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# COVID-19, the Great Recession and Social Policy: Is this time different?

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## Note

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## Abstract

This paper provides an overview of the initial crisis responses to the coronavirus pandemic and asks whether and how both the nature of the COVID-19 crisis and the national responses to this differ from those witnessed during the Great Recession. We argue that the speed and scale of the crisis are indeed distinctive, but that claims of symmetry – a crisis affecting all equally – is misplaced. We suggest that stimulus packages have, in broad terms, reflected the scale of the threat and that the wage-subsidies and employment supports that were introduced or adjusted are novel in scope and scale, with innovative developments. There has been a greater emphasis on housing than was apparent in responses to the Great Recession and, while a focus on taxation in response packages has been a focus in both crises, its form differs, with a greater reliance on deferrals rather than tax reductions in the stimulus plans announced to date. Our account stresses the agility of crisis responses and this agility must be regarded as welcome, mitigating a great deal of social harm during the initial phase of the pandemic. Whether these short-run responses create pressures for wider-ranging change is much debated, but highly uncertain.

## Keywords

COVID-19, Great Recession, Financial Crisis, Social Policy, Labour Market, Housing, Taxation, Health

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## Introduction

The COVID-19 pandemic of early 2020 tipped the world into an economic crisis for the second time this century. This earlier crisis – the Great Recession – has been a natural point of contrast to COVID-19 since its early days. In a public briefing on 20<sup>th</sup> March 2020, UK Prime Minister Boris Johnson claimed that:

‘This time it is different. We all remember what happened in 2008. This time we want to make sure that, as we heal the economic damage that this is causing, that we put the people first’.

On the face of it, these two crises – the COVID-19 pandemic and the Great Recession – are very different: the Great Recession was a crisis of capitalism, originating in financial markets (Verick and Islam, 2010). While there had been earlier tremors, it was the bankruptcy of Lehman Bros in September 2008 that sent shockwaves through the financial system, spreading beyond the United States to other nations intertwined in an international financial network as defaults cascaded through the system. The COVID-19 pandemic, by contrast, is a global health emergency that threatens to affect everyone, everywhere. The spread of the virus that causes COVID-19 has been described – in contrast with the Great Recession - as representing a symmetric shock: a crisis affecting all nations equally (e.g. Centeno, 2020). Politicians in a number of countries have stressed that COVID-19 threatens all citizens and therefore ‘does not discriminate’. In this paper we draw on this idea of symmetry, understood not as a clearly-delineated concept but as a rhetorical and heuristic device that has been deployed to stress the commonality of the shock posed by COVID-19, and serving to legitimate a solidaristic policy response.

The aim of this paper is to examine the nature of the COVID-19 pandemic and the social policy responses that have been implemented in advanced economies to respond to this crisis in its initial phase. While other contributions in this special issue examine in detail the responses in particular groups of countries, our aim is to consider the broader picture of the crisis itself while taking the Great Recession as a reference point. In doing so, we present data, where available, from a large sample of OECD countries. For the sake of consistency, we exclude countries from regions that are not included in this special issue (Chile, Columbia, Israel, Mexico and Turkey) as well as some smaller countries (Luxembourg and Iceland). Although it is not an OECD member country, we include data for China wherever possible

given this is where the virus originated and because of its growing importance in the global economy.

In presenting this account, our paper contributes to the literature on short-term crisis responses. Examining the fiscal responses of 34 countries to the 2008/9 financial crisis, Armingeon (2012) stresses the variation in these responses and suggests that more expansive responses were observed in: larger countries, countries with single-party governments, and those with lower levels of debt. In their comparison of policy responses in Sweden, Germany and the UK, Chung and Thewissen (2011) also stress the differences in crisis responses, suggesting that policy-makers ‘seem to have fallen back on old habits’ by implementing responses that drew on institutional legacies. In their examination of four crises over the past half century (including the Great Recession), Starke *et al.* (2013) examine whether crises leads to path-breaking change and suggest that the relationship between external shocks and path-departing (‘fundamental’) change is weak. Contrary to the notion of crises as providing ‘windows of opportunity’ for discontinuous reform, they posit a ‘threat-rigidity’ hypothesis, which suggests that ‘during moments of emergency and uncertainty, humans tend to stick to what they know best’ (Stake *et al.*, 2013: 10). This literature on short-run crisis responses has typically focussed on reforms pursued in the year or two following a crisis. Given the speed of the current shock (see next section), crisis responses were more rapid still during the pandemic and our analysis is based on policy announcements in the initial months of the crisis responses and initial fiscal plans for the current financial year. While these estimates will no doubt evolve, they reflect the short-run responses to the crisis, which is our focus here.

Our paper is structured as follows. First, we reflect on the nature of the COVID-19 crisis, comparing this with the Great Recession, considering the different starting points, as well as the speed, scale and (supposed) symmetry of this crisis. We suggest that this crisis is distinctive in terms of its speed and scale, but that claims of symmetry can be overdrawn. While the virus presents a threat to all, we argue that there are instead many asymmetries, both in terms of the health impact of the virus and of the economic impact of the shock that it has unleashed. Then, we conduct an exploratory analysis of the differences in the cross-national responses to the COVID-19 crisis - and seek to identify continuities and differences with the response to the Financial Crisis.

## 1. The Nature of the COVID-19 Crisis

The pandemic recession we are experiencing is a unique kind of crisis. In Table 1 we present a schematic of the nature of the impacts of the crisis. This shows that, in the initial period, COVID-19 is expected to impact - primarily - on the supply-side of the economy, as people fall ill and containment measures and school and business closures keep people at home. In turn, the COVID-19 pandemic is expected to reduce aggregate demand. In an attempt to reduce the risk of infection, it is expected that individuals reduce a number of (non-essential) activities - travelling, socializing, going to cinemas or restaurants, etc. - which will lead to a reduction in consumption. Furthermore, given the high level of uncertainty, individuals may postpone non-essential consumption and engage in precautionary saving, further deepening the impact on aggregate consumption. In this way the health and economic crises are interlinked – to tackle the virus, social distancing needs to be imposed, but this causes economic harm (and potentially other kinds of harm, such as to mental health, too). And while in the first phase we are witnessing primarily a supply shock, over time demand-side considerations may become more prominent, and the economic crisis is likely to outlast the health crisis.

While the pandemic might be thought of as a truly exogenous health shock, once we trace these developments we see that this oversimplifies matters – at least as far as the economic aspects and their social policy consequences are concerned. Governments across the world are imposing social distancing and lockdown restrictions and are having to steer their nations in ways which both protect lives and minimise damage to national economies (Eichenbaum *et al.*, 2020). So while the health shock is exogenous, governments bear *responsibility* for imposing lockdowns of citizens and businesses and this direct (and manifest) responsibility is one reason why we observe the expansive income protection measures being introduced to deal with the crisis (see below).

If this provides an insight into the type of crisis that we face, an explanation of why demands for economic security are likely to be strong, in the next pages we begin to examine some other aspects of the crisis – what we will call the four s’s – namely, the starting points, speed and scale and (supposed) symmetry of the crisis. These, we argue, help us to make sense of the COVID-19 crisis and how different it is from the Great Recession.

