Some Economics of Fighting Covid-19

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SDSN Webinar on:
The Epidemiology and Economics of Covid-19
Major Policy Issues with Fiscal Implications

- Breaking the Epidemic
- Bolstering the Medical/Hospital System
- Building the Public Health Capacity
- Protecting the Vulnerable (Elderly, Poor)
- Financing the Emergency Response
- Restoring economic activity as soon as possible
- Developing new therapeutics and vaccines
Urgent fiscal needs

- Front-line medical services (financing and procurement)
- Urgent social support during lockdown period
- Financing for states and cities
- Financing for national budgets
- Financing for companies
Exiting the Shutdown Phase

The first stage is to cut the prevalence of the virus and transmission of the virus from rates such as 1 per 100 infected down to far lower rates (e.g. 1 per 10,000).
In NYC, >30K confirmed cases out of roughly 10 million people. Perhaps 300K actual infections, or 3 per 100. This rate must be cut sharply by the shutdown to perhaps 1K cases, or 1 per 10,000.
The follow-up stage is targeted isolation and contact tracing of infected individuals, to keep reducing the prevalence rate further and thereby end the epidemic
The final stage, ideally, is the development of effective therapeutics and a vaccine
The shutdown stage should last, ideally, not more than 90 days, and even less if possible.

Output losses during this phase might be in the range of 20-40 percent, and tax revenue losses might be even larger, perhaps 50 percent or higher.

Annual output losses might be 10-15 percent, and tax revenue losses >20 percent, all ROUGH GUESSTIMATES AT THIS STAGE.
Budget deficits will therefore increase substantially, possibly by much more than 10 percent of GDP, taking into both account spending increases and revenue losses.

The most urgent question is to finance these massive budget deficits and cutting the period of economic losses to the maximum possible extent.
Other urgent economic challenges

Protecting vital supply chains (food, medicines, essential equipment and maintenance)

Procurement of urgent needs

Preventing a financial crisis through a cascade of bankruptcies or credit runs
Some Emergency Financing Instruments

Large-scale sovereign borrowing

IMF Instruments (Rapid Financial Instrument and Rapid Credit Facility): up to $1 trillion

Urgent MDB concessional Covid-19 financing

Debt standstill on developing country sovereign debts

Central bank refinancing of commercial paper and sovereign debts, and interbank swap lines
Must avoid a self-fulfilling run on government and corporate debt that occurs through downgrades by rating agencies and by financial market panic