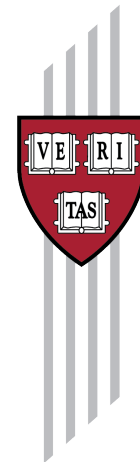

Fighting COVID-19 – Key Trade-offs and Policy Implications

NPC Capacity Building Training

October 22nd, 2020

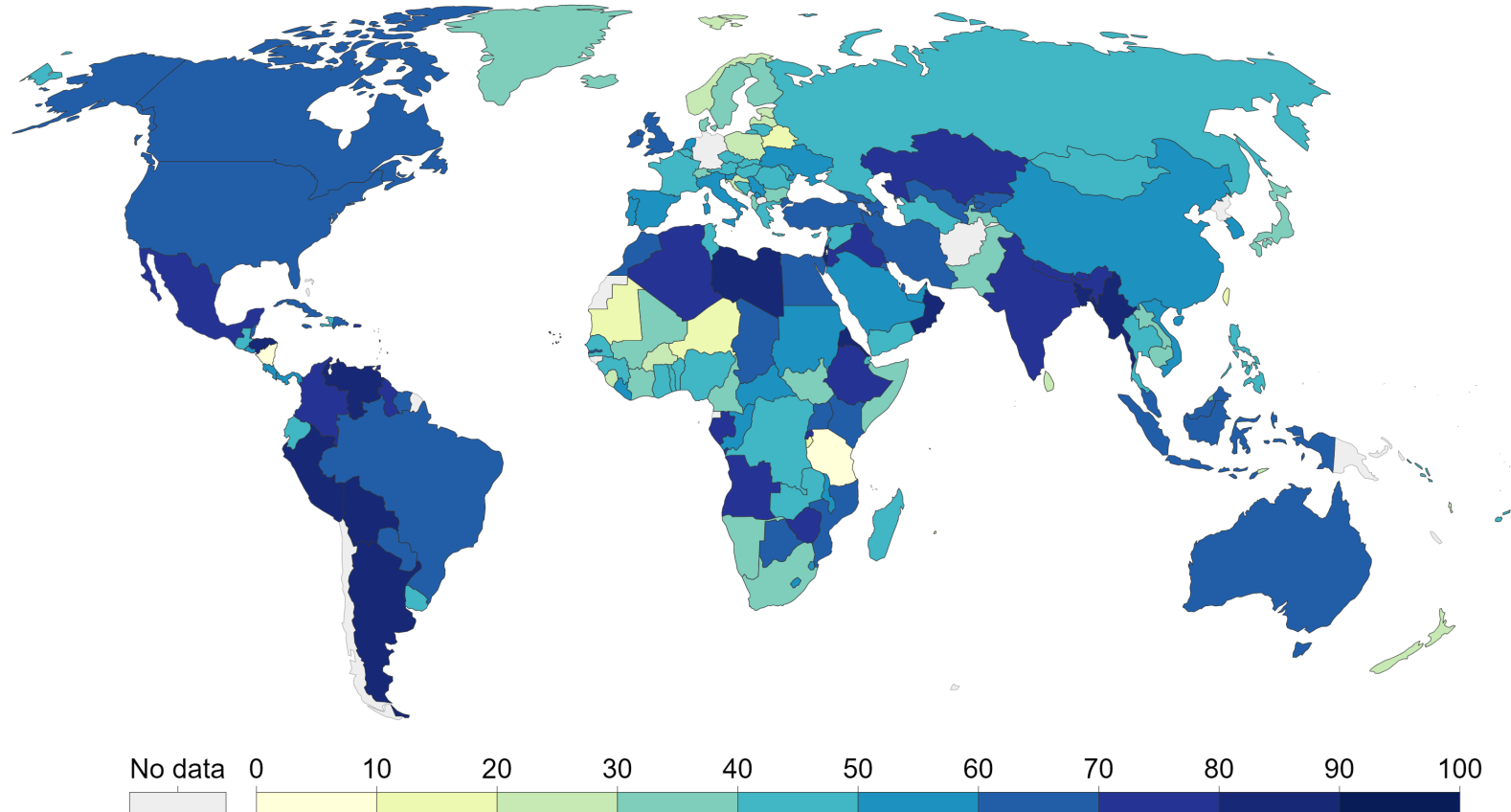


GROWTH LAB

Center for International Development
at Harvard University

COVID-19: Government Response Stringency Index, Oct 17, 2020

This is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest). If policies vary at the subnational level, the index is shown as the response level of the strictest sub-region.



Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Last updated 21 October, 19:30 (London time)

Note: This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.