The first of these four s’s is starting points. In contrast to the period leading up to the global financial crisis, which had been one of economic growth (albeit at the expense of

growing indebtedness in the private or public sectors, debate over the balance of which became a major point of debate; e.g. Reinhart and Rogoff, 2009), the economic backdrop to COVID-19 was far from positive. Even though the health crisis was unfolding in Asia in early January, the IMF's *World Economic Outlook*, released 20<sup>th</sup> Jan 2020, made no mention of the health crisis, though noted that the advanced economies need to 'consolidate' in order to be better-prepared for the next economic downturn. This reflected a concern that, with interest rates at or around their 'lower bound', central bankers had limited monetary leeway to tackle the next crisis, while 2019 debt levels remained 20 percentage points higher across the EU28 than in 2007 (Eurostat, n.d., a). In the countries worst impacted by the last crisis, there had been little respite. Greece had only exited its Troika programme in August 2018 – less than 18 months before COVID-19 hit. Unemployment in Greece and Spain, the two worst-affected Member States, stood at 16.3% and 13.6% in February 2020 (Eurostat, n.d., b; see also Figure 2). But concern with macroeconomic performance, and the importance of these starting points, was the 'dog that did not bark' – at least in the initial phases, as nations succumbed to the pressures we describe above.

INSERT TABLE 1 HERE

The second 's' that is relevant in making sense of this crisis is speed. Speed can be thought of in two ways. The first concerns the spread of the virus internationally, which was rapid indeed, as Figure 1 demonstrates. With the first known cases originating in China in December (WHO, n.d.), the virus rapidly spread once it reached Europe. In a small number of days, COVID-19 had already crossed the Atlantic Ocean to hit the USA. Not only that, the direct effects of the pandemic hit a much larger number of countries than were affected by the Great Recession.

The second way in which speed matters relates to the almost immediate interaction between health and economic shocks. In terms of COVID-19, the time from first cases to lockdowns of populations was very short and governments were forced to respond rapidly. The first cases of a viral pandemic in Wuhan reported to the World Health Organisation were on 31<sup>st</sup> December; by 23<sup>rd</sup> January, a lockdown had been imposed on the city of Wuhan. The first cases of COVID-19 were reported in, for example, Italy and the UK on 31<sup>st</sup> January. By 8<sup>th</sup> March, some regions in Italy has been placed into lockdown, with a national lockdown

following two days later. A national lockdown was introduced on 23<sup>rd</sup> March in the UK. This is in fact not so very different from the Great Recession, which also produced some startling moments – the collapse of Lehman Bros., the Irish bank guarantee, and so forth. What is distinctive in relation to the current crisis is the speed with which an initial health shock affected all aspects of the economy and society. While measuring unemployment is exceedingly difficult in the current crisis - as it is not always clear whether layoffs are temporary or permanent - Figure 2 shows that April and May saw dramatic rises in unemployment in the USA and Canada (of 10 and 6 percentage points, respectively) and non-negligible rises of between 0.5 and 2 ppts in monthly unemployment rates in many countries, despite efforts to maintain employment - which we describe in more detail in Section 3.2. This is distinct to what occurred during the Great Recession. While the developments in the financial sector did lead to a deterioration of the public finances and precipitated the Eurozone crisis from 2010 (Gough, 2011), this took months and years rather than days and weeks to occur.

Speed matters because it limits scope for making detailed projections of likely policy outcomes, deliberating over alternatives, or learning lessons from abroad (on the latter, see Weible *et al.*, 2020). It is also significant because it created a climate of uncertainty. In a speech on 12<sup>th</sup> Feb, IMF Managing Director Kristalina Georgieva was quoted as saying that “We are still at the point of quite a lot of uncertainty. So I would talk about *scenarios* rather than *projections*” (emphases added) (IMF, 2020c). What was known was that the crisis posed a very substantial risk to public health, national economies and population well-being and that decisive action was needed.

INSERT FIGURE 1 HERE

INSERT FIGURE 2 HERE

The third important variable is scale. By the time of its April 2020 Fiscal Monitor, the IMF were reporting that the economic crisis precipitated by the COVID-19 pandemic would be more severe than that of the Great Recession. This trend can be observed in most countries, including countries like Australia or New Zealand which were barely touched by the previous crisis, but are now expected to face significant drops in their GDP (see Figure 3). But much of this was

not known, or at least was not known with any degree of certainty, in the initial days of the pandemic. The key scenario, therefore, was of a very many people being infected with COVID-19 or needing to socially distance in order to prevent infection, and governments needing to voluntarily shut down sizeable sections of their economies in order to contain the virus. These dramatic changes – unprecedented state intervention in the economy and increases in generosity of state supports – must be understood as a response to the scale and speed of the challenge and to the state acting to voluntarily shut economies down.

INSERT FIGURE 3 HERE

A final crucial feature concerned who was affected by the crisis. COVID-19 was understood – and described as – a *symmetric* shock and this influenced the framing of potential responses (see Introduction). Claims of “symmetry” were linked to suggestion that the response of inter-governmental and multi-lateral organisations should be solidaristic in their handling of the crisis. This was not just a description of ‘facts on the ground’, but also had another meaning, which was the suggestion from actors in the institutions of the European Union that there was no moral hazard at play. Thus, state aid rules could be relaxed and fiscal rules could be suspended in part because this was a problem understood to be experienced by all nations rather than the consequence of the bad behaviour of some (as had informed thinking during the Eurozone crisis, the Great Recession’s second act). Faced with a common shock, the crisis may have appeared symmetric initially and any inequalities between and within countries were only partially known at the outset when the initial policy measures were announced.

Bringing these points together, the key was that the health crisis and national lockdowns created a functional pressure to provide supportive mechanisms for citizens to help them cope with the crisis. The scale of the crisis and the necessity of these responses over-rode pre-crisis concerns about debt burdens from the Great Recession having been fully repaid. The speed and scale of the crisis made opportunities for learning limited. The crisis may not have been symmetric, but departures from symmetry only became more apparent over time. Beneath the common shock, however, there were many asymmetries in how the crisis would impact countries and people.



## 1.1. The Many Asymmetries

As Bambra and colleagues (2020) argue, claims that the virus ‘does not discriminate’ and that ‘we are all in this together’ significantly misrepresent the asymmetric impact, experience and likely consequences of COVID-19. Here we extend beyond the immediate health dimension (though this is of course critical) to consider a range of asymmetries that are relevant to thinking about COVID-19 in relation to the economic shock too. In relation to both, there are potential asymmetries between and within countries.

A first difference concerns variations between countries, both in terms of the health and economic impacts. In terms of the health aspect, the speed that the virus spread meant that some countries had *a little* more time to prepare than others (compared to in China, where it originated, or in Italy, where the health system came under intense strain very early on in the crisis). Then, there were variations in the way that lockdown was imposed. Sweden is a particular outlier here in that it did not implement a formal lockdown, but there are a wide range of more minor variations in how nations imposed social distancing restrictions and the extent to which these restrictions were adhered to. Emerging evidence supports the (intuitive) idea that these variations in lockdown orders are consequential in terms of fatality rates (Conyon, *et al.*, 2020). And then, after the initial wave of cases, there are variations in how countries managed case numbers, emerged from lockdown, avoided second spikes (or not). These lockdown provisions are likely to have had numerous significant, but as yet only partially understood, impacts on, *inter alia*, mental health, domestic violence, traffic accidents, fertility, divorce, and much else besides.

