

End lockdowns faster with basic economics

By now it is obvious that Australia's chosen pathway to managing Covid and ending lockdowns requires a greater uptake of vaccinations. The odds of dying from the AstraZeneca vaccine are around one in a million, but Australia's federal and state governments have bungled the health advice and we now have millions of doses sitting around unused. If we want more people to get vaccinated, we need to change both the message conveyed and the incentives for people to get vaccinated. Whilst there's health and marketing elements to this, some basic economic principles would also help to bring about a better outcome much faster.

Better information

The key misunderstanding many Australians still have is that we are going to be able to restrain Covid indefinitely. This is highly unlikely even if everyone was vaccinated. Once people start moving freely again it should be expected that Covid will spread widely. The message should be "you are going to be exposed to Covid, so you want to have the best protection when that happens". The experience in the US and the UK is clear, vaccines reduce hospitalisations and death by over 90% with the unvaccinated now making up almost all of those badly affected. But their experience also shows that Covid will continue to spread until most of the population has been exposed to it.

It would be helpful to have a key date in mind when all lockdowns must end. Having a date gives people a clear choice; are you going to take the available vaccine or run the risk that you'll catch Covid before your preferred vaccine is available? A two stage process could apply; why should people be subject to lockdowns when all of their household has been vaccinated? For example, vaccinated people could be released from restrictions in September, with unvaccinated people still subject to potential lockdowns until December.

Also left out of the discussion is the economic cost of lockdowns. Given the substantial federal and state government deficits in last year, Covid has collectively cost Australians at least \$5 billion a week. We will be paying higher taxes and having reduced government spending for decades as a result of the decisions made thus far. A blunter message here could be "delaying vaccinations means we'll all be paying higher taxes for years" or "we'll have to cut government spending across the board to offset the Covid spending". When people delay, everyone has to pay.

Better incentives

One of the key principles economic students learn first is that people respond to incentives. The two most obvious levers for the Covid situation are financial payments and freedom of movement, the with latter already discussed. The financial elements that governments can use address both the positive (a reward) and the risks that some people fear.

Overseas, several governments have used lotteries and payments to encourage vaccines. Given the substantial estimated cost of at least around \$5 billion per week/\$200 per week per person, small payments offered for a limited time could be helpful in driving vaccinations rates higher. To offset the difficulty in getting people to take AstraZeneca, a one-off payment of \$500 could be made to anyone who has both shots of this vaccine before 31 October. If ten million Australians qualified this would cost \$5 billion, less than the estimated economic damage of another week of Covid restrictions.

To encourage some to overcome their fear of death or complications from vaccines, the federal government could offer a payment of \$1 million to the family of anyone who dies as a result of it. Those who suffer substantial long term damage could be offered lesser but still material payments. Given the rarity of substantially negative outcomes these payments would likely cost less than \$100 million.



The road ahead

Once vaccinations have reached a sufficient level, the restrictions must be lifted and remain shelved. The message needs to be clear that a high level of cases but with a low level of hospitalisations and death is expected. Life is risky, and far more people are dying of more common causes every day that never make the news. Cigarettes, alcohol, junk food and cars aren't banned even though they are involved in the deaths of millions of people each year.

The hysterical reporting of the UK situation is informative, with many in the media calling for lockdowns based on higher case numbers. Supposedly balanced journalists are wilfully ignoring that hospitalisations are less than 20% of their peak levels and would be far lower still if everyone had been vaccinated. If the curve isn't high, it's better to get on with it quickly and return to normal than to prolong the negative economic impacts.

Written by Jonathan Rochford for Narrow Road Capital on 24 July 2021. Comments and criticisms are welcomed and can be sent to info@narrowroadcapital.com

Disclosure

This article has been prepared for educational purposes and is in no way meant to be a substitute for professional and tailored financial advice. It contains information derived and sourced from a broad list of third parties and has been prepared on the basis that this third party information is accurate. This article expresses the views of the author at a point in time, and such views may change in the future with no obligation on Narrow Road Capital or the author to publicly update these views. Narrow Road Capital advises on and invests in a wide range of securities, including securities linked to the performance of various companies and financial institutions.