

The Three Elephants in the Room: The Distributional Consequences of the Lockdown

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As a scientific economist living in Barcelona who looks at the ongoing policy discussion from a half outsider's perspective, I feel that the almost exclusive focus on the epidemiological perspective of the coronavirus crisis dominating the discussion deserves further commenting. My first immediate response to those who strongly agree that a continuation of a strict lockdown policy is the only path ahead for an unknown time period to come is that rarely in economic theory is a corner solution an optimal outcome of an optimal policy design question. Clearly, gradually opening up the economy as I have emphasized with my co-authors to be an urgent ridge walk to take in this [blog](#) and this [article](#) is not without risks, but pursuing a strict lockdown policy is not risk-free either. As we emphasized in that work our ridge walk policy suggestion would be to resolve the trade-off between the risk of a new wave of infections and the risk of dire economic and societal consequences of a prolonged lockdown in a way to minimize both risks.

Since it appears to me that many policy makers have not yet heard the shot I want to put the emphasis on three elephants in the room: the detrimental distributional consequences of a prolonged lockdown.

Intra-Generational Redistribution. Without any doubt, the lockdown has huge aggregate economic costs, but it clearly hits different households and individuals very differently. The most affected are low productive workers, self-employed, owners of small business enterprises and people who make their ends meet by black market economic activities. One problem overseen in the debate is that a prolonged lockdown policy leads to a double economic inefficiency in that it shrinks the taxbase by destroying businesses and incomes and at the same time it increases the share of welfare recipients in society. Thus, financing transfer payments through tax instruments that create additional distortions in the economy will be very costly.

Even more alarming is that 18% of the population negatively affected by the lockdown policy are children (of age less than 18) among which more than 30% are at risk of poverty and social exclusion, see [here](#). These children now neither receive sufficient educational input nor sufficient time and room for physical exercise with dire consequences for the social and economic wellbeing and their health. This will lead to long-run negative consequences on educational outcomes and the distribution of incomes in society.

Inter-Generational Redistribution. This observation directly relates to the inter-generational distribution of the economic burden of the crisis. Fighting the crises by measures to protect the elderly and weak among whom health risks and mortality rates are highest comes at enormous economic and social costs for the young. Without any doubt, adhering to a Kantian perspective requires every measure to take to protect the elderly and weak. Still, this does not imply that a corner solution is optimal. Taking into account the potentially huge utility losses pointed out above in particular for the young and among them for children from socially disadvantaged households, we have to bring in a Utilitarian perspective. This may suggest that the utility losses for the young are much larger than the gains of saving life years of the old.

However, I am convinced that there is no need to resolve a trade-off here. With a prudent approach to unlock the economy and with the confidence that the majority of the population will adopt all precautionary measures, society will minimize the risk of a new wave of infections (and will thereby protect the elderly and weak) as well as the societal and economic costs of the crisis.

The focus on the implications for the inter-generational redistribution of resources is also of particular interest, because there are limits to the distribution of incomes as emphasized above. Thus transfer payments will have to be financed by taking on new government debt. This higher debt will meet a reduction of economic output and thus the Spanish economy will experience a strong increase of the debt to GDP ratio (see our previous work for an optimistic back of the envelope calculation). Financing this debt will primarily mean higher taxes or lower government spending in the future, again primarily hitting the young. Part of the additional economic burden could also be financed by lowering pensions. It is very likely, however, that this effect is smaller than the additional tax burden on the younger generations. Thus, there is not only a double economic inefficiency caused by the distribution within the generations living today or in the next years but also a double negative force of redistributing economic resources from the young to the old.

Distribution Across Countries. Finally, one may make the argument that there is no problem at all as long as European neighbors help. However, there are severe limits to this argument, as not only the ongoing discussion on Coronabonds and other transfer payments shows. First, there are political constraints that limit cross-country distribution and – in case given - there is certainly no free lunch, second, Europe as a whole faces an inter-temporal resource constraint and we do not yet know whether less affected countries will be affected more eventually, and, third, after all, given the inter-temporal nature of the problem someone has to pay the bill, namely the young and future generations.

Conclusion. While unlocking the economy is not without risk pursuing a strict lockdown policy is risky and costly as well. To resolve this trade-off Spain has to start a prudent ridge walk policy to unlock the economy now!