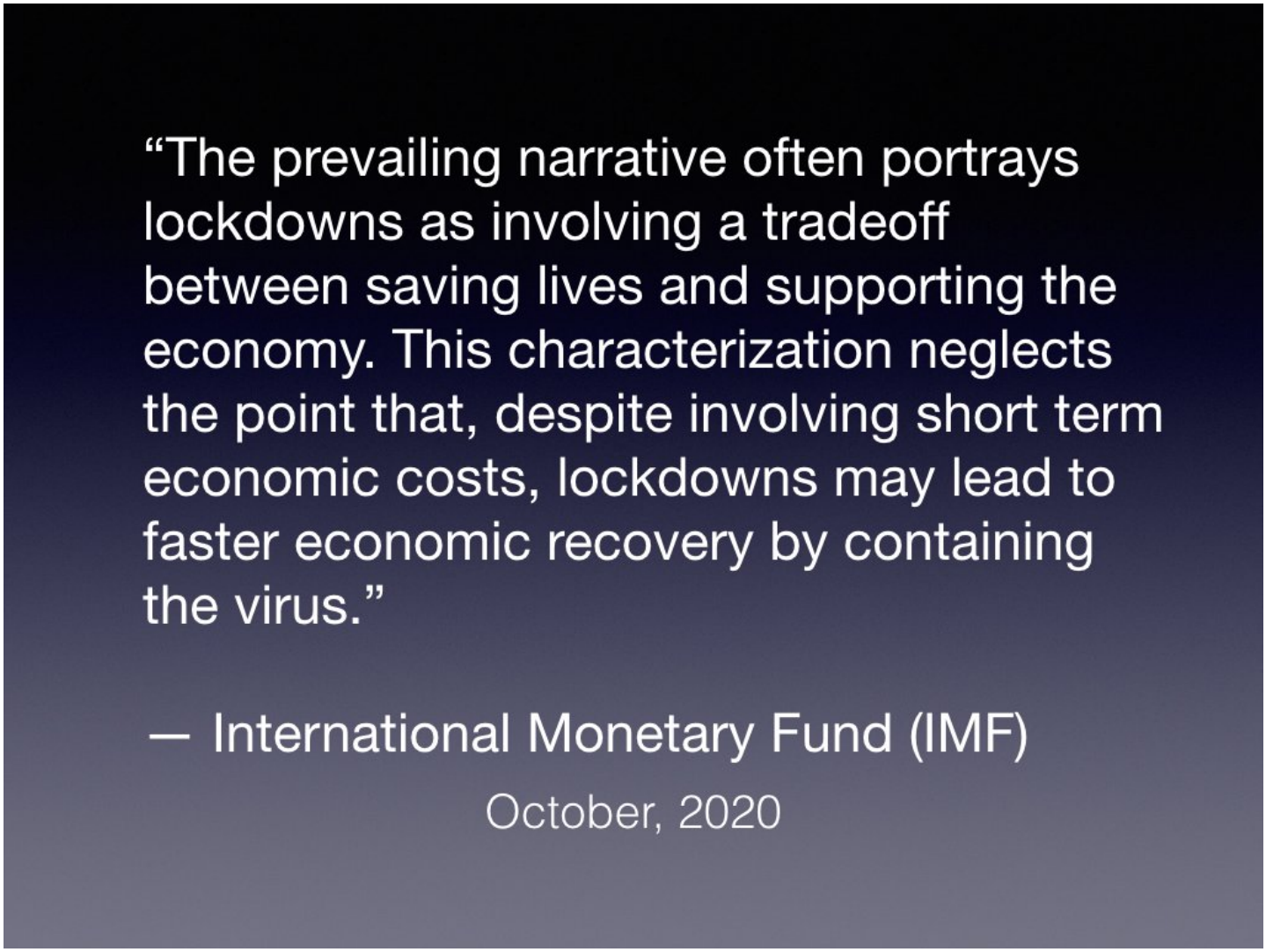
Twitter Thread by Yaneer Bar-Yam

Yaneer Bar-Yam
@yaneerbaryam

The International Monetary Fund (IMF) is analyzing damage due to COVID and projecting further severe consequences if current policies persist. They state "despite involving short term economic costs, lockdowns may lead to faster economic recovery by containing the virus"