OurWorldInData.org/coronavirus • CC BY

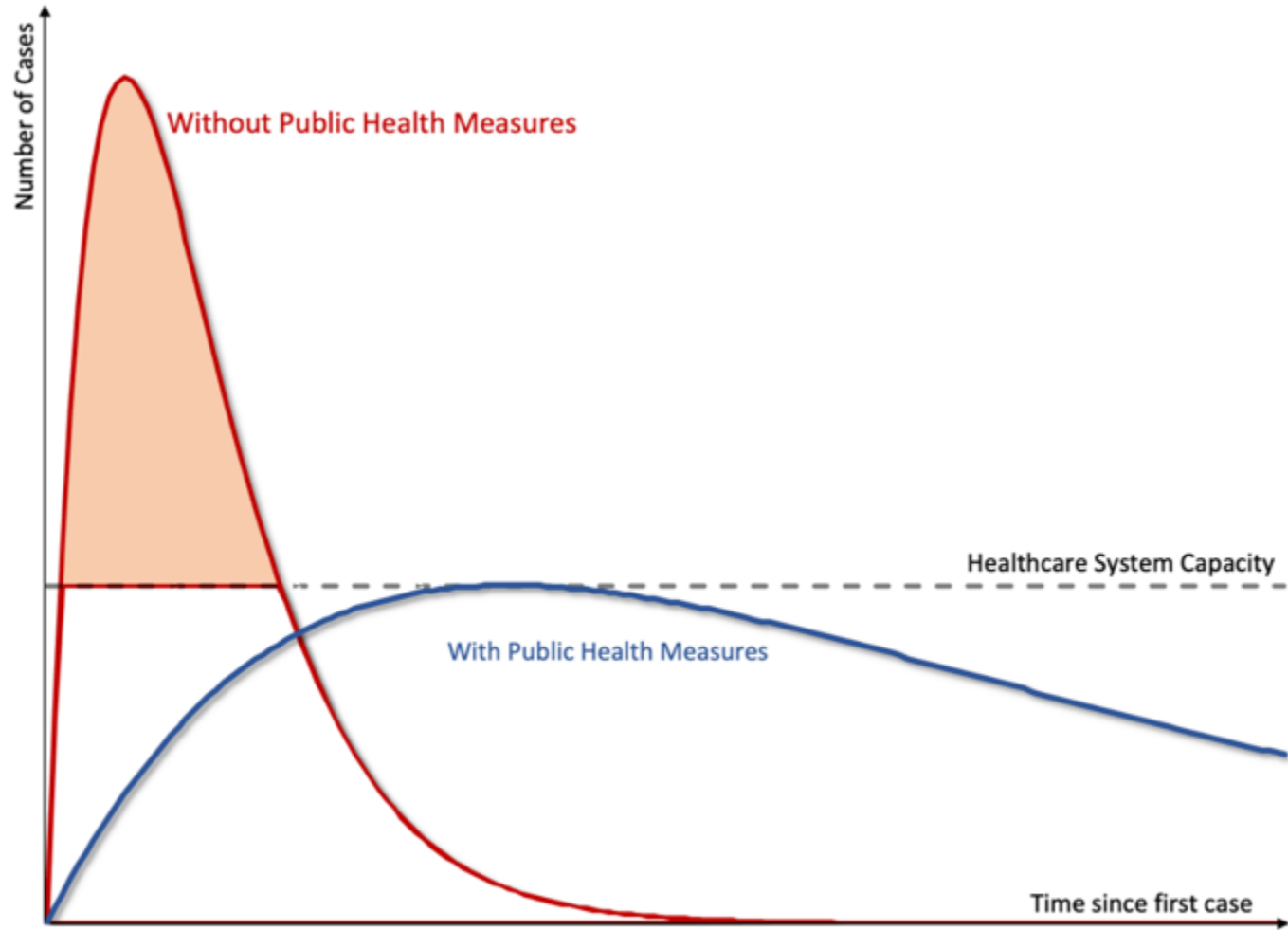
