

COVID-19 – an Imposed Experiment on the Global Economy

Dr. Sanela Porca

Executive Director of the Pacer Center
Professor of Economics and International Business
School of Business Administration
University of South Carolina Aiken

Ms. Harshi Lodha Jain

Research Assistant for the Pacer Center
School of Business Administration
University of South Carolina Aiken

Abstract

This study explores the challenges businesses, entrepreneurs, and workers due to the COVID-19 pandemic and the resulting changes in labor force participation. The challenges of the business changes, entrepreneurship, and workers' willingness and ability to adapt to the new environment are ongoing worldwide. Time and time again, humans have displayed grace under pressure and poise under fear. The question remains of what needs to be done before new business and work opportunities are created. We can start by rethinking the current role of the government sector, businesses, entrepreneurs, laborers, educators, and households, along with numerous others. The beauty of entrepreneurship and global business is the ability to host and nurture the entrepreneurial spirit, which in return fuels the economy. The next wave of innovation, after COVID-19, will create world-changing companies, industries, and lifestyles. After this sheet of darkness has been lifted, a new light will shine on the global economy in general.

Keywords: COVID-19, business profitability, business loss, entrepreneurship, labor force participation post-COVID 19 pandemics.

Introduction

Since early December of 2019, hospitals in Wuhan city, Hubei province in China, started reporting an increased number of cases of pneumonia of unknown origin. The patients' conditions ranged from developing severe acute respiratory infections and acute respiratory distress syndrome to acute respiratory failure and other serious complications caused by this unknown illness. Almost a month later, (in January 2020) the Chinese Center for Disease Control and Prevention identified and named a novel coronavirus as 2019-nCoV. The novel coronavirus has shaped the last couple of years of our lives, and it will continue to adjust our livelihoods according to its agenda. Future historians will painfully write about the spread of COVID-19, the economic and social challenges that it brought, the loss of innocent lives, and the economic opportunities created after its reign.

Throughout the history of humankind, pandemics have killed many people in waves of shock and sorrow. The 1918 flu pandemic killed millions, while SARS in 2003 took many unassuming lives. However, now is a different time. People all over the world have been forced into lockdowns, and have experienced layoffs and closed borders, which in turn has imposed unimaginable trauma on many. We all have been forced to adjust to a "new normal", no matter how uncomfortable the shift may be.

It is the unknown that makes the coronavirus as deadly as it is. Our limited information, as a nation and world alike, plants seeds of fear into our minds. Coming to terms with the fact that there is no visible exit strategy from this situation is causing our world to rethink- well, everything. Governments, businesses, and households are now reevaluating their roles and scaling up to our new normal. Hope is not lost, though- it has only begun to sprout. After every pandemic, humans have risen to unimaginable levels of creativity and bravery. Time and time again, we have displayed grace under pressure and poise under fear.

The question remains, still, of what needs to be done before this bright future can come, before new opportunities are created. We can start by rethinking the current role of the government sector, businesses, entrepreneurs, laborers, educators, and households, along with numerous others. The beauty of capitalism and economic freedom is its ability to host and nurture our entrepreneurial spirit, which in return fuels the American economy.

The next wave of innovation, after COVID-19, will create world-changing companies, industries, and lifestyles. After this sheet of darkness has been lifted, a new light will shine on the American people.

The State of the United States Economy before COVID-19

COVID-19 has quickly deteriorated the United States economy, by freezing about 30 percent of business and bringing 20+ million American workers to the offices of unemployment. A domino effect of the current economic situation in the private sector is naturally disturbing the federal, state, and local revenues as well. Losses of family income, business profits, and government revenues all contribute to the unavoidable recession that is facing not just the U.S. economy, but the rest of the world as well.

However, the current state of the U.S. economy is not a good indicator of the performance of our workers and businesses. The entire world was taken aback by this novel coronavirus. We are all learning about its nature, while at the same time experiencing the loss of many lives and a deteriorated, economic well-being. Before COVID-19, United State businesses were creating new jobs, interest rates were low, and investors were spending money in the stock market. All indicators were pointing towards a healthy economic performance of American businesses and their labor force. It is worth pointing out that the unfortunate economic conditions that followed COVID-19 were not a result of any fiscal or monetary policies made by the government either.