A second source of asymmetries arises from the economic impact of national lockdowns. Many countries introduced some form of economic shutdown as people were told to stay at home between March and May. For some, this meant working from home, but for others – and especially workers in hospitality and service sectors, it led to work ceasing, either temporarily or permanently. OECD (2020b) estimates suggested that output declines would vary between about 15% (in Ireland) to 35% (in Greece), based on differences in terms of the relative sectoral composition of national economies – that is, that some countries were more reliant on affected sectors than others. Moreover, the health and economic impacts of lockdown are clearly intertwined - the timing, severity, length of national lockdowns will have affected the economic impacts of the immediate crisis.

Within countries, the socio-spatial inequalities in terms of the health impact of COVID-19 have been detailed by Bambra *et al.* (2020). They argue that ‘people living in more socio-economically disadvantaged neighbourhoods and minority ethnic groups have higher rates of almost all of the known underlying clinical risk factors that increase the severity and mortality of COVID-19, including hypertension, diabetes, asthma, chronic obstructive pulmonary disease (COPD), heart disease, liver disease, renal disease, cancer, cardiovascular disease, obesity and smoking’ (Bambra, 2020: 2). Thus, COVID-19 has the potential to sharpen health inequalities within countries.

And then there are the unequal impacts of the policies imposed to try to deal with COVID-19 – namely, to impose lockdowns. Blundell *et al.* (2020) show that sectors affected by lockdowns are disproportionately sectors where women, young people, workers on low earnings and ethnic minorities are employed. This matters because in many cases inequalities directly flowing from lockdown orders interact with pre-pandemic inequalities. For example, while lower paid, service sector workers have been more likely to lose work, higher-paid workers were more likely to be able to work from home and thus to minimise an income shocks (Resolution Foundation, 2020). These asymmetries will undoubtedly evolve, and our understanding of them will grow, as the pandemic continues, but they caution against viewing the impact of COVID-19 as being experienced equally by all.

## 2. A Stronger and Swifter Fiscal Response

We now turn our focus to the responses put in place by national authorities in advanced economies to deal with the pandemic. In this subsection, we focus on two measures. The first is the size of the planned fiscal stimulus – this contains only the discretionary measures that have been announced to deal with the crisis and does not contain the increased cost of automatic stabilisers. The second is the expected general government fiscal balance for the year 2020, expressed as a proportion of GDP, which covers the full impact of crisis – including the effects of automatic stabilisers.<sup>1</sup>

The existing data suggest that, faced with an even deeper recession than in 2008/9, most advanced economies have utilised their fiscal machinery to put in place a stronger fiscal response. Focussing solely on the size of the stimulus packages announced in the initial months

(Figure 4), we can observe that, with some notable exceptions (especially China), almost all advanced economies considered here have announced a substantially stronger fiscal response than during the previous crisis. Given the size of their economies, we cannot help but to notice the size of the fiscal packages announced in the US (12.3% of GDP), Japan (11.3%) and Germany (9.3%).

INSERT FIGURE 4 HERE

INSERT FIGURE 5 HERE

The scale of the current response to the COVID-19 pandemic is also evident if we look at the (projected) size of the (unadjusted) general government fiscal balance for the current year, which we present in Figure 5.<sup>3</sup> If we take the IMF's April projections at face value, we see that, with some exceptions (Norway, Ireland, Finland, Slovakia or Japan) the advanced economies covered here are expected to run larger deficits this time around. These early estimates thus suggest that – even by the standards of the 2008 Financial Crisis (Starke et al, 2013; ILO, 2011) – the scale of the response by national authorities have responded prompted by the COVID-19 pandemic has been significant.

### 3. Important Continuities, but Some Distinctive Features

Moving beyond the scale of the crisis response, we can ask whether the modes of crisis response differ from those observed in the 2008 Financial Crisis. A number of aspects of the crisis response from 2008/9 are worth mentioning here in terms thinking about the present crisis. The first is nationalisations and other state support to prevent the collapse of financial institutions (Kathiwada, 2009), reflecting the particular nature of that crisis. There was also a

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As Armingeon (2012) and Pontusson and Raes (2012) show, cyclically-adjusted measurements of general government fiscal balances provide more a suitable indicators of the size of the fiscal response, but we do not yet have such an estimate at our disposal.

monetary response as central banks moved to slash interest rates and, subsequently, engage in large-scale quantitative easing.

National governments responded to the 2008 Financial Crisis by announcing sizeable fiscal stimulus packages and, important for our purposes, tax cuts played an important role in these packages (Pontusson and Raess, 2012). Kathiwada (2009) shows that more than one-third (34%) of the total fiscal stimulus introduced during this period in 10 advanced economies consisted of tax cuts to families and firms.

Another important feature of the response to the Great Recession was the passive stance adopted with regards the protection of the unemployed in many countries (Pontusson and Raess, 2012). Consistent with this view, Kathiwada (2009) shows that (in advanced economics) measures to upgrade unemployment benefits were relatively rare. Not only that, spending on social transfers to low-income groups and employment measures constituted only relatively minor parts (10.8% and 2.9% of GDP, respectively) of the stimulus packages announced during that period.

Building on these insights, in the remaining sections of this paper, we seek to identify the critical dimensions of the response to the COVID-19 pandemic and discuss in what way they continue, or depart, from the model of crisis management that emerged during the response to the 2008 Financial Crisis (Armingeon, 2012; Pontusson and Raes 2012; Cameron, 2012; and Starke et al, 2013). Our focus is on the initial responses to the crisis between March and June 2020 and we draw on data about these responses that have been collated and published by the IMF (2020) and the OECD (2020) for this purpose. Our aim is to identify areas of commonality and difference in these responses that have been announced and, ultimately, to draw lessons based on these about social policy crisis responses. We focus on four policy areas which, we argue, help to bring out these commonalities and differences: health, illness and care policies; labour market supports; housing policies, and taxation policies.

### **3.1. Health, Illness and Care policies**

One obvious area of distinctiveness of the plans announced in response to this crisis concerns health spending, which reflects the specific nature of the pandemic and strategies adopted by national authorities to contain it (and is, in some sense, an equivalent to the investment in

financial institutions in the Great Recession, tackling the source of the crisis in both cases directly). In fact, as can be seen in Figure 6, for a number of countries – such as Finland, Czech Republic, France and Belgium - health-related expenditures constituted a sizeable share of the fiscal response to the current pandemic (dashes, right-hand axis).

INSERT FIGURE 6 HERE

There were also innovations in relation to health-related labour market and social security schemes. These included, for instance, measures to avoid a scenario whereby, for economic reasons, a person might fail to self-isolate and go to work. In some cases, this was done through the introduction of new sickness benefits schemes – such as the ‘Families First Coronavirus Response Act’ in the United States.<sup>4</sup> In other cases this involved a more incremental approach of recognising COVID-19 as a reason for entitlement to sickness benefits (e.g. in Portugal) or occupational injury benefits (e.g. in Belgium, Italy and Spain), or eliminating waiting periods in the case of COVID-19 infections (e.g. in Canada, UK, Sweden, Denmark, Spain, Estonia) – see OECD (2020a,).

A further example of this of the use of social policies to assist in the fight against the pandemic was the introduction of income support schemes to assist families who were forced to stop working to provide care to their children. In some cases – for example, in Korea,<sup>5</sup> this was done through the extension of paid leave. Less common options were the introduction of income support schemes to compensate parents who are forced to take unpaid leave to take care of children, as was the case in Finland;<sup>6</sup> and the payment of childcare costs, as was the case in Italy, where families were entitled to a EUR 1200 childminder voucher (OECD 2020a,).

