

Long COVID? Previous pandemics changed us – what about this time?

COVID-19 will leave lasting changes – what might they be?

A previous Insight¹ looked at what we might learn from our history about how the current pandemic might play out. The event chosen was the Great Depression of the 1930s. While it was not a pandemic – being an economic phenomenon – it had high-level similarities that were developed and discussed.

This Insight is prompted by the recent publication of a cluster of papers² that look at economic lessons from previous health episodes. While these are interesting in their own right and are possibly relevant for countries with a different experience of COVID-19, it turns out that many of the effects identified do not seem likely to feature in the New Zealand experience. This is true even of those considered at length by experts – such as the significant changes in factor prices as a result of the Black Death (in the fourteenth century).³ In this case, the impact was via a devastating death rate that changed the European economy from being labour rich and capital poor to one with a shortage of labour.

What we wanted was a framework that applied to the local experience based on wide-ranging historical concepts and evidence to look ahead for New Zealand. In simple terms, we wanted to look at the economic impacts of the last couple of years' disruptions and sort out the important lasting ones from the transitory.

This is not a simple issue

The complications of this question went beyond the unique nature of this particular episode. Two features made looking ahead difficult.

One was that the New Zealand COVID story was not typical. Our ability as an island nation (like relatively few others such as Japan, Taiwan and South Korea) to sequester the population and the economy gave us a unique experience.

And secondly, while it seems longer, the two-year duration so far means limited data and other evidence has accrued. As an earlier Insight⁴ made clear, dealing with COVID-19 has been an exercise in decision-making under uncertainty.⁵

The standard responses to such a situation include gathering and analysing as much overseas information as possible, delaying the decision⁶ to maximise available data and remaining flexible. Broadly this strategy of caution plus data gathering was the background to the local policy response.

Finally, in this scene setter, we note that the thought experiment here has also to take into account the changes that would have happened anyway – without the shock of COVID-19, possibly accelerating existing trends. This might be called “business as usual.” All economies are restlessly and relentlessly changing.⁷

¹ See Hawke (2020).

² See the four lead articles in *Journal of Economic Literature*, Vol LX (March 2022).

³ See Jedwab, Johnson and Koyama (2022).

⁴ See Hogan (2020).

⁵ See for instance, a personal experience: https://www.theguardian.com/commentisfree/2022/mar/25/covid-march-2020-prediction-uk-pandemic?utm_term=.623df514fab220ee9830512079ed26ed&

[utm_campaign=BestOfGuardianOpinionUK&utm_source=esp&utm_medium=Email&CMP=opinionuk_email](#)

⁶ See Dixit and Pindyke (1994).

⁷ See Zoellick (2022) “Economic systems develop through constant change, often precipitated by unpredictable and sporadic events. They are more likely to resemble evolutionary and ever-mutating processes than planned orders guided by governments. Policymakers should therefore adapt continually adjusting systems to new circumstances instead of inventing novel structures designed to suit the latest theories.”

So, we looked to identify developments that took the country in new directions or significantly changed the speed of travel.

Historical themes

From the cluster of historical papers,⁸ we drew typical high-level pandemic-driven changes:

- **Institutional reform** occurs in response to the economic and social pressures from the disease's effect on the economy, including improved labour market flexibility
- **Changes in consumer behaviour** and expectations about the new norms
- **Investment in public infrastructure** to lower health risks to households and economic activity. There was also significant public spending to support recovery
- **Each pandemic has unique aspects**; some have widespread, lasting effects – like the Black Death – while others affect low-income communities disproportionately.

What we have done

Drawing on these ideas, the course of COVID-19 in New Zealand so far has been broken into a selection of themes.⁹ These are discussed in brief in Table 1 below. This table is the core of our contribution.

Each theme is discussed briefly in the next section, and a few conclusions are drawn.

