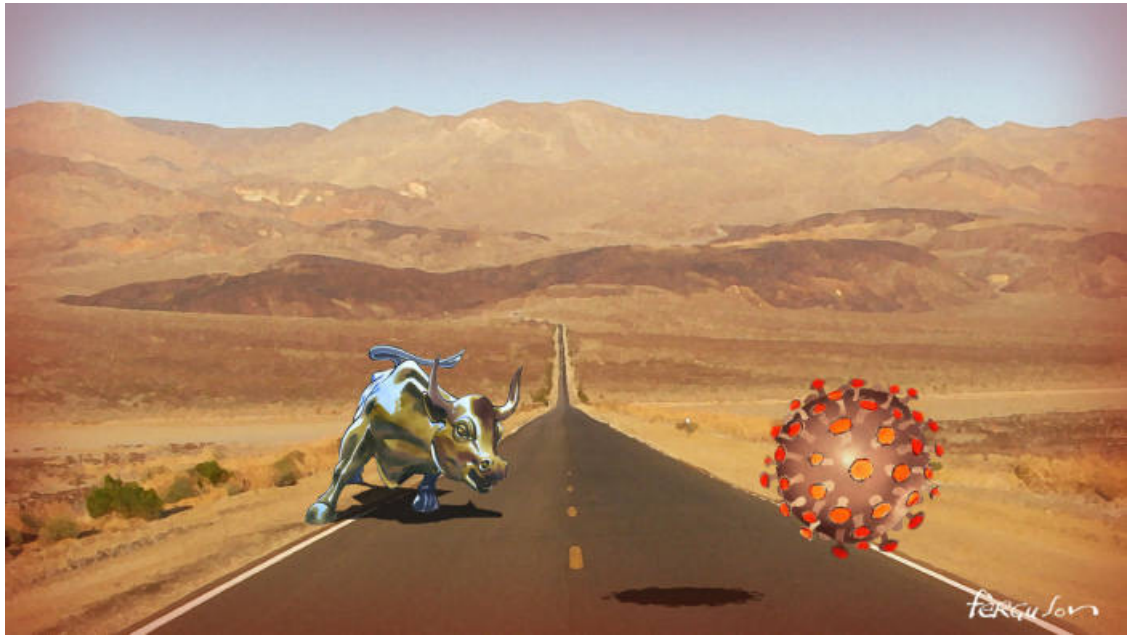


Opinion **Global Economy**

The virus is an economic emergency too

As borrowers and spenders of last resort, governments must act now to avert a depression

