

# The 2020 Pandemics: An Economic Debacle

by

SEBASTIAN EDWARDS

Henry Ford II Distinguished Professor of International Economics

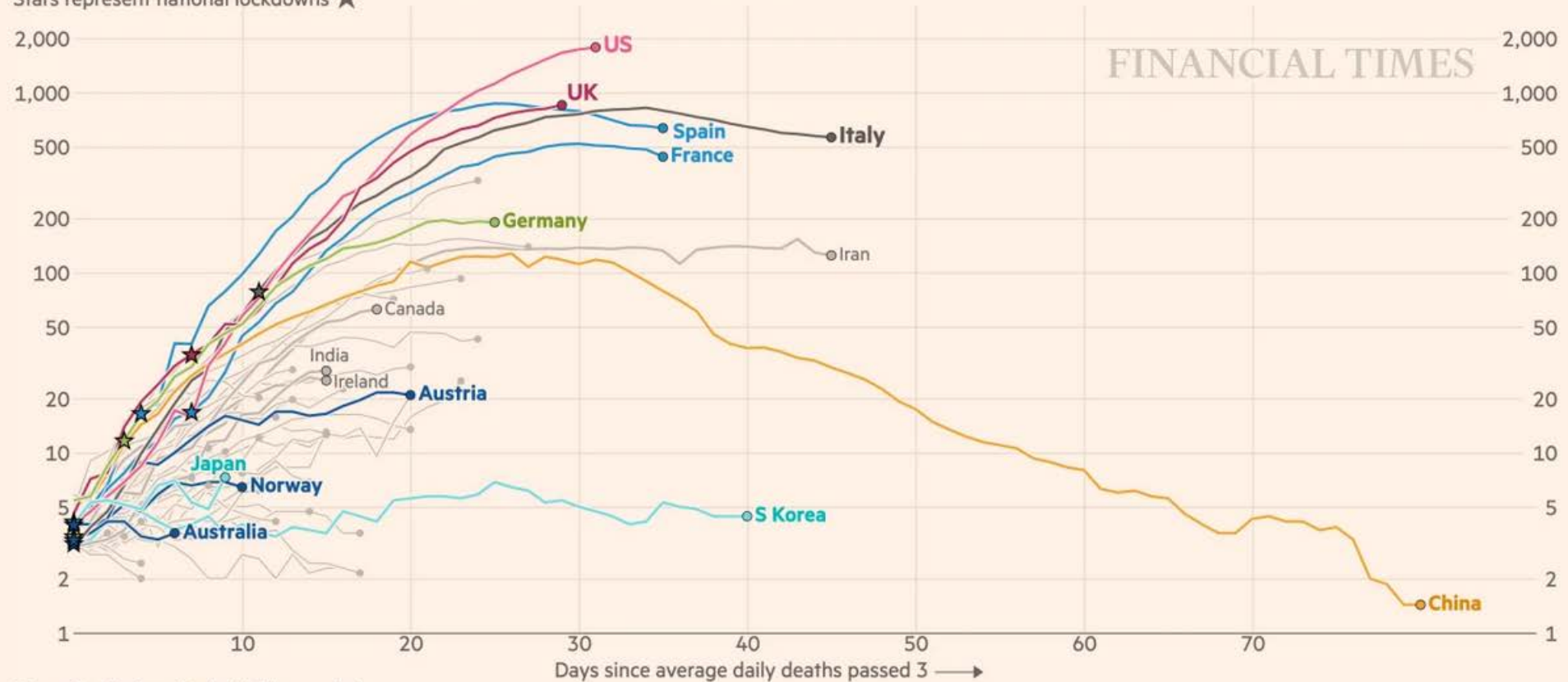
University of California, Los Angeles

April 15, 2020

## Italy and Spain's daily death tolls are falling; in the UK and US daily deaths still trend upward

Daily deaths with coronavirus (7-day rolling average), by number of days since 3 daily deaths first recorded

