Summary of ING Economisch Bureau (2020)  
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**Summary**

This report explains the COVID-19 economic crisis as a crisis of low expenditures since consumers have not been able to spend as much as they usually do due to lockdown measures. In order to address this, ING Economisch Bureau (2020) describes three types of measures: tax relief, furlough packages, government investments and re-training policies. Each of these measures influences the economy at a different leverage point. The crisis is described as unprecedented, yielding much uncertainty about future developments or the long-term effects it will have on economic growth and consumer demands. What is certain, however, is that at the moment unemployment is going up, while business profitability and individual prosperity is going down. Much of the discussion is anchored on the rising government debt resulting from the above-mentioned economic measures as well as the generational conflicts that may come about because of that debt.

**Implications for infrastructure**   
Infrastructure companies would be interested to read the predictions for the macroeconomy including GDP, productivity and labor projections, which vary among economists (see Figure on page 6). While the majority of economists agree that post-COVID-19 economic growth will be the same as pre-COVID-19 or lower, some say that it is likely that post-COVID-19 economic growth will significantly exceed pre-COVID-19 growth because of structural changes to economy (e.g. digitalization), which will enable it to emerge even stronger.

**Stock-and-flow diagram**

The COVID-19 induced economic crisis, much like economic growth, is dictated through a reinforcing loop between business profitability and individual prosperity. So that, profitability drives individual income, which then affects individual expenditures ultimately affecting business profitability. In addition, profitability affects changes in unemployment as lower productivity results in layoffs. In turn, unemployment is self-reinforcing as people lose their skills and access to networks. Unemployment is further reinforced through its effect on income.

Business profitability dictates GDP growth thereby impacting debt development. As an example, the debt ratio will decrease if post-COVID-19 economic growth is higher than pre-COVID-19 growth. The debt ratio influences the interest rate driving further change in profitability. Similarly, the interest rate influences the debt ratio, which then changes profitability. While protectionism is rising in popularity through talk of new tariffs, economists argue that this is counterproductive as it reduces economic efficiency and reduces the GDP.

The government support packages directly contribute to the debt ratio, reduce productivity and assumedly increase individual expenditures. As long as there are measures the uncertainty regarding post-COVID-19 demand shifts is reduced since even the unproductive companies benefit. This can be counterproductive since demand shifts may drive innovation and digitization, ultimately boosting productivity.



Figure 1. Stock-and-flow diagram based on ING Economisch Bureau (2020). The dotted arrows are author assumptions induced from the document.

All in all, the pandemic has impacted private expenditures, causing an all-out economic crisis. Many businesses have been forced to digitalize, which may come to boost post-COVID-19 economic growth. Economists claim that the duration of the economic has an adverse effect on GDP potential growth, i.e. on economic recovery to pre-COVID-19 levels, as well as on unemployment developments. The government is therefore creating economic policy in light of uncertainty of economic development, which some criticize may debilitate business potential to pivot, innovate and adapt to shifts in demand, which may or may not continue post-COVID-19. See Table 1 for the most important variables in the model and Table 2 for a reference to the causal links in the model.

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| --- | --- | --- | --- |
| **Variable name** | **Description** | **Quote** | **Page** |
| Unemployment | Unemployment rate in the Netherlands | The corona crisis means an abrupt and deep downturn in the economy. This is painful in the short term but can also have major consequences in the long term in unemployment, bankruptcies and productivity. | 1 |
| Productivity | Average productivity rate in Dutch private sector | The corona crisis means an abrupt and deep downturn in the economy. This is painful in the short term but can also have major consequences in the long term in unemployment, bankruptcies and productivity. | 1 |
| Average business profitability | The average profitability of Dutch companies | The other half of the economists want to prevent labor and big capital from remaining in companies that are structurally not viable. | 6 |
| Average prosperity | The average savings/net worth of a Dutch citizen | Fear and loss of income hold back demand | 3 |

Table 1. A description of the most important variables in the model.

