



[Commentary on the paper by Guerrieri et al](#)

Paul Krugman, Apr 3rd 2020

This [paper by Guerrieri et al](#) is impressively fast work, similar in spirit to what I've been thinking but going much further while also crossing the eyes and dotting the teas.

**Macroeconomic Implications of COVID-19:
Can Negative Supply Shocks Cause Demand Shortages?**

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April 2, 2020		

My informal discussion here. We have a direct hit to "contact-intensive" sectors, and a second-round Keynesian demand-side hit to the rest of the economy.

They suggest that there may be lasting negative effects, even as the pandemic fades, because of balance-sheet damage; they suggest, going beyond where I was, that there may be adverse effects on the economy's potential.

One thing they don't mention, but I think is very serious, is the fiscal impact on state and local governments, which face balanced-budget requirements and will be forced into destructive austerity, delaying recovery, unless they get federal aid.

A self-indulgent note: Although our situation is horrible, intellectually I love the kind of thing they're doing: using the tools of economics to make sense of an unprecedented situation.

And actually more than self-indulgence involved. People who rely on rote repetition of slogans based on different situations - like those still worried about disincentives for work - are completely lost now. In times like these, only the creative survive (intellectually).