COVID-19: Economic Policy Responses

For nearly a decade, the IGM Forum has been regularly polling some of the world's top economists in the US and Europe for their views on topical issues of public policy. With the global pandemic having the potential to cause severe economic damage, the need for research-based expertise to inform national and international policy-making is more urgent than ever.

This web page will collect policy proposals for mitigating the economic fallout from COVID-19 written by researchers at Chicago Booth, across the university and the wider network of economic experts involved with IGM Forum initiatives, particularly our US and European panels.

We also envisage conducting further polls of our panelists for their views on the economics of the unfolding crisis and potential policy responses. Last week, our first coronavirus survey asked both the US and European panels about the likelihood of a major recession, and the relative importance of supply and demand shocks damaging the economy. The European panel members were also asked about the readiness of the economic policy institutions of the euro area to respond effectively to the potential damage from COVID-19.

The response of the economics profession to the crisis has already resulted in a number of insightful online publications, commentaries and Twitter threads.

On 6 March, the Centre for Economic Policy Research, a network in which many of our panelists are members, published *Economics in the Time of COVID-19* edited by Richard Baldwin and Beatrice Weder di Mauro (Graduate Institute, Geneva), bringing together a number of expert contributions on the mechanisms of economic contagion, the potential economic damage, and what governments can do about it. A second ebook is in the works, and VoxEU has published a number of related columns, audio-video clips and blog posts.

Our COVID-19 web page launches with four pieces in addition to our survey results and summary:

Panel members Markus Brunnermeier (Princeton), Marco Pagano (Università di Napoli Federico II) and colleagues comment: 'Effective economic policies are urgently required to deal with the enormous strain that the global epidemic is putting on European economies. Right away, a key dimension in which the EU can help is in overcoming the liquidity shortages for firms that are facing a temporary yet dramatic drop in their revenues. This is essential if they are to keep on paying wages to their employees and repaying their other debt obligations.'

Chicago Booth's Niels Joachim Gormsen and Ralph Koijen look at the impact of the coronavirus on stock prices and growth expectations. They find that news about economic relief programs on March 13 appear to have increased stock prices by lowering risk aversion and lifting long-term growth expectations, but did little to improve expectations about short-term growth. The events on March 16 reflect a deterioration of fundamentals in the US and predict a deepening of the economic downturn.

Pierre-Olivier Gourinchas (Berkeley) calls for bold policy initiatives to contain the looming recession: 'The right combination starts with public health policy in the driver seat to limit "human contagion." Fiscal and financial policies should then be designed to accompany the resulting shock to our economic system and prevent "economic contagion"'.

And panel member Emmanuel Saez and Gabriel Zucman (Berkeley) conclude: 'The most important message that needs to come from heads of state immediately, even before any new law or complete implementation details are provided, is: "Do not lay off your workers or liquidate your business. Government will pay your idle workers and your necessary maintenance costs while you are shutdown. Government money is coming soon." This is crucial to stanch the flow of mass layoffs and business destruction that is already starting.'

What else to read from around our network? On the US economic policy debate:

Panelist Austan Goolsbee (Chicago) explains why the coronavirus could threaten the US economy even more than China's in the *New York Times*.

John Cochrane (Stanford and Chicago) writes on this blog, The Grumpy Economist: 'What happens if the economy shuts down for a few weeks or months, either by choice or by public-health mandate? Shutting down the economy – and more importantly turning it back on again – is not like shutting down and turning on a light bulb. It's more like shutting down and restarting a nuclear reactor. You need to do it carefully, and make sure the parts survive the shutdown intact.'

And two of the speakers at our planned April conference on 'The role of economics and economists in public policy and public debate' (which is now postponed until later in the year) have weighed in on their blogs:

Greg Mankiw (Harvard) says, among other things: 'Mitigating the health crisis is the first priority. … Fiscal policymakers should focus not on aggregate demand but on social insurance. … Monetary policy should focus on maintaining liquidity.'

And Claudia Sahm (Equitable Growth) calls for a number of urgent actions, including: 'Congress should pass legislation to *MASSIVELY* increases federal funding for public health and financial support to people directly affected by the coronavirus.'

On the policy debate in Europe:

Panelist Agnès Bénassy-Quéré (Paris School of Economics) and colleagues note that the pandemic represents a severe economic stress test for Europe as well as a test of European unity. They advocate a comprehensive package through which the European Union would take responsibility for a meaningful share of the overall emergency effort.

Chicago and European panel alumnus Luis Garicano, who is now a member of the European Parliament asks how can we 'freeze' our economies for three to six months and ensure that they come out of the freezer where they are now. He too calls for a pan-European response, outlining his plan of action 'to protect jobs and assuage market doubts about our determination to protect European Economies and the Euro'.

And panelist Jordi Gali (Pompeu Fabra) argues that rather than raising taxes and/or increasing government debt to finance the necessary fiscal programs, the time has come for 'helicopter money' – direct, unrepayable funding by the central bank of the additional fiscal transfers deemed necessary.

We will be posting further links over the coming days – and welcome suggestions for other commentaries that can contribute to an effective global economic policy response to the COVID-19 crisis.