Is the economic recovery V, K or W shaped?

What is the issue?

- Since the Covid-19 pandemic has ravaged all major economies, how the economy will recover from here on is a matter of debate.
- The economists are busy describing the shape of the post-pandemic recovery given its complex nature.

What shapes of economic theory are in debate?

- **V-shaped recovery -** A V-shaped recovery is characterized by a quick and sustained recovery in measures of economic performance after a sharp economic decline.
- Such recoveries are generally spurred by rapid readjustment of consumer demand and business investment spending.
- Because of the speed of economic adjustment and recovery in macroeconomic performance, a V-shaped recovery is a best-case scenario given the recession.
- The recoveries that followed the recessions of 1920-21 and 1953 in the U.S. are examples of V-shaped recoveries.
- The Economic Survey 2021 predicted a 'V-shaped' post-pandemic recovery.
- The recovery in FY22 is indeed V-shaped after the first quarter because of 20 % expansion – a sharp upturn after a quick decline.



- **K-shaped recovery** - A K-shaped recovery is one in which the performance of different parts of the economy diverges like the arms of the letter "K"
- In a K-shaped recovery some parts of the economy may see strong growth while others continue to decline.
- Overall, the natural consequence of a pandemic is the widening of inequality and a K-shaped recovery.
    - Education, for example, is inherently K-shaped in many places and this has become even more skewed due to Covid-19.
- A K-shaped recovery exhibits wealth inequality, greater corporate

monopolies, a continuing racial wealth gap, long-term unemployment for low-income workers, and accelerating technological adoption.

- **W-shaped recovery -** A W-shaped recovery is when an economy passes through a recession into recovery and then immediately turns down into another recession.
- It is also called as the double-dip recession.
- W-shaped recessions can be particularly painful because the brief recovery that occurs can trick investors into getting back in too early.
- Some experts say that it is a W-shaped recovery, especially when growth is seen in the context of seasonally adjusted quarter-on-quarter.

Which letter explains the economy at its best?

- In 2010, then Finance minister Pranab Mukherjee said at the US-India CEO Forum that the same situation can be explained by different letters as we really do not know the answer.
- With several major cities having to implement new lockdown measures to bend the curve of infections, it's possible the shape of the recovery will not reveal itself for many more months.

References

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