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| --- | --- | --- | --- |
| **N.** | **Page** | **Quote** | **Causal link** |
| 1 | 1 | We still heard a lot of people who fear that all that extra spending will have to come back in the long run. The fear of it can influence the confidence in the future among Dutch consumers and businesses. | Effect of fear about future financial income  on expenditures -> Average expenditures |
| 2 | 1 | People become long-term unemployed and therefore lose skills and network. | Unemployment -> Skills -> Change in unemployment  Unemployment -> Access to networks -> Change in unemployment |
| 3 | 3 | The other half of the economists want to prevent labor and big capital from remaining in companies that are structurally not viable. This will stifle the long-term growth potential of the economy. | Change in profitability -> Average business profitability -> Potential for GDP growth -> GDP growth |
| 4 | 2 | Most economists expect that with a certain amount of debt the interest rate will rise, | Debt ratio -> Interest rate |
| 5 | 2 | We have never experienced a recession like this before, and we are completely in the dark as to how it will continue as we do not know how the epidemic will develop. | Uncertainty regarding pandemic development -> Duration of support packages |
| 6 | 3 | The usual flywheel that the income of one person through his spending leads to income for the other is slowed down by this. | Average expenditures -> Change in profitability -> Average profitability -> Average income -> Average prosperity -> Average expenditures |
| 7 | 3 | This crisis adds to the fact that some consumers delay or adjust spending for fear of being contaminated on the street or in shops | Pandemic duration -> Average expenditures |
| 8 | 3 | Because of fear of a deterioration of their own financial future, households are saving more as a precaution and their expenditure is therefore falling. | Effect of fear about future financial income  on expenditures -> Average expenditures |
| 9 | 3 | Expenditure will fall even further if the recession actually leads to loss of income due to rising unemployment and weaker wages | Unemployment - > Average income -> Average prosperity -> Average expenditures |
| 10 | 4 | The duration of this economic dip will mainly depend on how long the virus will stay around and when an effective vaccine and / or whether treatment has been found. | Pandemic duration -> Average expenditures  Pandemic duration -> Change in unemployment |
| 11 | 4 | Business tasks in which structural developments have accelerated or that have new product demand due to consumer habituation during the corona crisis (such as more online product demand of the elderly) are causing shifts, but this does not mean that the economy will be fundamentally different after corona than before the corona virus. | Uncertainty regarding post-COVID demand shifts -> Digitization |
| 12 | 5 | The longer the pandemic and contact restrictions prevent the economy from continuing to its old growth rate, the greater the chance that the economy will suffer permanent damage. | Pandemic duration -> Potential for GDP growth |
| 13 | 5 | Companies can reduce their vulnerability by building up additional stocks or by aligning suppliers in multiple countries, so as not to depend on a single country such as China. | Diversification of product chains -> Economic efficiency |
| 14 | 6 | Corona reinforces protectionist tendencies and leads to calls for the reduction of international production chains. This leads to less efficiency and therefore lower growth. | Diversification of product chains -> Economic efficiency -> GDP growth |
| 15 | 6 | Cost-benefit considerations in companies counterbalance anti-globalization trends, but it cannot be ruled out that the EU will follow this trend and, for example, will increase import tariffs. | Tariffs -> Diversification of product chains |
| 16 | 6 | The increase in digital working is yielding time and therefore productivity gains that many companies want to retain. | Pandemic duration -> Digitization -> Productivity |
| 17 | 6 | Re-training also limits the negative productivity consequences | Re-training -> Productivity |
| 18 | 8 | Another part of the economists argues that the exceptionally high uncertainty during this recession is the reason for the support to continue. | Uncertainty regarding pandemic development -> Duration of support packages |
| 19 | 9 | Government debt can become too high if interest rates rise Economists agree that an exact ceiling is not known, but that there is a limit to debt. | Interest rate -> Debt ration |
| 20 | 9 | As long as the interest rate is lower than the (nominal) growth rate of the economy, the debt ratio will continue to decline as a result of growth. | GDP growth -> Debt ratio |
| 21 | 14 | If the virus is under control and the economy has recovered, reducing aid can prevent the government from keeping unhealthy companies alive longer. If that happens six months later, there will still be productivity gains, only slightly later. Only then will it be clearer which sectors change permanently. | Duration of support packages -> Uncertainty regarding post-COVID demand shift |

Table 2. Causal links found within ING Economisch Bureau (2020)

**References**

ING Economisch Bureau (2020) *Het zekere voor het onzekere: Overheidsschuld staat verdere steun aan economie toe.* https://www.eur.nl/en/media/2020-09-ingebzhet-zekere-voor-het-onzekeretcm162-201778, accessed on 9 October 2020.