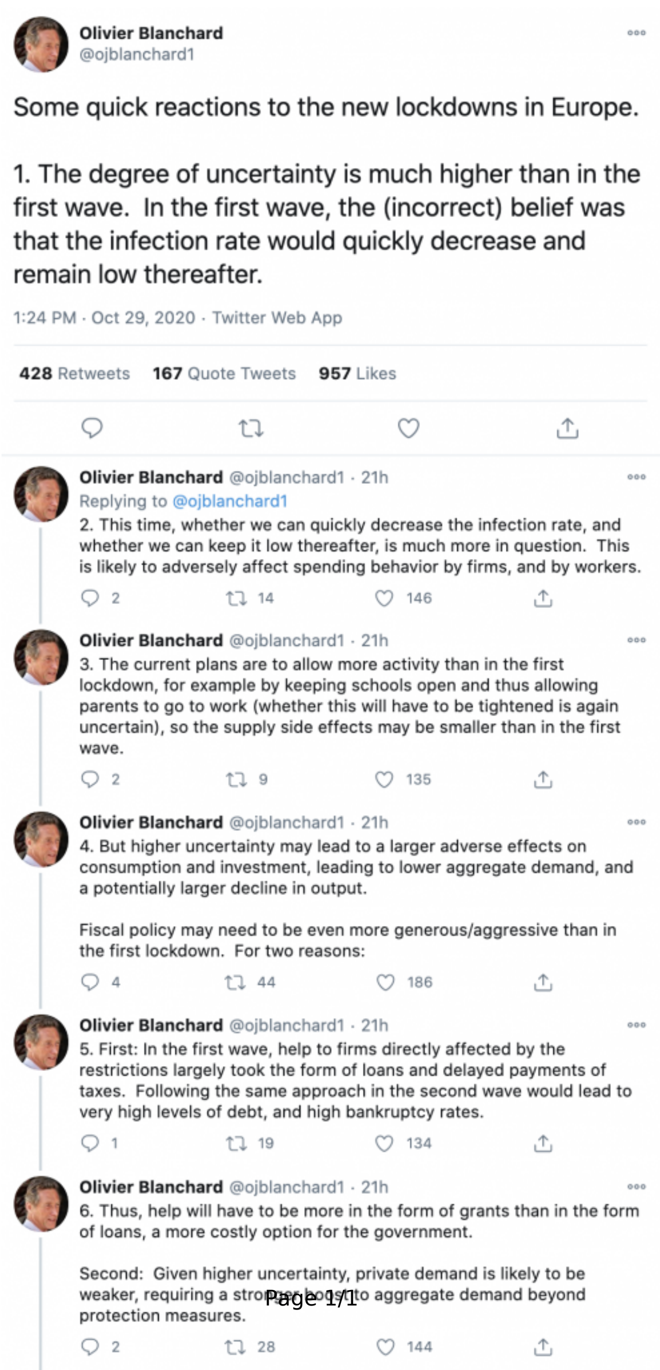
Funding the Future

IMF related people know we do not need austerity why do…

Published: January 13, 2026, 6:49 pm

Oliver Blanchard is a former IMF chief economist. I have no doubt that this [tweet thread](#) was issued yesterday because the IMF was talking about the UK. And he's right:



Olivier Blanchard
@ojblanchard1

Some quick reactions to the new lockdowns in Europe.

1. The degree of uncertainty is much higher than in the first wave. In the first wave, the (incorrect) belief was that the infection rate would quickly decrease and remain low thereafter.

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Replying to @ojblanchard1
2. This time, whether we can quickly decrease the infection rate, and whether we can keep it low thereafter, is much more in question. This is likely to adversely affect spending behavior by firms, and by workers.
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3. The current plans are to allow more activity than in the first lockdown, for example by keeping schools open and thus allowing parents to go to work (whether this will have to be tightened is again uncertain), so the supply side effects may be smaller than in the first wave.
2 9 135

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4. But higher uncertainty may lead to a larger adverse effects on consumption and investment, leading to lower aggregate demand, and a potentially larger decline in output.

Fiscal policy may need to be even more generous/aggressive than in the first lockdown. For two reasons:
4 44 186

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5. First: In the first wave, help to firms directly affected by the restrictions largely took the form of loans and delayed payments of taxes. Following the same approach in the second wave would lead to very high levels of debt, and high bankruptcy rates.
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6. Thus, help will have to be more in the form of grants than in the form of loans, a more costly option for the government.

Second: Given higher uncertainty, private demand is likely to be weaker, requiring a stronger boost to aggregate demand beyond protection measures.
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