

COVID-19 Special

**Gradual exit overdue**

**Lockdown with unforeseeable economic costs**

**With the paralysis of a large part of the economy, there is a risk of provoking collateral damage without an early opening which would amount to several times the economic losses during the financial crisis. As COVID-19 is primarily a danger for older people with pre-existing conditions, they must be specially protected. A gradual exit from the lockdown should therefore be vertical and targeted at younger workers.**

**Lockdown with unimaginably high economic cost**

Suddenly, the coronavirus has fundamentally changed our everyday lives. Growing numbers of corona-infected patients and daily death statistics with alarming reports from hospitals overcrowded with corona patients in Italy, Spain, France and now also the United States leave nobody indifferent. Lockdowns, a standstill of non-essential sectors of the economy, school closures, etc., have to a certain extent turned social and economic life upside down from one day to the next. To the extent that they have not already exhausted all their ammunition in the aftermath of the financial crisis, central banks are trying to mitigate the economic impact of the above measures with the "big bazooka" by slashing interest rates, injecting liquidity into the banking system and resuming or expanding purchases of securities. In all the countries that have been perceptibly affected by the corona crisis, governments are attempting to help those affected by plant closures and (partial) unemployment by means of financial packages of almost unimaginable scope.

**Not everyone is affected equally**

While in a part of the service industry, such as banks and insurance companies, business functions can still be largely maintained thanks to an extensive home working, the very existence of small businesses and many self-employed persons in particular is threatened by the ordered closures. Massive costs and losses of earnings are being incurred in particular by industrial companies which have had to cease production at the behest of the authorities or because demand has collapsed. For example, Volkswagen, the world's second largest carmaker, expects weekly losses of around €2 billion as a result of the voluntary production stop. The plant closures in the automotive industry are also hitting the numerous and important Swiss suppliers hard. Even more severely affected are sectors of the tourism and

travel industry, whose demand is likely to remain largely absent for some time. Without state support running into billions, only a few airlines will probably be able to survive financially. In addition, countries such as Italy, which already had extremely high national debt before the corona crisis, have had to launch massive financial aid programmes in view of the almost complete economic standstill, which will place a massive burden on future generations of taxpayers for decades to come. In the United States, where the state aims to support individuals and companies affected by the crisis with a financial package of \$2 trillion, employees are losing their jobs in droves and, in most cases, the health insurance linked to the company. In the United States, for example, initial applications for unemployment benefits exploded from around 200,000 to over 13 million within two weeks. Many of these people see their existence threatened. A further massive increase in these figures is inevitable. The question is how long the economy can survive a lockdown without having to struggle for years to come with high unemployment and a collapse in demand that drives millions of people into economic misery.

**COVID-19 statistics: what we know and what we don't know**

How long the measures, which are mostly based on emergency law and paralyse social and economic life, have to be maintained depends strongly on the course of the corona epidemic in the individual countries. The now numerous empirical studies and scenario model calculations lead to the conclusion that, despite certain persistent blind spots, we have learnt something from the epidemiologists and virologists and the numerous empirical studies in recent weeks that is extremely useful and groundbreaking for political decisions.

At the very beginning of the infections in the western industrialised countries, the highly respected Stanford medical scientist *Ioannidis*

already pointed out that the daily lurid data on infected and dead people published in the media was not particularly reliable. The fact that a high percentage of corona infected persons show no or only very mild symptoms has a statistically distorting effect. The extent to which the numbers can diverge is shown in particular in a study by Prof *Carlo di Vecchia*, a medical statistician and epidemiologist at the Statale di Milano University, who was also a consultant to the WHO. It concludes that in Italy the number of COVID-19 cases could be 5 million or even much higher. If the number of infected persons is massively underestimated, this also means that we greatly overestimate the danger and mortality rates of the coronavirus, for example in comparison to the flu viruses that appear every year during the cold season. In a recent article in the Wall Street Journal, Stanford professors of medicine *Bendavid* and *Bhattacharaya* came to a similar conclusion, according to which the lethality of COVID-19 is overestimated by several orders of magnitude because of the large number of symptom-free infected people. With all the daily horror statistics on the corona cases, it should not be forgotten that, sadly, around 300,000 to 600,000 people die worldwide every year from "ordinary" flu, without society being tempted to use draconian measures to push these figures down. Against the background of these figures, the renowned Stanford professor *Ioannidis* even poses the **heretical question of whether the policymakers are doing more good than harm in their blind flight.**