Key findings by theme

Supply impacts

Labour and input supply constraints drive up inflation. Closed borders have highlighted our economic exposure to global supply chains and reliance upon temporary labour and tourists to supplement our labour supply. We are strongly influenced by the world economy.¹⁰

Supply chain constraints have emerged to reveal how we are physically linked to the rest of the world via international shipping and air transport and

have come to expect regular, cheap prompt deliveries.

Consumer behaviour

The onset of COVID-19 seems to have caused a classical outbreak of economic caution in response to uncertainty. Households reacted by hedging their positions by strengthening balance sheets. They also became careful about their physical movement – even as formal restrictions were relaxed.

As the situation unfolded, perhaps because they were not able to travel, spending stepped up again. One area was home improvements.

Labour

Labour-intensive industries have been exposed to a shortage of temporary workers. The worst affected are seasonal crops, which rely on visitors and a foreign labour force to get produce harvested for market. Some labour market changes, either of regulation (including immigration rules) or innovative practices, particularly related to foreign and temporary labour, are likely.

Office and other 'mobile' work – that could be done off-site – have seen a strong acceleration towards part-time or full-time remote working. This is enabled usually by (established) cloud-based information technology. This could represent a new norm.

Wage inflation without an increase in productivity has been a feature of many historical disease outbreaks. COVID-19 looks as though it will have a similar effect.¹¹

Long-term, this may accelerate investment in technology and labour-saving capital intensification.

Travel and transport

Locally, lockdowns and the shift towards the greater prevalence of remote working have reduced or eliminated congestion. Nervousness about sharing public transport may have interacted with other experiences (like working from home) to reduce commuting numbers in cities.

⁸ Alfani (2022), Beach et al (2022), Bloom et al (2022) and Jedwab et al (2022).

⁹ These are based on discussions among the authors based on their opinions. Other observers may prioritise different features of the experience.

¹⁰ Recently Nixon (2020) showed that many of New Zealand's export products were relatively low risk.

¹¹ Though some recent empirical work (Bonam and Smádu 2021) suggests differently. Their historical econometric study concludes that post-pandemic inflation tends to run below long run averages. But they admit the policy responses this time may upset these results.

International travel is re-emerging, with the MIQ restrictions on entry being removed. But the long-term impact of COVID-19 on the level and composition of visitors to New Zealand remains unclear. Equally, the outflow of locals, either for OE or more permanently, was previously stalled and will restart, but at what level over the long run?

Shipping

Events beyond New Zealand disrupted global supply chains, and their finely tuned 'just in time' nature means that schedules take time to recover once disrupted. Looking further ahead, shipping companies may make significant changes to the way ships are deployed, while onshore firms may look to build up stocks held locally.

Global container shipping costs have increased dramatically since early 2020, and while cost increases have moderated in recent months, there has not been a decrease in costs.¹²

Lockdowns

Lockdowns have caused the temporary or permanent closure of many small businesses as revenue collapsed without customers. Owners have had to invest to keep them afloat. New business models emerged, like online marketing and greater use of home delivery systems or other service arrangements.

The resilience stocks of small businesses have been depleted. The recovery of such resilience to previous levels will likely take years to re-build even as consumer activity picks up.

Central city businesses are also exposed to a shift towards remote working as consumption patterns shift against them. Meanwhile, the costs of labour and factor inputs are increasing. Demand for traditional city commercial and retail space will slow until the uncertainty eases.

Public spending and income support

The Government has committed \$74.1b (and allocated more than \$64.8b) to support the economy through this period. Its results have largely been successful, with GDP tracking well overall and unemployment figures holding to signal a strong labour market.

New Zealand was well-placed to borrow relative to other countries as national debt levels relative to

GDP were low at the onset (despite the spending during the GFC). However, the implications of increased national debt are a reduction in the ability to so easily weather another storm in the short run.

Fairness in public administration

Large-scale interventions treat different groups differently, which is challenging to design and operate. In the short run, attention focuses on the definitions (who qualifies for help) and policing the boundaries. This type of policy must be actioned with sensible discretion and demands quality staff.

