

Economic impacts - the true cost of lockdown

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To be young in my generation was to feel that your future had been mortgaged out from under you, and that's a tragic mistake we must never allow our leaders to make again. (Ronald Reagan¹)

Devastating economic impacts from COVID-19 restrictions are now manifest, with unemployment rising to a 4-year high of over 5% in January 2021,² with the under 25s being the worst hit.³ GDP in 2020 fell by almost 10%,⁴ the biggest recorded drop in history.

Sweden by comparison with similar infections but few restrictions experienced a reduction in GDP of just 2.6%, lower than the EU average of 4.8%.⁵

While pandemic and lockdown impact is difficult to disentangle, the evidence would point to the economic restrictions being untenable going forwards. It is widely accepted that poverty and health outcomes are inextricably linked.^{6,7,8} Rising debt, poor growth and a smaller economy (lower GDP) will jeopardise the country's ability to care for its residents in the future, with fewer financial resources available.

It seems likely that the restrictions will result in large parts of the hospitality, travel, tourism, events and arts sectors no longer being viable. Hospitality alone was responsible for over 3 million jobs in the UK before the pandemic.⁹ In 2020, sales in the sector were down by 54%, equivalent to £72 billion.¹⁰ Tourism-dependent coastal communities and hospitality-dependent cities such as Manchester, Liverpool, Glasgow and large parts of London are likely to be most exposed to the short term economic impact of COVID-19.¹¹

In the Small and Medium Enterprise (SME) sector, an estimated 234,000 SMEs have already permanently ceased trading. Government support was used by just 56% of small business owners with 53% struggling to access Government support due to eligibility criteria. Over a third (35%) have borrowed money from friends and family.

As well as the real-time stresses of trying to keep businesses afloat during this time, the strain of the ever-moving goalposts and the fear of future restrictions have caused enormous anxiety, with 41% of business owners fearing their business is at risk of permanently closing and 62% feeling less confident about the long-term prospects of their business.¹² It is unlikely that potential business owners would feel confident starting a new enterprise in this climate, which will mean a much slower economic recovery.

The link between economic downturn and the ability of the NHS to cope going forward cannot be ignored. The 10% drop in GDP comes amidst a period where the percentage of GDP spent on the NHS has been the lowest since the first decade of the NHS and where

growth in real terms has steadily declined.¹³ Health spending is a proportion of GDP spending with the NHS budget consuming some 7.2% of GDP.¹⁴ Lower GDP means fewer available funds to support the NHS going forward: 7% of a large cake is considerably more than 7% of a cupcake. The healthcare bottleneck created by restrictions during the past year will likely exacerbate this situation. Whilst the 'stay at home' message persists the economic situation is not likely to improve, underlined by the rapid rise in unemployment. There needs to be a permanent shift away from relying on lockdowns and legal restrictions and a move towards balanced public health guidance, good local information and targeted action to assist hospitals which are under pressure and allow the economy to flourish.

Endnotes

1. [Ronald Reagan's America](#)
2. [Labour market overview, UK: January 2021](#)
3. [Under-25s hit worst as unemployment rises again, BBC, 23 February 2021](#)
4. [GDP monthly estimate, UK: December 2020](#)
5. [Eurostat Newsrelease, Euroindicators, Preliminary flash estimate for the fourth quarter of 2020](#)
6. [Poverty and health, Murray \(2006\)](#)
7. [Poverty and Health: WHO DAC Guidelines and Reference Series](#)
8. [Poor Health: When Poverty Becomes Disease](#)
9. [The Economic Contribution of the UK Hospitality Industry \(2018\)](#)
10. [New GDP figures highlight damage to UK's hospitality sector and its potential to bounce back](#)
11. [Impact of COVID-19 and Brexit for the UK economy: Review of forecasts published between July-November 2020](#)
12. [The impact of COVID-19 on UK small business](#)
13. [The Nuffield Trust A Decade of Austerity.](#)
14. [Health spending as a share of GDP remains at lowest level in a decade](#)