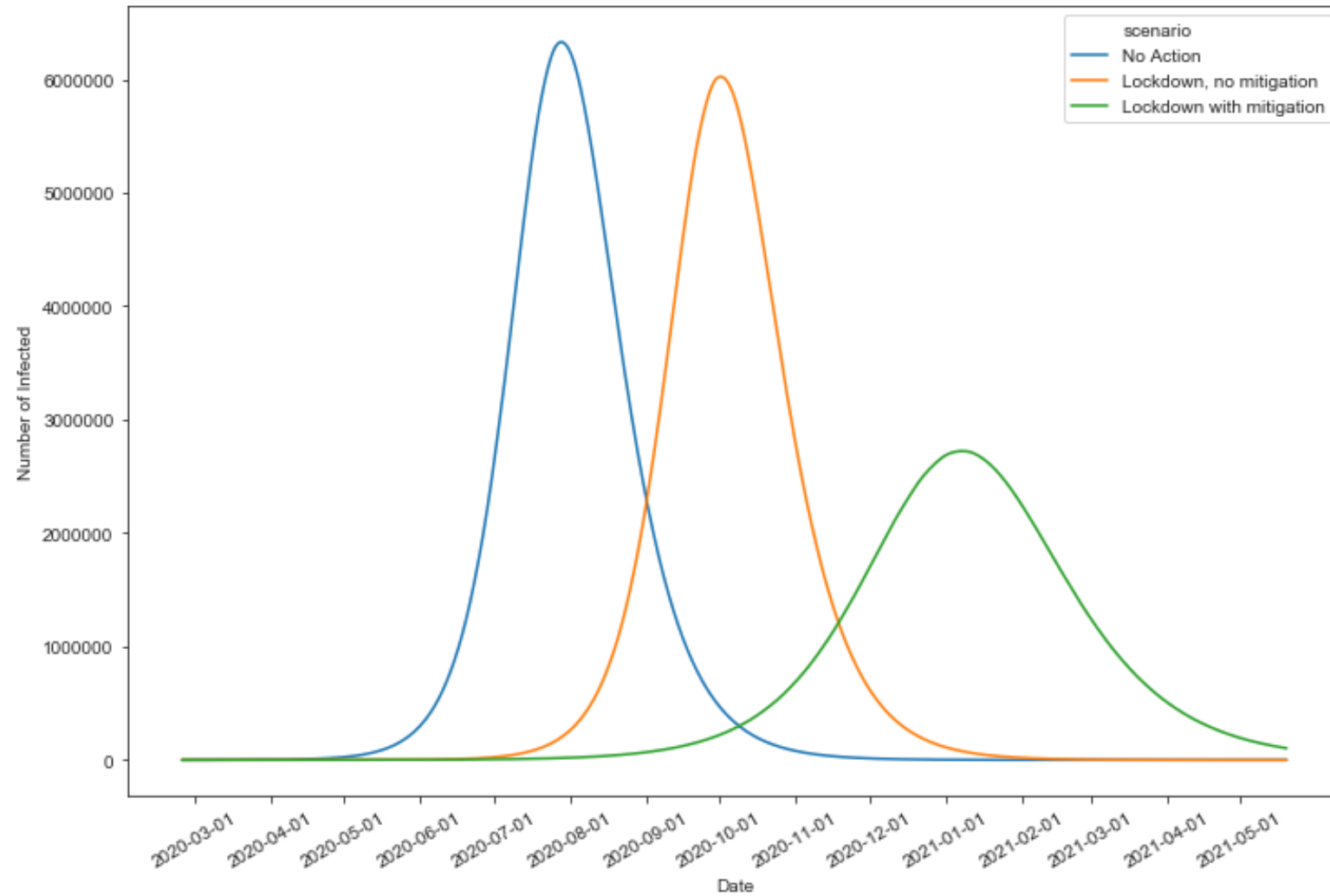