In view of the human suffering and the high mortality rates in the overcrowded hospitals of the corona hotspots, regardless of the statistical uncertainties, there are certainly good reasons to use draconian measures in an initial phase to break the exponential growth in the spread of COVID-19. Given the need to relax the drastic measures as soon as possible, it is also very important that we know fairly precisely the group of people for whom the coronavirus poses the greatest risks. Based on several studies of corona deaths in the Chinese province of Hubei and northern Italy, there is clear evidence that the virus threatens older people with pre-existing conditions much more than healthy younger people. In Italy, for example, the risk of dying from the virus in people over 80 years of age is around 20% compared to Wuhan in China with almost 15%. However, these studies also show **that of the over 80-year-old corona victims in Italy, around 99% had pre-existing conditions.** These results are confirmed by Swiss and global statistics, such as those compiled on the website

of data provider worldometers.info. The coronavirus is therefore extremely dangerous, especially for people with certain pre-existing conditions (kidney disease, chronic obstructive pulmonary disease (COPD), cardiovascular disease, diabetes, high blood pressure), such that these pre-existing conditions increase disproportionately with age.

### Dangerous super-spreading events

In the meantime we also know where in Europe concentrations of COVID-19 have occurred. Notorious are the super spreading events in the ski resorts of Ischgl in Austria and Verbier in Switzerland, where après-ski activities led to mass contagions. Unfortunately for some Italian football fans the victory in the Champions game Atalanta Bergamo against FC Valencia may have been "deadly". According to an immunologist, the epidemic in Bergamo literally exploded exactly two weeks after this game. A concentrated accumulation of infections in Germany occurred during the Lent carnival in the municipality of Gangelt, where over 15% of the inhabitants were infected with COVID-19.

An article written by an interdisciplinary team at the **University of Bremen** also explains how dangerous conglomerations of infections are, according to which, unfortunately, in Germany (and probably also in other countries) infections occur more frequently in hospitals and nursing homes (**nosocomial infections**). In this context, the working group comes to the shocking conclusion that this type of infection is now the dominant mode of spread in Germany (!).

### High protection needs of risk groups

The above results imply that older people with pre-existing conditions must actually do everything possible to avoid infection until (a) effective medication, (b) a vaccine, (c) herd immunisation or (d) a strongly decreasing number of infected persons in the population can be reached, making infection unlikely. The strategy of forced herd immunisation, as advocated in Switzerland by **Reiner Eichenberger**, professor of economics in Fribourg, is risky and not well thought out. It would probably take two to three years, especially since, according to epidemiologists' calculations, 60 to 70% of the population would have to produce antibodies. Unfortunately, it will also take longer before effective drugs or a vaccine is found.

### Intensive care as a bottleneck

Swiss health minister **Alain Berset** has repeatedly stressed that the lockdown must be maintained until it can be assumed with some certainty that sufficient hospital capacity for corona patients is available. From this perspective, lockdowns and quarantine measures serve to flatten the curve of the number of infected persons. This is intended to avoid the need to increasingly use a triage procedure for access to ventilators as in other countries with

insufficient resources in intensive care. The chances of recovery are also generally better if hospitals and their specialist staff are not overburdened.

The figures for the use of intensive care services also vary considerably depending on the age cohort. Thus, for example, epidemiologist **Neil Ferguson** of Imperial College London has calculated for the attention of the UK government that the use of critical care measures in hospitals is less than 1% for those under 50 years of age, while this figure is around 20% for those over 80. With a view to a possible exit from the lockdown, **Ferguson** also recommends a **vertical approach**, which means nothing other than that (younger) persons without previous illnesses have to bear the main burden when economic activities resume.

### Taiwan, the "corona miracle"

From a unilateral "health perspective" it would be ideal if the drastic measures and the lockdown could be maintained until only isolated infections occur, as is the case in several Asian countries. Taiwan, which is closely linked to (Mainland) China, has managed to keep the number of people infected with corona below 400 out of a population of around 25 million and has had only six deaths. Taiwan reacted very early on and kept the spread in check with a number of coordinated measures without having to resort to an economic lockdown. Various studies conclude that the widespread use of protective masks has contributed to this success. Even more important was probably the tracking of the chains of infection by means of apps as well as the electronic monitoring of COVID-19 carriers (by means of contact bans) to contain the transmission. The course of the infection and the almost complete containment of its spread by similarly rigorous measures in China, Hong Kong, Singapore and partly also in Japan and Vietnam indicate that we can learn a great deal from these countries. The fact that some exponents in Switzerland have been trying for a long time to raise data protection objections to tracking via apps seems strange if not cynical, considering that a higher mortality risk and the economic lockdown affect other personal rights to a much more drastic degree.