In some senses, of course, these innovations are not surprising – this was a pandemic, after all. But they were also an expression of social need in circumstances that, albeit on a more limited basis, might be said to reflect circumstances and needs that are not unique to the pandemic – that is, the need for people who are sick to have adequate social protection if they

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<sup>4</sup> The ‘Families First Coronavirus Response Act’ provides for 2 weeks of paid sick leave to workers in firms with more than 50 and less than 500 employees (OECD 2020a, May 22).

<sup>5</sup> Workers who need to stay home to care for children due school closures are entitled to up to 10 days paid family care leave, paid at KRW 50 000 per day – per parent (OECD 2020a, May 22).

<sup>6</sup> Employed parent taking unpaid leave to care for a child who would normally be in early childhood education or school are entitled to a flat-rate of benefit of EUR 28.94 per working day.

are to stay at home and prevent infecting others or for people who are undertaking unpaid care work to be able to sustain themselves while providing care.

### **3.2. Labour Market Policies**

The specific nature of the crisis also created the need for income supports for people who were not able to work. This included perhaps the most visible social policy reform type implemented during the pandemic – namely, the use of wage subsidy schemes and, relatedly, enhanced unemployment benefit schemes. These amounted to a new development for many countries in terms of the management of labour markets during a crisis.

This new posture towards labour market regulation can be seen, first of all, in the steps taken in a number of countries to expand unemployment protection.<sup>7</sup> In some cases, such as Ireland - this involved the introduction of temporary schemes.<sup>8</sup> In other cases this involved expanding the coverage of unemployment benefits, either by including new groups of workers previously included (as in Finland), either by relaxing eligibility rules – as was the case in Spain. In other countries, such as Portugal and Germany, the option was to expand the duration of unemployment benefits. Another response, for schemes that did not change fundamentally in terms of coverage, was the increase of unemployment benefits, which we observe in the United States and the United Kingdom. This differs from the financial crisis where policy decisions and debates tended to centre on whether to allow automatic stabilisers to operate in full, and where the more active initiatives were in relation to jobs subsidies and activation programmes.

Second, in what is perhaps the most striking feature of the response to the current crisis, most advanced economies sought to introduce wage subsidy schemes – or, significantly expand their current schemes (see Table 1).<sup>9</sup> A number of features are worth discussing. Such schemes are essentially universal responses to the pandemic – they are observed everywhere, but there is a distinction between countries where they represent a wholly new response (e.g. the UK, the Netherlands, Hungary) and other nations where they represent an extension of existing schemes (e.g. Italy, South Korea, the United States).

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<sup>7</sup> For a comprehensive mapping of the changes in unemployment protection see the OECD Employment Outlook (2020).

<sup>8</sup> In Ireland, employees and the self-employed who have lost employment due to a downturn in economic activity caused by the COVID-19 pandemic are entitled to a flat rate payment of 350 p/week for up to 12 weeks - COVID-19 Pandemic Unemployment Payment (OECD 2020a)..

<sup>9</sup> Figures correct as of 5<sup>th</sup> May (Müller and Schulten, 2020).

INSERT TABLE 2 HERE

Where the option was to expand existing schemes, this was achieved in a number of different ways (OECD, 2020). In some cases, governments decided to expand the coverage of existing wage subsidies. This was the case in Italy, which extended its short-time work scheme to all sectors in the economy (OECD 2020a,). In other cases, national authorities decided to increase the generosity of the schemes. This was the case, for instance, in Germany where the replacement rate for workers with children (with reduced hours by at least 50%) was increased from 67% to 77%, from the fourth month on, and to 87% from the 7<sup>th</sup> month of benefit (OECD 2020a,).<sup>10</sup>

With the exception of the Netherlands and Poland, most of the countries that introduced new schemes opted for time-limited schemes, though some have subsequently been extended. And there are variations in generosity – we can see that the proportion of gross pay provided by these schemes varies between Baltic and Eastern European nations, where schemes were less generous, and those introduced in Denmark and the Netherlands, where the option was to replace gross salaries at 100% but, nonetheless, this variation occurs at quite high replacement rates (i.e. in most cases, more than 70% of the gross pay). Our focus is on the schemes as initially announced – they were extended further in many cases, along with, in some cases, reductions in support (for example, in Ireland).

Such wage subsidy schemes have echoes of those introduced in response to the financial crisis in some nations (these are discussed, for instance by Hemerijck, 2013: 343-347), but the comprehensiveness, scale and full-time, as opposed to part- or short-time, nature of the schemes introduced in this crisis is indeed distinctive.

A third and final example of this new posture towards the role of the state in managing the labour market impacts of the recession, is the introduction of (temporary) restrictions on dismissals. As can be seen in Table 1, a significant number of countries have imposed limitations on dismissals as a condition to the entitlement to wage subsidy schemes. For instance, in the Netherlands an employer expecting a turnover loss of at least 20% can apply for a salary contribution subsidy of maximum 90% of the wage bill for up to three months, as

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<sup>10</sup> Childless workers were also increased (OECD 2020a, May 22).

long as no staff is made redundant for economic reasons. Going well beyond this more targeted approach, Italy and Spain imposed (temporary) universal restrictions on dismissals – which in Italy extended for a period of months (OECD 2020a, May 22).

The labour market reforms announced are some of the more visible aspects of the crisis responses. In some countries, these responses contain some genuinely new developments: introduction of wage subsidies, enhancement of unemployment supports, and, in some cases, the prohibition of dismissals; for other countries, however, the wage subsidy schemes might be thought of as significant extensions in the scope and scale of schemes announced in response to the Great Recession.

### **3.3. Housing Policy**

In addition to this renewed interest in the labour market intervention, the response to this crisis is marked by the introduction of measures to protect the housing situation of the families most hard-hit by the pandemic. While it could be argued that the introduction of deferrals on mortgage payments must be interpreted as a context-specific intervention to avoid the crisis spreading (in the form of a wave of unplanned foreclosures) into the financial system, the range of measures that were introduced during this period (OECD, 2020b) would suggest that these developments are instead reflective of an increasing acknowledgment of the growing issues in access and affordability of housing in advanced economies (Housing Europe, 2017; Czischke and van Bortel, 2018).

INSERT TABLE 3 HERE

As can be seen in Table 3, during this period a significant number of countries took steps to protect the housing status of those who experienced a (temporary) drop in earnings. As can also be seen, the type of interventions in this domain vary significantly by reference to the housing tenure. For mortgaged homeowners, a large number of countries introduced temporary mortgage payment moratoriums (see Table 3). For example, Hungary introduced a moratorium on the payment of individual loans until December 2020 (OECD 2020a); other countries introduced shorter moratoriums, though many have subsequently been extended.



For renters, the primary focus was on avoiding evictions. A good example is the legislation introduced in Spain which forbid all evictions due to missed payments during the State of Emergency and also introduced a further 6 months suspension for vulnerable families – namely, those whose in receipt of wage subsidies, or whose income has dropped by at the least 40% (OECD 2020a). In contrast with provisions for homeowners, deferrals of rent payment have been rarer. In Germany, families in need were allowed to postpone for up to 2 years the payment of the rents due between the 1<sup>st</sup> of April and 30th of June), but such schemes have not been widespread.

Thus, there has been a clear focus on protecting home foreclosures and evictions in the responses to the COVID-19 crisis with, in many countries, a clear difference in treatment between mortgaged homeowners and renters.

