General Discussion of 'A Social Insurance Perspective on Pandemic Fiscal Policy, and Implications for Monetary Policy'

Participants began by noting the role for public policy in supporting markets when they are incomplete. One participant suggested that the flexibility of fiscal policy provided it with an advantage during the COVID-19 pandemic, but it was also agreed that central banks played an important role in maintaining market functioning and stimulating aggregate demand.

It was noted that there is theoretical support for the view that public policy achieves the greatest welfare gains by completing markets. The literature on heterogeneous agent New Keynesian models finds that providing insurance to lower income households yields far greater benefits than stabilising business cycles. Participants conjectured that the distinction between these objectives may be more about framing than substance, and in many cases – such as during the COVID-19 pandemic – these objectives were well aligned.

The discussion then turned to the specific nature of the COVID-19 shock, and the extent to which this limited the ability to generalise lessons for public policy in future crises. One participant suggested that pandemic-era policy was designed to preserve jobs under the assumption that the economy would return to its pre-pandemic settings. However, it was noted that future crises may lead to structural changes in the economy that lead to reallocation of capital and labour – and that public policy will need to adapt accordingly.