Figure 1: Flattening the Pandemic Curve



Fighting COVID-19 with Lockdowns

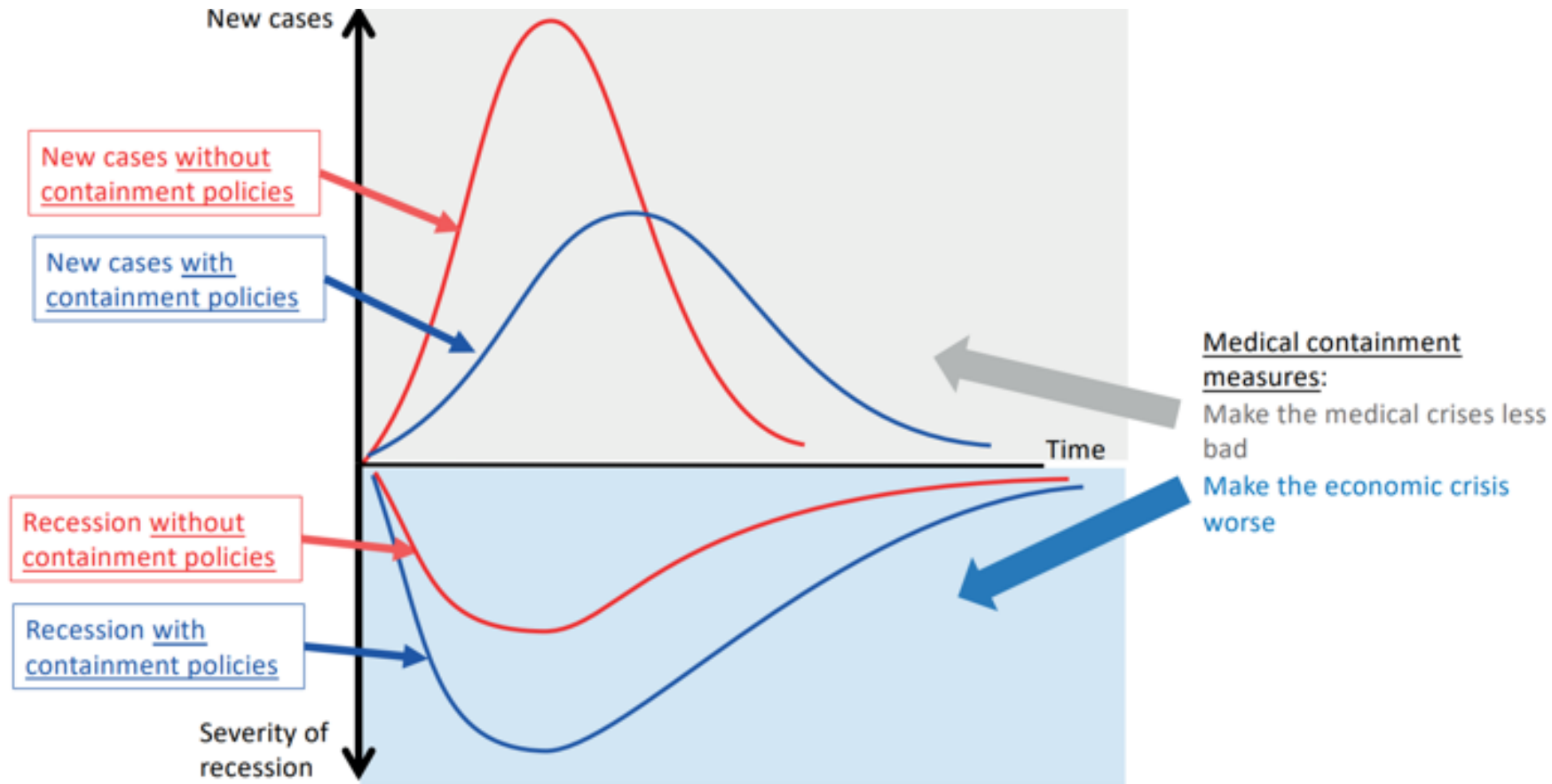
- Motives
 - Flatten the curve  'Herd immunity'
 - Wait for a vaccine
 - Test, trace and quarantine
 - 'Hammer and dance'
- Not a short-term phenomenon

