

## 9 THE FIRST WAVE OF THE CORONAVIRUS PANDEMIC

### 9.1 POLICY RESPONSES TO THE CORONAVIRUS PANDEMIC IN HUNGARY DURING THE FIRST HALF OF 2020

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From the early spring of 2020,<sup>1</sup> the Covid-19 epidemic and its consequences made policy-designers and decision-makers face a 1) *unique* and 2) *huge* challenge world- and Europe-wide.

1) The challenge was *unique* in the sense that, despite their advanced public health institutions and plans,<sup>2</sup> developed nations and especially European ones, including Hungary, have not had to face major epidemics of this kind for decades. While HIV has been and is a public health concern, it spreads more slowly and in a different way than Covid-19. To find an epidemic comparable in its health effects, nature and speed of spreading, we have to go back as far as the 1918 Spanish influenza (*Petersen et al., 2020*). Thus, preparations notwithstanding, nobody could know for certain what such a plague entails in the social, economic, technological setting of the 21st century and what the adequate response in terms of a mix of policy measures should be.

2) As declared by prime ministers and heads of state in February and March in emotive speeches,<sup>3</sup> the challenge looked (and, indeed, culminated) in being *huge*. Based on early epidemiological estimates, on March the 11<sup>th</sup> the German chancellor, Angela Merkel talked about 60–70% of the population of her country catching the disease<sup>4</sup> and, based on the first Chinese data a case-fatality rate exceeding 1% looked quite possible.<sup>5</sup> Multiplying the two numbers resulted in an estimate of millions of people dying of the disease Europe-wide: an obviously politically not acceptable prediction that necessitated resolute measures to limit the incidence of the epidemic. Thus, in addition to health effects, far-reaching, draconian policy measures were also looming on the horizon. These were expected to have huge human-social effects as regards the necessary healthcare and other social capacities, but also as regards the economic downturn which would ensue. It was impossible to know beforehand to what extent this downturn would be an outcome of the pandemic itself (the number of those diseased, and the behavioral reaction of the public including a drop in aggregate demand), to what extent the outcome of the measures to curb and mitigate it (e.g. school closures, lock-down) and to what extent the outcome of the propagating changes in the world economy, including a drop in the demand for exports and tourism as well as breakdowns in the international supply chains.

1 Chinese authorities first reported the outbreak to the World Health Organization on the 31st of December; the new virus was named on the 11<sup>th</sup> of February; the disease was declared to be a pandemic on the 11<sup>th</sup> of March by the WHO; the first case in Hungary was reported on March 4<sup>th</sup>.

2 In the [most recent, 2019 ranking](#) of readiness of different countries to tackle a pandemic (the Global Health Security Index) all the EU Member States except Romania and Bulgaria ranked in the top quintile; the U.K. was the second best worldwide; Hungary ranked 35<sup>th</sup>.

3 Emmanuel Macron on March 16<sup>th</sup>, Angela Merkel on March 19<sup>th</sup>, Boris Johnson on March 23<sup>rd</sup>.

4 See: [New York Times](#).

5 See: [Nature](#).

All we can undertake in this short chapter, one that is necessarily closer in its genre to an essay than to a research paper, is that, limiting our scope to the first half of 2020, we enumerate the most important policy measures formulated in response to the epidemic in Hungary. We look at ones in the fields of public health, economic policy and the realm of the regulative-political respectively. Next we compare them with those introduced by other European governments. Finally, since we have no chance yet to produce any quantitative impact assessment, we formulate some tentative recommendations about what (labor) economists can do to help.

### Policy responses to Covid-19 in Hungary

In order to slow down the spread of a pandemic that threatened an exponential take-off, the Hungarian government and Parliament passed a host of *public health measures*. These were meant to curb the contagion (whose nature was not yet perfectly known) and, since there was no way yet to cure the sick, to at least treat the symptoms of the disease. Some of these measures had been hardly ever applied on this scale before.