MARTIN WOLF



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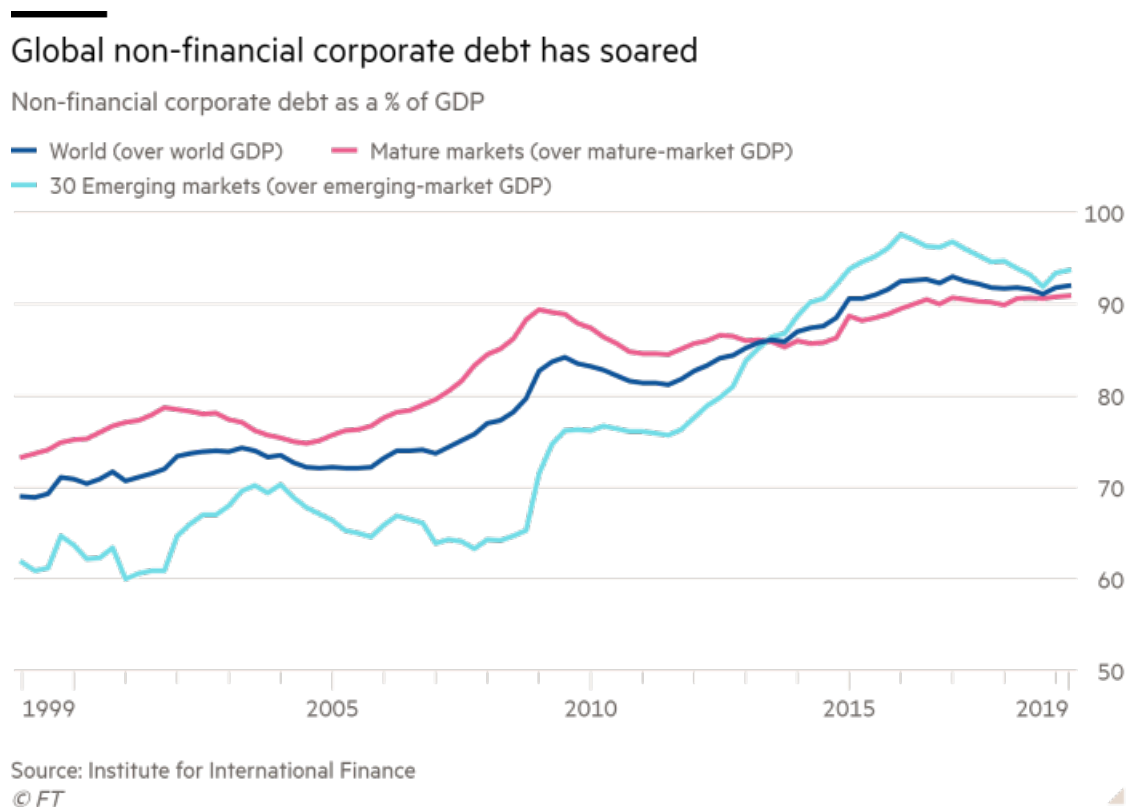
Martin Wolf YESTERDAY

The pandemic was not unexpected. But reality always differs from expectations. This is not just a threat to health. It may also be a bigger economic threat than the financial crisis of 2008-09. Dealing with it will require strong and intelligent leadership. Central banks have [made a good start](#). The onus now falls on governments. No event better demonstrates why a quality administrative state, led by people able to differentiate experts from charlatans, is so vital to the public.

A central question is how deep and long the health emergency will be. One hope is that locking down countries (as in [Spain](#)) or parts of countries (as in [China](#)) will eliminate the virus. Yet, even if this proved to be true in some places, it will clearly not be true

everywhere. An opposite [extreme](#) is that up to 80 per cent of the world's population could be infected. At a possible mortality rate of 1 per cent, that could mean 60m additional deaths, equivalent to the second world war. This calamity would probably also take time: the Spanish flu of 1918 came [in three waves](#), over a year. Yet it is more likely that this ends up in the middle: the death rate will be lower, but the disease will also not disappear.

If so, the world might not return to pre-crisis behaviour until well into 2021. Younger people might behave normally, sooner. But older ones will not. Moreover, even if a few countries do eliminate the disease, quarantines will be maintained against others. In sum, the impact of the coronavirus is likely to be severe and prolonged. At the very least, policymakers must plan on that.