1/



Note: This report doesn’t do a dynamic analysis that makes things much clearer, but it does a thoughtful statistical analysis based upon increasingly available data.

https://t.co/5Xmt8y7lCL

A few more quotes:

2/

CHAPTER 2

THE GREAT LOCKDOWN: DISSECTING THE ECONOMIC EFFECTS

To contain the coronavirus (COVID-19) pandemic and protect susceptible populations, most countries imposed stringent lockdown measures in the first half of 2020. Meanwhile, economic activity contracted dramatically on a global scale. This chapter aims to dissect the nature of the economic crisis in the first seven months of the pandemic. It finds that the adoption of lockdowns was an important factor in the recession, but voluntary social distancing in response to rising infections also contributed very substantially to the economic contraction. Therefore, although easing lockdowns can lead to a partial recovery, economic activity is likely to remain subdued until health risks abate. Meanwhile, countries should protect the most vulnerable and find ways to support economic activity compatible with social distancing, for example, by reducing contact intensity in the workplace and enhancing work from home where possible. This chapter also provides new evidence of the uneven effects of lockdowns, which are found to have a larger impact on the mobility of women and younger cohorts. This calls for targeted policy action to prevent a widening of inequality. Finally, the analysis shows that lockdowns can substantially reduce COVID-19 infections, especially if they are introduced early in a country's epidemic and are sufficiently tight. Thus, despite involving short-term economic costs, lockdowns may pave the way to a faster recovery by containing the spread of the virus and reducing the need for voluntary social distancing over time, possibly having positive overall effects on the economy. This remains an important area for future research as new data become available.

Introduction

The COVID-19 pandemic has raised unprecedented health challenges on a global scale. To contain the spread of the virus, most countries have resorted to stringent lockdown measures, closing schools and business activities and sometimes even preventing people from leaving their homes, except for essential reasons. Meanwhile, economic activity has contracted dramatically, as discussed in Chapter 1. No country was spared, with GDP declining sharply in advanced, emerging market, and developing economies.

This chapter's first goal is to shed light on the extent to which the economic contraction was driven by the adoption of government lockdowns instead of by people voluntarily reducing social interactions for fear of contracting or spreading the virus. This issue is important to understand retrospectively the nature of the recession and to provide insights into the strength of the upcoming recovery. If lockdowns were largely responsible for the economic contraction, it would be reasonable to expect a quick economic rebound when they are lifted. But if voluntary social distancing played a predominant role, then economic activity would likely remain subdued until health risks recede.

