Macroeconomic Policy in the Time of COVID-19: Comments and Some New Observations

Roberto Chang
Rutgers University and NBER (Visiting LSE)
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Loayza-Pennings: Useful Contribution

• Excellent summary of problems, issues, policy alternatives

• Especially for developing countries

• I focus on one big lesson: Need for coordination of public health policies and macroeconomic policy
Because COVID-19 is truly a global shock, international coordination is essential, in economic policy, health care and science, and containment and mitigation efforts.

Loayza and Pennings 2020, Abstract
Coordination Between Public Health Experts and Economists

• Public health experts and macroeconomists have seldom talked to each other

• Even now, the public health response and macroeconomic policy proposals have developed largely as separate enterprises
Current Status

Public Health Side
• COVID-19 dynamics: a version of SIRS model
• Measures to “flatten the curve”: mitigation, suppression

Economic Policy Role
• Alleviate pain implied by virus and by restrictive policy measures
• Prevent crisis amplification and multiplication
What is Being Ignored

• Dynamics of COVID-19 and effectiveness of public health measures depend on people’s perceptions and expectations about current and future economic policy

• We can gain from recognizing that here, too, people make economic choices
A Case in Point: Lockdown policies
(Chang and Velasco 2020)

• Compliance with a “stay at home” directive depends on costs of staying home (loss of current income) versus costs of going to market (risk of infection and loss of future income, plus physical cost)

• That evaluation depends on economic equilibria (and macro policy!)

• And the resulting decision determines the dynamics of contagion
Implications

• The details of economic policies matter for the dynamics of the epidemic

• This contrasts with dominant models (SIRS included)

• Expectations about future economic policy affect the size of the “health AD-AS shock”
In Particular, for Developing Countries...

• There is a risk that “obvious” economic policies undermine health policies by providing wrong incentives

• Conversely, a properly designed economic response can facilitate effective health policy (hopefully!)
Example from Loayza-Pennings

• “Economic policy should accompany public health measures, making them financially feasible and socially acceptable”

• Some possible measures: subsidized medical attention for prevention and cure; direct income support to vulnerable populations, including cash transfers

• These alternatives have different incentive properties for suppression policy and hence for the dynamics of the epidemic.
Final Remarks

• Loayza – Pennings: All of us should read it

• Critical question: interaction of macroeconomic policy with dynamics of virus and infection

• Thank You!