Switzerland can erase the economic cost of Covid19.

The coronavirus pandemic is a major systemic shock with a social and human cost that will leave an indelible mark. On the contrary, the economic cost of this crisis can be largely mitigated by appropriate economic policy measures. And Switzerland is ideally placed to do so thanks to a decade of good public financial management under the aegis of the debt brake. A large part of the Swiss economy is now at a standstill. How can we prevent this temporary standstill, which will inevitably manifest itself in a decline in GDP over one or two semesters (and thus presumably in a technical recession), from being followed by lasting negative consequences for our material well-being?

The first objective is to avoid a permanent destruction of our production capacities, the second is to counter the prolonged weakness in demand for goods and services that the current situation would naturally provoke. To a certain extent the second objective is not entirely under our control, as it will also depend on the development of foreign demand for our products, which is already heavily impacted. But it is within our power to ensure that demand by Swiss residents is not lastingly affected. The two objectives are interlinked and complement each other. The first requires us to do our utmost to avoid business failures that would permanently reduce our production capacity. The essential measure to achieve this goal is already present in our economic policy arsenal. It is temporary unemployment, or "Kurzarbeit", which relieves companies and entrepreneurs of their main source of cost, labour, but this valuable tried and tested instrument must nevertheless be adapted to the present situation. First of all, since the Covid-19 shock is totally exogenous, there is no logical reason why the financial compensation provided by temporary unemployment should be less than 100% of the wage of the worker who is out of work as a result of the health measures imposed by the authorities. Secondly, Kurzarbeit must be generalised to all employees, craftsmen, cultural and sports workers. The aim must be to cover the full cost of the labour sidelined by the containment measures, thus maintaining the purchasing power of all those affected up to a reasonable income ceiling (defined to avoid subsequent demand being unduly limited by financial constraints).

Beyond labour costs, companies, especially smaller ones, could be put in difficulty by their expenditure on rent, interest payments on their loans, taxes and levies which they can hardly afford while their revenues have dried up. It is difficult to define a uniform rule here, but generosity is called for (i) to avoid bankruptcies, (ii) to prevent financial constraints from reducing subsequent demand and thus slowing down the recovery. The first option is to defer payments to the State, of course, but also to the banks, which a State guarantee can free from any reluctance to bear the risks of insolvency. An at least limited assumption of commercial rents by the State (or the municipalities) is justified in the case of the most fragile companies and if the lack of activity is prolonged. In certain cases of highly capital-intensive companies (Swiss, for example), the same logic could suggest ad-hoc aid to finance fixed assets. On this point, however, specific conditions need to be studied, as it would not be normal to overload the public budget to allow rich dividend distributions once the crisis has passed.

We can see the direction in which our two objectives meet. The actions needed to avoid bankruptcies in the form of generous support for wages and at least partial intervention to cover rents also help to ensure that financial constraints do not dampen the rebound in demand at the end of the crisis.

Can Switzerland afford such generosity? To answer this question, let's look at the figures. One month's lost production corresponds to 8% (or 1/12) of the annual Gross Domestic Product (GDP), which is now slightly less than 700 billion. If we expect the economy to be tied up for 2 months, the loss of earnings would amount to 115 billion or about 16% of GDP. This is considerably more than the 10 billion in aid announced by the Federal Council, but it should be remembered that the public debt has been massively reduced in recent years. To what end? It can only have been to strengthen our ability to react in the event of a crisis, to build up the safety cushion that will enable us to face with serenity a crisis such as the one we are currently experiencing. Sixteen per cent of GDP is significantly less than what most European countries had to invest to counter the effects of the 2007-09 financial crisis. An increase in the public debt-to-GDP ratio by this amount would leave Switzerland among the good performers in terms of public debt (with a debt-to-GDP ratio of less than 50%). Moreover, let us note that this figure is in fact a ceiling: the entire economy is not at a standstill, far from it. The health sectors are operating at full capacity and the corresponding income is being distributed, agriculture and much of the food trade continues to operate for the most part, many workers in teleworking services are working and receiving their salaries, and the entire civil service is in the same situation. A rough calculation suggests that the need for support - if it arrives quickly and is well targeted - would be rather in the order of 1/3 and certainly less than half of GDP, i.e. approximately 40 to 50 billion francs (for 2 months of confinement)!

The objective is ambitious but it is achievable provided that we do not disperse our efforts and that we target the support. It is also a justified investment in terms of the well-being of the population and even, at current interest rates, a financially profitable investment for the community. Moreover, indiscriminate measures such as a uniform distribution of money (helicopter money) or generalized tax cuts (as proposed by D. Trump) are going in exactly the wrong direction. They contribute to wasting public money by spreading support too thinly. Those who stay at work - civil servants or beneficiaries of telework measures - have no reason to benefit from the public support that is really needed by companies and self-employed people who are at a standstill and their employees.

Jean-Pierre Danthine, E4S-EPFL and Paris School of Economics