Before we start looking into the future after COVID-19, it is important to give a quick review of the United States economy just before it. The United States Department of Commerce has thirteen bureaus. One of these bureaus, the Bureau of Economic Analysis (BEA), provides some of the most closely watched economic statistics. These statistics provide timely, comprehensive, and relevant economic data objectively.

Gross Domestic Product (GDP) is a comprehensive measure of the United States' economic activity as it measures the value and makeup of the nation's output. It also gives us insight into the types of income that the economy generates and how that income is spent. The changes in the GDP and its growth rate are the most popular indicators of the nation's overall economic health.

According to the Bureau of Economic Analysis, the fourth quarter of 2019 was an economically healthy period for our country.

The real Gross Domestic Product (GDP) grew by 2.1 percent in the fourth quarter of 2019. Seventeen out of twenty-one industry groups contributed to this growth. Retail trade, finance and insurance, and utilities were the leading contributors to the increase in U.S. economic growth. For example, during the fourth quarter, finance and insurance increased by 5.1 percent with the largest contributor to this increase being securities, commodity contracts, and investments. The Bureau of Economic Analysis further reports that the utilities increased by 23.3 percent. This increase was primarily due to an increase in electric power generation. Furthermore, the real value-added in the retail trade sector went up by 7.4 percent in the fourth quarter. This increase was primarily due to an increase in other retailers such as gasoline stations and non-store retailers. Finally, in the third quarter of 2019, the real gross output for health care and social assistance increased by 3.3 percent. This increase was primarily due to an increase in ambulatory health care services.

That was the fourth quarter of 2019. When we look at the change in real GDP from the 2019 annual level to the 2019 annual level, the 2.3 percent increase in our economy shows a strong standing of our overall economy. If we slice the 2019 economic pie to see who the big contributors to this gain were, we can see that the private goods- and services-producing sectors and the government sector contributed to this increase. The growth was widely spread across 20 (out of 22) industry groups. The leading contributors to the increase in real GDP in 2019 were: professional, scientific, and technical services, followed by finance and insurance, and finally information.

Like the rest of the world, our economy has been negatively affected by the current pandemic. Most small businesses have either temporarily closed or reduced their economic activities. Most of the big businesses have significantly reduced their operations. This resulted in the loss of household income and hardship for many families. According to the Bureau of Economic Analysis, during the first quarter of 2020 the U.S. real gross domestic product (GDP) decreased by 4.8 percent. The current pandemic was the primary contributor to the decline in real GDP during the first quarter of 2020. The global and national lockdown, business freeze, canceled business operations, the decline in consumer spending and investment by companies, distance learning, high unemployment, and much more, are all the factors that contributed to the decline in real GDP in the U.S. The comparison between the personal income (PI) and outlays between the fourth quarter of 2019 to the first quarter of 2020 is given in Table 1 (source: www.bea.gov).

Table 1: Personal Income and Outlays

Personal Income and Outlays	First-quarter 2020	Fourth Quarter 2019
Current-dollar Personal Income	increased by \$95.2 billion	Increased by \$144.1 billion
Disposable Personal income	Increased by \$76.7 billion; 1.9%	Increased by \$123.7 billion; 3.0%
Real Disposable PI	increased by 0.5 percent	Increased by 1.6 percent
Personal Outlays	decreased by \$253.5 billion	Increased by \$118.8 billion
Personal Saving	\$1.27 trillion	\$1.60 trillion
Personal Saving Rate personal savings as % of disposable PI	9.6 percent	7.6 percent

If the first quarter of 2020 is any indicator of the future performance of the United States economy, one can easily predict that we will be facing a severe recession during this year. The steep decline in employment (the sharp rise of unemployment), a severe decrease in real GDP, and the level of personal income are all pointing to an unprecedented recession that is ahead of us. Even as the federal government is distributing the disaster relief funds, even as the Federal Reserve Bank is injecting liquidity into the system, and even as the state governments are trying to categorize different businesses for opening, we can see the rocky road ahead us.

Our current economic situation is not an isolated one. Every other country in the world is going through the same experience and everyone is expecting that the recovery from the current economic situation is going to be a long and painful one. However, given that we have never experienced a recession as steep as this one (especially not one caused by a pandemic), we have no reference from the past to rely on. Post-recession recoveries are long and painful processes. In particular, a recovery after a recession that was caused by a pandemic is even more difficult as it does not only depend on the robustness of the economy, but also on the length of the pandemic itself. One thing is certain, we will be looking at the extraordinary impact of COVID-19 on our economic and global ecosystem.

