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Saving the Economy Requires Controlling the Pandemic

We are economists from different fields and orientations, who would disagree on a wide range of topics. Yet we agree on this: unfortunately, and painful as it will be, Switzerland now needs a second “lockdown” (the extent of which is to be decided in close coordination with the health experts), with strong fiscal support. Even in purely economic terms, the overall cost of a well-managed lockdown will be smaller than with the current lighter measures that evidently failed to contain the virus’ spread. The latter, while still economically disastrous, will also result in a much higher death rate.

The virus is currently spreading in Switzerland at one of the highest rates in the world: new cases and hospitalizations have been increasing at alarming rates, and, more tragically, deaths started increasing exponentially too. Unfortunately, this shows unequivocally that the measures in place were insufficient to control the virus: they were either too mild, or adopted too late, or both. In light of these worrying outcomes, in the context of surrounding countries having adopted a range of lockdown measures with less serious health crises, we recommend that the government implement a second lockdown and follow closely the advice of the epidemiology experts on the COVID-19 Science task Force as to its exact extent, implementation, and duration.

There seems to be a pervasive misunderstanding regarding the economics of COVID-19: an argument is often made as to the economic costs of a lockdown, invoking a tradeoff between the economy and health. In our opinion, and especially in the kind of situation Switzerland is now epidemiologically, this is a false dichotomy: there is no such trade-off. The choice is between 1) a big recession, overwhelmed hospitals, and many excess deaths under current policies; and 2) a big recession with fewer deaths and a manageable health system under a second lockdown. An increasing number of scientific studies deliver this message, from various countries with different experiences, based on research written by some of the world’s best economists—often in collaboration with epidemiologists.

The often-overlooked aspect is that when the virus is spreading fast (as in Switzerland in recent weeks with the mild restrictions), the high health risks and ensuing fear and panic will prevent people and businesses from pursuing economic activities anyway. Supply chains will anyway be broken. Businesses will go equally bust, and precarious workers will be as vulnerable, if not more.

To be sure, subtler economic trade-offs exist: the cost of a lockdown is borne now, and especially by some sectors and categories. Whereas the (economic) costs of a pandemic staying out of control are borne later, as the economy stalls, and spread to other sectors. We trust that good economic and especially fiscal policy will be designed with such trade-offs in mind, seeking a fair redistribution of these costs over time and across sectors and households.

We thus recommend a swift second lockdown (the nature, extent, and duration of which is to be decided by public-health experts) accompanied by strong fiscal support: to small and medium firms, small entrepreneurs, and to the most vulnerable categories of workers, especially those most exposed, in the most affected sectors; and to sustain the development of state-of-the-art testing and contact tracing. Given the current debt level and borrowing terms of the federal government, such fiscal measures in this once-a-century pandemic seem appropriate and sustainable. Last but not least, targeted fiscal support could engender a virtuous circle whereby concerned households and businesses are given incentives to and thus become more likely to accept the extra restrictions.