Later, attention turns to the relative treatment of the different groups. Individual cases become the stuff of debate. Tackling these issues openly is better practice than hiding behind the 'rules.'

Institutional structures

Initially, the public sector showed a degree of nimbleness and flexibility with new structures. As the pandemic wore on, the solid delivery performance became publicly overshadowed by poor comms and a degree of rigidity.

Sensible quick fixes (housing the MIQ in unused hotels as tourism stalled) were not easy to make work over the long haul. More lasting solutions were too expensive or demanded scarce resources – especially skilled staff.

Political

An opening belief in the need to pull together to get through the crisis meant backing the Government. This was always going to be transitory.

And as the crisis went on and changed its nature with different variants and more information, the simple ideas became complex. Unity behind the Government reverted to its default heterogeneity, with the emergence of varying ideas and opinions.

Public policy overview

It seems obviously to be about preparation. But for really demanding threats, we must heed Mervyn King's remarks¹³ about not being able to see the real threats because they are always different.

¹² <https://fbx.freightos.com/>

¹³ See King (2016).

This means the learnings are at a high level. Not that we need a new fixed structure but a flexible ‘Bayesian’ model that changes as it goes along, picking up more data and building it into the findings.

Precisely what public mechanisms might change after the pandemic is hard to predict as any longer-term reviews have not yet started.

Conclusions

The course of the economic response to COVID-19 in New Zealand started with large-scale ‘high trust’ interventions to counter the massive effects of the early lockdowns and restrictions that followed. Closing the borders to people movement and other knock-on effects created a series of economic concerns. As these emerged, more targeted policy tweaks were announced. Some of these, such as the pending immigration changes, may have significant long-term implications.

Some have speculated that this large-scale deployment of public funds (plus how they were financed) may shift public sentiment towards greater reliance on or expectations of Government support as a response to economic woes. Others are less convinced.

The longer-term economic effects of COVID-19 are likely to be uneven. They will depend on industry-specific impacts and industry-specific responses. Such adjustments and transformations are shaped by a combination of domestic and international pressures and the ease of manoeuvre in our economy. We thus need our rules to stay flexible to allow this type of dynamism.

History shows that pandemics can be economically and socially transformative. The emergence and persistence of new norms will depend on individual behavioural change and the extent the technology has facilitated the demonstration that there are other viable ways to carry out economic and social activities.

Economic growth is likely to be moderate in the short term. Businesses are still facing uncertainty and downside risks in international markets remain.¹⁴ Adapting and innovating in response to these challenges will determine the long-COVID impacts on the economy and society.

Our recent record in these areas is positive.

¹⁴ Made worse for now by the war in Ukraine.