### Infection rates on the decline

Even if the number of infections in Switzerland cannot be reduced to zero, in view of the economic collateral damage it is not possible to wait too long before lifting the lockdown. According to a study published on 11 April by ETH Zurich, the rate of infection in Switzerland has already fallen significantly to an **R<sub>0</sub> of 0.6** (R<sub>0</sub> of 3 to 4 without measures). An R<sub>0</sub> of 0.6 means that an infected person infects an average of 0.6 persons; if this critical number is kept (significantly) below 1, the virus gradually disappears by itself. Conversely, any reduction in protection against infection carries the risk of a renewed increase in

the number of cases. Such a new flare-up in case numbers may force politicians to introduce more stringent measures. To keep this risk low, adequate protective measures are required at the various workplaces. This is to avoid the need for a "hammer and dance" strategy, in which periods with severe limitations (hammer) alternate with periods of opening (dance).

### Risk-adapted exit strategy

A lockdown as an undifferentiated fire drill in the fight against the virus may be appropriate in an initial phase, but it is not sustainable over a longer period of time and probably not efficient either. There are therefore more and more renowned virologists, physicians and medical scientists who are calling for a risk-adapted strategy of opening up for a second phase. With regard to health protection, the following objectives are in the foreground:

- Extensive prevention of any renewed rapid spread of the pathogen, so that at the same time natural immunity (only) slowly increases;
- Supplementing general prevention measures with specific prevention concepts;
- Priority protection of groups at high risk for severe COVID-19 diseases;
- Strict separation of care and treatment processes for infected and non-infected persons within the institutional framework;
- Facilitation of access to COVID-19 tests (e.g. drive-in centres) with sufficient test availability;
- Intensive tracking of infections via apps (including surveillance of infected persons following the Asian model);
- Central establishment of a high-risk task force that can react to spontaneously arising outbreaks of infection (super-spreading events);
- Antibody tests; for example, persons who have been shown to have developed immunity would be ideal for use in the care of risk groups; accordingly **sentinel tests** should be carried out: primarily on personnel in risk areas and then in random samples to obtain information on the level of immunisation in the population.

### Financial assistance with the big bazooka

Both central banks and politicians have rightly recognised that lockdowns will lead to drastic income losses, especially in small businesses and among the self-employed. To reduce the risk of collateral damage as in the 1930s, financial emergency packages in the almost unimaginable magnitude of **\$8 trillion** have been put together worldwide (as of Easter 2020). Depending on the country, the focus is on short-time work compensation, unemployment benefits, loans

primarily for small and medium-sized companies and severely affected sectors of the economy, through to direct payments in the form of weekly allowances as in the United States.

The costs or economic losses of a lockdown are extremely difficult to calculate. The *Avenir Suisse* think tank has tried to calculate the loss of value for a comprehensive lockdown (as implemented in Italy). Switzerland would then lose almost CHF 30 billion per month or just under 5% of its annual GDP. For a somewhat milder lockdown such as the one currently taking place in Switzerland at least until 26 April, the **monthly losses should be in the order of CHF 15 to 20 billion**. It must be assumed that the costs of a standstill will increase disproportionately over a longer period of time, since payment defaults and the number of bankruptcies will rise sharply. In addition, companies must maintain as much liquidity as possible to ensure their survival, so that investments largely come to a standstill.

#### From supply to demand crisis

The longer any standstill lasts, the more difficult it becomes to get the economy going again. What began as a supply crisis (closure of numerous businesses) must inevitably lead to a demand crisis due to the loss of income. In the course of globalisation, production companies in particular have optimised their supply chains worldwide and in many cases switched to just-in-time production, in which warehouses are kept as small as possible. If only a few parts are missing in the production of highly complex goods, they cannot be produced or longer delays occur. The *Handelsblatt*, for example, which is published in Germany, cited the example of the Volkswagen Group, which obtains around 18,000 parts for car production from crisis-ridden Lombardy. This example shows that it may be of little use if one country alone seeks ways out of a standstill. As a typical export country, Switzerland in particular is heavily dependent on developments abroad, especially from its largest EU trading partners, the United States and China.

The slump in demand can be seen in particular in the economic development in China, which has largely lifted the corona-related restrictions on operations. While domestic demand is recovering rapidly, partly as a result of the centrally controlled measures, foreign demand has largely collapsed due to the lockdown in the western industrialised countries. In South Korea, for example, which has coped excellently with the corona pandemic, the carmaker Kia recently had to temporarily close several plants due to lack of demand.

