

# There is no Trade-off. Saving Lives is Good for the Economy

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Francesco Saraceno, March 29, 2020

At the beginning of the COVID pandemic, when policy makers were struggling to find ways to cope with a crisis that most of them had underestimated, the public discourse was dominated by a trade-off: should we shut down economic activity to enforce/facilitate social distancing and curb the pandemic curve before it leads to the collapse of health care systems, and to deaths by the hundreds of thousands? Or should we just let the death toll be what it has to be, and let the virus pass through our countries (build “herd immunity”), avoiding severe economic consequences? To put it somewhat brutally, should we save lives or the economy? This trade-off certainly is in the minds of most governments, even if most of them carefully avoided letting it surface in their public discourse. The countries that stopped the economy justified it as the price to pay “to save lives”; just a handful of governments made it explicit that they had made the opposite choice. The most reckless undoubtedly was Boris Johnson who initially argued that the best strategy was to build herd immunity by letting the virus reach 40 million people, whatever the cost in human lives would be. Trump and Bolsonaro (a merry fellowship indeed) had a very similar stance, minimising the cost at first, and then arguing that the economy should not be stopped. But many other countries in Europe, with the same trade-off in mind, delayed going into lockdown in spite of Italy spiraling into the crisis just around the corner. They simply were less impudent than the British PM, while considering the same strategy.

It is reassuring that for most countries reality (and opinion polls) caught up, so that strategies eventually converged to giving priority to the health crisis over the economy: more or less compulsory social distancing, and the freeze of economic activity are now generalized, with almost half of the world population under lockdown.

This is reassuring not only because priority should be given to saving human lives. But also because, as I have always believed, the trade-off between public health and the economy *is complete nonsense*. I was glad to read a piece by Luigi Guiso and Daniele Terlizzese (in Italian) making this point. I just wish that they (or somebody else, including myself) had made it before. This would have been an immensely more valuable contribution by economists, than playing epidemiologists and fitting exponential curves on social networks (I never did!).

But why is the trade-off nonsense? Simply put, because the pandemic will cause enormous harm to the economy, *whether it claims lives by the millions or not*. Suppose the BoJo initial strategy was implemented, and a few dozens millions of British people were infected, many of them for several weeks. Abstracting from fatality rates, labour supply would drop for months, and disruption in production would follow. Fear of contagion

would limit social interaction (a sort of self-imposed confinement) for many, impacting consumption, investment, but also productivity. Some sectors (travel, tourism, services) would see significant drops in activity. The global value chains would be disrupted, and trade would take a hit. Furthermore, the collapse or near-collapse of health care systems would impact the quality of life (and sometimes cause the death) not only of those affected by the virus, but also of the many that in normal times need to resort to health care services. Consumer confidence and corporate sentiments would remain low for months, consumption and investment would stagnate, government intervention would be needed as much as it is needed in the lockdown. Last, but not least, the heavy toll paid to the pandemic crisis would impact human capital (think of casualties among doctors), and thus productivity and growth in the long run.

A slowdown would therefore be inevitable, a harsh one actually. But still, it could be argued that such a scenario would not be worse than the total halt we are experiencing. I beg to disagree. Let me go back to [Mario Draghi's piece](#) in the *Financial Times*. The former ECB boss there argues that the urgent task of policy makers is to keep the businesses that are short of liquidity afloat *whatever it takes*, so that when the rebound will happen, the productive capacity will be able to provide goods and services, and incomes will recover quickly. Said it differently, if policy makers manage to minimize permanent damage to the supply side of the economy, a short lived shock, however brutal, might leave few scars.

But there is more than that. In fact, the minimization of permanent damage becomes harder and harder, and probably costlier and costlier, the longer the crisis is. Following the crisis of 2008-2010, an interesting literature developed on the [permanent effects of crises](#). This literature highlights how long and low-intensity slumps have an impact through [hysteresis](#) on the capital (human and physical) of the economy and permanently lower the potential growth of the economy. The conclusion to be drawn from this literature is that the risk of letting the economy in a slump for too long, and hence suffer permanent damage, is larger than the risk of over reacting in the short-run.

Applying this mindset to the current pandemic dispels once and for all the trade-off; more than that. It allows to rank the two policy options. Doing whatever it takes to save lives is causing a deep and hopefully short-lived economic slump. However devastating for the economy, such a slump is much easier to manage for policy makers than the (maybe) marginally milder recession but spread over a longer period of time, that one would have by not imposing a total lockdown of the economy. Shutting down the economy saves lives, AND it is better for the economy. A no brainer, in fact.

Even [the most cynical among our leaders](#) should understand this: Saving as many lives as possible is the best we can do to save the economy and their chances of reelection.