

Social Outreach



Building a Strategy for Resilience: a Microeconomic Approach



Why were European states so unprepared for the Covid-19 pandemic, lacking both a coherent strategy and adequate preventative measures? And what can be done to ensure the necessary cooperation, preparation, and resilience for future adverse shocks? These are the questions that Natalia Fabra, Massimo Motta and Martin Peitz discuss in their new Policy Insight.

States, by their very nature, have a ‘universalistic duty’ to establish preventative measures for all kinds of crises. These include a robust primary health care system, a strong logistics network, emergency decision-making bodies that combine legitimacy (elected poli-

ticians) with expertise (expert advice), and institutions that promote cooperation among countries or regions.

And yet, the Covid-19 crisis has highlighted the potential for severe market failures in the provision of essential goods and services during pandemics and other negative shocks with major impact. Across Europe, there have been acute shortages of medical supplies essential for dealing with the pandemic. Collapsing supply chains and non-existent stockpiling, an over-reliance on production from China, and inadequate government policies have all contributed to this systematic failure. While catastrophic events are difficult to avoid, society must strive to be better prepared for the next one.

In this paper, Natalia, Massimo and Martin consider the private and state incentives to take adequate measures before and during a crisis triggered by an adverse shock. They argue that private initiatives are often insufficient to be prepared for rare events with a large negative effect. Instead, governments and international institutions should implement mechanisms which ensure that prevention, detection and mitigation measures are taken.

They argue that the necessary preparation for catastrophic events should consist of an articulated strategy, which goes from having an adequate research infrastructure and human capital to investing in prevention, and from early detection (in order to mitigate adverse impacts) to building the ability to react should such events materialize.

It may be that neither market institutions (e.g. insurance markets) nor an individual country's initiatives are sufficient to achieve this alone. A strategy based on private (even if mandatory) insurance is likely to be insufficient and difficult to implement. Instead, a resilience strategy should rely on public authorities securing the provision of essential goods in sufficient quantity and quality. This requires putting in place competitive

mechanisms to accumulate essential goods, establishing rationing protocols, and facilitating rapid production when the crisis hits. The authors also stress the importance of fostering 'Social capital' to face disasters, which includes building trust in public institutions, a well-functioning administration, and society's willingness to listen to science and to follow public recommendations.

The paper concludes by arguing that the economics of electricity capacity markets provides important lessons for the provision of essential goods in such events - as a general principle, it is likely that a centralized and targeted mechanism, such as a system of strategic reserves to be procured through auctions, would perform well in most cases.

Their paper has been featured as a [CEPR Policy Insight](#) •

TED Talk: Debunking myths about economics and climate change

Natalia Fabra gave a [TED Talk](#) entitled "Debunking myths about economics and climate change." In her talk, which can be seen [here](#), she argues that the fight against climate change can serve as a powerful tool to awake our economies. The technological breakthroughs that we have witnessed over recent decades are making climate action less costly, while the increased pace of climate change has made it even more costly to delay climate action. Society has a key role to play in demanding politicians to take action. In turn, policymakers should put in place regulatory measures to guide competition among innovators as the best way to promote those activities that contribute towards the ultimate goal of defeating climate change.

Technological breakthroughs will be key, but just as important will be the institutional innovations that will allow such breakthroughs to come true •