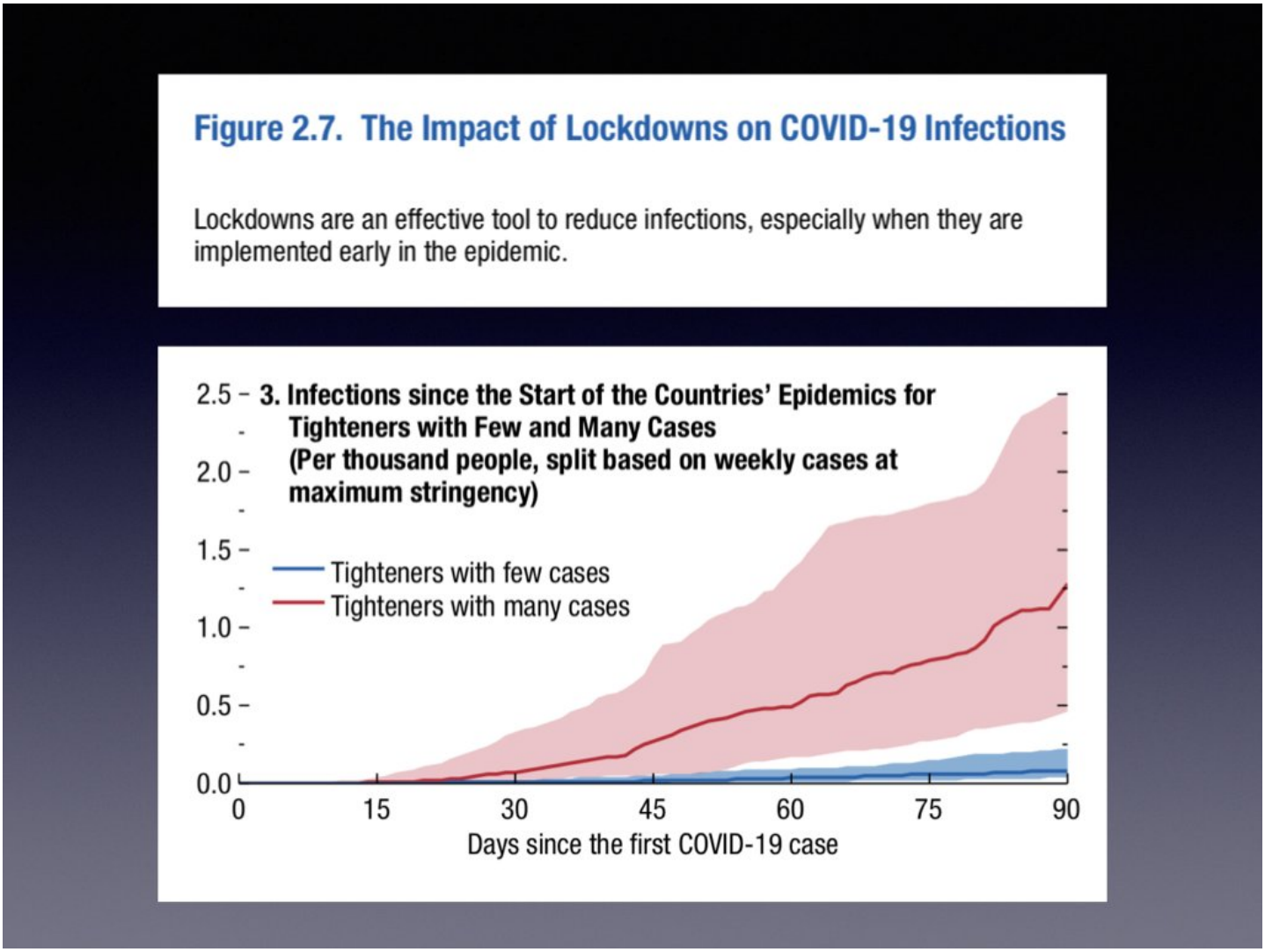
The analysis starts by examining the cross-country association between lockdowns and economic activity across a broad sample of countries. It finds that countries that endured more stringent lockdowns experienced larger growth declines relative to pre–COVID-19 forecasts, even after controlling for the severity of the local epidemic. The chapter then assesses the impact of lockdowns using high-frequency proxies for economic activity, namely mobility indicators provided by Google and job postings provided by the website Indeed.[1] Regression results show that lockdowns have a considerable negative effect on economic activity. Nonetheless, voluntary social distancing in response to rising COVID-19 infections can also have strong detrimental effects on the economy. In fact, the analysis suggests that lockdowns and voluntary social distancing played a near comparable role in

The authors of this chapter are Francesca Caselli, Francesco Grigoli (co-lead), Weicheng Lian, and Damiano Sandri (co-lead), with support from Jungjin Lee and Xiaohui Sun. The chapter benefited from insightful comments by Yuriy Gorodnichenko and internal seminar participants.

[1]Google Community Mobility Reports provide information on daily attendance rates at various locations relative to precrisis levels. Data are available at a national level for a large set of advanced, emerging market, and developing economies. For various countries, mobility information is also available at a subnational level. Data can be downloaded at https://www.google.com/covid19/mobility/. The job site Indeed provided the IMF with anonymized information about daily job postings in 22 countries, disaggregated by job categories.

