

A macro crisis like none before: a call for global coordination



This is based on my personal perspective of financial crises as an academic, financial practitioner (investment banking and investment management) and policy advisor. I have been arguing (since early February) that this crisis is different from any other economic or financial crisis, pandemic, or war. The reason is apparent and simple: the expanse and impact of the crisis across 200 countries in a globalised world. Additionally, this virus has affected disproportionately the very old and those with underlying conditions, in contrast with earlier pandemics and epidemics that affected all age groups. This virus strain is 25 times or so more infectious than the regular flu virus as per the health and science experts. Epidemiologists, virologists and health experts are still studying and examining various aspects of Covid-19 from testing and tracing, vaccine development and anti-virus drugs.

The early infected countries in Asia, including China, South Korea, Singapore, Vietnam, Taiwan, Cambodia, etc., managed to keep fatalities down by implementing strict lockdowns and testing as they had had experience dealing with the earlier SARS outbreaks. Following the initial Wuhan China lockdown and rapid spread of the infection, these Asian countries shut down workplaces and social venues along with schools. The western world had nearly two months of advance warning but definitely not the earlier experience of SARS that some Asian countries faced.

Italy was the first country to face large losses of lives and that can be viewed in context as it has the oldest population in Europe. The Italian outbreak was concentrated in the Lombardy region, which has one of the oldest age groups within Italy. But now the effects are being felt in other parts of the world—the UK, the US, Spain, Russia, Brazil and Iran. Most at risk are highly populated and dense megacities. New York City, London, Mumbai, São Paulo, Rio de Janeiro, Madrid and Moscow are finding distancing and containment harder. Germany, a country with one of the lowest urban population densities in the advanced world, has fared much better in staving off the ill effects of this pandemic. While incidence of confirmed cases and fatalities in developed countries is flattening out, there is an uptrend in Latin America (Brazil, Peru, Mexico etc), Africa and Asia too.

In a [different blog](#) calling for global coordination, I stressed the following seven-point action plan:

1. **Marshalling public health resources** – tests, masks, ventilators, doctors, nurses and hospitals.
2. **Alleviating public health strains and transmission rates** – necessary lockdowns, restricted movements and social distancing to mitigate and suppress the epidemic's effects.
3. **Supporting income and resources of the vulnerable.** Fiscal packages should be distributed on a targeted basis to ensure equitable resource allocation. Global fiscal coordination within the European Union and across other regions must shore up income support, credit lines, insurance and basic health care for the vulnerable.
4. **Providing liquidity, purchasing bonds, initiating QE and supporting banks.** In addition to the set of

impressive funding facilities from central banks, regulators need to consider relaxing selected bank/market-maker laws instituted post 2009 to allow for more normal operations.

5. **Coordinating with multilateral agencies and regional development banks.** The International Monetary Fund, the World Bank, the InterAmerican Development Bank, etc., have a vital role to play in supporting fiscal authorities and central banks in vulnerable emerging markets with high poverty rates, informal labour markets and high population density.
6. **Leveraging the WHO-United Nations solidarity fund.** Governments could leverage this great initiative, which could, in partnership with private sector, turn into a global change agent.
7. **Joining forces with the G7 and G20 leadership.** Global leaders, along with local finance, health and social care ministers, among others, must expeditiously join forces for effective consolidated action.

Sadly, there has been a lack of global coordination and leadership unlike what we saw during the global financial crisis. Advanced countries have focused on domestic policies, and some countries have blamed others. The major concern amidst lockdowns and isolation/quarantine are the detrimental economic effects of shutting out billions of workers from their workplaces and shutting in consumers from their normal consuming habitats.

Emerging market countries, which can ill afford the costs of lockdowns, may end up facing multi-year GDP losses. Christine Lagarde, the president of the European Central Bank, guesstimated losses of 2-3% of GDP for each month of lockdown and I think that holds for advanced countries, not emerging markets, which face longer-lasting economic losses. Emerging market countries contributed 60% of global growth over the last 15 years or so. As these countries look for loans and aid from the IMF, World Bank and other multilateral agencies, they are realising the need for local demand sources to prop up their recovery.

Monetary policy measures and tools used by large central banks such as the US Fed, the European Central Bank, and the Bank of Japan have used all the lessons from the global financial crisis and been excellently expedient in providing timely relief for businesses and individuals. Fiscal policy measures have been slower in being announced but have gathered impetus for greater scale and size in the US, UK, Germany, Italy, and Japan. The true effectiveness of fiscal policy has to be judged in terms of economic relief to individual workers and consumers as well as small and medium enterprises.

As national policies towards lockdowns get relaxed, caution should be exercised in the return to normalcy. These are extreme emergency conditions and while public debt-to-GDP ratios may increase by 15% on average, and inflation in some sectors may eke up slowly, that is a small price to pay to deal with this deadly virus. We all have to collectively and courageously brave the changes as we enter a new world — alien in fundamental ways in the realms of work, education, travel, recreation, sports etc. Normalcy can only be when teachers and students engage, buyers and sellers engage, clients and service providers engage, sportspersons and fans engage etc.

While this crisis may result in permanent changes to sectors such as airlines, hospitality, hotel and education, it may also permanently redefine globalisation, which was already slowing down along some dimensions. This crisis is resulting in changed behaviour as social contracts, work contracts and individual contracts undergo dramatic transformation with broader economic, social and political effects.

I call for sharing across scientific disciplines, economic and financial policy-making, social, political and justice arenas within and across countries for a harmonious, prosperous and healthy world.



Notes:

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