### **3.4. Tax Policies**

Despite the significant novelties that have been identified in the previous sections, one area where the response to the COVID-19 seems to reproduce the model of crisis management that was inherited from the 2008 Financial Crisis is the reliance on taxes as a tool for securing/spurring consumer demand. However, the nature of this emphasis differs to that observed during the last crisis. While there was extensive use of tax cuts during the Great Recession, in Figure 7 we see that policy-makers have privileged tax deferrals in the initial period.

These tax deferrals have been mostly targeted at firms (Eurofound, 2020).<sup>11</sup> In some countries, the option was to allow companies to postpone the payment of payroll taxes. This was the case of Portugal that allowed firms to defer the payment of Personal Income Tax (PIT) withholdings due in April, May and June, which could later be paid in 3 or 6 monthly instalments (OECD 2020a, May 22). In other countries, the option was to allow employers to postpone the payment of Social Security Contributions (SSC). This was the case of Sweden, where employers were allowed to postpone the payment of SSCs for 3 months, with no interest - or alternatively, 12 months, but with interest (OECD 2020a.). In addition, a number of countries have allowed self-employed workers to postpone the payment of social security

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<sup>11</sup> There are nonetheless, some cases of tax deferrals for families. This is the case, for instance, in Ireland where families were allowed to postpone the payment of local property taxes (OECD 2020a).

contributions. This was, for instance, the case in Belgium which provided a one-year deferral of the payment of self-employed workers SSCs concerning the first two quarters of 2020 (OECD 2020a, May 22).

Where tax cut/exemptions have been implemented, they have also mostly been targeted at firms - particularly those most affected by the crisis. A good example is Sweden, which introduced a temporary exemption from social security contributions to all companies affected by the crisis (Eurofound, 2020). Another example is France's decision to reduce SSCs liabilities by 50 percent, between March and May 2020, for companies with less than 50 workers. (OECD 2020a, May 22).

INSERT FIGURE 7 HERE

A variant of this is the introduction of full/partial waiving of taxes in the context of wage subsidy schemes. This is the case in Spain, where companies of up to 50 workers who benefit from the wage subsidy scheme are exempted from the payment of SSCs. For employers with more than 50 workers, SSCs are reduced by 75% (OECD 2020a, May 22).

Overall, then, there has not been very widespread reliance on tax cuts during this crisis, but there has been a widespread and largescale deferral of tax liability. This in some sense reflects the fact that, in its first phase, this is not (yet) primarily a crisis of demand and that there was concern not only about the economic vulnerability of households but also of the solvency of businesses. Of course, a key question for the future is the extent to which tax deferrals are ultimately written-off if the crisis does not abate, which would only increase the fiscal consequences of the crisis response.

## Discussion and Conclusion

The COVID-19 pandemic of early 2020 tipped the world into an economic crisis for the second time in little more than a decade. As we have discussed, this crisis was of a very different type to the Great Recession of 2007/8. As discussed above the speed and scale of the current crisis surpasses even the Financial Crisis, especially in respect of movement between the initial locus of the crisis (financial institutions; health) and the real economy. Pre-crisis concerns about debt

burdens did not prevent a massive fiscal response. Moreover, the responsibility of national governments in locking down citizens and businesses was crucial. While the health crisis was an exogenous shock, the economic shutdowns were ordered by government and this helps to explain the generous wage subsidy schemes that have been introduced (or substantially extended) in most countries.

While at a surface level the crisis can be thought of as being symmetric – representing a common shock – we have argued that there are multiple asymmetries, in terms of variations in the impact of the crisis both between and within countries, and in terms of both the health and economic shocks. In many ways the crisis has exacerbated existing inequalities and may create welfare demands for these to be remedied, both during the crisis and, potentially, beyond.

We have also sought to consider how the welfare responses contained in the initial crisis responses differed from those in 2008/9. As expected, there are significant anticipated increases in health spending as nations try to respond to the crisis ‘directly’, in moves which have some relation to the attempts to shore up financial institutions in 2008/9.

The measures to protect households contain both similarities and differences to the responses to the last crisis. Key differences concern developments in the labour market and in relation to housing. In some countries, the generous wage subsidy schemes announced were unprecedented; where they were not, they still represented a significantly enhanced scale and scope when compared with previous or existing schemes.. Housing has received much more attention in this crisis, as governments have attempted to prevent mortgage defaults and evictions. We have shown that this pattern, of enabling payment deferral for mortgage holders but not renters, is quite widespread internationally. There has been a greater emphasis on increasing unemployment supports rather than simply letting automatic stabilisers take their course, compared to during the Great Recession. Finally, we have seen that one point of continuity can be observed in terms of the role of changes in relation to taxation in the initial response, but the precise role played by tax changes has differed between the COVID-19 crisis and the crisis of 2008/9. Instead of tax cuts for individuals and companies, which we saw then, the focus in the reform packages announced this year has been primarily on deferring business liabilities.

The initial crisis responses have been enormously expensive and, as discussed above, have occurred without much reference to debt dynamics. But debt cannot be ignored forever, especially if yields on government bonds begin to rise, and here the COVID-19 pandemic has

a direct antecedent in the Great Recession. Hemerijck (2013) and van Kersbergen and Vis (2014) depict three phases of crisis response in that crisis, with supports for the banks and the real economy gave way to a politics of austerity in order to tackle and emerging debt crisis. A key moment in this previous came when countries, having bailed out financial institutions and allowed automatic stabilisers to play their role, turned towards austerity. On 22 July 2010, the then ECB chief Jean Claude Trichet wrote in the *Financial Times*, ‘Stimulate no more – it is now time for all to tighten’ (cited in Blyth, 2013: 60). While debt considerations appear largely to have been ignored in the initial phase of the crisis, key questions include how long such considerations can be kept at bay, and where and when the call to ‘stimulate no more’ will come from.

The longer the public health crisis goes on, the more we will face trade-offs between competing demands – the need to finance deficits, the claims made by those left behind or advocating against the new inequalities that have developed. The ILO (2020) has expressed concern that, even for those countries that provided support for citizens, policies may be unwound too early out of concerns about the accumulation of debt. For the Eurozone economies there must be questions about how long the fiscal rules will be suspended for, and whether this period will be sufficient for even those countries worst-affected by the crisis. Any recourse to limiting deficit spending, whether externally or internally imposed, may enhance the asymmetries we have discussed. And, ultimately, there is the question of how greater debt accumulation influences social policy choices going forward. A new politics of welfare may emerge, but it may not be one of our choosing.

Reviewing social policy developments during the Great Recession, Starke and colleagues (2013) note that crisis responses tended to be incremental and building on pre-crisis trajectories and that the Great Recession did not act as a ‘critical juncture’. This, they suggested, might be explained by the ‘threat-rigidity’ hypothesis, according to which, in moments of crisis, policy-makers are inclined to ‘stick to what they know best’ (Starke *et al.*, 2013: 10).

In this review of the initial response packages across countries, we would stress not continuity, but agility. Governments across the rich world have implemented stimulus plans that reflected the size of the shock that they faced. These included measures that related directly to the source of emergency (i.e. in relation to health spending and illness benefits) but also contained elements that sought to forestall the economic and social harm that might otherwise be unleashed by the COVID-19 crisis. There have been extensive new or amended labour

market measures and a much greater emphasis on housing, reflecting widespread concerns about housing affordability that now exist internationally. Some of these responses – for example, in terms of increases in generosity of illness or unemployment benefits or strengthened protection for renters – spoke to vulnerabilities which, while now experienced on a mass scale, are the lot of many even in absence of a pandemic. To be sure, most of these changes were time-limited and it is too soon to tell whether the crisis will open up new avenues for transformative social policy change – whether of expansionary or contractionary varieties. But, faced with the rapid emergence of new needs, the decisiveness and agility of short-run crisis responses to COVID-19 is significant and suggests, at least, the possibility of change.

