Executive Summary

Alamos Alliance XXVIII

The Economics of the Covid-19 Disruption:
Radical Uncertainty, Digital Money and Post-Pandemic Recovery

April 30th, 2021
Special Virtual Meeting

Only two weeks after Alamos Alliance XXVII, world health authorities declared that Covid-19 had morphed into a full-blown pandemic. In a single moment, reality changed dramatically for the entire world, as lockdowns and the equivalent of a "zombie-like" economy became part of a new normal. Fear and radical uncertainty ensued. The way everyday people interact, save, spend, and work, shifted at an unprecedented pace. Moreover, the manner in which we look at public health and day-to-day business also changed abruptly, as Covid-19 cases and deaths exploded world-wide, together with the implementation of lockdown and shelter-in-place policies.

Alamos Alliance XXVIII focused on what 2020 brought to the world economy by addressing the otherwise atypical topic of the economics of the Covid-19 disruption, including the recent rise of digital money as a future monetary alternative.

For the first time, the conference was held online. Participants and guests joined in from all over the world through a virtual platform. The discussed topics were the following.

- **Fiscal and Monetary Policy Responses to Covid-19: What comes next?**
- **The Future of Global Trade and Supply Chain Disruption**
- **Digital Money, Crypto-Currencies, and New Fears of Inflation**

The first session featured opening remarks by Vice President & Chief Economist of World Bank Group Carmen Reinhart who discussed the ***key differences between today's economic crisis and crises of the past.*** What started as a public health crisis has now "morphed" into the balance sheets of governments, financial institutions, and households, as the Covid-19 pandemic persists, amid massive fiscal expansion policies implemented to sustain economies from utter collapse. In her own words, "this time, it *really* is different." One of the most important differences between past crises and the new Covid-19 crisis includes a dramatic increase in poverty among emerging markets. Globally, poverty has been declining on a systematic basis since the early 1990s until 2020. Notwithstanding the expected boom in larger economies, Dr. Reinhart argues that the recovery will be significantly slower in emerging markets where recovery is deemed equivalent to the restoration of individual income to pre-pandemic levels (for countries like Mexico, Brazil or Argentina, this might occur until 2025). This is due, in part, to the fiscal limitations governments in developing markets have relative to governments in developed countries.

Rolf Lüders, chair of the session, introduced a presentation led by Casey Mulligan, together with Robert Topel and Kevin Murphy. Professor Mulligan spoke about the explicit and implicit costs of the pandemic. The mounting loss of life under the pandemic entails an increasing economic cost, including the financial burden of saving a life under pandemic policies. He concluded that the sharp reduction in economic activity caused by broader quarantines and lockdown policies embodies a huge expense, especially when these are imposed on "healthy people." The advent of a vaccine as an imminent alternative, however, made shelter-in-place orders beneficial, as these suddenly changed from policies delaying severe illness and possible death to avoiding it entirely. This scenario changes in light of the expansion and success of vaccine rollouts.

Phil Gramm addressed the overall costs of Covid-19 health policies in light of the renewed debates on economic inequality. He attributed the stated "high and rising" income inequality in the U.S. to the method whereby the Census measures income. Official measures of inequality do not consider net taxes, or private and government transfers. Low-income households receive a wide variety of social welfare benefits, while high earners face a progressive tax rate. When adjusting the steep earned-income line to these allocations, then the income slope declines, and inequality can then be construed, *de facto*, as lower today than it was in the 1940s. The 2020 pandemic saw a significant number of transfers to low-income individuals, specifically in the developed world. The developing world will nonetheless have a devastating effect on the distribution of overall income, especially in those markets that cannot or will not afford the level of government transfers seen in the United States.