Stars represent national lockdowns ★



FT graphic: John Burn-Murdoch / @jburnmurdoch

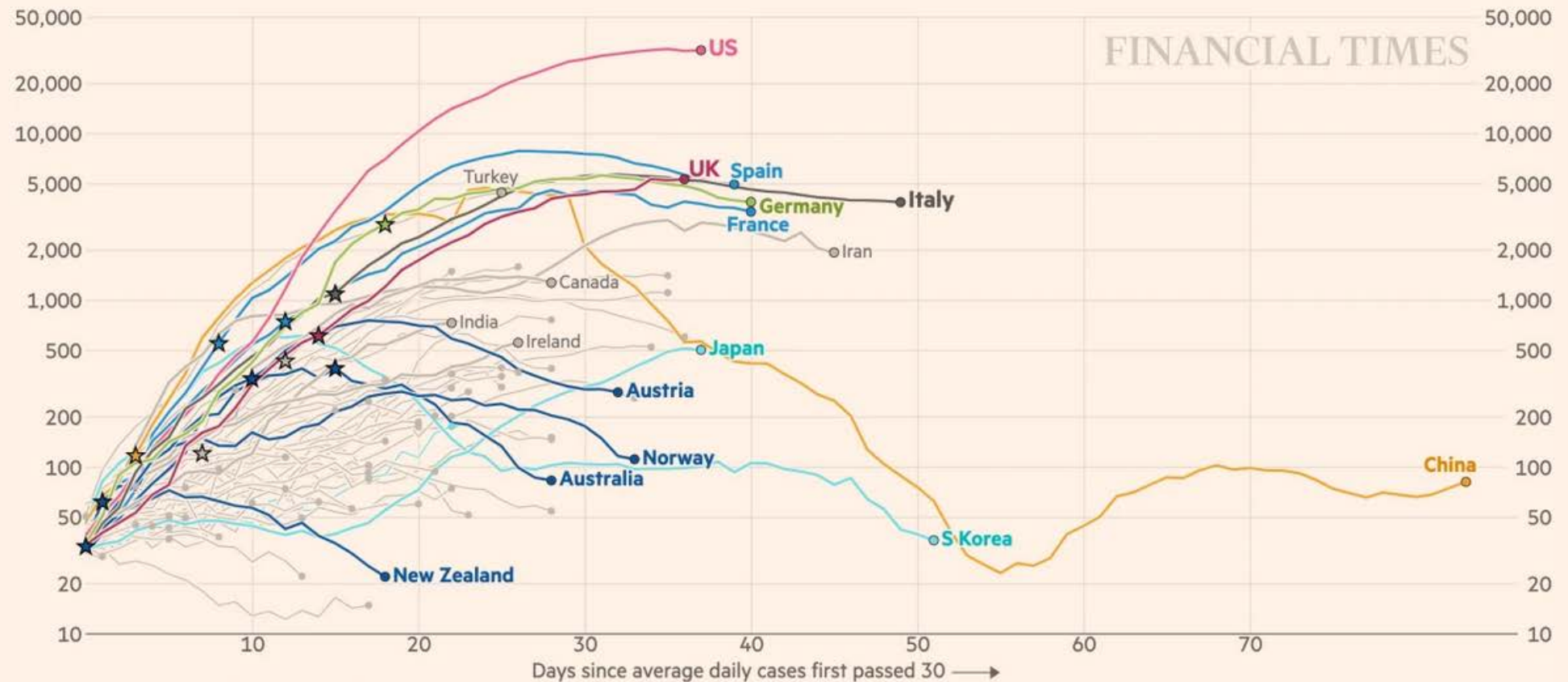
Source: FT analysis of European Centre for Disease Prevention and Control; FT research. Data updated April 13, 19:00 GMT

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## Several countries have turned the corner, with numbers of new cases now in decline

Daily confirmed cases (7-day rolling average), by number of days since 30 daily cases first recorded

