

# MACROECONOMIC MANAGEMENT IN TIMES OF CRISIS

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# Snapshot & Viewpoint

- Tenuous situation
  - Tightening financial conditions
  - High and rising private and public debt
  - Rising inflation
  - Uneven recovery
- Viewpoint
  - Crisis is a transitory phenomenon, perhaps long lasting
  - Standard policies are ok

# What if ...

- ... some of the effects of Covid are permanent?
- ... the political situation deteriorates further?

# Long lasting (or permanent?) effects of Covid

- Asymmetric immediate impact on population groups
  - Widening geographic and spatial inequalities (health and wellbeing, local economic risk and resilience, poverty and opportunities).
  - Worsened health outcomes and increased health inequalities.
  - Differential mental health impacts (access to support disrupted) with negative long-term impact.
- Exacerbated structural inequalities (income and poverty, education and intergenerational), with particular effects on children and along dimensions of gender and ethnicity.
- Recovering lost education is unfeasible. Exacerbate inequalities in attainment and digital education.

# Long lasting (or permanent?) effects of Covid

- Significant additional pressure on governments
  - Pressure on revenue streams and government spending in the medium to long term, as a result of increasing levels of debt and possible falling tax revenues due to risks around unemployment, failing businesses, decreased consumption and significant shifts in the structure of the economy.
  - Falling employment and household income leading to increased dependency on social security and potentially significant adjustments to the social security system in order for it to keep pace with demand.
- Low and unstable levels of trust in governance and increased importance of local communities.

# Policies and permanent effects of Covid

- Consider labor markets. If changes are permanent (working hours, remote labor, substitution away from workers, digital economy, etc.),
  - Which policies would ease transitions to the “new normal”?
  - In which direction should regulation be adjusted?
  - How to align education and human capital formation with new market requirements?
- It may not invalidate standard macro-policy prescriptions, but perhaps they may be insufficient.
  - Can/should governments postpone structural reforms?
  - Is Covid-19 a window of opportunity for reforms?

# Political implications

- Crises are characterized by
  - Posing a significant challenge to society
  - Coming as a surprise
  - Giving a short window of opportunity for decision making
- Crises solution require leadership that allow for:
  - Building an environment of trust
  - Reforming society's mindset
  - Identifying obvious and obscure vulnerabilities
  - Making wise and rapid decisions as well as taking courageous action
  - Learning from crisis to effect change.

# Political deterioration

- Covid management led to suppressing individual liberties
  - Protests in Europe and elsewhere met with little maneuvering
- Crises lead to political change
  - Pro/against democracy, freedom and inclusion
  - Quality of the policy response is very doubtful
    - Is trading oil and gas for peace a sound strategy?
- Putin and (tacit and explicit) allies
  - Annexation of Crimea in 2014 (size of Belgium and the Netherlands)
  - Invasion of Ukraine in 2022
  - Who's next?