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Table 1. The Typical Economic Impacts of a Pandemic

	<b>Supply-Side Effects</b>	<b>Demand-Side Effects</b>	
		<i>First Round Effects</i>	<i>Second Round Effects</i>
<b>Pandemic</b>	<p>Infected workers reduce hours of work</p> <p>Non-infected workers might reduce hours of work for fear of infection</p> <p>Death of infected workers</p>	<p>Individuals reduce social activities (traveling, meeting people, entertainment in public spaces) as a means to reduce the risk of infection</p>	<p>Rise in unemployment</p>
<b>Containment Strategies</b>			
<ul style="list-style-type: none"> <li>• <b>Travel Restrictions</b></li> </ul>	<p>Potential disturbance of supply-chains and tourism flows</p>	<p>Uncertainty leads to higher precautionary savings and delay in consumption</p>	<p>(Potential) Drop in incomes</p>
<ul style="list-style-type: none"> <li>• <b>School Closures</b></li> </ul>	<p>Workers are forced to stay at home to care for children (impact depends on possibility of working from home)</p>	<p>Social containment measures reduce opportunities for (firm and household) consumption and (firm) investment</p>	
<ul style="list-style-type: none"> <li>• <b>Closing of Business</b></li> </ul>	<p>Forced reduction of certain economic activities. Potential disturbance of supply-chains.</p>	<p>Decline in asset prices</p>	
<ul style="list-style-type: none"> <li>• <b>Stay at Home Orders</b></li> </ul>	<p>Workers are forced to stay at home and not work (impact depends on possibility of working from home)</p>		

Based on: Jonung and Roeger (2006); European Commission (2020); Eichenbaum et al, 2020.

**Table 2. Wage Subsidies during the COVID-19 Pandemic**

Country	Wage Subsidy <sup>a</sup>	Key Features		
		Generosity (% of Gross Pay) <sup>b</sup>	Maximum Duration (in months) <sup>c</sup>	Limitation on Dismissals <sup>d</sup>
US	○	-	-	-
Canada	●	75	-	◇
UK	●	80	4	◇
Ireland	●	70	3	◇
Sweden	○	92.5-96	9 (6+3)	◇
Denmark	●	100	3	◆
Norway	○	80-100	6.5 (0.5+6)	◇
Finland	○	50-90	13	-
France	○	70	12	◇
Germany	○	60	12	◆
Belgium	○	70	4	◇
Netherlands	●	100	6 (3+3)	◆
Italy	○	80	12 (3+9)	◆

<b>Spain</b>	○	70	6	◆
<b>Portugal</b>	○	66.6	6 (1+5)	◆
<b>Greece</b>	●	-	-	◆
<b>Poland</b>	●	50	6 (3+3)	-
<b>Hungary</b>	●	70	3	-
<b>Estonia</b>	●	70	2	◇
<b>Latvia</b>	●	75	2	◇
<b>Lithuania</b>	●	60-90	3	◆
<b>Australia</b>	●	-	-	-
<b>New Zealand</b>	●	100	-	◆
<b>Japan</b>	○	-	-	-
<b>South Korea</b>	○	-	-	-

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● New Scheme	◆ Yes
○ Changes to Pre-Existing Scheme	◇ No

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Notes:

<sup>a</sup> OECD (2020e), Table 1.1. ‘New Scheme’ here covers both ‘New wage subsidy scheme’ and ‘New short-time work scheme’ in the original source.

<sup>b</sup> Müller and Schulten (2020), Figure 3. Lewis Silkin (2020) for Austria, Canada, Germany, Spain, Greece, Ireland and New Zealand.

<sup>c</sup> Müller and Schulten (2020), Figure 4. Lewis Silkin (2020) for Canada and New Zealand.

<sup>d</sup> Lewis Silkin (2020)

**Table3. Providing Housing Security to Hard Hit Families**

	Support to Homeowners		Support to Renters	
	Deferrals on Mortgage Payments	Suspension of Foreclosures	Deferrals on Rent Payments	Suspension of Evictions
<b>US</b>	●	○		○
<b>Canada</b>	●			○
<b>UK</b>	●			○
<b>Ireland</b>	●			○
<b>Sweden</b>				
<b>Denmark</b>				
<b>Norway</b>				
<b>Finland</b>				
<b>France</b>				○
<b>Germany</b>	●		●	○
<b>Belgium</b>	●			○
<b>Netherlands</b>		○		○
<b>Italy</b>	●			
<b>Spain</b>	●		●	○
<b>Portugal</b>	●		●	○
<b>Greece</b>	●			

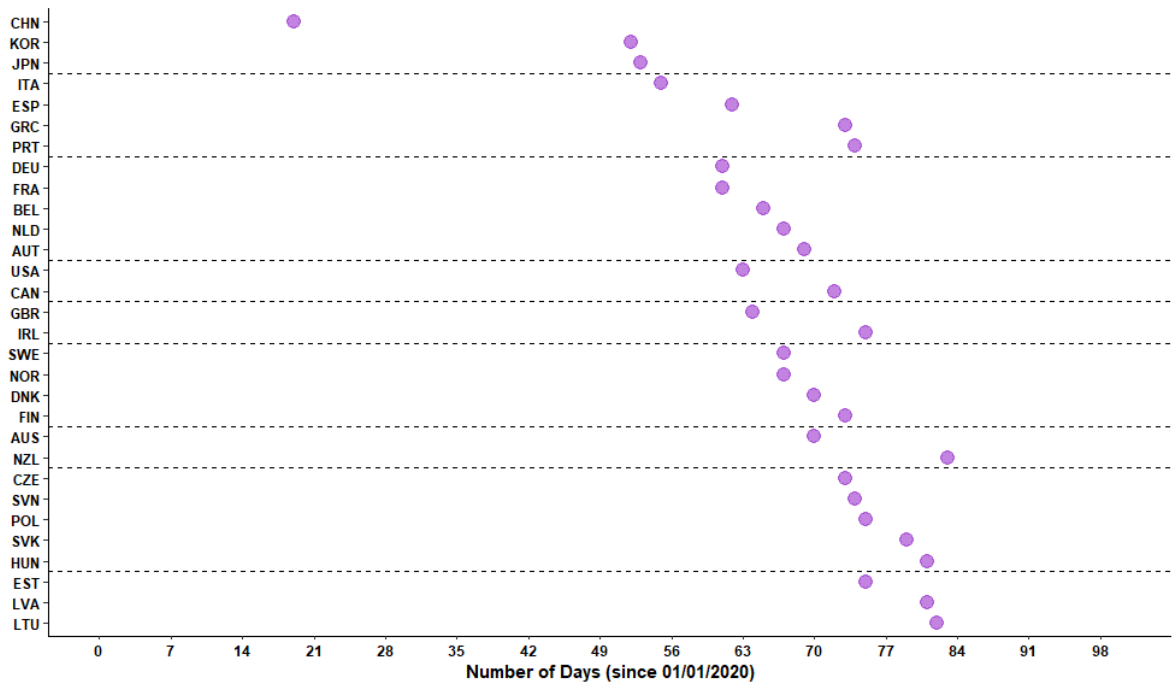
<b>Poland</b>	●	
<b>Hungary</b>	●	○
<b>Estonia</b>		
<b>Latvia</b>		
<b>Lithuania</b>	●	
<b>Australia</b>	●	○
<b>New Zealand</b>		○
<b>Japan</b>		
<b>South Korea</b>		