Stars represent national lockdowns ★



FT graphic: John Burn-Murdoch / @jburnmurdoch


Source: FT analysis of European Centre for Disease Prevention and Control; FT research. Data updated April 13, 19:00 GMT

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The world economy is now collapsing

Global economy already set for historic contraction

French central banker floats printing money to hand to companies

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## Global economy to suffer worst blow since the 1930s, warns IMF

Most countries' economies set to be at least 5% smaller, even after recovery

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A closed café in Vienna, Austria. Businesses around the world have shut their doors © Leonhard Foeger/Reuters

Chris Giles in London 6 HOURS AGO 

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The coronavirus crisis will leave lasting scars on the global economy and most countries should expect their economies to be 5 per cent smaller than planned even after a sharp recovery in 2021, the IMF said on Tuesday.

Forecasting that this year would be the worst global economic contraction since the Great Depression of the 1930s, Gita Gopinath, the fund's chief economist, said the world outlook had "changed dramatically" since January with output losses that would "dwarf" the global financial crisis 12 years ago.


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## Governments face 'massive' rise in public debt, IMF warns

Coronavirus response to push budget deficits above financial crisis levels


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People wearing protective masks queue to register as unemployed in Sofia, Bulgaria. Government deficits are rising as the economic toll of coronavirus grows © AFP via Getty Images

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The increase in borrowing by governments around the world as a result of the coronavirus pandemic will be "massive", the IMF said on Wednesday, forecasting that population lockdowns and economic contractions would push budget deficits to well above peak levels during the financial crisis.

Globally, net public debt will rise from 69.4 per cent of national income last year to 85.3 per cent in 2020, the IMF said, raising concerns about the willingness of the private sector to finance governments with chequered records in servicing their borrowings.



# Fiscal policy, debt and the EMs

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## Investors ditch Mexican assets in 'flight to quality'

Monthly outflows of \$7bn are biggest since central bank started publishing data in 1994

**Jude Webber** in Mexico City 3 HOURS AGO 5

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Investors dumped Mexican assets at the fastest pace on record last month, as fears over the [coronavirus](#) pandemic prompted fund managers to scurry to safer and more liquid instruments.

Analysts at BBVA Corporate and Investment Banking said the 166bn peso (\$7bn) outflows, taking all Mexican government securities together, was the biggest since the central bank started publishing holdings data in 1994 and an acceleration of a trend that began early last year.

FINANCIAL TIMES

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Lebanon

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## Lebanon's creditors face 70% hit from debt restructuring

New analysis estimates losses implied by country's reduction plan

Beirut aims to have wrestled its debt-to-GDP ratio down to 90 per cent by 2027 © Bloomberg

**Tommy Stubbington** in London and **Chloe Cornish** in Beirut APRIL 9 2020 6

Lebanon's bondholders will have at least 70 per cent wiped off the value of their holdings, according to an analysis of the government's plan to restructure the country's huge debts.

Lebanon, which [defaulted](#) on its \$30bn of foreign-currency bonds in February, offered the first hints as to how it plans to return its debt to a sustainable level in a draft document circulated on Wednesday. Under the plan drawn up with advisers including Lazard, Beirut aims to cut its borrowings of more than 175 per cent of gross domestic product in half by the end of the year, and move to a more flexible exchange rate.

## Rising spreads also show flight from risky assets in emerging economies

Emerging market sovereign bond spreads over US Treasuries

(JP Morgan EMBI, basis points)



Source: IMF  
© FT

## The depth and breadth of the coronavirus recession will be far worse than in 2009

Growth in global GDP per head and recessions

Share of countries with negative per head growth (%)



