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Estimating the Economic Cost of COVID-19

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Estimating the Economic Cost of COVID-19

Abstract

Our study presents a framework to estimate economic costs of the COVID-19 pandemic for the U.S. economy. We characterize whether the pandemic-related damages are short-lived or long-lasting. The potential damages are estimated in terms of losses in eight major variables, including employment, consumption and GDP. By accurately estimating near-term damages from the pandemic, our framework would assist policymakers in regard to effective decision making.

To estimate damages from the pandemic, we utilize the pre-COVID potential level of the target variables, GDP for example, as a benchmark and compare these estimates with those that are calculated during the COVID pandemic. The intuition behind this method is that the pre-COVID potential GDP level is estimated using expansion phase growth rates and with the assumption of no COVID pandemic resurgence in the near future. Consequently, these rates are higher than those that are calculated during the pandemic and thereby the gap between these two measures of potential GDP is utilized as a benchmark to estimate the economic cost of COVID-19.

Our study suggests damages from the pandemic are not short-lived as the level/trend of potential GDP (seven of the eight variables) has shifted downward. That is, the major sectors have shifted to a lower growth trajectory compared to the pre-COVID growth path. These findings have vital implications for policymakers as focusing only on the real GDP level would paint an illusion of a stronger recovery and back to the “normal.” Furthermore, the illusion of a stronger recovery may lead to a sooner-than-appropriate policy normalization.

Keywords: COVID-19; Economic Cost; Output; Employment; Policy-Errors.

JEL Classifications: E32; E2; E24.