

Effective restrictions against Covid could pay for themselves¹

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When considering the cost and benefits of restrictive measures to fight a rapidly developing covid epidemic, we need to compare with the right alternative scenario. Experiences around the world show that “business as usual” is not a choice that is available to any government.

All restrictions have economic costs since citizens are temporarily constrained in their choices to work, consume or socialize. Their main benefit lies in suppressing infection numbers in a more coordinated and effective way than if citizens are left to take their own decisions.

This protects both citizens’ health and the health system, but crucially it also allows for a higher level of economic activity once measures have been effective and can gradually be lifted.

Research from some of the world’s leading universities shows that the cost is much smaller than generally assumed, but the benefit can be huge and far outweigh the short-term cost of restrictive measures or even a lockdown.

In the short run: Restrictions are cheaper than generally assumed

Economic activity closely responds to the epidemiological situation: When cases and deaths rise, people withdraw from social and economic life and the economy suffers.

A study by economists at the University of Chicago showed that consumer activity in US counties closely responded to local case numbers even in the absence of legal restrictions. Overall, such legal restrictions explained only about 12% of the total fall in consumer activity that can be attributed to the pandemic.²

A study on the effects of local outbreaks in South Korea showed that unemployment increased in response to infection numbers also if there was no lockdown, and that the effect of local outbreaks was again larger than that of legal restrictions. Hardest-hit by this direct effect are small businesses in the “accommodation/food, education, real estate, and transportation” industries, and especially young and low-qualified workers and those on temporary contracts³

¹ Supported by TACR GAMA grant “Testing, incentives, information: Mobilizing society’s resources against the pandemic”.

² Golsbee and Syverson: “Fear, Lockdown, and Diversion: Comparing Drivers of Pandemic Economic Decline 2020”, *Working Paper*, June 2020.

³ Sangmin Aum, Sang Yoon (Tim) Lee, Yongseok Shin: “COVID-19 Doesn’t Need Lockdowns to Destroy Jobs: The Effect of Local Outbreaks in Korea”, *NBER Working Paper*, May 2020.

The clearest evidence for the European context comes from the experience of the Nordic countries, which have followed different approaches to the pandemic. While Denmark, Finland and Norway imposed temporary lockdowns in March, Sweden relied mostly on voluntary distancing (though gradually introduced more restrictions).

The economic impact of these diverging approaches was similar, however: Card transaction data of Scandinavia’s largest banks shows that consumption in Sweden fell between 80% and 85% as much as in neighboring countries, even without a lockdown⁴

Taking these studies together strongly suggests that the short-term economic cost of being in a lockdown is comparable to the cost of government inaction; lockdowns do not add much to the economic pain of a rapidly evolving epidemic.

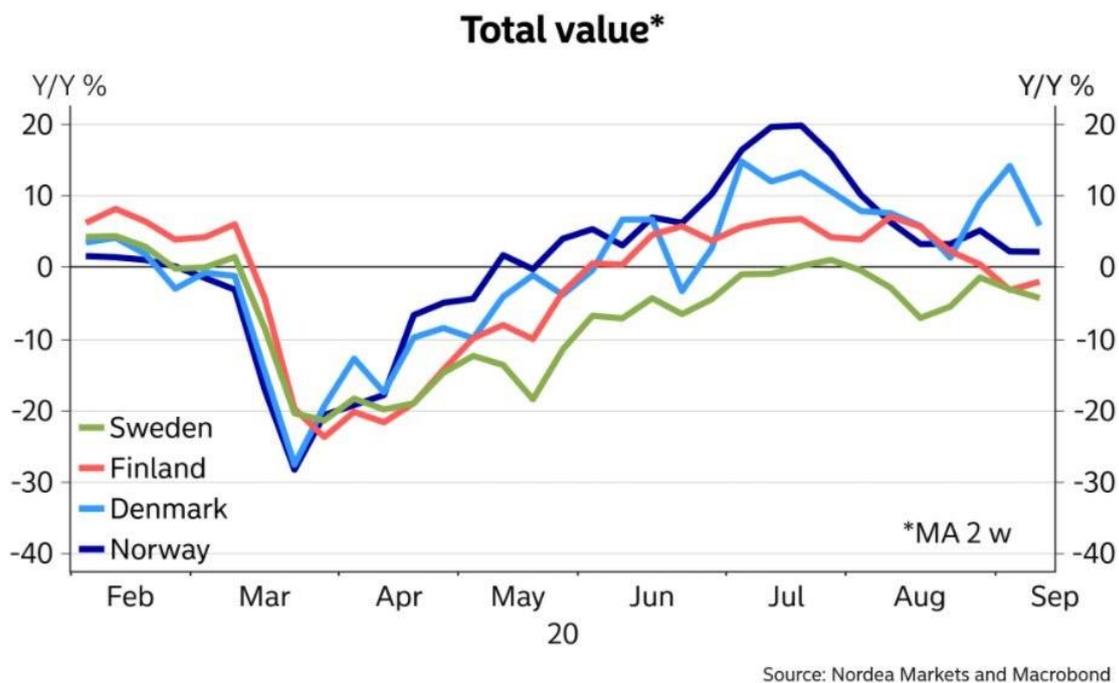


Figure 1: Payment card transactions in four Nordic countries, 2020 compared to 2019 level. Graph by Nordea Markets.

⁴ Adam Sheridan, Asger Lau Andersen, Emil Toft Hansen and Niels Johannesen: “Social distancing laws cause only small losses of economic activity during the COVID-19 pandemic in Scandinavia”, *Proceedings of the National Academy of Sciences*, August 2020. See also weekly overviews by Nordea Markets, <https://corporate.nordea.com/article/60221/nordic-card-data-week-38>.

Having experienced effective restrictive measures is much better than not

The real benefits of restrictive measures materialize after they are gradually lifted. Effective measures (up to and including a full-scale lockdown) suppress case numbers to a level where they can be more easily managed by targeted interventions, and where most economic activity can resume.

This is what happened in the Czech Republic this spring, and what happened in Denmark, Finland and Norway. In these Nordic countries, consumer spending was up to normal levels at the end of May as restrictions were gradually lifted (see also graph). In Sweden, in contrast, spending is still below last year's level for this time of the year, despite the largest fiscal stimulus in the country's history.

More detailed analysis shows that the shortfall arises especially in retail, services, culture and transportation. These are sectors that would have been hit by a temporary lockdown – but that have now, for the past half year, been suffering far more than those across the border. In total, Swedish consumer spending has over the last six months been lower by about 10% than that of neighboring countries which imposed a lockdown.

Of course, these economic considerations ignore the number of severely ill and deaths. Sweden's death rate is 5 times that of Denmark and 10 times that of Norway – a huge human and social cost, on top of but not unrelated to the economic one. Experiences around the world suggest that effective measures are the best way to protect public health in a rapidly evolving epidemic; research shows they are also a wise economic choice.