Coronavirus pandemic has delivered the fastest, deepest economic shock in history:

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The shock to the global economy from Covid-19 has been faster and more severe than the 2008 global financial crisis and even the Great Depression. In those two previous episodes, stock markets collapsed by 50% or more, credit markets froze up, massive bankruptcies followed, unemployment rates soared above 10% and GDP contracted at an annualised rate of 10% or more. But all of this took around three years to play out. In the current crisis, similarly dire macroeconomic and financial outcomes have materialised in three weeks.

Earlier this month, it took only 15 days for the US stock market to plummet into bear territory (a 20% decline from its peak) – the fastest such decline ever. Now, markets are down 35%, credit markets have seized up and credit spreads (like those for junk bonds) have spiked to 2008 levels. Even mainstream financial firms such as Goldman Sachs, JP Morgan and Morgan Stanley expect US GDP to fall by an annualised rate of 6% in the first quarter and by 24% to 30% in the second. The US Treasury secretary, Steve Mnuchin, has warned that the unemployment rate could skyrocket to above 20% (twice the peak level during the financial crisis).

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In other words, every component of aggregate demand – consumption, capital spending, and exports – is in unprecedented free fall. While most self-serving commentators have been anticipating a V-shaped downturn – with output falling sharply for one quarter and then rapidly recovering the next – it should now be clear that the Covid-19 crisis is something else entirely. The contraction that is now under way looks to be neither V- nor U- nor L-shaped (a sharp downturn followed by stagnation). Rather, it looks like an I: a vertical line representing financial markets and the real economy plummeting.

Not even during the Great Depression and the second world war did the bulk of economic activity literally shut down, as it has in China, the US and Europe today. The best-case scenario would be a downturn that is more severe than the financial crisis (in terms of reduced cumulative global output) but shorter-lived, allowing for a return to positive growth by the fourth quarter of this year. In that case, markets would start to recover when the light at the end of the tunnel appears.

But the best-case scenario assumes several conditions. First, the US, Europe and other heavily affected economies would need to roll out widespread Covid-19 testing, tracing, and treatment measures, enforced quarantines, and a full-scale lockdown of the type that China has implemented. And, because it could take 18 months for a vaccine to be developed and produced at scale, antivirals and other therapeutics will need to be deployed on a massive scale.

Second, monetary policymakers – who have already done in less than a month what took them three years to do after the financial crisis – must continue to throw the kitchen sink of unconventional measures at the crisis. That means zero or negative

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interest rates; enhanced forward guidance; quantitative easing; and credit easing (the purchase of private assets) to backstop banks, non-banks, money market funds, and even large corporations (commercial paper and corporate bond facilities). The US Federal Reserve has expanded its cross-border swap lines to address the massive dollar liquidity shortage in global markets but we now need more facilities to encourage banks to lend to illiquid but still-solvent small and medium-size enterprises.

Third, governments need to deploy massive fiscal stimulus, including through "helicopter drops" of direct cash disbursements to households. Given the size of the economic shock, fiscal deficits in advanced economies will need to increase from 2-3% of GDP to about 10% or more. Only central governments have balance sheets large and strong enough to prevent the private sector's collapse.

But these deficit-financed interventions must be fully monetised. If they are financed through standard government debt, interest rates would rise sharply, and the recovery would be smothered in its cradle. Given the circumstances, interventions long proposed by leftists of the Modern Monetary Theory school, including helicopter drops, have become mainstream.

Unfortunately for the best-case scenario, the public-health response in advanced economies has fallen far short of what is needed to contain the pandemic and the fiscal-policy package currently being debated is neither large nor rapid enough to create the conditions for a timely recovery. As such, the risk of a new Great Depression, worse than the original – a Greater Depression – is rising by the day.

Unless the pandemic is stopped, economies and markets around the world will continue their freefall. But even if the pandemic is more or less contained, overall growth still may not return by the end of 2020. After all, by then, another virus season is very likely to start with new mutations; therapeutic interventions that many are counting on may turn out to be less effective than hoped. So, economies will contract again and markets will crash again.

Moreover, the fiscal response could hit a wall if the monetisation of massive deficits starts to produce high inflation, especially if a series of virus-related negative supply shocks reduces potential growth. And many countries simply cannot undertake such borrowing in their own currency. Who will bail out governments, corporations, banks, and households in emerging markets?

In any case, even if the pandemic and the economic fallout were brought under control, the global economy could still be subject to a number of "white swan" tail risks. With the US presidential election approaching, the Covid-19 crisis will give way to renewed conflicts between the west and at least four revisionist powers: China, Russia, Iran, and North Korea, all of which are already using asymmetric cyber warfare to undermine the US from within. The inevitable cyberattacks on the US election process may lead to a contested final result, with charges of "rigging" and the possibility of outright violence and civil disorder.