Economic Costs

- Selective closures restrict parts of GDP
 - Harvard (especially Executive Education)
 - Theaters
 - Airlines
 - Bars, restaurants, gyms
- Lockdown impacts all activities
- Decisions percolate through the economy amplifying the initial effect
 - Lay-offs, bankruptcies, non-performing loans, supply-chain disruptions
 - Precautionary savings, delayed investment decisions cause a negative demand shock

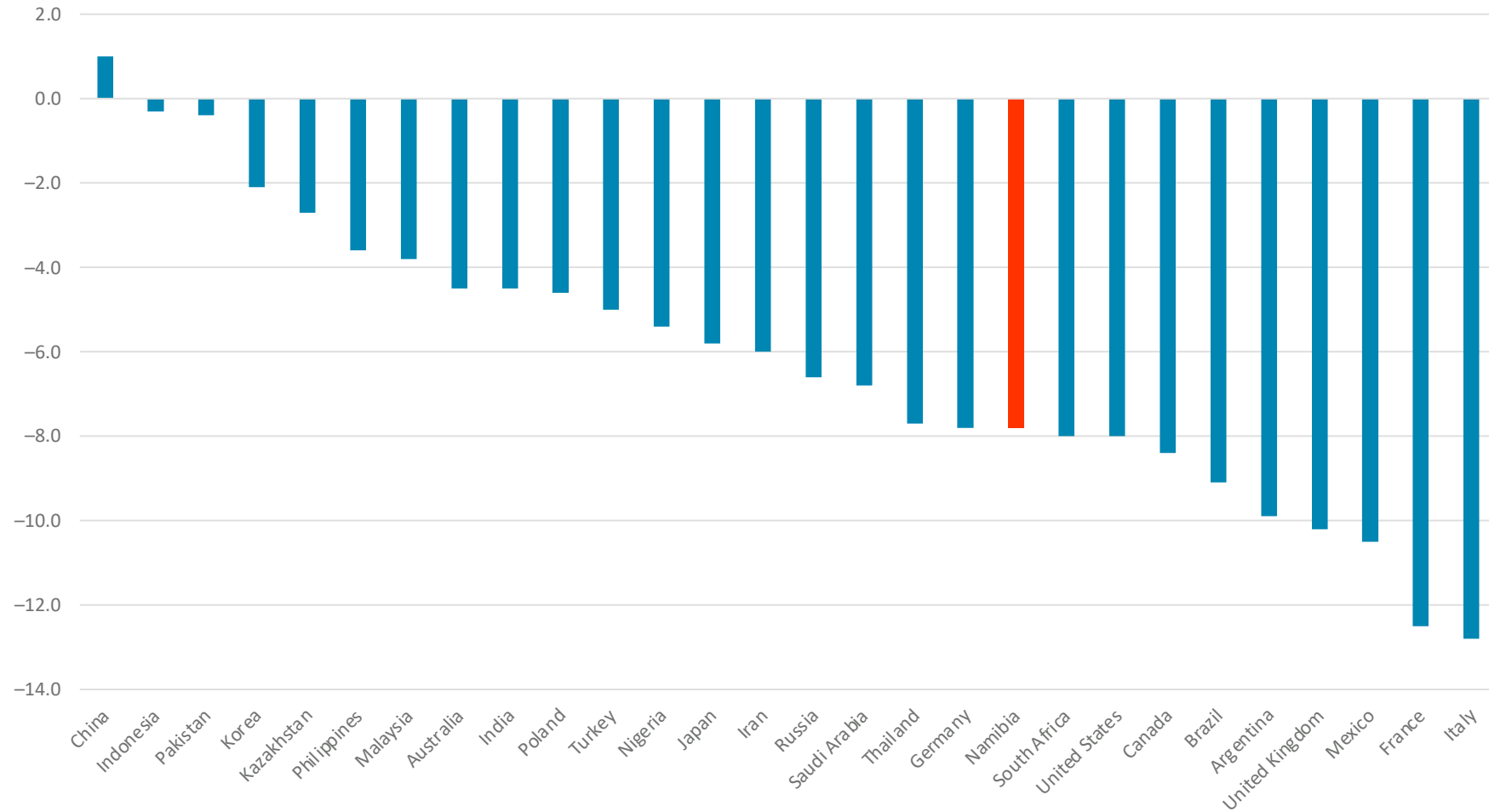


Economic Costs



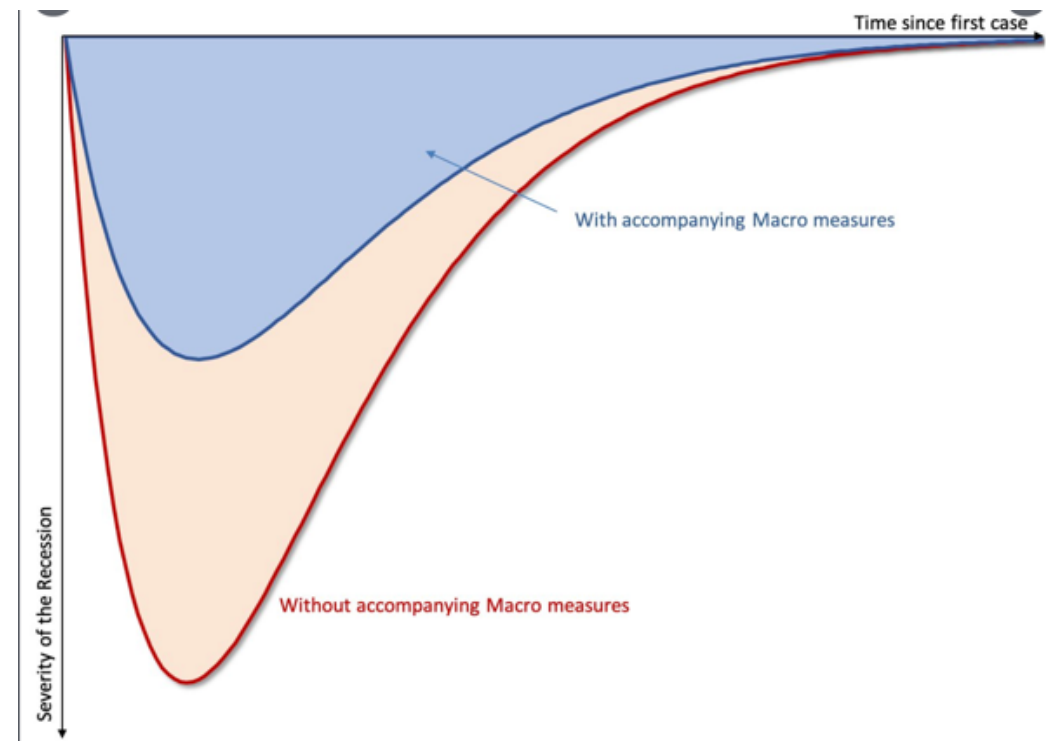
Economic Costs

Projection 2020 Real GDP Growth



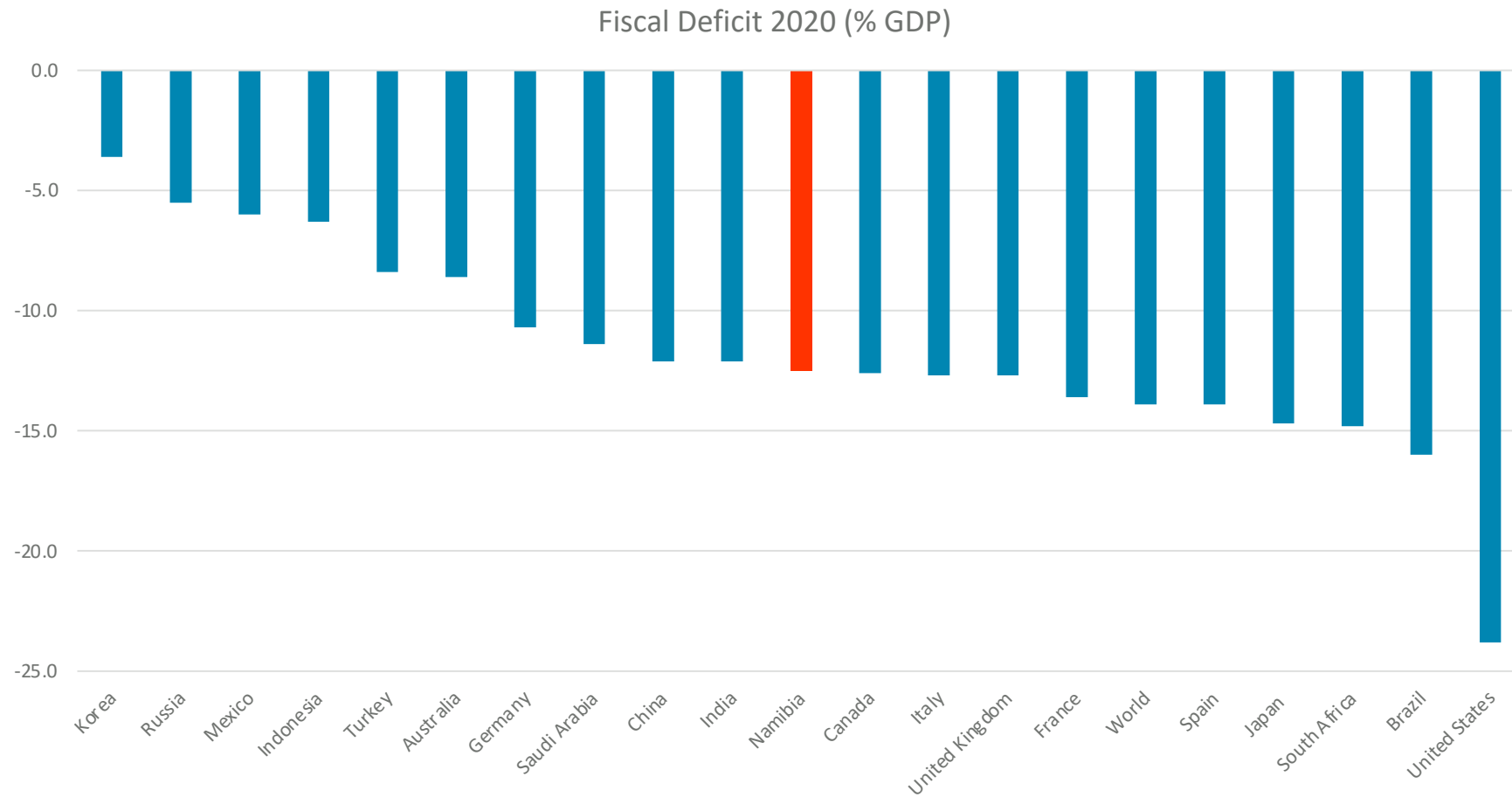
Trade-off Between 'Lives and Livelihoods'

- Fighting COVID-19 requires reducing social interactions, that is very costly for GDP
- Cost in terms of 'livelihoods' justified by threat to 'lives' from pandemic
- Even more so if accompanying economic policy



Source: <https://voxeu.org/article/flattening-pandemic-and-recession-curves>

Trade-off Between 'Lives and Livelihoods'



But...

- Economic shocks need to be absorbed at the individual and at the country level
- What if parts of society close to subsistence?
 - Stricter lockdowns may imply deprivation of vulnerable parts of society
 - Trade-off between 'lives and lives'
 - Global hunger may almost double in 2020 (WFP)
- Limited Fiscal Space?
- “Horrible Trade-Offs in a Pandemic: Lockdowns, Transfers, Fiscal Space, and Compliance” (w. Ricardo Hausmann)