The economic effect of the current pandemic will cause many businesses to struggle and many jobs to be lost forever. Depending on the duration of the pandemic, some businesses will be able to sustain the effect of the lockdown and some jobs will be regained. However, we need to prepare ourselves for many changes that are ahead of us. The way forward will reshape our personal and business behavior. The new industries, jobs, consumers, and the way to govern will emerge after this crisis. The loss of economic activities during a pandemic will change the business landscape and cause behavior changes in the United States. The economic fallout from the COVID-19 will reshape many state and local economies as well. Regardless of all the changes and challenges caused by the current pandemic, there is something to learn from the current situation as well. Perhaps, this forced behavioral, economic, political, and social experiment that we are going through is also an opportunity to grow stronger and more prosperous in the future. To grow stronger as a person, to grow closer as a family/household, to strengthen and unite as a nation, and to become a better leader and a role model could be our striving objectives after COVID-19. With the help of the community business and civic leaders, with the help of our policymakers, the new economic development, and job-creating strategies could be developed.

Reevaluation of business costs after COVID-19

Coming to terms with the profit losses was a hard reality for many businesses during the pandemic. Losses of market shares, investments, and customers created a sense of insecurity and urgency to come up with new business plans. Knowing how much business disruption COVID-19 has created is crucial for the reevaluation and creation of business strategies. Many businesses that have experienced profit losses have quickly learned where the cost savings for their business were. Some of the cost savings presented themselves in that company's ability to downsize physical space for significant financial savings. Others created ancillary savings in utilities, furnishings, equipment, and even taxes. Depending on the nature of the business, the market in which it operates, the industry it serves, as well as its location, the actual savings and cost reductions can be numerous and can differ from one business to another.

Due to coronavirus-induced layoffs and the ability to work from home, businesses have had an increased talent pool, as work location is not a hiring factor anymore. Similarly, schedule flexibilities, retainable talents, and team accountability/participation have risen in this emerging work environment. Workers are showing even greater loyalty to their businesses, as they feel in control of their work patterns. More freedom and authority that was given to workers has resulted in confident decision-making and increased morale. Unnecessary meetings have reduced absenteeism and time off from work. More control over the things that we do and how we do them gives an increased sense of fairness in one's work.

Another aspect of businesses that is appreciated by many is enhanced corporate citizenship. The reduction of carbon footprints that resulted from neither commuting nor using office buildings gives another sense of business contribution to society.

The Benefits and Costs of working from home

As was mentioned earlier, the current catastrophe is quickly forcing companies to develop new work models. All aspects of our economy, from education, services, manufacturing, health care, tourism, etc., have applied innovative ways of conducting business. COVID-19 has disturbed many lives, jobs, and markets, and it has brought the world to an unprecedented shutdown.

At the same time, it has also forced us to think creatively about the ways we do business. Researcher Mathew Ng, et.al. (2021) analyzed the impact of covid on common work trends like gig work, work-life balance, mental health, remote work, displacement of work, compensation, and employee benefits. They found out that work from home will stay long after the pandemic is gone, especially in certain industries and demographic groups like the information and technology industry. The pandemic caused widespread unemployment, especially in vulnerable populations like people with a lower level of income and education, women, racial minorities, and especially mothers which made people look for more gig jobs which caused a major shift in the gig economy as more people started joining the gig industry to make up for lost jobs and side hustles causing an increase in competition and lower number of jobs available. Also due to covid federal and state governments implemented various policies to increase the benefits given to employees like paid leave, and unemployment, but evidence suggests that discrimination based on gender and race can be seen. Overall, work-life balance was the most impacted by covid, some people were forced to work from home and some people had no choice but to risk their physical and mental health for financial well-being and go to work even when covid was at its peak causing various mental health issues to rise on the surface. Depression symptoms among people staying in the USA went from 8.5% pre covid to 27.8% (April 2020) in covid and continue to increase.

On the other hand, the other set of the literature suggests that some workers tend to be more productive when given a flexible work schedule and the option of working from home. For certain individuals, distractions and the perception of “time at work” are contributing factors to decreased productivity. In part, worker efficiency increases due to the desire to better utilize personal time.