Table 1 Summing up the effects and speculating about the lasting effects

Theme	Short-term NZ impact	Medium-term NZ impact	Long-term NZ impact	Underlying idea
Global and macroeconomic effects	Initial worries from loss of tourism and risks. There would be a large GDP reduction and unemployment.	Great terms of trade, Government spending, and consumption by locals held up GDP and cut unemployment.	Depends on whether net tourism is positive or negative and whether global inflation harms our terms of trade. As uncertainty persists, staying nimble is logical.	Early on, a poor guess of COVID-19's effect on GDP was modelled on the GFC. But this was very different.
Consumer behaviour	Uncertainty pushed those that could to improve balance sheets as a hedge.	With public support, increased confidence drove spending on home improvements.	Strong household balance sheets? Or more faith in Government as saviour?	Rational response to uncertainty is to create fungible reserves to cope with the unknown.
Closing borders cut off the supply of labour for industries like hospitality and agriculture. Labour shortages are more intense in low-skill jobs and low-tech sectors, e.g. agriculture	Labour shortages and supply chain shocks. Led to wage and price inflation.	Slower economic growth in real terms. Downward pressure on savings and investment. Higher interest rates dampen inflation.	Higher real wages. Capital intensification with investment in labour-saving devices (agriculture). Labour markets to stay flexible.	The border closure revealed the extent to which visiting foreign labour was supporting aspects of the economy. The 'pause' allowed a chance to rethink.
Closing border disrupted travel and air services	Tourism ceased. Businesses in trouble spread to towns (Franz Josef, Queenstown, Rotorua, Auckland) Impact on high-value exports and some imports. Local firms have problems.	Questions about tourism policy – is volume the way to go? Firms may examine their location decision – split production to hedge risks?	Different approach to tourism? Relocation by a number of firms? Potential for consolidation and aggregation?	The 'pause' of inward movement showed some places' reliance on tourism. Concern, too, about negative impacts like congestion and low wages. All business is risky – planning can help.
Global impact of COVID-19 and countermeasures disrupted shipping worldwide.	Supply chain problems are widespread. Container shipping costs increased dramatically.	Which products or markets to prioritise? How to hedge costs and ensure supply?	Long-term effects will vary by market. What do shipping companies do? Investment in local stocks of imports?	Shipping is vital for the economy, aside from the export trade. What might be done to lower risks?
Lockdown closed firms and caused others to stay home/work from home.	Increased demand for quality IT/ fibre in suburbs. More shopping online. Less congestion. Wariness of public transport.	Some change in working habits – more people work from home at least part of the time. Workers who work at home make permanent arrangements.	Firms react to shift in work locale by less office space – hot desks. Fewer commutes drain CBDs and their retail and services. Value of offices fall. Demand for home office space and suburban coffee.	Previous work habits change, with knock-ons for infrastructure, supporting services and consumption patterns.

Theme	Short-term NZ impact	Medium-term NZ impact	Long-term NZ impact	Underlying idea
Significant new public spending and borrowing.	Support for those otherwise with lower incomes.	Difficulty in designing/implementing tailor-made responses to a variety of issues	Big lessons about trust and efficiency to learn.	Policy responses of varied quality. High trust/ simple ones seemed to work best.
Fairness in administration	Concerns about the unevenness of industry and household support. Justify the boundaries?	Growing worries about the equity of treatment. Focus on exceptions – built into design but hard to access.	Highlights longstanding problem: NZ lacks clear ideas about fairness other than equality or Rawls ¹⁵ .	Poor practical decisions (particularly about exceptions) tested faith in the systems.
Shift in institutional structures	New ad hoc public mechanisms ran bits of COVID-19 regime (defining ‘essential work’, operating MIQ system, supporting comms). Good scrambling stood up MIQ quickly.	Solid performance in bulk of job. Poor comms below politicians. Low capacity to run an exceptions regime. IT/procurement issues. Quick fixes showed their inherent flaws.	What might be learnt? Better comms with fewer claims of perfection and openness about the scrambling as data was gathered to inform decisions.	Early on, the lack of clear information hindered design and execution. Later, shortages of skilled workers were a constraint.
Change in political power	Crisis feeling united country behind Government’s efforts – big simple goal ‘save us from COVID-19.’	As different groups had different experiences unity became more difficult to sustain.	Politics must reflect population diversity. Decisions respond to community views. Need better social statistics.	Unison is a temporary feature of a differentiated country. Normal democratic debate underpins our society.
Public policy overview	Initial flexibility and ‘make do’ approach were great. Information gathering (particularly from abroad) was sound.	When longer timescale and more complicated problems emerged (stream of varieties), planning and decisions seemed weaker.	Disruptive change is unlikely to be ‘on the radar’ by definition. New Zealand as a whole is reluctant to invest in precautions.	What alternatives are there? Work on higher level responses so they can evolve with the threat.

Source: NZIER

¹⁵ See Rawls (1972).

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NZIER | (04) 472 1880 | econ@nzier.org.nz | PO Box 3479 Wellington

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