#### Double-edged “whatever it takes”

There are many indications that we simply cannot afford a longer lockdown economically. Politicians in particular seem to be inspired by the “whatever it takes” of the former ECB president and promise almost unlimited financial support. This forgets that *Draghi*'s assurances during the

financial crisis served above all to lower interest rates on government bonds of peripheral EU countries and to prevent a bank run without having to intervene fully in monetary policy. However, the current rescue packages, if they are non-repayable loans, will burden the national budgets for years to come over and above the greatly increased debt burden. They thus represent a heavy burden for younger generations, who have to bear it through higher taxes and lower growth. The same applies to central bank policy, which must continue to open the monetary floodgates. For example, the balance sheet of the US Federal Reserve, which was greatly expanded in the course of the financial crisis, is expected to almost double again in the coming quarters (to over \$9 trillion). Central banks' room for manoeuvre will thus be further restricted for years to come, which could have dire consequences in the event of inflationary developments. A longer lockdown would probably also drive a considerable number of innovative start-ups into bankruptcy, as many of these companies do not yet have sales in the early stage with which they can benefit from credit programmes in Switzerland, for example. This would destroy part of the economic future.

#### Recession or depression?

In the meantime there is little doubt that in 2020 there will be a significant recession in almost all countries. How strong this will be depends largely on the duration of the lockdown. It would also be devastating if, after a temporary lifting, the number of infected persons and deaths were to rise sharply again. The extent of the collapse can therefore only be modelled using scenarios, although the results are subject to considerable uncertainty due to the complexity and large number of control variables. A “middle” scenario worked out by *McKinsey*, which assumes a containment of the infections within two to three months in Europe and the United States and takes into account the countries' extremely extensive rescue measures, comes to the following conclusion: In all countries there will be a massive economic slump in Q2 2020. As a result of a V-shaped recovery from the end of the second quarter, according to the study, the negative growth rates of the gross national product are still relatively moderate, with Europe being hit hardest at -4.7%. According to these scenario calculations, as early as Q4 2020 the United States would return to the economic level before the pandemic, whereas this would not happen in Europe until Q2 2021. Given the horrendous monthly costs of the lockdowns and the experience with the gradual opening of the economy in Asia, these calculations seem far too optimistic. **In any case there is a risk that the economic slump could be far more severe than during the financial crisis more than 10 years ago.** There are quite a few renowned experts, such as former Fed boss *Janet Yellen*, who expect GDP in the United States to slump by 30% in the second quarter. *Ray Dalio*, one of the

most renowned and successful hedge fund managers, even expects a depression on the scale of the 1930s. **That it is possible to save a stagnant global economy with financial aid packages of any size could prove to be a mistake.**

#### Economic exit overdue

In principle, it is not a matter of playing off health against economic productivity. As Prof *Streeck*, a well-known German epidemiologist, puts it, too long a lockdown destroys other lives. For example, the **German Ethics Council** also recommends for dealing with the pandemic that **“all other rights of freedom and participation as well as economic, social and cultural rights must not be unconditionally subordinated to the protection of human life”**. In view of the comparatively low health risks for persons of working age without previous illnesses, it is obvious, as various Swiss politicians are also calling for, that an orderly and gradual lifting of the lockdown should be initiated as soon as possible. Such a “vertical” exit, discriminating according to risk groups and age cohorts, is also recommended by *Neil Ferguson* in his study for the UK government. This means nothing other than that an exit strategy must focus in particular on younger workers. Conversely, employees with health problems should also be specifically protected financially and in terms of job security. From a financial policy perspective, such flexible labour law measures in favour of workers with pre-existing conditions would undoubtedly be more favourable than undifferentiated, nationwide short-time work compensation. A gradual opening up must take into account the strong networking of social areas, companies and sectors. An early opening of daycare centres and primary schools would support the exit. It must also be possible for companies to plan the way out of the standstill in advance. As German carmakers, for example, stress, companies operating in China already have useful experience of how operations can be restarted while observing strict precautionary measures. Candidates for an early opening are in particular companies with high added value and those where protective measures can be organised relatively easily. **An early economic opening can in no way mean that the protection of risk groups will be reduced.** On the contrary, safeguards should be further refined where possible. For many people it may be painful that activities similar to super-spreading events (sports events, big cultural events and also bars and nightclubs and fitness centres, etc.), where close contacts can hardly be avoided, will probably have to wait a while for a relaxation. The situation is particularly bad for air traffic, which is not expected to pick up again until next year.