As the result of the “work from home” option, some of the survey responders indicated better time management that resulted from the combined work and family obligations.

Xiaoqiang Kong, et.al. (2022) found that employees with prior work from home experience had a less challenging time adjusting to working from home as compared to employees with no prior work experience. Employees who had no prior experience in working from home at all before the pandemic was more than eager to go back to their normal working environment and had no intention of working from home ever again. They suffered from low productivity. Another major finding was that employees who had an option to come and work from the office at least once a week during the pandemic were more optimistic about working from home after the pandemic was over or if another pandemic happened. Companies need to train their employees in how to maximize online resources while working from home which can lead to an increase in productivity and offer an incentive for attending it instead of just imposing policies.

Additional benefits from working at home include the following:

- Immediate financial savings – some of which include lowering the costs of commuting, parking, childcare, meals at restaurants, work wardrobe, and even pet care.
- Direct increase in available hours per day – deducting commute time, socializing at work, unnecessary meetings, and work interruptions.
- Less dealing with office politics – this is a highly undesirable exercise for many workers.
- Reduced, yet more focused interactions with the supervisors.
- Greater flexibility to scheduled work times that can accommodate personal “prime” work time. For example, night owls can work late and sleep in;
- Less stress and less guilt over managing the balance between one’s work and personal life.
- Overall sense of freedom.
- Feeling trusted, valued, and empowered.

However, this is not just a question of physical location. Many workers have reported emotional, mental, and even physical stress due to working from home. In addition to working from home and completing their tasks, employees are naturally seeking information from the media. People are experiencing stress and fear as they ponder what will become of their lives. This is causing ripples of trauma to be sent across nations. The absence of social and emotional bonding with their family, friends, and even coworkers, etc. is a huge sacrifice for many. People are feeling overwhelmed by the fact that their near future is ambiguous and unprecedented. Some people are

having an even more difficult time with home-working than others. Many have defied their own COVID-19 trauma exit strategy had reported a newfound sense of personal growth and appreciation. Feelings of gratitude for life's many blessings, nonmonetary things, and the realization of inner strength and appreciation for the world itself are all positive effects coronavirus has had on our lives. The future outcome of COVID-19 on our workforce is depending on our collective approach to society and the plans for our future.

Rethinking the Role of Entrepreneurs

It is undeniable that this pandemic has destroyed many businesses and jobs. Just like in the past, experiences like this one will help us create new businesses and occupations. The expectation is that these new companies and jobs will most likely be more suitable for future labor markets.

Just before the pandemic, we were in the middle of the Fourth Industrial Revolution, with so many innovations and developments on the tip of our fingers. Many projects, research, and development initiatives were cut short due to the global lockdown. The dramatic effects of COVID-19 have impacted not just businesses, but personal lives as well.

Looking into the future, one can expect that the creation of new jobs will be in some existing industries, such as medical research, e-services, delivery, etc. However, the reality is that there will be an enhancement of the existing industries and the emergence of new ones. As always, where there is demand for innovations and creation, there will be entrepreneurs. In general, entrepreneurs will be able to move quickly and nimbly, will find many opportunities with limited risk, and will be able to meet current needs without large start-up investments.

COVID-19 has created an environment where we can finally see the benefits of doing things differently. We have been forced to rethink how we get things done; that is the prime creative ground for entrepreneurs. Certain markets that will be permanently impacted include:

