

COVID-19, Governments, and Certain Uncertainties

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A Worldwide Crisis

The Covid-19 pandemic has resulted in the worst peacetime global output contraction. [The Organization for Economic Cooperation and Development \(OECD\)](#) estimates show a 6% reduction in the global economy in 2020 alone. By the end of 2021, the pandemic-induced loss of global income is expected to be greater than that of any previous peacetime recession in the last 100 years. Overall, the world economy is facing a [five-year financial hit](#) of between \$25 trillion to \$51.8 trillion depending on the success in containing the pandemic.

Given the severity and urgency of the developments, governments around the world have taken both **reactive and proactive measures** to address the unexpected downfall. As of November 2020, [International Monetary Fund \(IMF\)](#) estimates show the global economic bailout cost at A\$26.325 trillion; nearly A\$16.2 trillion in economic support and stimulus packages pledged by governments and more than A\$10.125 trillion pledged by the central banks to absorb the widespread and disastrous impact on their economies.

Australia's Government Response

[In Australia](#), the pandemic-induced cost to the economy is estimated at \$170 billion in 2020 and \$450 billion over the next five years. Even [the optimistic estimates](#) show that the Australian economy will not return to its pre-pandemic level until at least 2022. According to the [IMF Policy Tracker](#), at the Commonwealth level, fiscal stimulus measures worth 14 percent of GDP, have been put in place through FY2023-24. State and Territory governments have announced fiscal stimulus packages, together amounting to an additional 2.1 percent of GDP.

The Australian government has also set up a comprehensive [financial assistance program](#) that includes JobKeeper, JobSeeker, Early Access to Superannuation, Reduced Drawdown and Deeming Rates for Retirees, HomeBuilder Grant, Emergency and Legal Support, and other income support payments to manage the immediate financial and economic fallout.

On the health front, the Australian government has made commitments to strengthen the healthcare system and protect vulnerable people, including those in aged care, from the outbreak of COVID-19. The public health system has expanded service provision by enabling [telehealth medical consultations](#) allowing Australians to seek medical advice and receive digital prescriptions, free home delivery of prescribed drugs via The Home Medicine Service for vulnerable people as part of [COVID-19 National Health Plan](#). Australian government's focus on economic sustainability and improved provision of health services during the pandemic draws special mention given the developments in the U.S. and Europe. For example, while America is home to 4.25% of the world's population, it has accounted for over [20% of global Covid-19 deaths](#). Even Germany with one of the best healthcare systems in the world is struggling as its resources are stretched and the [hospital network is under severe strain](#).

Proactively, the Australian government has entered into [contractual obligations](#) with five promising vaccine developers (University of Oxford/AstraZeneca, University of Queensland/CSL, Novavax, Pfizer/BioNTech, and COVAX Facility) at a staggering cost of \$3.3 billion. These agreements provide access and production rights to corresponding effective vaccine solutions once available. These contractual measures are [in addition to the \\$363 million](#) invested by the Australian government to support the global research and development efforts to find an effective COVID treatment.

Certain Uncertainties

Despite these reactive and proactive interventions, some critical uncertainties remain. At the global level, stock markets have reacted with great enthusiasm to potential success in the ongoing COVID-19 vaccine trials. [Estimates by the Forbes Magazine](#) show that as of October 2020, shares traded in the U.S. stock markets are 83.8% overvalued. This 'Covid-Cure Stock Market Bubble' has easily surpassed the height of the Tech Bubble in March 2020 during which the U.S. shares were only 49% overvalued. Unexpected, unsatisfactory vaccine trial results easily have the potential to force investor sentiments and stock market corrections that would trigger far-reaching negative wealth effects around the world. Given the [strong correspondence](#) between U.S. and Australian stock markets, any such negative market correction in the U.S. would have similar strong reaction Down Under as well. The resulting impact on the Australian economy, banks, and simply on the retirement savings of households could be severe and far-reaching.

Moreover, despite all the efforts and support by world governments, some vaccine trials continue to show [less than ideal clinical results](#) as of November 2020. This has fuelled healthy scepticism leading to an ongoing debate whether pharmaceutical companies and governments are expediting the vaccine development by bypassing some critical trialling stages in the development process. For example, the resulting public opinion was palpable when in November 2020, an announcement was made by Qantas Airways that all passengers will be required to be vaccinated (when available). The announcement has drawn considerable media attention prompting an announcement by [International Air Transport Association \(IATA\)](#), the peak body representing the world's airlines, distancing itself from the Qantas statement.

Similarly, any effort by the Australian authorities to introduce a compulsory COVID vaccination policy must clear certain legal and policy barriers. Even though the Australian government can use certain measures such as withholding welfare payments to encourage vaccine uptake, [some Australian jurisdictions](#) such as Australian Capital Territory, Queensland and Victoria have human rights charters which may be inconsistent with a mandatory vaccination program. Furthermore, some states such as Western Australia and Victoria have vaccination policies which [may be impractical](#) to be used in a mandatory mass-scale vaccination program. Simply, [there is no Australian law](#) to support a population-wide mandate for a COVID vaccine at state, territory or federal level.

Overall, while the crises resulting from the pandemic are likely to leave long-lasting shocks in many economies, Australia's integrated welfare response to the coronavirus pandemic has been [praised by the economists](#) and ranks among the best in the developed world. However, a great degree of flexibility, adaptability, and resilience is required to sustain the holistic response to the evolving crisis as indicated by the ongoing consultations with the stakeholders affected by the uncertainties raised above. It seems that while there is always room for improvement, there is none for complacency here.



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