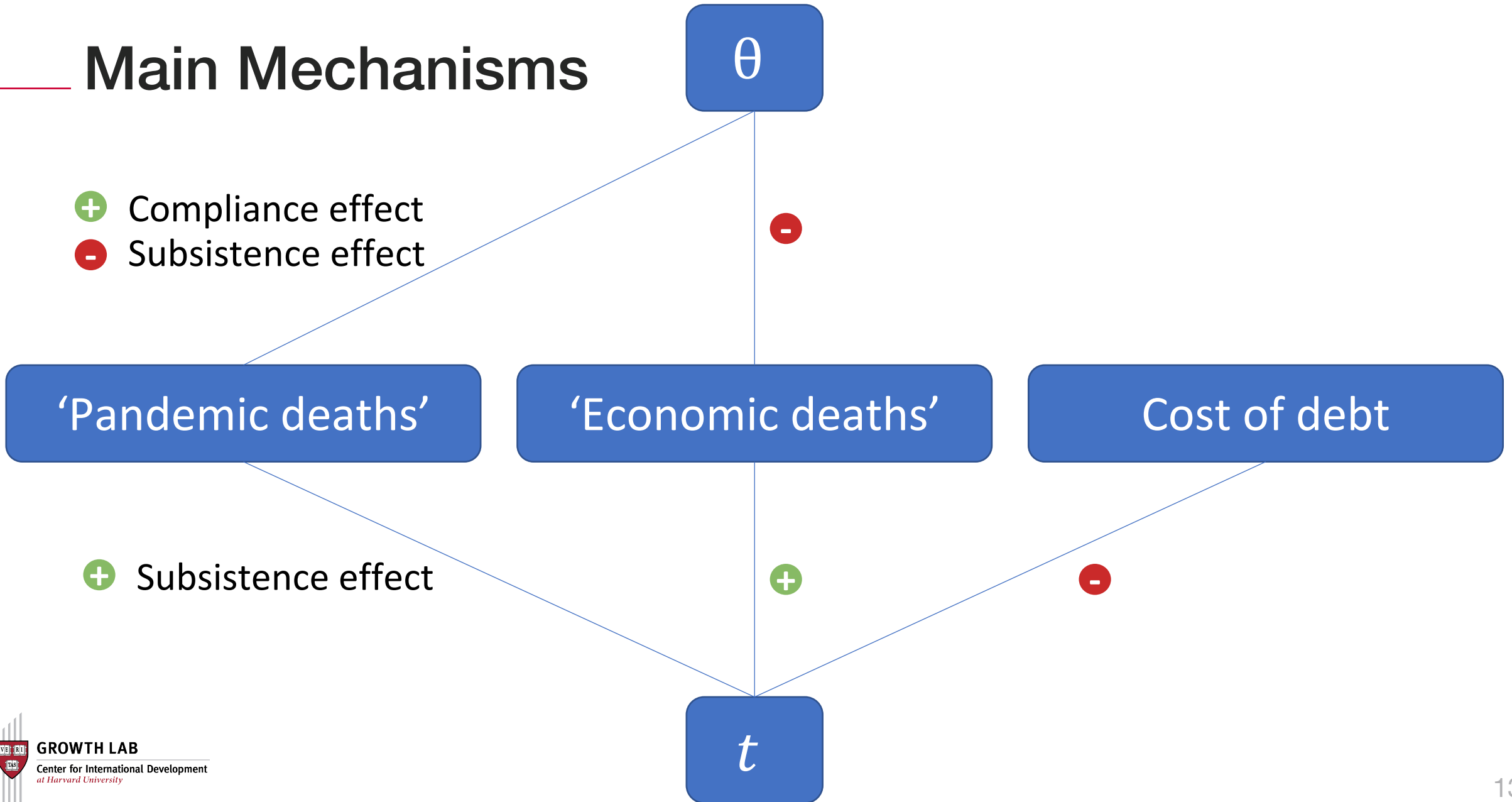
Theoretical Model

- Households differ in their incomes
- Subsistence level of consumption
- Economy hit by a pandemic
 - Threat to lives
 - Recession
- Government can fight pandemic via lockdown
 - Deepens recession
 - Households comply up to subsistence
- Government can cushion blow via transfers
 - Financed via international borrowing, subject to constraint



