

The Impact of the Covid-19 Pandemic on Political Business Cycles in Macroeconomics - Is There a Reason for Concern?

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Abstract

This paper discusses the extent to which the shock of the COVID-19 pandemic has actualized the existence of politically induced business cycles in macroeconomics. The COVID-19 pandemic, as a non-economic and non-financial factor, was an unexpected and unusual shock that hit global economies, affecting aggregate supply and aggregate demand and resulting economic decline and recession in most economies, both developed and underdeveloped. It is a shock that is still acting and whose intensity and duration cannot be estimated with certainty, which makes it difficult to estimate future economic trends. Given that the pandemic has hit the economy and businesses, due to severe epidemiological closure measures, especially in certain economic sectors (tourism, entertainment industry, air transport), but also the population facing increased unemployment and poverty, most countries have implemented expansive economic policy in combating the effects of the pandemic and mitigating the economic recession. Large packages of state aid to the economy and the population in most countries were supposed to prevent the occurrence of the economic crisis and make it easier for the economy and the population. However, due to the length of the pandemic through multiple waves of COVID-19 infections, as well as to the scope of state aid packages that included fiscal stimulus, but also expansionary monetary policy, further implementation of such economic policy measures is faced with great limitations. These restrictions are imposed by the emergence of negative macroeconomic indicators in the form of rising inflation, as well as the deterioration of public finances. Most economies can no longer afford such measures, which is why they insist on the normalization of economic life and economic trends, by vaccinating the population. Although the governments' incentives for application of fiscal and monetary expansions were largely justified, such a policy returned state intervention to the big door, but also raised the question of whether each intervention is economically justified or can be seen as politically motivated state intervention. This has returned the analysis of political business cycles in macroeconomics to the focus as current macroeconomic issue. Given the economic problems facing even the most developed countries today, such as unemployment and inflation, the question arises whether economic policy makers will be even more tempted to abuse economic policy in the future for political purposes. And more importantly, how long the present pandemic will be a good excuse for such a policy.

Keywords: Covid-19 pandemic, political business cycles, economic policy

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