Coronavirus: Needed, an all-hands-on-deck financial policy

The volume of public funds required to address a healthcare emergency of this magnitude will rise exponentially as the second wave of COVID-19 hits more towns and cities across the world.

By **DEEPANSHU MOHAN**, **Mar 13, 2020**

Shanghai, China, 28th Jan 2020, People standing in line at the airport wear medical masks to prevent contracting the Coronavirus.Image: Alamy

The COVID-19 pandemic is now the biggest shock to hit the global economy, since the financial crisis of 2008-09. The effect of this shock, as against what we saw a decade ago, could be far worse, given how a global health pandemic like this is simultaneously inducing both supply and demand-side shocks across countries at the same time. That's one of the main reasons why financial markets are panicking at the moment and that volatility is likely to continue in the near future. Some of the short-term effects of the shock on the economy are still being understood and the long-term impact would merit a more rigorous academic scrutiny, once the virus is contained across the globe.

Compared to the previous epidemics, what we do know about the COVID-19 pandemic thus far is that it has a lesser mortality rate and the virus' containment is possible if nation-states are vigilant and take the required precautions. Countries like China and South Korea have been able to contain the number of deaths despite having a higher incidence of virus-infected population. However, what we still don't know is the rate of spread of the virus in most other nations, especially in parts of Europe, the United States, the United Kingdom, where infected cases are on the rise with each passing day, and more importantly, there is no prescribed uniform treatment to the virus, so any strategic public policy response at this point, needs to be focused on the virus' containment and getting contingent fiscal resources channelized to areas most needed.

In a highly quarantined social atmosphere combined with government-imposed travel bans, restrictions to work and employment, designing a response to the fiscal and monetary impact of COVID-19 will require a multi-frontal approach. Barry Eichengreen, in a recent column, argued for economic stabilisation to be restored through a more decentralised policy response. He said that there should be greater discretionary autonomy and fiscal stimulus to public health authorities—being the first nodal agency responsible for the virus' containment and in ensuring the availability of medical equipment for proper testing while providing medical relief.

The volume of public funds required to address a healthcare emergency of such magnitude in countries like the United States and the United Kingdom, to name a few will exponentially rise as the second wave of COVID-19 hits different towns and cities. From providing a higher number of hospital beds, oxygen tanks, respirators, intensive care units with supplies of protective suits, masks, testing kits, etc., most healthcare departments and state-systems will run short of getting these arranged in less time. In such a scenario, nation-states might benefit from ensuring radical, institutional measures to help mobilize sufficient financial and human resources in prioritising the medical response to the virus spread.

For example, countries like the U.S., can consider establishing a National Health Finance Corporation (NHFC) that can function as a time-bound special purpose vehicle. The NHFC, as Eichengreen suggests, can provide emergency funding to the Centers for Disease Control (CDC), the National Institutes of Health, the Department of Homeland Security, and the Department of Defense as well as many state and local governments, health insurance companies, medical firms, non-profits and service organizations.

The NHFC proposal could be viewed as a remodeled version of the Reconstruction Finance Corporation created in response to the Great Depression to support the New Deal and helped stabilize the banking sector under the Hoover Administration (1932). The advantage of having such an institution now, as a crisis response policy measure, would be to create an efficient one-stop-shop for all financial resources needed for public health authorities and respective state, local governments.

Why a national agency may help? One key lesson to be learnt from countries like South Korea and Taiwan in dealing with COVID-19 is knowing how conventional federal agencies in a crisis mode, are less equipped to take immediate action due to layers of bureaucratic authorities, that often delay prompt decision making. A nationalised corporation like the NHFC can function with more discretionary

power at hand, and have the flexibility to also raise funds from both public and sources in making sure that health services are available where needed.
On deliberating a broader global policy response to address the economic fallout of the shock, economist Kaushik Basu, in a recent column, emphasised on the need of multilateral financial institutions like the IMF and World Bank, to step up and create a globally coordinated financial policy response for addressing a crisis that has serious inter-sectoral impact linkages.

Citing the importance of some of the earlier works of French economists Leon Walrus and Gerard Debreu, and American economist and mathematician Kenneth Arrow, and Nobel laureate Amartya Sen's work (and his "entitlement approach") on famines, Basu emphasises how crises responses impose deeper, more structural supply-chain shocks that are difficult to unpack. He says that any policy response, in design and implementation, should keep these intersectional linkages in mind. A food restaurant that fails to have customers is likely to shut down and let go of people hired contractually to work there. Most of these people, now out of job, will require some unemployment benefit or fiscal transfer to help them with basic entitlements, including affordable healthcare. It is pertinent to recognise how most employment created today in both developing and developed nations, remains in the form of contractual jobs with many new jobs created in the "gig economy" segment (Uber, Ola, Swiggy, Uber-Eats, etc). A pandemic crisis shutting businesses and restricting people's mobility will disrupt these app-based economic sectors in the worst possible way, rendering many jobless and with no income in hand.

Nation-states, with support of international financial institutions, would, therefore, require to institute more in-hand cash transfers in form of unemployment pay benefits to those outside the salaried net of pay, while also providing tax relief to small and medium scale enterprises. Countries like Italy and others with a more prolonged effect of the virus-spread may even need a pre-planned financial bailout, and for which IMF-European Central Bank-Germany (or the *Troika*) may urgently need to intervene.

Central banks can do very little at this time. Rate cuts and monetary stimulus are just one of the steps that can ensure a stable liquidity position of banks but won't really help in ensuring better allocation of financial resources when a virus is spreading across states. Nation-states, would need to employ an "all hands on deck" fiscal approach to generate enough fiscal space for public health authorities and cushion themselves against a far worse economic fallout (rising unemployment, losing small and medium scale businesses, declining productivity, etc.). A special purpose vehicle like NHFC may help in creating a more coordinated, inter-sectional policy response, combined with other transfers directly to people as part of an economic stabilization package.

Views are personal.
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