Contact: Mark Primoff
845-758-7412
primoff@bard.edu

FOR IMMEDIATE RELEASE

ECONOMIC IMPACT OF NOVEL CORONAVIRUS EXACERBATED BY FRAGILE CORPORATE BALANCE SHEETS, NEW LEVY STUDY SAYS

ANNANDALE-ON-HUDSON, N.Y.— The spread of the novel coronavirus (COVID-19) is a major shock for the U.S. and global economies, but a new study from the Levy Economics Institute argues that the demand and supply dimensions of the shock have aggravated an inevitable adjustment process related to existing dangers in the U.S. economy. In his new Policy Note, "When Two Minskyan Processes Meet a Large Shock: the Economic Implications of the Pandemic," Levy Research Scholar Michalis Nikiforos explains that the economic implications of the pandemic cannot be fully understood without reference to two Minskyan processes at play in the U.S. economy: the growing divergence of stock market prices from output prices, and the increasing fragility in corporate balance sheets.

"The pandemic did not arrive in the context of an otherwise healthy U.S. economy," writes Nikiforos, noting that the pandemic coincided with both the increasing inability of output prices to validate equity prices, as well as rising fragility in corporate balance sheets that had made the economy particularly vulnerable to shortfalls in sales and declining equity prices. "Not only were corporate equity prices incapable of validation, the debt issued by corporations was also incapable of validation even before demand and supply shocks emerged in response to the coronavirus measures."

In his study, Nikiforos writes that the work of the late financial economist and Levy Institute distinguished scholar Hyman P. Minsky, especially his emphasis on the cumulative and circular causation between current flows and outstanding stocks, is crucial to fully appreciate the economic consequences of the pandemic. "A central proposition of Minskyan analysis is that the underlying conditions in the capitalist economy can best be understood from the fact that production and investment are financed by borrowing," he writes. "The pandemic is thus important, not only for its direct impact on supply and demand, but because of the effect of this shock on the ability of economic agents—households and firms—to finance a sustained level of production, expenditure, and employment."

Exploring policy interventions, Nikiforos argues that a strong public intervention is needed through effective monetary policy, such as the recently announced commercial paper funding facility, to avoid a collapse of the banks and the financial system, and through fiscal policy to boost demand. He recommends that a large share of this spending increase should be directed toward providing access to healthcare for all those in need, guaranteeing paid sick leave, and supporting employment, household income, and firms that face the risk of extinction. He concludes that, in the in the medium run, once the pandemic has passed, a more serious discussion needs to begin on how to pursue structural reforms of the U.S. economy that will deal with the underlying causes of the current fragility, as well as the inability of the U.S. healthcare system to effectively handle a pandemic like this.

“For reasons we have explained in past reports—and others that are now becoming painfully obvious—policies to address income inequality, reform the financial sector, and provide health insurance to everyone should be part of these reforms,” he writes. “In the meantime, it is necessary that, unlike the response to the 2007–09 crisis, the assistance provided to large corporations comes with strings attached—so that they do not return to the same old (destabilizing) practices once the emergency has passed.”

# # #

Policy Note 2020/1: “When Two Minskyan Processes Meet a Large Shock:
The Economic Implications of the Pandemic”

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit levyinstitute.org.

(3.20.20)