low productivity levels that are not registered, that you say. That means that these people, the workers in these firms, do not have access to basic health protection, social protection, pension, and all these elements. First.

Second. These firms are not contributing in most cases because they are not registered to the fiscal capacity of the state. So that creates also very weak states from the fiscal perspective, so the capacity to react is also lower. But this also involves self-employed people, so freelance, let's say, people. People who are, you know, plumbers, construction workers. From that all the way to professionals that also self-employed. And in many cases, they are not registered either. So they don't have these mechanisms to protect themselves from the shock unless they have savings, which is not actually the most common situation, particularly for those in lower levels of income.

So that level of informality is very important. But in that context of informality, I want to stress, women are overrepresented. Basically because of the lack of care facilities provided by the public sector and because of the lack of a system that supports the care sector, many women do not have the flexibility to work full time or to work and raise their firms. So women are particularly

over-represented in this informality of very highly vulnerable jobs. In that sense, women become a highly vulnerable group in terms of the economic impact of this crisis.

I really appreciate that analysis with regard to gender. Thank you so much. It's so important for us to keep in mind as we look at the future of the next few years that the burdens of this are falling unequally, not just on nations and on types of earners, but on people within families and within societies as well. I want to ask, is there anything you can say at this point about balancing the risks of obviously there's economic devastation with cooling economies, and yet that seems necessary in order to keep the disease from spreading? How does one start to think about beginning to open economies up again and balancing that risk against the need to get money flowing?

There is a lot of discussion in the public sphere about the tradeoff between lives and livelihoods. So the idea is either protect lives or you protect livelihoods, and I think the extent of that tradeoff really depends on the capacity of the economies and societies to provide these things. One is large-scale testing. That is very important, we know, and how to more carefully identify the hotspots and not having to shut down the whole economy. If you could really test in a systematic manner, you can be more strategic about where to shut down. And of course, that relates to also to the capacity of the health systems per se. If there was no constraint in terms of the capacity of the health systems, we would have a lot more margin with this pandemic.

The second element is the fiscal capacity of the governments, as I mentioned before. To what extent you can actually support firms, support individuals through fiscal mechanisms so you can actually deal with a crisis, control the health elements, and then reopen. But the other is the capacity, as you said, to reopen it strategically and determine and enforce standards of safety.

So what are those sectors? I can tell you, for example, there was a recent government I had a discussion with in Latin America, and in the office of the president, the strategic affairs office of the president, they have a very sophisticated dashboard where they have which sectors provide more employment and more value added to the economy. And also in the other, they actually have the risk in terms of contagion, and they are starting to reopen the economy very carefully, looking into those that have high impact in terms of economic recovery but also those that have relatively low risk. And they glean what kind of standards to establish to try to reopen.

For example, if you went to construction that is in an open-space infrastructure, for example. That is in an open space that is relatively easy to establish standards and to control the people that go in and out of the construction site. Well, maybe you can open that kind of sector with all those controls. But maybe in entertainment or, you know, movie theaters, malls, are more complicated because these are folk areas of contagion or sources of contagion, potentially, and they could really create a new wave of contagion. So that you have to be more careful.

So this thinking carefully which sectors and under which standards you can reopen is very important to try to balance this idea, to try to recover the economic dynamic without trying to run into the risk of a new wave of contagions. This is a required capacity of the governments. And this is one element, for example, in which we as the United Nations Development Program tried to support governments with other multilateral organizations and colleagues who tried to bring expertise.

So we have, for example, a very good recent agreement with...GranData that uses all the mobility devices, and sometimes they use cell phones and other types of devices, to try to anonymously, of course, identify groups of people and the level of mobility in different areas of the city. So we are trying to use this type of data to provide advice to governments to see where the lockdown is going to be more effective, where the mobility can be relaxed. So this is one element that we have. So the use of technology provokes the mobility restrictions or the production of knowledge. So there is a gap of knowledge, so we have our policy documents that are being produced really, you know, very rapidly to try to provide governments with advice and knowledge of how to analyze and respond to this crisis.

So there's a lot of need, a great need, for capacity, in terms of knowledge, in terms of finance, in terms of implementation capacity of the government, to the extent that you can close the gaps, you can reopen the economy with lower levels of risk.

So we've been talking about how low- and middle-income countries are at a disadvantage because of the structure of their earning sectors, because of their relative lack of capital. But I wonder if you have any thoughts about whether there are any ways in which the low- and middle-income countries may be less disadvantaged in this crisis. For instance, we've been talking about how in areas where tuberculosis is still extant, everyone knows how to do contact tracing. That is not a skill that has vanished from the culture in the way that it has in the United States, for instance. And there are countries that may have economic leverage because they are the sites of pharmaceutical manufacturing or testing sites, even though those sites are owned by the first world. Any more thoughts along those lines?