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Notes

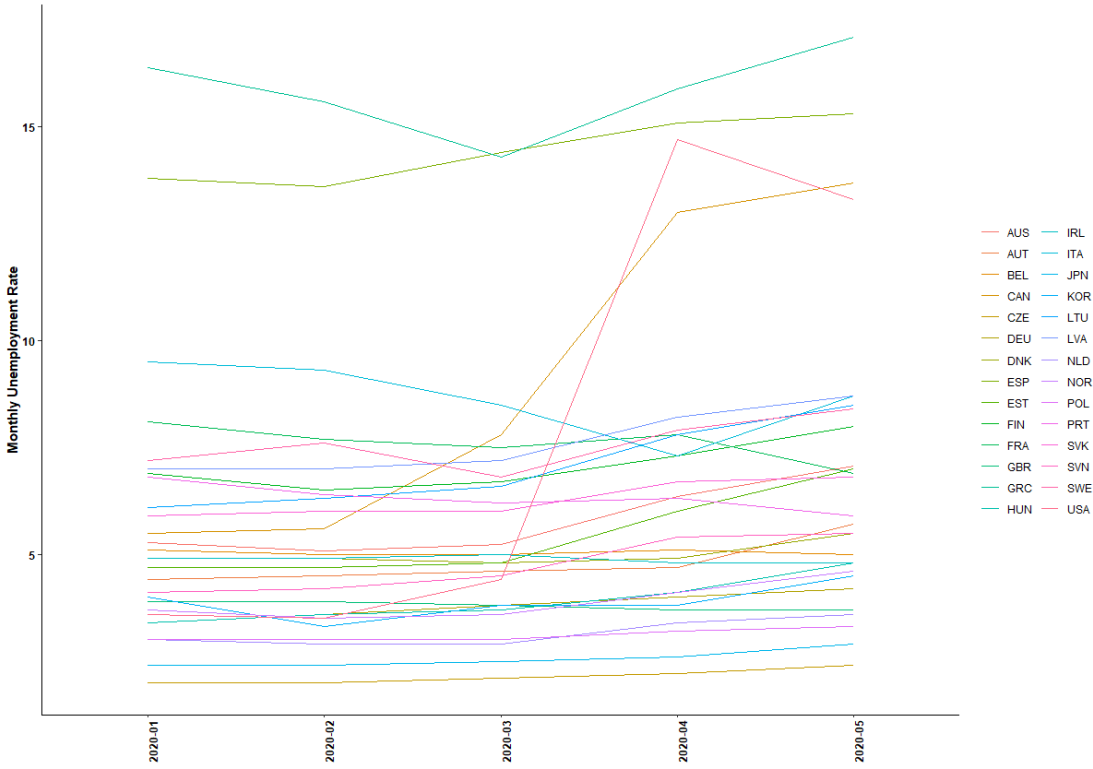
<sup>a</sup> OECD (2020e), Table 1.1.

Figure 1 Spread of COVID-19 Across Countries



Source: Hale et al (2020)

Figure 2 Monthly Unemployment Rates, 2019-20

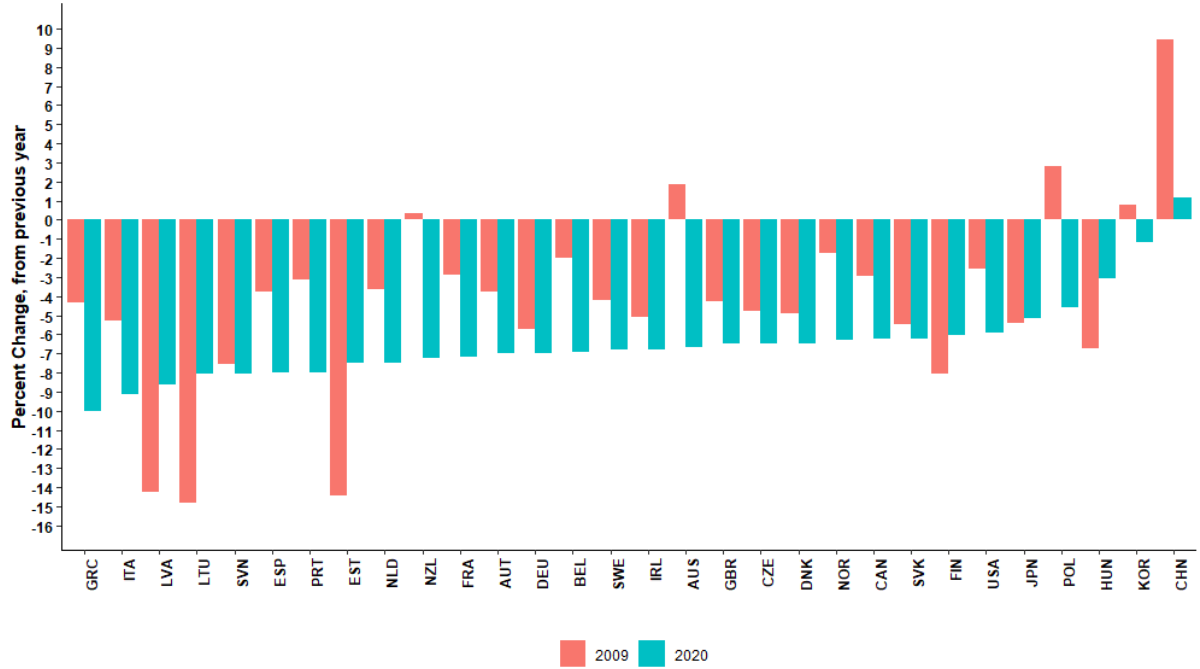


Source: OECD (2020d)



