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# Not locking down your economy can cost you more, BoE reckons

**Hans van Leeuwen** *Europe correspondent*



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*London* | Do you reckon that if your country or state doesn't impose restrictions during COVID-19 your economy will be spared? That's a false dichotomy, says a Bank of England economist who's modelled the tough calls governments have made in 2020.

Many governments [assume that there's a trade-off between preventing the pandemic and protecting the economy from damage](#); that is, do more of one and it comes at the expense of the other.

But Gertjan Vlieghe, a former bond strategist and private-sector economist who now sits on the BoE's Monetary Policy Committee as an external member, reckons that allowing the virus to let rip would do as much economic damage as a lockdown. What's more, slapping on restrictions can actually protect the economy from some harm.





Most of the economic impact of COVID-19 comes from people voluntarily reducing their risk, rather than government restrictions. **Eddie Jim**

"It is misleading to think that, without government restrictions, the economy would have continued to function as normal," he said in a speech on Tuesday.

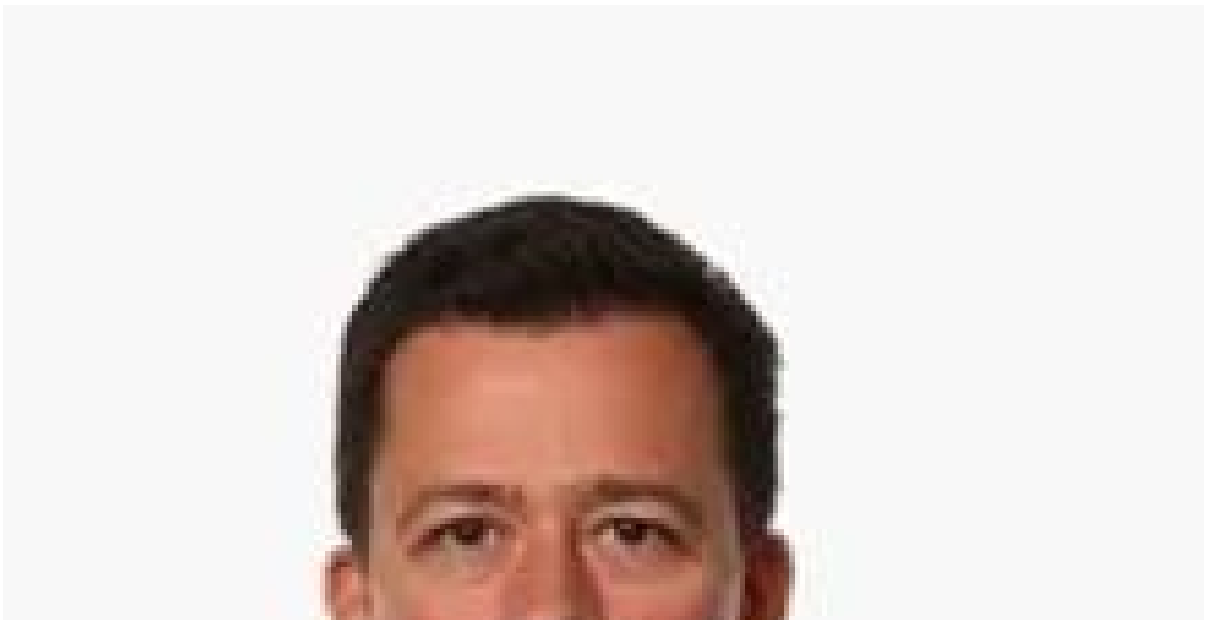
"This is because the majority of the damage to an economy arises from the restrictions that people voluntarily impose on themselves in order to protect their health, not from restrictions that the government imposes."

If the government puts some restrictive measures on, that gives people a bit more confidence to venture into crowded places or spend money on travel or hospitality. If the virus is rampant, people will see the heightened risk and retreat into their economic shell.

As evidence, he points to the fact that people's behaviour began to change in many countries before lockdowns had actually been imposed.

"Attributing all of the decline in economic activity to government restrictions is likely to be wrong if some of the decline took place before the restrictions were there," he said.

What's more, a study of the 2020 pandemic comparing relatively [libertarian Sweden](#) and more restrictive Denmark found that Swedish consumer spending still fell by almost as much as Danish spending (Sweden experienced 85 per cent of Denmark's drop).





Gertjan Vlieghe, a member of the Bank of England's Monetary Policy Committee

US studies have made similar findings: one suggested that three-quarters of regional declines in spending or increases in unemployment in the US were because of voluntary changes, and only one-quarter from government restrictions.

Another US study using mobile phone data suggested that "most reduction in mobility is voluntary rather than mandated".

"People react strongly to actual or perceived virus risk; and government measures that reduce the spread of the virus are good for public health as well as for the economy, relative to a counterfactual where the virus is allowed to spread more widely," Mr Vlieghe said.

He then goes on to summarise his own bit of statistical modelling, which he admits is "imprecise and preliminary". Still, he insists it shows that it's the prevalence of COVID-19, rather than the degree of government restriction, which explains how different economies have fared in the pandemic.

But, there's a caveat or two. The first is that there is still some trade-off between the economy and public health. It's just that "so far, the differing economic performance across countries does not appear to be primarily explained by governments making different choices along a health/economy trade-off".

And the second is that, as always, the past isn't necessarily a guide to the future. "Governments, households and firms are learning as the pandemic progresses, and may make different decisions in the current (second) wave than they did in the first wave".

Does all this matter? Yes, Mr Vlieghe said: in essence, if the virus sticks around, then so does people's anxiety and so does the economic impact


"As long as there is enough virus prevalence to cause people to worry about risks to their own health, it is likely to cause a drag on economic activity. ... The speed of the recovery is likely to be slower while the virus prevalence remains a concern."


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