- **Healthcare** – nobody argues that there should be less dependence on other countries for raw materials. Healthcare/medical research and development should be considered industries of national security importance. Our reliance on our domestic producers of drugs, protection equipment, machines, etc. will ensure greater opportunities in preparing for future emergencies. The dramatic use of telemedicine options already seen in the last few months will also likely continue.
- **Retail sector** – even before the current pandemic, Internet shopping was on a rise. The convenience of online shopping, ease of item return, and fast credit refund contributed to a boom in this market. Due to our collective pandemic experience, the majority of shoppers are now less willing to be in a store. Some shoppers have no desire to try on clothes that others have already had on. Thus, many customers turn to online shopping with unlimited options and free delivery.
- **Technology** – the continuation of the Fourth Industrial Revolution will increase our demand for the new technology. This will also include the higher demand for robotics and artificial technology. In addition, as more and more people work remotely, specialized software systems, platforms, applications, and technology will be needed.
- **Real estate** – how will future homes look like if more people are working from their households? Will this change people's preferences for home designs, construction, and/or configuration? The answer is yes- home designs and what people want in their homes will change. Some are suggesting that we will deviate away from the popular "open" concept in our homes to accommodate the need for more private spaces such as offices and study rooms. As more people decide to work from home, more amenities for relaxation and entertainment will be demanded from the home builders. Some of this space might include space for a gym, outdoor space, etc.
- **Personal services** – new mechanisms for food delivery from grocery stores and restaurants will most likely continue to grow. How hair and nail salons will deliver services in the future will have to change to balance the newly required safety requirements with needed volumes for profitability.
- **Cable TV** – this troubled industry has been struggling in the past several years and now is resorting to new "install-it-yourself" models to counter the concerns about people entering the home. Entertainment will continue to be a growing sector with more people continuing to stay at home.
- **Automotive industry** – this sector has been through troubled times for the past several decades. Now, there may be less consumer need if more people continue to work from home and some families may decide to have fewer cars. Corporate fleets may also be reduced.
- **Cleaning Services.** As COVID-19 cases continue to rise throughout the U.S., so is the nationwide demand for janitorial services. Several cleaning companies have seen an increase in requests for additional services as people are being reminded to constantly clean and disinfect all commonly-used areas, offices, and facilities to prevent the coronavirus from spreading. Once this pandemic is over, there will be a high demand for continuous cleaning at a new cleaning level.
- **Medical Light.** Once the pandemic has been reduced, one of the conditions for businesses to re-open will be to conduct regular employee screenings before an employee enters a business workplace.

The Equal Employment Opportunity Commission (EEOC) gave employers the green light to take employees' temperatures to try and ward off the spread of the coronavirus in guidance updated on March 18, 2020. So, who will provide this service? New companies will pop up to provide employee screenings as they enter the building.

- **Remote Fitness.** As the coronavirus continues to spread, fitness studios around the country are shutting their doors and adjusting to a new reality. Many fitness companies are releasing on-demand virtual classes. The whole notion of a “virtual” trainer is now exploding into many exercise modalities from cycling to yoga.
- **Cyber Security.** When you work remotely, all of a sudden standard applications will come under cyber hacking attacks. Building better versions of either application or browser-based secure solutions will gain new levels of funding from investors.
- **E-commerce.** This pandemic, while a potential death blow to physical retail stores, will accelerate e-commerce to even higher levels. Chewy, the online pet store, has seen an explosion of orders in recent months. E-commerce will never look back and even more niche e-commerce opportunities will surface.
- **Entertainment.** Will major sports brands like NFL, MLB, NBA, and NHL finally accelerate virtual reality programming? Gaming has accelerated in this crisis, and Netflix and others have seen a tremendous rise in viewership. Investors will be backing next-generation companies that can bring entertainment to the masses on a one-to-one basis. Will this be the death knell of movie theatres?

Conclusion

The benefits of working from home for some workers can be easily measurable and recognized. These worker benefits translate into cost reduction for businesses. As discussed in previous sections, due to the work-from-home orders, businesses have experienced financial savings in terms of office rent, utilities, and even taxes.

Work-from-home orders, however, did not bring joy to *all* workers. Not everybody has enjoyed their new home offices. Many have had to be very creative and transform their living rooms into workspaces. Technology and reliable Internet connection are not readily available in all parts of our country and to all those who need it most at home. People have had to quickly adapt to a new working environment. We are relying on coworkers to complete their portion of assignments, thus supporting others. This new experience is having a profound effect on the working world.

As in the past, the new entrepreneurial concepts will fill the future with exciting opportunities and groundbreaking ideas. Ten years ago, jobs such as social media managers, mobile app developers, Uber drivers, sustainability managers, drone operators, and admissions consultants, (to name only a few) did not even exist. Subsequently, we expect entrepreneurs to sanctify us with their business creativity and new job creation. All foreseen business changes and new jobs will have a positive effect on our overall economy and society. In addition, these changes will have an effect on our educational system and the demand for it. It is expected that the future will hold a higher demand for training in certain areas and certificates in others.