Addressing the COVID-19 Crisis -- Virtual 2020 MPA/ID Celebration   
Friday, May 8, 2020, 2-3:30pm

J Frankel: Advanced Economies

* 1) The economic situation seems to get worse & worse.
  + Growth forecasts in the IMF’s WEO of 3 weeks ago
    - a sharply downgraded forecast of **3%** global contraction in 2020
    - already look to be perhaps on the optimistic.
  + US economy: The Labor Department announced this morning that the US unemployment rate hit **14.7 %** in April,
    - far worse than in the Great Recession (almost 10%),
    - and surpassed only by 1933 (estimated at 25%)
  + Meanwhile the Bank of England yesterday forecast the UK recession to be worse than the 1930s,
    - or anything else going back to 1709.
  + Also dismal in most other countries.
* 2) Governments’ reactions
  + On the public health front, much too slow off the mark (& chaotic),
    - [Still inadequate, e.g., on amount of testing.]
  + Fiscal (and monetary) policy impressively rapid & big,
    - by historical standards,
    - going well beyond stimulus in GFC.
    - Especially by G-7 countries [graph]
* 3) The current debate is about re-opening the economy.
  + phrased as a choice between competing goals of health vs. economy.
  + Most economists -- even tho we tend to view things as trade-offs -- think this a false choice: No country will re-attain prosperity if it has not enduringly overcome the virus.
  + This means postponing opening until
    - death rate has not just peaked, but declined robustly
    - & testing has become ubiquitous, easy, fast.
      * [Also tracing. And continued isolation of those who test positive.] And testing for anti-bodies.
  + The conditions are not met,
    - e.g., in the many US states that have announced opening.
    - US has not yet peaked (exc. NY). Europe barely.
  + Full recovery will require discovery & testing of vaccine and/or treatment.
  + My fear is a premature withdrawal of public health measures and a premature withdrawal of fiscal measures,
    - resulting in a relapse of the contagion & of the recession,
    - -- a W-shape, rather than a U, let alone the desirable V-shape.
    - Indeed, I predict this will probably happen.
* 4) Those of us recommending sustained fiscal stimulus must address question **whether implied** **debt path is sustainable**.
  + Though the tradeoff between health & re-opening the economy is illusory, the tradeoff with debt sustainability is real.
  + Divide countries in 3 categories
    - 1) US seems still able to borrow as much as it wants,
      * at low i & high $
      * exorbitant privilege, despite past abuse of it,
        + e.g. 2017-19, when we incurred $trillion BD at peak.
      * (Japan too).
    - 2) At the other end, many EM & developing countries are on unsustainable debt paths.
      * require standstills & some restructuring.
    - 3) In between are countries like UK & France,
      * where the question is open.
      * If Larry Summers is right about secular stagnation & the near-permanence of low *r*, that applies not just to US but also to Europe => countries can afford to borrow.
      * I don’t know the answer, but the current crisis is so grave that it is worth the gamble.
    - Just as restored growth cannot come without defeat of the virus,
      * so debt sustainability cannot come without restored growth.