What were these measures? They included, from mid-March onwards: banning immigration and international travel, banning mass events, limiting access to restauration and entertainment; the production, purchase, and redirection of capacity and equipment necessary for urgent, ambulatory and inpatient care of patients; school closures, extra disinfection, protocols and regulations concerning staying-at-home quarantine of those suspected to be vectors of the virus, testing and the wearing of masks for potential carriers of the disease, and temporary rules concerning parking. At the end of March more general stay-at-home rules and age-specific time-slots for shopping were added, in addition to a campaign to inform the public. Many of these measures were revoked in April/May; in turn, for the summer, a framework for dynamically scoring the dangers of destinations/countries of origin for international travel was set up with matching testing and stay-at-home rules.<sup>6</sup>

*Economic Policy measures.* The government and Parliament introduced a widespread debt freeze, a rent and interest ceiling, a relief concerning taxes, contributions and administrative burdens for companies, targeted by size and industry; subsidies and deadlines were extended and a wage support scheme launched. The budget was re-written and, by direct and indirect means, certain local taxes were also left with the citizens. A report by the State Audit office tallies that HUF600 billion<sup>7</sup> was expended on outlays directly linked to the pandemic between the 11<sup>th</sup> of March and the 4<sup>th</sup> of May; ultimately the first “economic rescue package” announced on the 18<sup>th</sup> of March and the “action plan” announced on the 7<sup>th</sup> of April 2020 together redirected 18–20% of GDP (the latter, though, also included measures that have little to do with combatting Covid-19). Of this, 0.6% of GDP was directly spent on strength-

<sup>6</sup> The up-to-date list of measures is to be found on this [government webpage](#).

<sup>7</sup> Approximately EUR 1.67 Billion.

ening healthcare.<sup>8</sup> Calculations by the Bruegel Institute though, suggest that most of this vast expenditure had nothing to do with the epidemic.<sup>9</sup>

These fiscal measures were complemented by steps taken by the National Bank of Hungary concerning access to cash, additional credit freezes and extensions and further measures concerning bank regulations and monetary policy meant to stimulate economic activity.<sup>10</sup>

Finally, Hungarian Covid policy included a *legal-political* dimension that enabled and complemented the measures already enumerated, as well as measures of vertical fiscal redistribution within the state. These are an important part of the picture. (*Greer et al.*, 2020). The keystone of this dimension of policy was the Act of Parliament that enabled the government to govern to a large extent by decree and limited the freedom of speech with regards to the spread of false information in connection with the epidemic.<sup>11</sup> While most of the Act lapsed after June the 18<sup>th</sup>, certain parts remained in force (*Halmai et al.*, 2020). 18 EU Member States published a press release implicitly criticizing the Act as too sweeping in scope.<sup>12</sup> A set of measures to the detriment of political parties and local governments are also easier to interpret as political rather than as anti-epidemic in purpose.<sup>13</sup>

*Policy design and decision making.* What was the process of designing and adopting this rapid sequence of measures? Alas, it is too early to attempt an analysis of how much these measures were designed and chosen based on foreign examples, how much they were based on (changing) scientific evidence, how much based on recommendations by the World Health Organization and other similar bodies, how much they were recommended by domestic experts,<sup>14</sup> and to what extent they reflected the limitations and opportunities offered by institutional, economic and social endowments unique to Hungary. Neither can we say how much meaningful consultation with stakeholders took place<sup>15</sup> or to what extent at least some of these measures were guided by direct political considerations.

### **Hungarian measures in an International/European comparative context**

To what extent were the Hungarian anti-Covid measures different from how comparable countries tackled the crisis caused by the pandemic?

At this point, in addition to news articles, blog entries and the first papers hastily written and with a narrow focus, published online, our attempt at a preliminary answer is based on four public policy databases. These are the following: the cross-country data about pandemic response published by the IMF,<sup>16</sup> the OECD<sup>17</sup> and Oxford University,<sup>18</sup> as well as the collection of some European fiscal responses tabulated by the Bruegel Institute.<sup>19</sup> An important limitation of all of these is that they are based on announced or codified norms, not their real-life implementation. The difference need not be innocuous: the

8 See: [ÁSZ](#) and [IMF](#).

9 See: [bruegel.org](#).

10 See: [MNB](#).

11 Act [XII of 2020](#) on defence against the Coronavirus.

12 See: [government.nl](#).

13 See: [Hungarian coronavirus site](#).

14 According to the Hungarian press they were recruited from among experts working for the National Center for Public Health as well as several [Hungarian universities](#).