Source: IMF

© FT

## The baseline forecast is now for deep recessions this year

Global GDP forecasts (Q1 2019 = 100) - IMF forecasts in January and April 2020



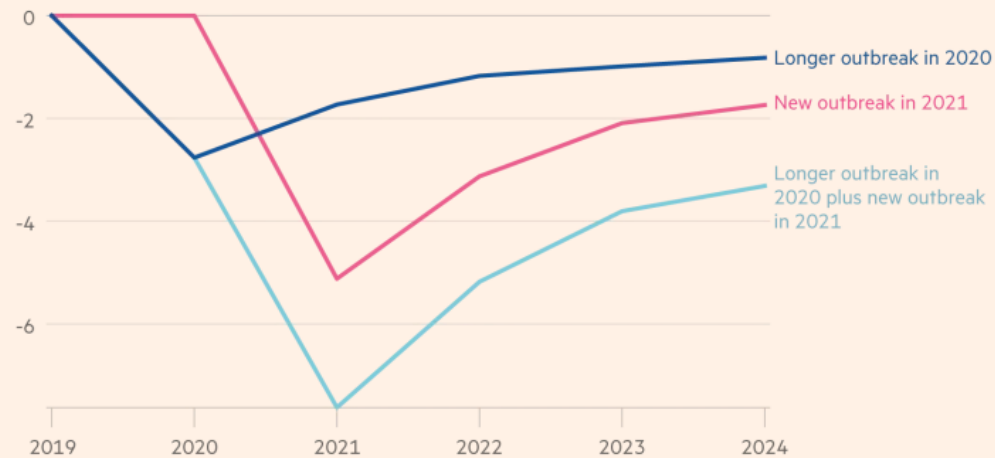
Source: IMF  
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# Worse case scenarios

## Scenarios suggest outcomes could be far worse than in the baseline in advanced countries

Impact of differing Covid-19 scenarios, advanced economies  
(GDP deviation from baseline, %)




















Source: IMF  
© FT

## Outcomes could also be far worse in emerging and developing countries

Scenarios in the fight against Covid-19 - Emerging & developing economies  
(GDP deviation from baseline, %)



Source: IMF  
© FT

	Major 10Y	Yield		Day	Weekly	Monthly	Yearly	Date
	<b>US</b>	0.75	▲ 0.00	0.00%	0.02%	0.02%	-1.80%	Apr/14
	<b>UK</b>	0.34	▲ 0.03	0.03%	-0.08%	-0.10%	-0.88%	Apr/14
	<b>Japan</b>	0.01	▲ 0.01	0.01%	0.01%	0.00%	0.05%	Apr/14
	<b>Germany</b>	-0.37	▼ 0.03	-0.03%	-0.06%	0.08%	-0.43%	Apr/14
	<b>Netherlands</b>	-0.09	▼ 0.01	-0.01%	0.03%	0.12%	-0.33%	Apr/14
	<b>Switzerland</b>	-0.34	▼ 0.04	-0.04%	-0.09%	0.03%	-0.09%	Apr/14
	<b>Spain</b>	0.88	▲ 0.09	0.09%	0.06%	0.03%	-0.21%	Apr/14
	<b>Italy</b>	1.82	▲ 0.20	0.20%	0.22%	-0.34%	-0.75%	Apr/14
	<b>France</b>	0.11	▼ 0.01	-0.01%	-0.06%	-0.08%	-0.31%	Apr/14
	<b>Greece</b>	1.93	▲ 0.12	0.12%	0.11%	-0.63%	-1.35%	Apr/14
	<b>Brazil</b>	7.47	▼ 0.15	-0.03%	-0.38%	-0.73%	-1.32%	Apr/14
	<b>Portugal</b>	0.91	▲ 0.02	0.02%	0.02%	-0.15%	-0.29%	Apr/14
	<b>Mexico</b>	6.92	▼ 0.23	-0.23%	-0.39%	-0.93%	-1.02%	Apr/14
	<b>New Zealand</b>	0.99	▲ 0.08	0.08%	-0.13%	-0.04%	-1.08%	Apr/14
	<b>Canada</b>	0.76	▼ 0.00	0.00%	-0.06%	-0.02%	-1.00%	Apr/14
	<b>Australia</b>	0.95	▲ 0.03	0.03%	0.04%	0.13%	-0.99%	Apr/14
	<b>India</b>	6.50	▲ 0.01	0.01%	0.08%	0.29%	-0.90%	Apr/13

Our only option?

