

# Covid and the value of human life

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# 1. Agenda

- The economics of a pandemic (**micro** and **macro**)
- Putting a monetary value on a human life
- Cost-benefit analysis of lockdowns
- Should we delay '**Freedom Day**'?
- Longer-term economic impacts
  
- Q&A

## 2. Market ‘failures’ that justify intervention

- Protection from a deadly virus is a ‘**public good**’: total benefits are larger than private firms can charge for
- Spreading a virus is a negative ‘**externality**’: little incentive to avoid putting strangers at risk
- Hard to get **private insurance** against a national lockdown
- Large **transactions costs** involved in closing and restarting businesses, or firing and then rehiring

### 3. Why this recession has been different

- The slump in **GDP** was inevitable and even *desirable*
- Rather than **stimulating** growth, economic policy has focused on **shielding** the economy - while it is put in a state of temporary hibernation
- As long as the majority of **businesses, jobs** and **incomes** can be protected, economic activity should resume relatively quickly

## 4. Should we put a price on a human life?

- Health economists often have to put a monetary value on people's lives based on the number of years they have left, and the quality of that life ('**QALYs**').
- This is simply about using limited resources in the fairest way.
- Suppose it would cost £1 *billion* to prevent just one premature death. Would this be worth it?
- Imagine you are allocating the last seat on a lifeboat as the **Titanic** sinks, and have a choice between rescuing a healthy child or a sickly old man. Whom would you save, and why?

## 5. Benefits of lockdown

Most visibly:

- the reduction in illnesses and deaths from **Covid** itself

But also:

- The prevention of **other deaths** and harms (to young and old) if the NHS is overwhelmed with Covid patients
- Reduction in other communicable diseases, e.g. **flu**
- Fewer deaths from traffic **accidents**, **pollution**, and so on
- A **stronger economic recovery** in the longer term

## 6. Costs of lockdown

Most visibly:

- The collapse in **economic activity**, including business closures and job losses
- Impact on the **public finances**

But also:

- Harms done to people with other conditions (e.g. **cancer patients**) not receiving the care they need
- Costs to **mental health** and wellbeing
- Harm to **education** and **job opportunities**
- Damage to **civil liberties** and confidence in government

## 7. “Health vs. the economy”

- There is some **trade-off** between preventing premature deaths and protecting incomes and jobs
- But if the virus is not controlled, people might choose to stay at home, and the economy would be hit anyway
- You cannot judge the value of lockdowns (as many do) by looking only at the number of deaths while Covid restrictions are in place (the problem of the ‘**counterfactual**’)
- Locking down harder and sooner may increase the hit in the **short term**, but reduce it in the **long term**



## 8. What about 'Freedom Day'? Part I

- A **surge in cases** may be inevitable whenever restrictions are lifted
- The vaccines have weakened the link between infections and **hospitalisations** - but not broken it completely
- The sectors that are still severely restricted account for less than 5% of GDP, and most are already open to some degree
- Money not spent in pubs or nightclubs (or holidays abroad) can also still be spent elsewhere in the UK economy
- But...

## 9. What about 'Freedom Day'? Part II

- Even a short delay would be the **final straw** for many businesses. Keeping restrictions in place could prolong the uncertainty and damage morale.
- But those worried about the surge in Covid cases could be reassured, especially if for the specific purpose of accelerating the vaccine rollout.
- It might be more damaging to reopen now and then have to shut again
- The temporary hit from a brief delay could therefore be a price worth paying both to protect health and to secure a stronger economic recovery
- Others will disagree!

# 10. Reasons for optimism

- The UK's relatively **dynamic economy** has proven itself to be highly adaptable (e.g. home-working, online retail)
- Unemployment has remained low
- Households **savings** (in aggregate) have risen sharply, as spending has fallen more than incomes
- There is also plenty of room for a rebound in **business investment**, which has been held back both by Covid and Brexit uncertainty
- Shaking up the economy could boost **productivity**

# 11. How will we pay for all this?

- Annual **borrowing** was over £300 billion last year. Stock of **debt** is already over £2,000 billion (c.100% of GDP).
  1. But there is no need to **pay back** debt: as long as the government can meet the interest payments, debt can simply be rolled over.
  2. The absolute size of the debt (in £bns) matters much less than the size of debt relative to the size of the economy (% GDP)
  3. It helps a lot when **interest rates** are lower than the growth rate of the economy (nominal GDP)
  4. In the meantime, there is **no rush**: premature tax rises (or spending cuts) could just slow the recovery

## 12. What about inflation?

- Plenty of reasons to expect **inflation** to climb well above the BoE's 2.0% target later this year
- This could be a 'good thing', depending on **why** inflation is rising, on how far and how long, whether potential losers are protected, and how the BoE responds
- But inflation can stick around: better for the BoE to end **QE** early
- Global fiscal stimulus (as pushed by Biden at the G7) could be especially risky – both in terms of inflation and wasteful spending

## 13. Some conclusions

- We do sometimes need to put a monetary value on a human life – and some may be ‘worth more’ than others
- The real trade-off may be between the short and the long term – not between health and the economy
- The UK economy is already rebounding as the brakes are taken off. Government doesn’t need to (and shouldn’t) do a lot more.
- The big debate now is whether the state should shrink back again, or take a much bigger role in future too.

# 14. Any questions?

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