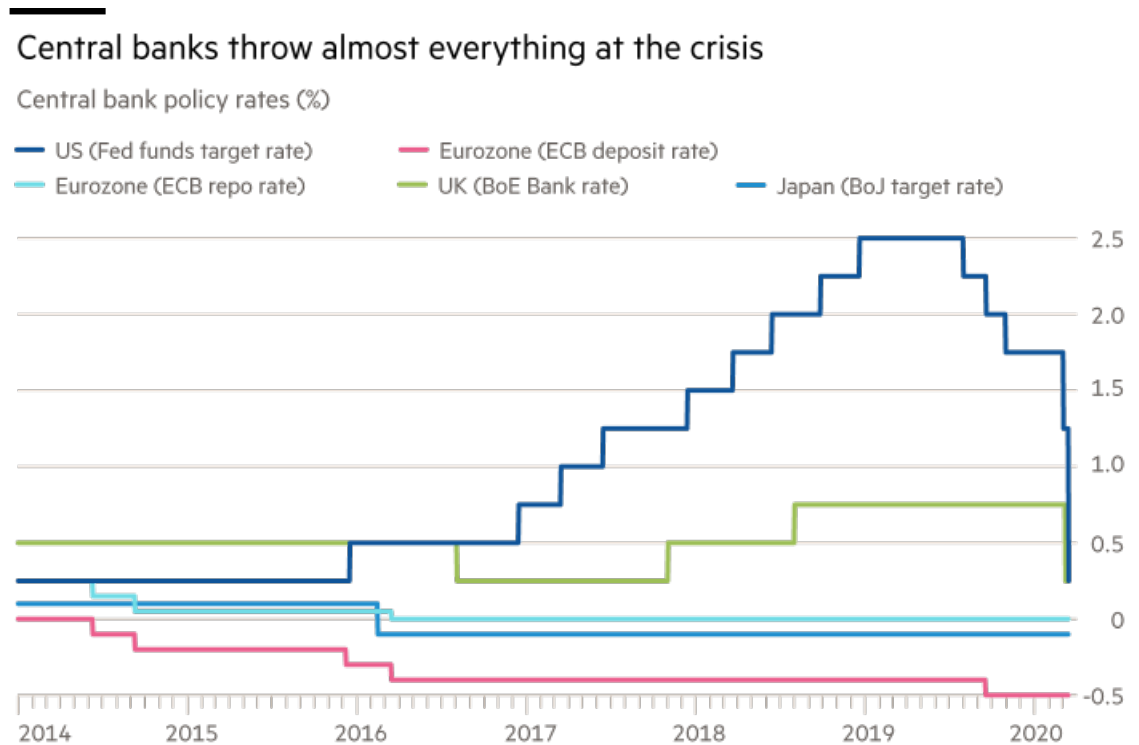


The pandemic has already squeezed both supply and demand. Lockdowns halt essential supplies and a wide range of purchases, especially entertainment and travel. The result will be a sharp fall in

activity in the first half of this year.

Above all, a depression threatens. Many households and businesses are likely to run out of money soon. Even in wealthy countries, a large proportion of the population has next to no cash reserves. The private sector — above all the non-financial corporate sector — has also gorged itself on indebtedness.

So consumer demand will weaken even more. Businesses will go bankrupt. People will refuse to sell to businesses deemed likely to go bankrupt, unless they can offer payment in advance. Doubt about the health of the financial system will re-emerge. There is a risk of a collapse in demand and economic activity that goes far beyond the direct impact of the health emergency.



Source: Refinitiv
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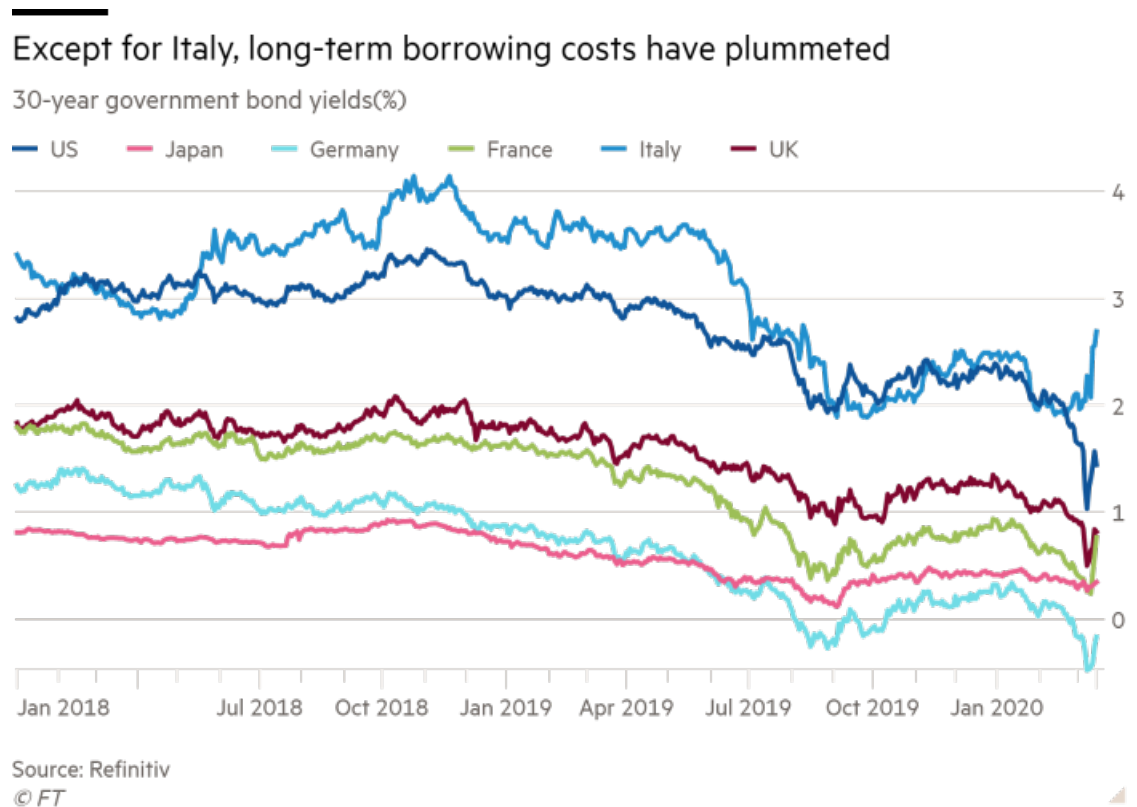
It will also be particularly hard to contain the spread of disease in countries with limited social insurance and weak social control. This will affect the US above all: many sick people will refuse to go

