



IDEA anti COVID-19 #17

How to reawaken the economy: Soothe, warm up, say some farewells¹

MAY 2020

Filip Matějka

Summary

- May 2020 draws us closer to the time when we will reawaken the economy. The main aims of our economic measures will need to change hand in hand with the selective release of the blanket restrictions.
- What principles should we be guided by at this stage? What do we need to look out for to ensure that the hundreds of billions of crowns in support announced by the government do not end up being the greatest waste of state finances for several decades?
- The economic crisis over the next few months will be unique both in its very high level of uncertainty and in terms of the extent of late payments. The state support, which will arrive late and without prior clarity over who will and will not be eligible for it, may substantially worsen this situation. Volatility indexes and uncertainty measures are currently far higher than they were even during the financial crisis ten years ago. We do not know whether the epidemic will return, what its return will look like, or how governments will then react. Over half the contraction we will observe in economic activity over the next few months will likely be driven by high uncertainty, which we must reduce in a very targeted manner.
- State interventions in the economy must be gradually reduced. The world is changing. It will not be appropriate to keep businesses that were previously useful but will not be functional for some time in this new reality alive, merely for sentimental reasons (e.g. airlines and international travel services). While the markets do not work while artificially restrictive measures are in place, and are thus not a good indicator of which businesses will be useful to society afterwards, we must now begin once again to make greater use of free markets.

¹ This study presents the author's own views and not the official position of the Czech Academy of Sciences' Economics Institute nor of the Charles University Centre for Economic Research and Graduate Education (CERGE). We are grateful to Daniel Münich, Filip Pertold, Jakub Kastl, Petr Sedláček, Jan Švejnar, Štěpán Jurajda, Danuše Nerudová, Jan Bureš, Jan Žemlička, Rastislav Reháč and Michal Šoltés for their useful input and comments on the working version of the text. Any inaccuracies or errors are the author's responsibility. The study was produced with support from the Experientia Foundation and from the Czech Academy of Sciences as part of its AV21 Strategy programme.