

A cure worse than the disease?

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A pushback is underway. Terrible U.S. unemployment numbers, massive enrolment into Universal Credit here, and cratering worldwide growth forecasts highlight the shocking downturn that Covid-19 will bring. Mandated businesses closures and restrictions on association may be just be two to three weeks old, but the scale of the coming recession is leading some to worry about them already.

Donald Trump says “we cannot let the cure be worse than the problem itself.” *The Times* published findings claiming that “if the coronavirus lockdown leads to a fall in GDP of more than 6.4 per cent, more years of life will be lost due to recession than will be gained through beating the virus.” *The Sun*’s Trevor Kavanagh laments “hysteria.” As the unaffected and recovered grow restless, such sentiment will intensify. Southern Italy is experiencing social unrest already. One hopes Boris Johnson and Rishi Sunak’s unprecedented economic support will prove a palliative here.

Economists see little short-term trade-off

Perhaps surprisingly, though, those most worried about the economics of today’s lockdowns turn out not, by and large, to be economists. Practitioners of the dismal science tend to more sanguine, for two reasons.

First, in the short-term, the “economy is f*cked” either way, as Brad Delong quotably claimed. Even if you could get public buy-in to simply “return to normal,” most models suggest infection rates would spike, hospital capacity would be swamped, and the escalation in deaths would quickly bring economic panic anyway.

More likely, large segments of the public would ignore a stop-go “full re-opening,” particularly if other countries maintained restrictions. Few would return to rock concerts and cinemas. That’s why 97 per cent of economists believe a large downturn is inevitable, desirable even, until infections slow substantially. “Normality” won’t occur through political declarations alone, but when the public health threat subsides, through effective treatment, a vaccine, herd immunity, or confidence that easily contracting covid-19 is unlikely.

Second, with good policy and a bit of luck, economists still assume the virus should not do much *permanent* economic damage either. Yes, labour supply will be lower in future – the sad consequence of lost life and more sickness. Some spending and production will never occur. But we’d expect a strong bounceback once this episode passes. It’s for that reason that *The Times*’ reporting was misguided. An induced recession wouldn’t have big negative health consequences

unless it significantly affected our incomes permanently. We still hope the virus will not, significantly.

Human lives are valuable

Lost lives from the virus, in contrast, really would be permanent. Though it makes some queasy, the “statistical value of a human life” is likely to be around £5.4 million per life. If Imperial College modellers are right (and there’s huge uncertainty) that 280,000 deaths can be avoided using “suppression” measures compared with “population social distancing,” that policy protects £1.5 trillion in value, equivalent to 65 of last year’s GDP. That’s a lower bound too: it doesn’t take into account reduced lung damage of survivors, for example. It stands to reason then that we should be willing to give up around 65 per cent of one year’s GDP to avoid such deaths. Hence “whatever it takes.”

Now, some might argue it’s wrong to treat all human life as economically equivalent. The Italian median age of death, at least until recently, was 80.5. That implies a life expectancy here of 8 to 9 years, or more probably around 6 equivalent “good years.” The UK government typically values a full-health quality-adjusted life year at £60,000 per year. Six good years per person saved is £360,000 per life, or £101 billion (4.5 percent of last years’ GDP) if 280,000 lives are saved.

Even this stingier methodology then suggests we should be willing to tolerate a one-time income hit equivalent to two-thirds of the financial crisis to stop these excess deaths. Given economists hope the fall in GDP over the medium-term to be less than this (a sharp fall and then a sharp rebound), and much of it is unaffected by policy anyway, steps that are extremely costly in the short-term might still be worthwhile for now to avoid the worse case death spikes.

Lockdown alleviates the worst, but doesn’t deliver the best

Yet just because incurring costs to avoid deaths is better than not, doesn’t mean we shouldn’t look for ways to lower given number of deaths at the lowest cost possible. Lockdowns are unlikely to be optimal. Two months or so of this might avoid death spikes while preserving economic capacity. Six months or more, as implied by the Deputy Chief Medical Officer, risks severe economic harm. Widespread business failures and defaults, permanently damaged supply-chains, and significant scarring effects on workers would almost certainly result. “Returning to normal,” at that stage, will cease to be an option. *The Times*’ concerns about longer-term health consequences will have merit.

You simply cannot keep the economy’s supply capacity mothballed for long periods without weakening it. Paying people not to work or keep business paused, desirable in the short-run, becomes damaging over time. We should be using any reprieve from the lockdowns to think through better options.

To be clear: a pandemic brings with it no good economic outcomes. Preventing hospitals being overwhelmed right now is wise. The point is, full lockdowns are unlikely to be *optimal* policy for prolonged periods. We want, surely, to find the the most cost-effective way of minimising the combined health and economic costs, recognising that only when the virus is no longer a problem for large segments of the population will normality return.

That means thinking on the margin: if businesses can more cheaply eliminate risk with mandated safety equipment such as masks and social distancing, even if the activity is “nonessential,” isn’t

that preferable? Same for outdoors activity that brings much happiness at low risk. Germany's idea for certification for those who pass antibody testing, allowing resumption of normal life, seems sensible. In other words, thinking should be driven by how we can eliminate risk at much lower cost.

What is the current pathway to normalcy envisaged? Just hoping for a vaccine? One model suggests we could achieve the same death reductions as lockdowns at much lower economic cost if we undertook randomised testing of the asymptomatic, enforcing quarantine just on those testing positive, as well as those with symptoms. Rather than a binary debate about lockdowns, this is where thinking should surely be: less costly ways to achieve the same ends.

Health and economic interests largely point in the same direction overall. Lives are economically valuable and a strong economy requires the public health threat gone. Shutdowns, while averting worst-case near-term deaths, are not a cost-effective strategy to normality though. The longer they continue, the messier things will get.

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