to hospital and will also be forced to work. Social insurance is efficient.

As lenders of last resort, the central banks must ensure liquidity by keeping the cost of borrowing low and financing credit supply, both directly and indirectly. But central banks cannot deliver solvency. They cannot underpin household incomes or insure businesses against this collapse in demand. As borrowers and spenders of last resort, governments can and must do so.

Long-term government debt is so cheap that they need feel no fear of doing so, either: Germany, Japan, France and the UK are now able to borrow for 30 years at a nominal rate of less than 1 per cent, Canada at 1.3 per cent and the US at 1.4 per cent.

This, then, is a time-limited crisis, with economic and health consequences that governments must manage. Domestically, the bare minimum is generous sick pay and unemployment insurance, including to freelance workers, for the period of the crisis. If this is too difficult, governments can just send everybody a cheque.



Yet even this will not be enough if the costs of mass bankruptcy and a depression are to be avoided. [Emmanuel Saez and Gabriel Zucman](#) of Berkeley argue that: “The most direct way to provide . . . insurance is to have the government act as a buyer of last resort. If the government fully replaces the demand that evaporates, each business can keep paying its workers and maintain its capital stock, as if it was operating . . . as usual.” [Anatole Kaletsky of Gavekal](#) has recommended a similar response.

Providing such relief will not create moral hazard. Being helped through a once-in-a-century pandemic will hardly encourage egregious irresponsibility. If businesses have borrowed too much, they will still go bankrupt, in the end.

This plan is far better than loans and loan guarantees, as [proposed](#) by the German government. Businesses will take up loans only to ensure their survival through the crisis, not necessarily to pay their workers. Moreover, loans will have to be repaid, creating a burden

when the pandemic ends. In this proposed programme, however, payments can be made conditional on keeping workers. The programme will also end naturally, with the pandemic itself. Governments can then impose additional taxes to recoup their outlays.

US stocks are still not all that cheap



Source: Robert J. Shiller
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Maintaining incomes and minimising the long-term costs of collapsing businesses are essential. In addition, within the eurozone it will be essential to help governments whose ability to borrow is limited. Globally, vulnerable emerging countries will also need help managing the health and economic crises. It will be vital, too, to roll back the zero-sum nationalism of today's policies, which will make it difficult to rebuild a co-operative and healthy global order.

This too shall pass. But it will not do so tomorrow. The pandemic risks creating a depression. *Salus rei publicae suprema lex* (the safety of the republic is the supreme law). In war, governments spend freely. Now, too, they must mobilise their resources to

prevent a disaster. Think big. Act now. Together.

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