Main Mechanisms

- + Compliance effect
- Subsistence effect

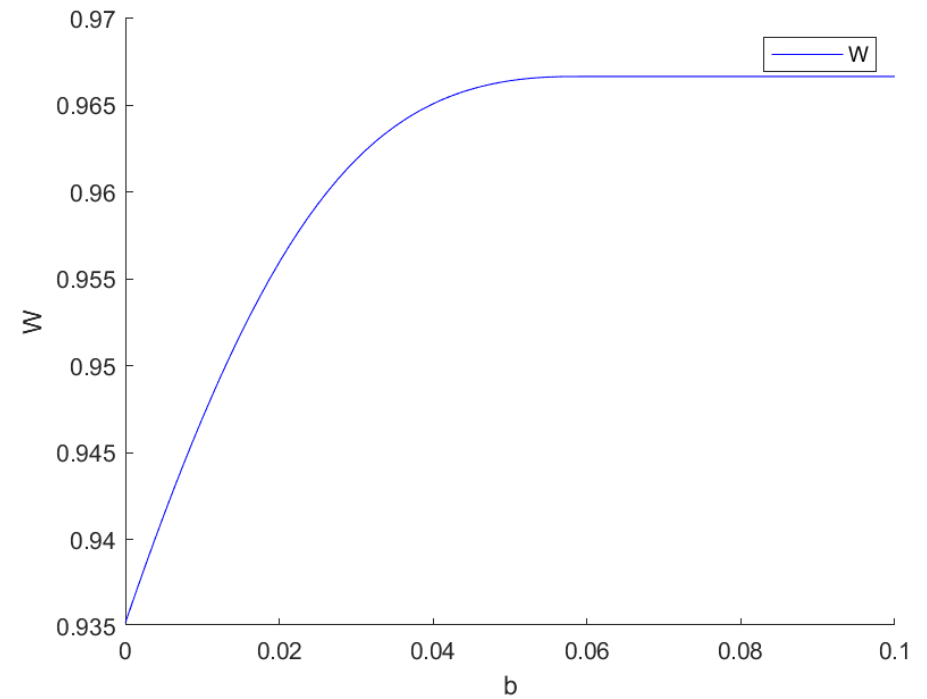
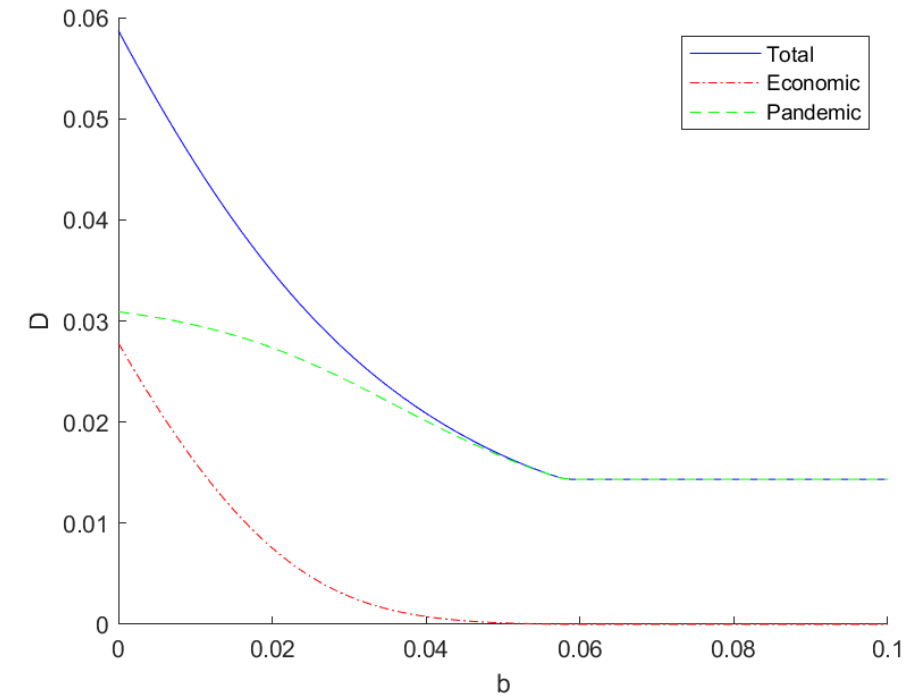
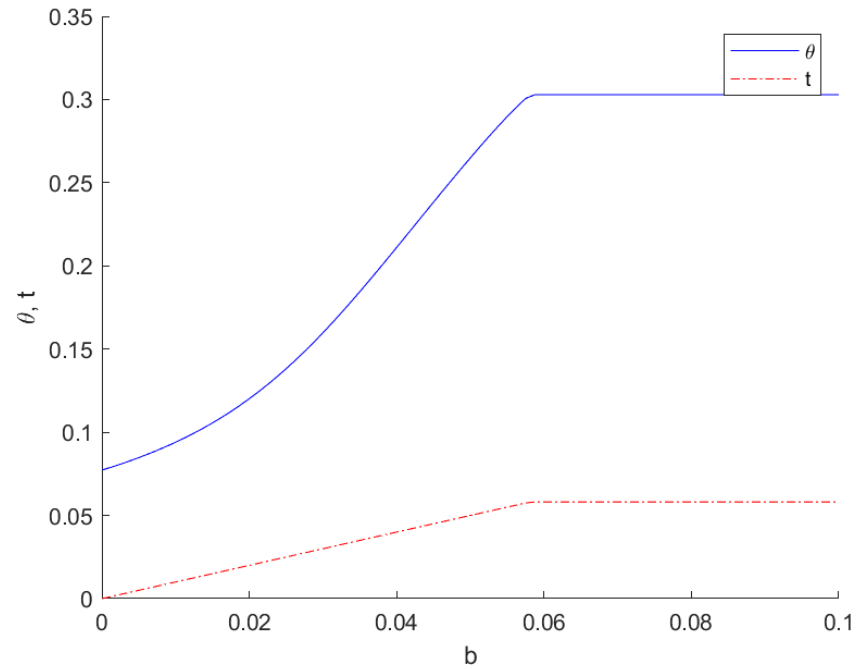


- + Subsistence effect

Key Insights

- Optimal lockdowns less strict in poorer countries where larger fraction of population in poverty
- Lockdown and transfer payments are complements
- Limited fiscal space is very costly in a pandemic
 - Particularly true for developing countries

Key Insights



Key Insights

