



Leibniz Institute for Financial Research SAFE  
Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

## SAFE Finance Blog

### A ridge walk to avoid an economic catastrophe in Italy and Spain

04/06/2020

The coronavirus pandemic already bears enormous costs. In Italy and Spain a silver lining emerges, indicating that it is time to gradually release existing lockdown measures



The corona pandemic undoubtedly created a human tragedy: tens of thousands have died, and more than a million infections are already known. However, although the total number of fatalities attributed to the coronavirus has been increasing in Italy and Spain, several statistics on the stage of the epidemic indicate that there is a silver lining, as the authors show in a SAFE White Paper (<https://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/emerging-evidence-of-a-silver-lining-a-ridge-walk-to-avoid-an-economic-catastrophe-in-italy-and-spa.html>).

First, the growth rate of the stock of deaths in both countries has been declining for several weeks with Italy leading ahead of Spain and,

second, the daily number of deaths is flattening out, and is even slightly falling in Italy. Third, while the number of newly infected and the total stock of active cases is confounded by several measurement problems, the number of total active cases will reach its peak soon in both countries, and, fourth, the daily new infections are flattening out, respectively decreasing slightly in Italy.

These developments may not be attributed to the confinement measures in those countries – contact restrictions and social lockdowns have been first launched when the growth rate of accumulated deaths and the growth rate of accumulated infections were already declining in Italy and Spain. This indicates that the confinement measures have been introduced at a relatively late stage of the epidemic such that the virus likely had already spread widely. Furthermore, the disease is transmitted in many cases inside households and healthcare institutions. While the effectiveness of confinement measures aimed at containing the pandemic is thus at best uncertain, the economic and social costs of a prolonged lockdown are potentially huge. They are also very unequally distributed. The economic costs of the lockdown are more severe for owners of small business enterprises, the self-employed, and low-income earners; the social costs, such as the psychological costs of (financial) stress and social distancing, are unequally distributed in income, wealth, education, and social status.

### **Gradually unlocking the economy**

In light of these economic and social costs, it is of utmost importance that policymakers do not only consider the direct health costs associated with COVID-19, but also the potentially very large costs caused by contact restrictions and social lockdowns. Given the mature stage of the epidemic according to the above mentioned indicators in Italy and Spain it can be argued that these countries should start unlocking their economies in a gradual as well as careful manner. Our suggestions for a courageous ridge walk to unlock the economic activity contain the following nine measures:

Firstly, representative testing is needed. Representative testing for COVID-19 is required in order to obtain more reliable data on coronavirus prevalence and infection rates of various groups of the population. Testing should be accompanied by survey questions to track work- and off-work related interactions. Secondly, boost up the economy. Informed by the representative tests, economic activity should be unlocked. To begin with, those from groups with low prevalence should be allowed to return. If representative tests point to large parts of the population already being infected, then lifting of the lockdown should be considered. Thirdly, restart public transportation and adjust the workday. In order to ensure social distancing during commuting and in the workplace, public transportation should be re-established at full capacity and the workday should be spread to 16 hours, so that less workers commute and are at their workplace at the same time. Fourthly, the elderly, the weak, and the highly exposed should be protected and should be visited by negatively tested and asymptomatic individuals in order to reduce the costs of social distancing.

Fifthly, schools and kindergartens must reopen with teachers, students, educators, and children that show credentials of negative testing and are asymptomatic, so that children receive the attention and schooling they need and parents can return to their work. Sixthly, citizens should be generally allowed to walk and exercise outside while keeping distance, which could be restricted to non-overlapping neighboring public areas, if necessary, in order to reduce the health costs resulting from lacking physical activity. Seventhly, violations of the (relaxed) confinement measures must be flanked by very huge fines. Eighthly, unions,

business owners and the governments should coordinate on a partial suspension of the August summer vacation to partially compensate the loss of economic activity. Lastly, the fight against the coronavirus must be coordinated across the regional authorities in order to guarantee mutual support.

The nine steps will help to substantially mitigate the negative economic and societal consequences of this crisis while keeping the risk of a next wave at a minimum.

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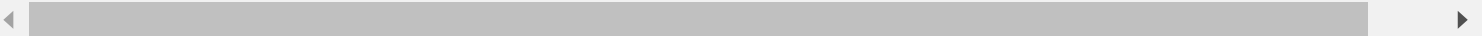
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