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.