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EDITORIAL

Transformational Recovery: Seizing Opportunities from the Crisis

Kenza Benhima[1] · Kerem Cosar[2]

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As the world is recovering from the economic and social disruptions caused by the COVID-19 pandemic, new shocks such as the war in Ukraine and the rapid global rise in food prices hamper economic recovery in many countries. At the same time, the lingering paralysis in the rule-based multilateral international trade system, intensifying climate shocks and emerging commercial applications of artificial intelligence signal that fundamental structural changes in the global economy may be underway. These developments present both challenges and opportunities for emerging and developing countries. Against this backdrop, the IMF, *IMF Economic Review*, and the Bank Al-Maghrib jointly organized a conference on "Transformational Recovery: Seizing Opportunities from the Crisis." The conference took place in Rabat, Morocco, on June 23–24, 2022. This volume of the *Review* features some of the papers presented at the conference. Below, we summarize the key contributions of these papers.

Swati Dhingra (London School of Economics) and Fjolla Kondirolli (University of Sussex) analyze labor market dynamics of young workers in India before, during, and after the pandemic. Using a longitudinal survey of a large sample of households conducted three times per year, they document that the COVID-induced spike in unemployment disproportionately falls on young workers, especially on those entering the workforce for the first time. Discouraged by dismal prospects, young workers are also more likely to stop searching for a job and transition into inactivity. The effects seem to be persistent as India recovered from subsequent waves of the pandemic. Potential long-term labor market scarring effects pose a challenge for policymakers in developing countries where youth unemployment was already a concern in the pre-pandemic era and policy-driven evidence on this topic is scarce. Dhingra and Kondirolli address this issue head on by drawing on a separate survey of individuals between 18 to 40 years old from low-income Indian states. In addition to documenting the evolution of employment prospects for this sample, they conduct

✉ Kenza Benhima
kenza.benhima@unil.ch

1 HEC-Lausanne, University of Lausanne, Lausanne, Switzerland

2 University of Virginia, Charlottesville, VA, USA

an experiment eliciting respondents' preferences over alternative social safety-net policies such as unemployment insurance/cash transfers and job guarantee. According to their results, the vast majority of young workers would like a job guarantee and prefer it to cash transfers. Policy implications of this novel study are manyfold and extend beyond active labor market programs to countercyclical macro-stabilization: developing countries with infrastructure needs and a sufficient fiscal capacity may want to consider temporary public employment during crisis as a productive way to counteract youth worklessness.

While scientists have introduced an effective vaccine against COVID-19 at record speed, supply bottlenecks slowed down the rollout necessary to achieve global herd immunity. The next paper, entitled "Calculating the Costs and Benefits of Advance Preparations for Future Pandemics" by Rachel Glennerster (University of Chicago), Christopher Snyder (Dartmouth College) and Brandon Joel Tan (International Monetary Fund), performs a rigorous cost–benefit analysis for maintaining enough vaccine production capacity to inoculate 70% of the global population within 6 months in the case of a future pandemic. To put things in perspective, the authors remind us that at its peak, the world was producing 580 million doses of mRNA COVID-19 vaccine per month, and at that rate, it would take over a year and a half to produce enough doses to meet the mentioned target. Rather than expanding, existing mRNA capacity is being shut down or repurposed. Thus, emphasizing future vaccine supply preparedness and providing reliable cost-benefit calculations are vital for guiding public policy. The authors inform their analysis on three pillars of evidence: the arrival probability of another large pandemic estimated from the long-run history of significant epidemics, economic losses observed during the current pandemic, and the cost of investments in vaccine-manufacturing capacity. The results are striking: by cutting the time to complete a vaccination campaign by more than half, an upfront investment around $60 billion and an annual spending of $5 billion each year thereafter would yield a net benefit around $500 billion over the status quo of delaying investment until the onset of another pandemic. Policy implications could not have been more clear.

The USA-China trade war and post-pandemic efforts by many countries to reshore supply chains have raised concerns about resurgent protectionism. The third paper, "Trade Integration, Industry Reallocation, and Welfare in Colombia" by George Alessandria (University of Rochester) and Oscar Avila (Central Bank of Colombia), provides a comprehensive methodology for quantitatively assessing the impact of trade policy changes. The authors build a multi-sector model in which firms make dynamic decisions on investment and export entry and calibrate it using Colombian micro data. The quantified model is amenable to a rich set of counterfactual policy experiments on transitional dynamics after policy changes. To add realism, the authors allow the small open economy under study to borrow or lend in international financial markets. They also analyze transitional dynamics under sudden versus delayed reforms and under different expectations about the path of these reforms. The results inform the reader about the main mechanisms through which trade matters for developing countries: reducing the barriers to importing capital equipment has the largest benefits, but these gains are back-loaded since investment takes time. Responses in investment and international capital flows depend strongly on expectations about the path of reforms. Opening up to trade is likely to generate a short run investment boom financed through international borrowing.

Estimates of the impact of temperature on the economy are central in climate policy debates, as they are used to assess the impact of climate change and to draw policy recommendations. A highly influential empirical literature has estimated this impact by using historical macroeconomic data. The consensus of this literature is that a permanent change in temperature affects the long-run growth rate of GDP per capita, and not simply its level, that is, temperature has a “growth effect,” not a “level effect.” The fourth paper of this issue, “Projecting the impact of rising temperatures: The role of macroeconomic dynamics,” by Gregory Casey (Williams College), Stephie Fried (Federal Reserve Bank of San Francisco) and Ethan Goode (Federal Reserve Bank of San Francisco), challenges this consensus by introducing two methodological innovations. First, the authors shift the focus from GDP per capita to total factor productivity (TFP) in order to prevent endogenous capital accumulation from influencing the estimates. Second, their econometric specification allows for the joint identification of a “level effect” and a “growth effect.” Otherwise, a level effect may be misleadingly identified as a growth effect. As a result, they find that temperature has a level effect on TFP. If extrapolated, the estimated level effect significantly reduces the economic costs of the projected increase in temperature compared to the growth effect obtained with a mis-specified regression that ignores level effects and uses GDP per capita instead of TFP. As acknowledged by the authors, these quantitative results must not be taken at face value given the many uncertainties that surround the impact of climate change on the future relationship between temperature and damages to the economy. However, they strongly suggest that the evaluation of the impact of climate change should not rely on mis-specified regressions.