**B**ACK IN 1969, MILTON FRIEDMAN PROPOSED AN interesting thought experiment that has since become famous:

Let us suppose now that one day a helicopter flies over this community and drops an additional \$1,000 in bills from the sky, which is, of course, hastily collected by members of the community. Let us suppose further that everyone is convinced that this is a unique event which will never be repeated [**Friedman 1969**].

Friedman did not intend his suggestion as a serious policy proposal. Instead, he intended it as a classroom device to illustrate the consequences of changes in the stock of base money. The idea then stayed in the classroom for many years, virtually unknown to all except academic monetary economists.

In the late 1990s, it began to be reinvented as a serious policy proposal. People first began to think it might be a useful instrument to combat deflation in Japan. The idea then hit the headlines in 2002 when then-Fed governor Ben Bernanke suggested that it might be used to combat possible deflation in the United States too:

The U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation [**Bernanke 2002**].

# Helicopter Money





# What about this?

The New York Times

Opinion

## Will Our Economy Die From Coronavirus?

It will if we keep up our current strategy.

By Paul Romer and Alan M. Garber

Paul Romer, who received the Nobel Prize in Economics in 2018, is a professor at N.Y.U. Alan M. Garber, a physician and economist, is the provost of Harvard University.

March 23, 2020



Stocks continued their monthlong meltdown last week. Spencer Platt/Getty Images

Covid-19, the most threatening pandemic of the past century, has precipitated both a health crisis and an economic crisis. The strategies that governments have adopted to deal with each crisis separately are contradictory and risk catastrophic, long-term failure.

Social distancing is an emergency measure that will save lives but brings economic activity to a near-halt. During the worst of the Great Depression, 25 percent of the labor force was out of work. Several days ago, on March 17, Treasury Secretary Steven

# The battle at the heart of British science over coronavirus | Free to read

The UK government has been accused of paying too much attention to epidemiologists over other experts

Jonathan Ford in London YESTERDAY

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In the spring of 2001, Britain was wracked by its first large scale epidemic of foot-and-mouth disease since the late 1960s.

The country's livestock farmers were still embroiled in the lockdown that accompanied Bovine Spongiform Encephalopathy (BSE), a neurological disease of cattle, that would slash beef consumption and exports for a decade.

Now they faced the risk of further curbs on animal sales, and the possible mass culling of their herds. Much depended on whether the government got on top of the outbreak fast.

Concerned at blithe official statements that the disease was under control, with the implication that aggressive countermeasures would not be needed, one official suggested turning to a novel source to investigate the course of the infection.

Sir John Krebs, then chairman of the British Food Standards Agency, encouraged the government's new chief scientific adviser, David King, to recruit epidemiologists at three universities — Imperial College London, Cambridge and Edinburgh — to model the evolution of the disease. It wasn't the first time that computer models had been built to study epidemics. The innovation was to try to do it in real time, in order to guide the response.

## al affairs

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prop up US food supply chain

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## A better society can emerge from the lockdowns

History shows some crises lead to improved equality and access to food and healthcare

AMARTYA SEN

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Amartya Sen points to the way the second world war reduced inequality, producing a generation of children healthier than any previous cohort © FT montage; Bloomberg; Hulton Archive/Getty Images

Amartya Sen 4 HOURS AGO



*The writer, a Nobel laureate, is Thomas W Lamont University Professor at Harvard*

“We will meet again,” Queen Elizabeth [said](#) recently, invoking a 1939 song. It was an inspiring thought and exactly what we needed. But what kind of a world can we expect after the pandemic? Will we gain something from the experience of jointly resisting the crisis?