

VoxEU: Mitigating the COVID Economic Crisis: Act Fast and Do Whatever It Takes

Leading economists around the world are calling for swift policy action to mitigate the economic impact stemming from COVID-19. In this eBook excerpt, several **experts from the CEPR and VoxEU** network agree on the need for a decisive and coordinated fiscal stimulus



Introduction by Richard Baldwin and Beatrice Weder di Mauro

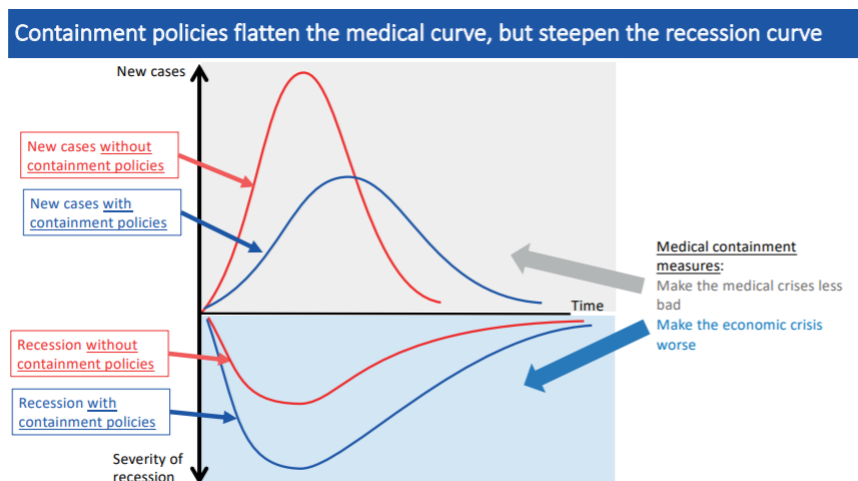
The world has been an unusual place since we published our first VoxEU/CEPR eBook on COVID-19, [Economics in the Time of COVID-19](#), on 9 March 2020. The number of COVID-19 cases and deaths have soared globally. Europe is now the centre of the pandemic but the US, given its huge population (330 million) and lack of national leadership, is on course to become the next centre. Stock markets gyrate 5 to 10% a day, sometimes up but mostly down. Other financial markets are equally volatile. Governments in Europe have imposed public health containment measures that would seem extreme in any other circumstances. Containment policies in the US are spreading without coordination or coherence as cities and states fill the leadership void. But not everything is becoming more uncertain.

The COVID-19 crisis has become more predictable in a sense. What was widely viewed as a 'Chinese problem,' and then an 'Italian problem' has become an 'everybody problem'. With few

exceptions, governments initially downplay the disease until sustained community transmission takes hold. Then they impose severe social distancing policies, work and school closures and the like. This inevitably leads to almost immediate economic hardship, which then leads governments to propose increasingly bold anti-recession measures. This was the pattern in Europe and looks set to be the pattern in the US and many other nations. All this is due to the highly contagious nature of the virus, and the inexorable implications of its explosive spread during the ‘acceleration phase’ of the epidemic. This eBook is an attempt to collect the thinking of leading economists on what is to be done. In addition to contributing to analysis of the rapidly evolving policy reactions, we hope this eBook will help nations get ahead of the curve – to think ahead on the medical and economic policies that will be needed. The collected wisdom of our authors also points to another critical aspect of this crisis. Without care, solutions to one set of economic problems could – for some nations – turn this economic crisis into a financial crisis, or a debt crisis, or a foreign exchange crisis, etc. Care must be taken to ensure that temporary solutions don’t create long-lasting problems.

The size of the economic damage is still very uncertain, but it is certain that it will large. Governments now need to focus on mitigating that damage. This is the time to bring out the big artillery; this is not a time to be timid, but to do whatever it takes, fast.

A key quote from the eBook



Source: Author’s elaboration, inspired by illustrations in the chapter by Gourinchas.
 Source: VoxEU, author’s elaboration, inspired by illustrations in the chapter by Gourinchas.

"Efforts to flatten the epi curve reduce economic activity. The recession, so to speak, is a necessary public health measure. Keeping workers away from work and consumers away from consumption both reduce economic activity. This is illustrated schematically in Figure 7 [i.e. the chart above], which has a top panel (medical) and a bottom panel (economy).

In the top panel (the medical outcome), the red curve suggests what the epi curve would look like without containment policies; the blue curve suggests what it would look like with containment policies. The blue curve is a flatter version of the red curve due to containment policies. In short, containment policies flatten the epi curve.

In the bottom panel (the economic outcome), the red curve illustrates the economic losses

(negative growth) when there are no containment policies; the blue curve suggests the recession's evolution when containment policies are imposed. The blue curve is steeper and deeper than the red curve in the bottom panel, i.e. just the reverse of the top panel. As Pierre-Olivier Gourinchas puts it: "flattening the infection curve inevitably steepens the macroeconomic recession curve." This unavoidable trade-off is surely behind some leaders delaying containment policies."

The original article first appeared on VoxEU [here](#). You can download the full version of the ebook [here](#).