Twitter Thread by Dario Perkins

Dario Perkins
@darioperkins

Nice article from @MESandbu. This from a theme in sellside research before Christmas. Could the pandemic break secular stagnation & deliver a decade of strong growth?

> \u201cYou do not have to be an economist, only human, to understand the desire to let loose, get together, and take risks after a year of cautiously locking down at home and distancing ourselves from one another.\u201d From a wonderful @MESandbu colhttps://t.co/MvFMmeLs5G
>
> — Tony Tassell (@TonyTassell) January 1, 2021

Historical evidence clear - pandemics are usually deflationary, causing lower r*. Big difference with wars, which usually cause r* to rise. Great Jorda et al paper on this https://t.co/f3a9O3Hw3c

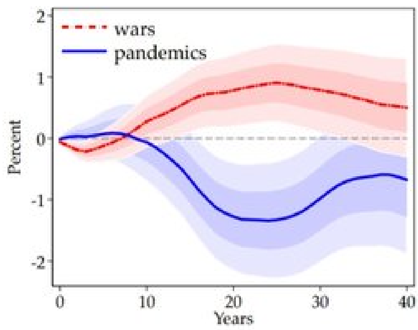
Here is their main result

07:50 50%

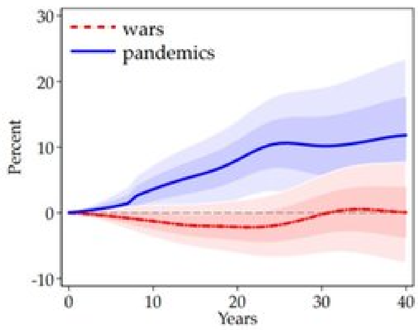
wp2020-09.pdf

Figure 3: *Responses after pandemics and wars*

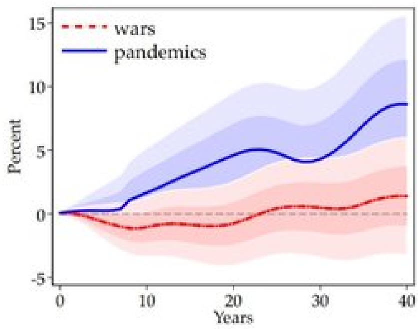
(a) *Response of European real natural rate*



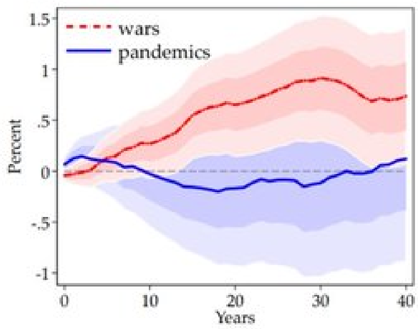
(b) *Response of real wages in Great Britain*



(c) *Response of real GDP per capita in England*



(d) *Response of $r - g$ in England*



Notes: Response calculated using Equation 4. Final two panels use trends estimated for real wages in Great Britain and real GDP per capita in the UK. Details on trend estimation is provided in Appendix A. Shaded areas are 1 and 2 s.e. bands around response estimates. See text.

Table 1: *Responses after pandemics and wars*

Horizon year	$h = 0$	$h = 10$	$h = 20$	$h = 30$	$h = 40$
(a) Responses of European real natural rate at years 0 to 40 (change from year −1 baseline)					

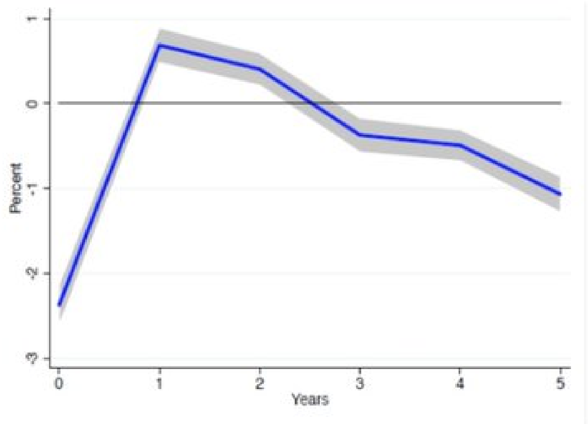
Historically, Wars destroyed both capital stock and labour force. Pandemics killed millions but left capital stock untouched. Covid-19 is neither of these things. Workforce hasn't plunged, capital stock untouched. Comparison with 1920s is a stretch. So precedent for today..

Some more recent evidence based on modern health crises shows only a short-lived boost to GDP, then weaker trend then before. See this Vox column https://t.co/NXZWP3QNlL

And their main result

higher growth rate than unaffected countries in the year following the crisis.[2] However, resumption in growth in affected countries is not sufficient to overcome the initial decline, leaving the level of GDP persistently lower in affected countries compared to unaffected countries.

Figure 3 Effect of health crises on GDP growth



Effect on high-income and low-income countries

In Figure 4, we display estimates of the effect of health crises separately on high-income countries (in blue) and low-income countries (red), as classified by the World Bank. High-income countries affected by the crisis have a GDP growth rate in the onset year that is 3% less than the GDP growth for high-income countries unaffected by the crises. However, bounce-back for these affected high-income countries is quick, as seen by the fact that growth is nearly

The only lesson I would draw from 1920s is in the comparison between Germany/UK and France/US. The former went down the austerity route. Far from the "roaring 20s", they had a decade of deflation and unemployment. Politicians should know this by now...but maybe not ■

So @MESandbu warns about danger of premature monetary policy tightening. But I think CBs are leaning heavily against such an error. They have internalised the 2010s, eff raising their inflation targets. The policy risk is on the fiscal side. Not sure politicians learnt anything

Bear in mind also that the 2020 recession compounded many of the underlying causes of secular stagnation: esp income/wealth inequality, corporate divergence (weak SMEs), monetary policy at lower bound and will leave a legacy of even higher corporate debt ratios