15 Building, e.g. on the proposals of the [Chamber of Commerce](#).

16 See: [IMF](#).

17 See: [OECD](#).

18 See: [bsg.ox.ac.uk](#).

19 See: [bruegel.org](#).

quality of contact tracing, sanctions, or the true use of fiscal resources can be quite different from what can be parsed from the text of decrees.

Albeit differences of a few days in the timing of measures in March may have looked crucial (indeed days can have mattered in slowing down the spread),<sup>20</sup> by mid-April Oxford University's comparative composite indices (a *health containment index* and a *stringency index*) of country *public health* responses were no different from what other EU Member States were doing (with the notable exception of Sweden).<sup>21</sup> On April 15<sup>th</sup>, Hungary's *health containment index* was the EU median, and her *stringency index* was within 3 points of the median (on a 0–100 scale).<sup>22</sup>

The press highlighted particular measures introduced in many other countries but not in Hungary, such as for example the release/amnesty of as many at-risk prison inmates as possible.<sup>23</sup> But that does not change this big picture: Hungary chose public health measures of the kind and severity in line with the mainstream of its European peers. As mentioned above, the quality of the implementation of those measures we cannot yet compare.

As far as the *economic policy* measures, and especially as far as fiscal measures are concerned, the comparison is less straightforward. If we disregard the items of the April 2020 action plan that are very hard to link to Covid (such as additional expenditure on the building of the Paks nuclear power plant or railway development), the nature of the interventions is not that far from what other European governments did. The Bruegel Institute puts crisis fiscal measures into three bins: *immediate fiscal impulse*, *deferrals* that bring expenditure forward or put revenues off, and other *liquidity provisions and guarantees*. Under the latter the measures of the National Bank of Hungary were not accounted for, so let us disregard that category. As far as the first two are concerned though, they found that out of the 11 European countries under scrutiny<sup>24</sup> (plus the U.S.), Hungary spent the least on immediate fiscal impulse, a mere 0.4% of GDP. On the other hand, in terms of deferred fiscal measures, Hungary allocated 8.3% of GDP, being the fourth most generous in their sample.

The most important explanation for the low level of immediate budgetary expenditure in Hungary is that the government avoided any universal, non-conditional or automatic non-employment-related aid to individuals or families in need. Such measures were widespread worldwide; a version, raising the universal child allowance, was also proposed by independent economists for Hungary, to no avail.<sup>25</sup> This deficiency is the explanation as to why the value of the *economic support* index of the Oxford database for Hungary on April 15<sup>th</sup> was among the lowest (only Poland and Denmark obtaining even lower scores).

To compare the *legal-political* dimension of the Hungarian policy response to the epidemic to other European countries at this point would be rather hard and would require a legal studies / political science analysis beyond

20 Cf. the comparisons published by Politico at the end of March.

21 The time series of the [indices by country](#) are downloadable.

22 The ranking does not contain Malta but it does contain the United Kingdom. Own calculations based on the database referenced.

23 See: [g7.hu](#).

24 Belgium, Denmark, France, Germany, Greece, Hungary, Italy, Holland, Portugal, Spain, UK.

25 See: [valsagkezeles.blog.hu](#).

our scope here. All we can mention here is that in the *pandemic violations* index league table of the V-Dem Institute, measuring how much democracy was compromised during the epidemic, while the controversial empowering Act was in force, Hungary reached the worse value within the EU (0.3). Let us note though that this size of democratic backsliding during the crisis was certainly not the greatest if we also consider the wider world outside the EU (Belarus: 0.35; Serbia: 0.5).<sup>26</sup>

An OECD report finds that *policy design and decision making* was put under enormous pressure everywhere by the stakes, the uniqueness of the challenge as well as the timeline, including countries where policy making is traditionally more likely to be based on evidence than in Hungary. The response in this domain all over the developed world included: forming new, *ad hoc* policy units, the temporary/partial dropping, simplifying or digitalizing of preliminary impact assessment and stakeholder consultation and, in general, the relaxation of procedural requirements concerning the early phases of the policy cycle.<sup>27</sup>