"The analysis also finds that lockdowns are powerful instruments to reduce infections, especially when they are introduced early in a country's epidemic and when they are sufficiently stringent."

3/



“lockdowns become progressively more effective in reducing COVID-19 cases when they become sufficiently stringent. Mild lockdowns appear instead ineffective at curbing infections.”

4/

“The results suggest that to achieve a given reduction in infections, policymakers may want to opt for stringent lockdowns over a shorter period rather than prolonged mild lockdowns...

5/

..Based upon past experience, tighter lockdowns appear indeed to entail only modest additional costs while leading to a considerably stronger decline in infections.”

6/

“The analysis also suggests that lockdowns must be sufficiently stringent to reduce infections significantly.”

7/

“The effectiveness of lockdowns in reducing infections suggests that lockdowns may pave the way to a faster economic recovery if they succeed in containing the epidemic and thus limit the extent of voluntary social distancing...

8/

..Therefore the short-term economic costs of lockdowns could be compensated by stronger medium-term growth, possibly leading to positive overall effects on the economy.”

9/

“These findings suggest that economies will continue to operate below potential while health risks persist, even if lockdowns are lifted.”

“Therefore, policymakers should refrain from withdrawing policy support too quickly and preserve spending on social safety nets.”

10/

“The prevailing narrative often portrays lockdowns as involving a tradeoff between saving lives and supporting the economy. This characterization neglects the point that, despite involving short term economic costs, lockdowns may lead to faster economic recovery..

11/

does not contribute to widening gender and intergenerational inequality.

The analysis also finds that lockdowns are powerful instruments to reduce infections, especially when they are introduced early in a country's epidemic and when they are sufficiently stringent. Considering also that lockdowns appear to impose decreasing marginal costs on economic activity as they become more stringent, policymakers may want to lean toward rapidly adopting tight lockdowns when infections increase rather than rely on delayed mild measures. Nonetheless, these recommendations will need to be reassessed as the understanding of the virus and means to counteract it improve. A crucial area of research is to examine the effectiveness of more-targeted instruments compared with blunt lockdowns, for example restrictions on dense indoor gatherings or measures to isolate people who are more vulnerable to the virus.

The effectiveness of lockdowns in reducing infections, coupled with the finding that infections can considerably harm economic activity because of voluntary social distancing, provides an important new perspective on the costs of lockdowns. The prevailing narrative often portrays lockdowns as involving a trade-off between saving lives and supporting the economy. This characterization neglects the point that, despite imposing short-term economic costs, lockdowns may lead to a faster economic recovery by containing the virus and reducing voluntary social distancing. These medium-term gains may offset the short-term costs of lockdowns, possibly even leading to positive overall effects on the economy. More research is warranted on this important aspect as the crisis evolves and more data become available. Meanwhile, policymakers should also look for alternative ways to contain infections that may have even lower economic costs. In line with the advice of public health experts, these may include expanding testing and contact tracing, promoting the use of face masks, and encouraging working from home.

The analytical results and policy implications presented in this chapter are subject to several caveats. First, the analysis tries to alleviate concerns about the endogeneity of lockdowns by showing that the results hold using cross-sectional and time-series identification and by relying on national and subnational data when available. However, identification concerns cannot be fully dismissed, including regarding the measurement of voluntary social distancing. Second, the analysis relies on short-term indicators, such as mobility and job postings, which provide an imperfect measure of economic activity. The chapter's findings will need to be reexamined as more conventional economic indicators become available. Third, the analysis focuses on the economic consequences of lockdowns, neglecting important side effects, for example, on educational attainment and mental health issues. These are crucial areas for future research.

by containing the virus and reducing voluntary social distancing. These medium term gains may offset the the short-term costs of lockdowns, possibly leading to positive overall effects on the economy."

“The prevailing narrative often portrays lockdowns as involving a tradeoff between saving lives and supporting the economy. This characterization neglects the point that, despite involving short term economic costs, lockdowns may lead to faster economic recovery by containing the virus.”

— International Monetary Fund (IMF)

October, 2020