Anne Krueger and Manuel Suarez Mier conversed on the future of global trade in light of Professor Krueger's recent book ***International Trade: What Everyone Needs to Know,*** with an emphasis on the Trump administration's protectionist policies. Both spoke against the very idea of a "managed trade" approach seen in the re-negotiation of the North American Free Trade Agreement and the new USMCA pact, as well as with the trade war policies adopted with respect to China. The only outcome that the Trump's administration may have accomplished was the change in the auto industry requirements in Mexico. However, protectionist policies only force the U.S. to keep resources in areas where they have a comparative disadvantage.

A fascinating conversation followed on ***digital money, crypto-currencies, and inflation,*** with the participation of Manuel Sanchez, Tom Saving, Pedro Aspe and Sebastian Edwards. Dr. Sanchez placed the debate in the context of now famous remarks made over two decades ago by Milton Friedman (and which he repeated in 2006 at a special Alamos Alliance meeting held in his honor in 2006 in Monterey), where he foreshadowed the internet as being the major force of modern times, reducing the role of government, and associated transaction costs, especially in economic activity. Here, Friedman augured the rise of "e-cash" to use in everyday transactions in easy and anonymous ways.

Ten years later, in 2009, bitcoin was created.

Tom Saving followed up the conversation with a comparison of cryptocurrencies to gold. Most trades today occur digitally. For most people in the developed world, there is no longer a need to hold cash. Checks are disappearing, and vast numbers of transactions are done by transferring titles to legal tender. In a sense, cryptocurrencies allow savers to store the value of their money without the expenses of guarding a physical asset-- as would happen with the storage of gold or any similar physical asset used as a store of value. Saving stated, "they are not currency, they are digital gold." Regarding inflation, he suggested that the Fed has the power to maintain inflation under control, specifically by allowing interest rates to increase. However, there is a political cost to such initiatives, and it may receive push back from the government.

Pedro Aspe focused his takeaway on new fears of inflation and the rising tide of macroeconomic imbalances. Just like the previous administration's Coronavirus, Aid, Relief and Economic Security Act, the Biden administration's recent stimulus package also has a massive fiscal weight, now constituting $1.9 trillion USD. While times of trouble are understandable, these increases in government expenditures hinder the effort to lower the fiscal deficit. "You cannot run on a deficit forever," stated Aspe, regardless of a nation's status as a developed or emerging economy-- and certainly despite the fanciful claims of Modern Monetary Theory (MMT) advocates. The potential problem is increased inflation, increased interest rates, and an increased fiscal deficit. In the short run, Professor Aspe forecasts a slow increase in interest rates and inflation, and appreciation of the US dollar; but, without a comprehensive fiscal reform or aggressive contractionary monetary policy, a serious rise in the rate of inflation.

On the issue of digital currencies, Sebastian Edwards focused on the effect these would have on emerging markets if advanced economies adopted the wide use of a central bank digital currency (CBDC). Assuming that we will see central banks moving in the direction of digital currencies, Professor Edwards put forward the following proposition: the goal is to increase efficiency, raise financial inclusion, and facilitate cross-border trade and transactions. He believes that central bank involvement in digital currencies is unavoidable. With regards to inflation, for emerging markets like Argentina who are again suffering runaway price instability, the solution he proposed is to dollarize-- and the advent of a digital dollar might make this initiative much easier to implement, even despite the local government's aims and claims. With respect to the US, he believes that a rise in inflation is imminent, but every time the Fed steps in, *"they mess things up – unavoidably - the best strategy is to keep the Fed not acting at all"*.

As is tradition, the closing remarks included a remembrance of friends of *Alamos Alliance* who passed since the last meeting. This year, our participants shared *in memoriam* words to George Shultz, Edward Lazear, and Robert Mundell.

2020, a year symbolizing vision and new vistas, turned out to become a turning point in policy discussions surrounding uncertainty, disruption, and economic duress. It brought forth new issues and challenges, and a significant need to strengthen the discourse on promotion of open trade, markets, and rule of law.

These, and other topics, will be discussed at *Alamos Alliance XXIX*, in 2022.

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