### Outcomes and causal mechanisms

Based on the public health outcomes (case numbers and Covid-related mortality in proportion to the population), on the 1st of July, 2020, with only 586 deaths caused by Covid-19, Hungary (population: just shy of ten million) was, along with the other three Visegrád nations, among the countries least ravaged by the first wave of the epidemic. 60 fatalities per million inhabitants was a bit above the same index for Czechia, Poland and Slovakia, but lower than Austria (78), let alone the EU as a whole (299). It is way too early to take stock of the indirect health effects (e.g. treatments deferred to free up healthcare capacities to fight Covid-19), let alone the psychological, social and economic effects of the pandemic and the countermeasures, the human capital and equity effects of closing down schools, including some positive side effects as well (a drop in the number of traffic accidents and burglaries) and compare them with the putative effects/of those policy measures in curbing the spread of the disease.<sup>28</sup> Of all these a few administrative input/output measures are there for us to reliably observe.<sup>29</sup>

As far as the short-run effects on the economy as a whole, those are reviewed by *Palócz–Matheika* (2020); the effects on the labor market are surveyed in *Subchapter 9.2.* of this volume.

The next step would indeed be to ask: what outcomes were caused by what exogenous circumstance and especially which policy measure (or lack thereof)? If Hungary weathered the first wave relatively well, why exactly? Economists all over the world have already started to ask and answer questions like that – it is worth mentioning a promising recent paper in that vein (co-authored by the Hungarian *Dániel Prinz*), which used Google-search patterns as dependent

26 See: [v-dem.net](http://v-dem.net). The value of the index was less extreme from July on (0.1), but still remained the worst in the EU (tied with Bulgaria).

27 See: [OECD](http://oecd.org).

28 Subchapter 5.1. covers the health effects of economic downturns, concentrating on the 2008 one, but those findings do not necessarily apply to what is a slump caused by very different shocks.

29 For example, the [sum total of administrative indicators](#) that can serve as a proxy for case numbers in non-Covid inpatient care dropped in March and April to almost half of the February level to rise back up to values similar to earlier years by August.

variable and different policy measures across U.S. states and explanatory variables to identify labor market effects of different policy interventions (*Kong-Prinz, 2020*). On the whole, though, it is way too early to expect to be able to optimize the mix of anti-Covid policy measures based on peer-reviewed economic evidence of all relevant causal effects. This does not mean that health economics calculations cannot help the policy maker at all. They can be especially useful in judging the extremes: showing that certain measures are clearly too costly or, to the contrary, obviously worthwhile. Let me mention two papers serving those respective purposes as illustration. *Miles et al. (2020)* find that the *Quality-Adjusted Life Year gains that can be expected from* universal stay-at-home orders cost seven times as much as the threshold normally used to decide whether a medical treatment is cost-effective enough even under the scenario where stay-at-home is assumed the most efficacious intervention in slowing the spread. On the other end of the spectrum, *Martineau et al. (2020)* in their editorial article make a convincing case that compensating for vitamin D deficiency is a public health measure that is to be widely recommended, because even if the treatment ultimately does not prove to be effective to help avoid or treat Covid-19 (randomized trials are ongoing), it is simple, cheap and has been proven to have plenty of other positive health effects.

But we have to face the fact that we do not yet have the data and not enough time has elapsed so far to carry out similar empirical work concerning the epidemic in Hungary.

### Summary and a few closing thoughts

Our short survey showed that during the first half year of 2020 the policy response of the Hungarian government to the pandemic in comparison to other European states was mixed.

The picture consists of mostly timely *public health measures* generally in line with those adopted by other EU member states; a relatively frugal *economic policy response* that avoided unconditional aid to citizens and preferred measures of deferral to ones that increase long run public debt; and *political elements* that may look problematic to some.

The pandemic is not over yet by far though. When finishing this subchapter, the contours of a fall-winter second wave, exceeding the spring one in severity, can already be seen. Let us finish by considering this question: what can Hungarian economists do to assist the public policy making process of their country to best combat the second onslaught of this deadly, debilitating and socially costly disease in the next few months? Let me submit that there are at least three ways in which we can help.

First, economists can remind policy makers of the truisms that their profession has to offer that might be lost in the hasty process (consider the effects of a recent government decision to set a price ceiling for private Covid-testing).

Second, they can swiftly review and sift through the emerging empirical research done elsewhere concerning the effects of different policy measures, produced with more resources and from better data than available in Hungary and adapt, interpret and synthesize the best papers to contribute to better, more evidence-informed policy in Hungary.

Third, even if it is too early to build and test robust causal models, economists should describe and interpret the changing landscape of the Hungarian economy under the pandemic as it emerges – as they do in this book.

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