

People cannot just be ordered back to work and to spend

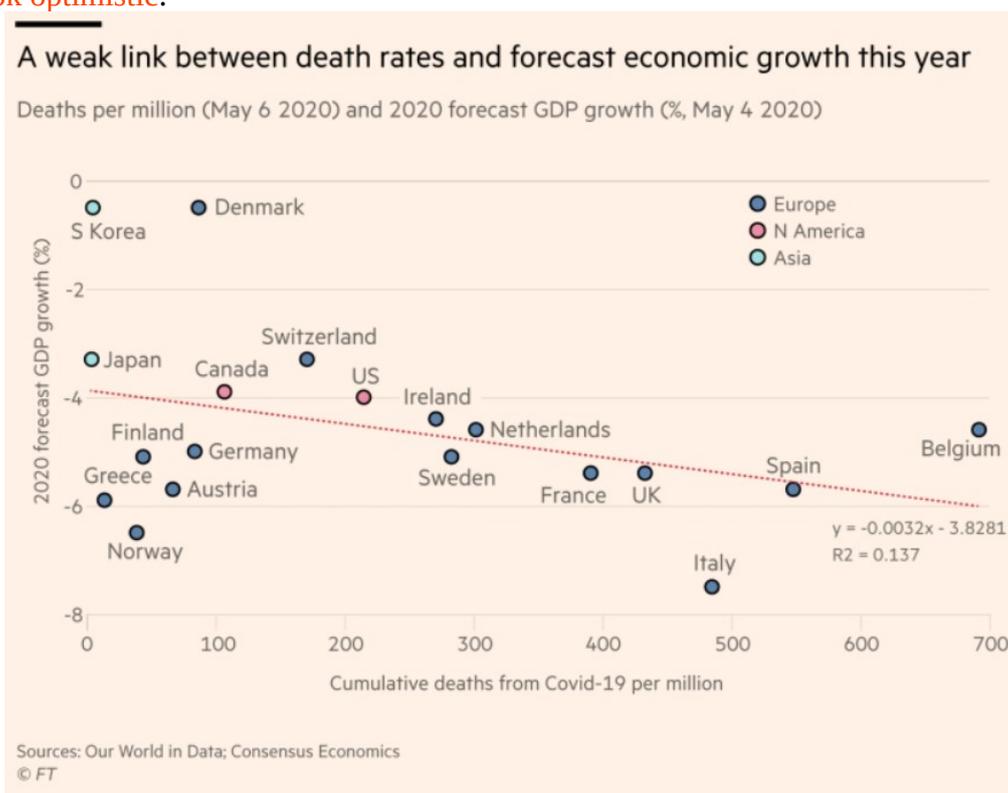
Martin Wolf 8 May 2020

<https://www.ft.com/content/1aca0802-8f9f-11ea-9b25-c36e3584cda8>

<http://puzzlefinancialadvice.com.au/2020/AFR/>

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- The UK government is planning how, and how quickly, to end the lockdown. This necessitates a **complex and interlocking set of decisions taken under huge uncertainty**. In making them, the government must realise it has a **poor record of managing Covid-19 so far**. It has to do much better.
- A large number of people believe that, in order to protect the economy, the sensible thing to do was — and still is — to impose few or no restrictions on individual behaviour, other than to tell the most vulnerable to stay at home. Yet **countries that refused to impose tight controls such as Sweden and the Netherlands are not now forecast to do better economically**. They have had **far more deaths than peers such as Austria, Denmark, Finland, Germany or Norway**. Yet their growth prospects, at least for now, are not expected to be any better. **The assumed trade-off between suppression of the virus and the health of the economy, in the medium term, is illusory**.
- The Bank of England's latest forecast of a 14 per cent contraction of gross domestic product this year followed by a 15 per cent expansion in 2021 **assumes** that “social distancing measures and government support schemes” remain “as they are until early June, before being gradually unwound” by the end of the third quarter. It also assumes very little “scarring” of the economy from the output collapse now under way. Alas, **these assumptions look optimistic**.



“Getting people back to work” (<https://www.ifs.org.uk/publications/14829>), an excellent study from the Institute for Fiscal Studies, brings out the many obstacles to any such early return to normality.

- First, uncertainty will not disappear
- Second, the impact of the virus on supply and demand for goods and services will be highly heterogeneous.

- Third, the impact on the labour supply and on would-be purchasers is also going to be heterogeneous, with the young able to operate much as before and the older and those with health conditions far less so.
- Fourth, even this ignores the complex impact from the world economy.

An obvious implication is that the structure of supply, demand and available work will alter radically throughout the epidemic. **This makes the BoE's assumption of a smooth economic rebound more implausible.**

The UK is only at the end of the beginning. It was not a good start either. **It seems foolish to imagine the country will swiftly return to life as it was before Covid-19. Things will remain different.**

Our least bad future seems to be one in which the disease is suppressed until a vaccine arrives. In the meantime, testing, tracking and quarantine will be required, and government, business and worker representatives will need to make plans that allow as much of the economy as possible to reopen, while protecting the health and livelihoods of the physically and economically vulnerable. **It is one of the most complex tasks government has ever attempted. No doubt, there will be surprises. But this time, it really must be thought through.**