But in the first case...In general, I would say that there could be some advantages, for example. Even within a country, you may think, and it's actually the case in many concrete contexts, that the rural sector is less exposed and maybe the rural economy can continue to work because it's not so dependent on agglomeration and high levels of agglomeration. So the rural sector, for example, could be more protected, and maybe you can reopen the rural sector faster. And these tend to be more rural-based economies, which are associated to relatively low-income countries could be seen as less affected, and it is actually an objective criterion.

But I think overall, the net effect of the boom in this crises is not playing out as a positive thing, particularly because it interacts with the other constraints that I mentioned before. The lack of capacity of governments. The lack of finance. So at the end, being lower income in this crisis, even though it has perhaps some advantages like the ones you mention, overall is not turning out to be an advantage. And they will require a lot of support.

And within a country, also, low income, more vulnerable groups, will require really very proactive response from governments. Otherwise, this crisis will deepen already existing inequalities. You have mentioned all these shocks that are affecting different groups of the population. But you have to acknowledge that pre-crisis, there were also many structural problems, so this crisis is only exacerbating this structural problem. It's not the main cause of many of these problems, but it's actually the reaction of this shock with previously existing structural inequalities, low levels of productivity, and weak financial situations of the governments. So all this is just exacerbated, and for example, when we talk about education, the inequality is very clear: Those who are poor, have less access to this type of technology, so they have less access to continuing education. So in some cases, we're considering all technologies—in a way, if we can call it that way—like television or even radio to try to continue the education for certain groups that cannot have access to this type of connectivity. So these types of solutions are required, even though they would look like completely from the past. Now there are becoming a way to try to overcome these inequalities and try to reduce the impact of the crisis. But certainly, we're going to see a deepening of these inequalities, and I think part of the policy response should be to try to move into our recovery that rather than deepening this, we try to create a new normality that is more inclusive. But, I mean, there are no easy solutions for that.

So let me ask you finally, as societies inevitably begin to reopen because economies cannot be chilled this long, what will the indicators be that you are looking for that will tell you that social and economic concerns are being adequately balanced?

Firstly, there is a requirement in terms of, as I mentioned before, looking at what sectors can have a higher, as we call it, economic multiplier. In the sense of being engines of recovery faster. And balance that, or controlling that, for the level of risk. So this is a very important element. If we can carefully have objective indicators of sectors that can be engines of recovery with relatively low levels of risk....I mentioned infrastructure, construction, for example. Or maybe rural sectors in a specific type of activities. So we can try to reopen those that can have an effect on the recovery without increasing disproportionately the risk, and then try to monitor carefully the situation.

Of course, at the same time, we're trying to create mechanisms for safety, like in Colombia, I should say. UNDP supported the project to create these masks that can be used by people to be

at relatively less exposed to a potential contagion in specific sectors. And these masks are now being produced more massively, and that could be a positive. There are also these elements that can make the return to work safer while we see a medical solution to the medical problem, this health problem. And eventually, we hope there will be a medical solution to this health problem, but in the meantime, we need to definitely balance, I would say, these two elements. The economic impact of sectors that can have a higher multiplier but controlling for the levels of risk.

And certainly what we cannot forget, and we cannot give up on, protecting very proactively vulnerable groups. I was telling you, women in the informal sector. Vulnerable groups that have less capacity to generate income in this condition. They don't have access to unemployment insurance or salary. So you have to maintain their capacity to, you know, not to go into deeper levels of poverty. So maintaining this very clear focus on supporting these populations. In some cases, people who are not poor. I normally would not be eligible for these types of programs, but you don't want them to fall into poverty. So you need to support them. And I would insist the firms are businesses, so they don't fall into bankruptcy and then destroy the economic basis for recovery. Because the more businesses go bankrupt and employment is destroyed, the more difficult it will be to go back to an economic normality. The longer it will take. So you also need to protect that type of employment.

And all this requires, again, funding. And that sense is that the international community can be very important in supporting particularly poor countries, so we can have a relatively less harmful effect. In any case, as we know it, this will be definitely seen as the hardest economic times in a century.

A lot to think about, so many strands to draw together. Director Lopez-Calva, we're so grateful for you coming to our course and sharing your wisdom. On behalf of all our students from around the world, thank you very much.

Thank you for the opportunity.