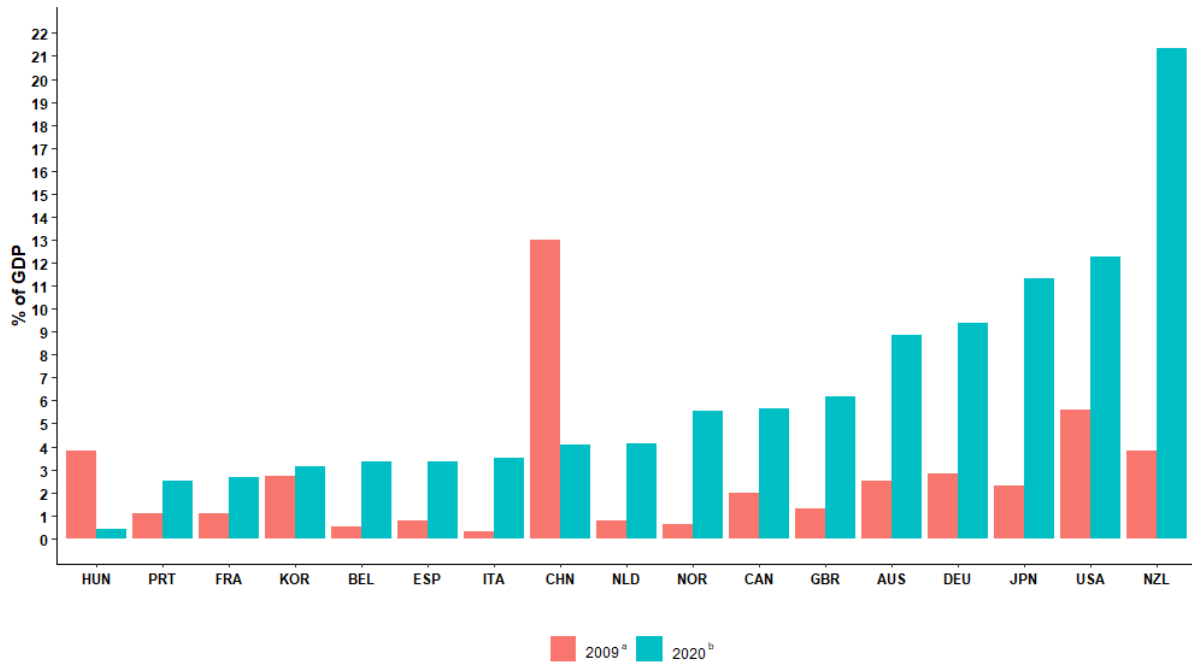


Figure 3 Changes in Real GDP, 2009 and 2020 (estimate)



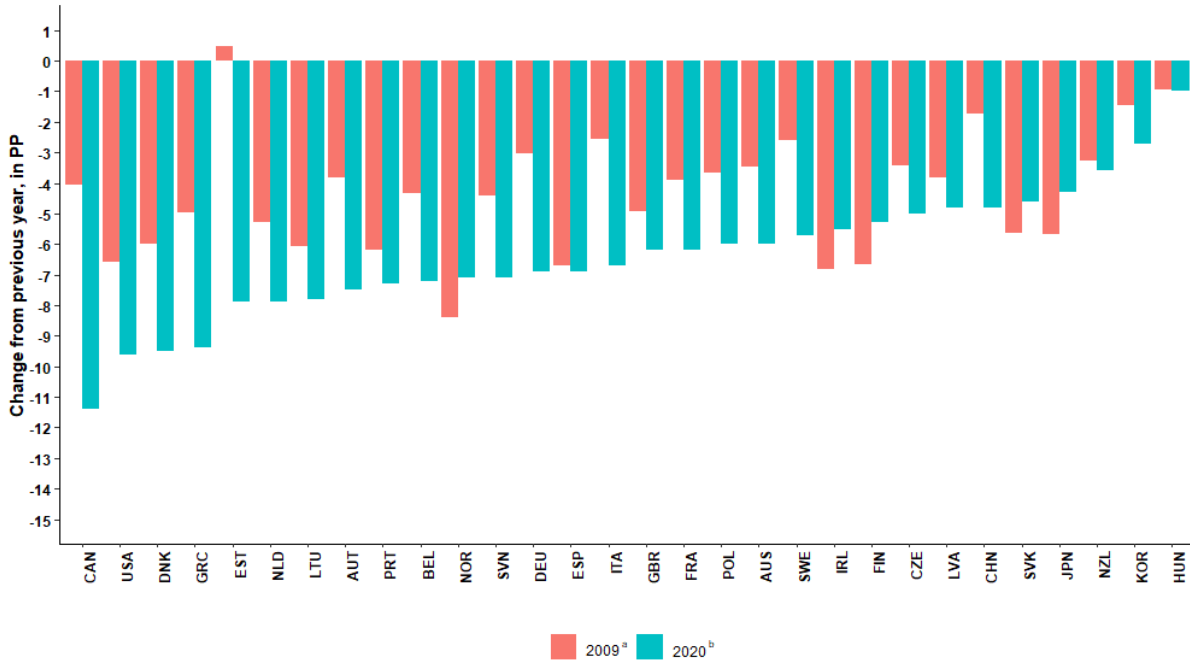
Source: IMF (2020d)

Figure 4 Size of (Planned) Fiscal Stimulus, 2009 and 2020



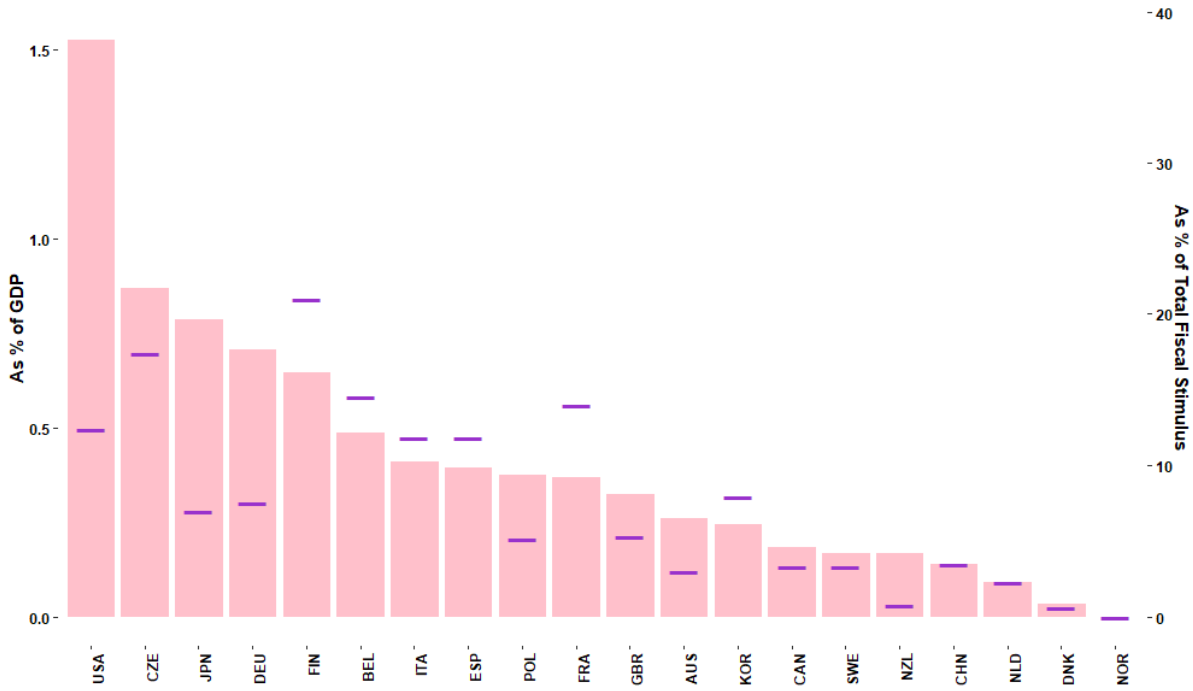
Source: <sup>a</sup>Khaliwada (2009), Table 4. <sup>b</sup>IMF (2020b); Bruegel (2020), for Greece, Hungary and Portugal.

Figure 5. Change in general government fiscal balance (ppt change), 2009 and 2020 (estimate)



Source: <sup>a</sup>IMF (2020), <sup>b</sup>IMF (2020), Table A1; IMF (2020), Table A9, for China, Hungary and Poland. (Based on projected values for 2020)

Figure 6 Additional Health Expenditure, as % of GDP (bars, LHS) and as % of Total Fiscal Stimulus (dashes, RHS)



Source: IMF (2020b)

Figure 7 Spending and Revenue Side Stimulus Measures, as % of GDP

