# We Need Coordinated Monetary and Fiscal Stimulus to Counteract Coronavirus

**By Ray Dalio Co-Chief Investment Officer & Co-Chairman of Bridgewater Associates, L.P.**

**Published on March 10, 2020**

Anyone who is knowledgeable and plain-speaking will tell you that the negative economic impact of the coronavirus outbreak will probably be big, that monetary policy will be of little use to counteract it, and that co-ordination between political leaders and central bankers is both essential and unlikely.

What the US Federal Reserve has to offer — slightly cheaper borrowing costs and/or printing money and buying financial assets — won’t give help to those who need it. What those people and companies in distress will need (besides good medical support) is financial support to survive through serious temporary declines in their incomes.

While the emergence of coronavirus, and the economic shock that will come from it, is a surprise, several things have been obvious for some time.

First, it has been clear that an economic downturn would someday come from one trigger or other. Second, the US economy is heavily indebted. Third, that with interest rates near zero monetary policy alone cannot be very simulative.

Fourth, that we are now in the part of the long-term debt cycle when there needs to be good co-ordination between fiscal and monetary policymakers to handle downturns well. And last, but not least, it is obvious that the big wealth and political gaps we are now experiencing will make such co-ordination hard to come by.

Looking back to periods in history when this configuration of circumstances occurred (the last time was in the 1930s), the key differentiating factor between success and failure was the ability of fiscal and monetary policy leaders to co-ordinate.

So what needs to be done now? Most importantly, those who will be hardest hit by the virus need to be protected via fiscal policies such as bridge loans and financial assistance.

Some people will argue that providing such assistance is a bad idea. They say that our Darwinian economic system is designed to shake out those who don’t manage their finances well, or that fiscal assistance will grow the deficit.

Neither of those arguments makes any sense to me. This crisis is not a test of people and companies’ economic viability, and the cost of not providing assistance will be greater than the cost of providing it.

The coronavirus is a natural disaster, like a hurricane, that warrants financial support for responsible people and companies that would otherwise be broken by it.

There are many people living near the poverty line with no financial cushion whose economic security will be hit as hard as their health by the coronavirus tsunami. A number of otherwise strong companies likewise won’t be able to withstand the downturn.

Now imagine adding the twin health and economic shocks delivered by the outbreak and where that will lead. Imagine many companies suffering debilitating revenue losses, some too indebted because of persistently cheap money and other incentives to borrow, that will force them to cut payments to their employees and default on their debts.

Their economic problems will spread just like the virus. Providing assistance in this case is not only humane; it is good economic policy to save productive people and companies that would be broken by this situation.

The scale of the support should be in line with the scale of the crisis. It will increase the deficit which, all else being equal, will raise interest rates.

That’s where the Fed might need to come in to hold interest rates down, if need be by printing money and monetizing the debt. While this fiscal-monetary co-ordination is controversial, it is the best policy under the circumstances of the economy now being so indebted and with other forms of stimulation ineffective. It is also a policy we all need to get used to because it is the only way economic policymakers will be able to deal with economic downturn in this era of near-zero interest rates.

The only remaining question to me is whether our fragmented political system, led by people who are more inclined to fight each other than to co-operate, can achieve what needs to be done.