

Speech

Covid and the UK Economy - Speech by Clare Lombardelli, Chief Economic Advisor, HM Treasury

Speech by Clare Lombardelli, Chief Economic Advisor, HM Treasury on Covid and the UK Economy.

From:

[HM Treasury \(/government/organisations/hm-treasury\)](#) and [Clare Lombardelli \(/government/people/clare-lombardelli\)](#)

Published

30 June 2022

to restrictions.

We learnt about zero Covid strategies from Australia, New Zealand and many Asian countries.

And observing, for example, the experience in France and Spain, helped us understand the impacts of measures like testing and vaccine certification.

Fourth and finally, we drew on the economics profession.

We reached out to economists in academia, research institutes and the private sector to hear their take on what was happening.

I am particularly grateful to the Royal Economic Society, with whom we developed a rapid match-making service. We asked them specific questions, or about particular topics we were grappling with, and the best placed academics gave us their answers on topics, such as the impacts on inequality or implications for future healthcare provision.

Let me turn to how we used this data and information.

Economics provides a wide range of potential models and tools for us to draw on. Some of these are long-standing, others more recent.

Typically, economic models look at relationships between parts of the economy to explain or understand what is going on. However, during Covid, the relationships between economic variables changed, and kept changing.

The uncertainty meant it was not possible to meaningfully model the overall 'economic cost of lockdown' for two reasons.

First - to estimate the cost of an intervention, you have to know what would happen in the absence of that intervention. It wasn't possible to know what would have happened to the virus if there had been no lockdown. And we couldn't have known how the economy – how people and businesses - would have responded to the virus without a lockdown. There was no reasonable counterfactual.

Second – we couldn't estimate how people and businesses would respond to the restrictions. There were no past episodes to provide reasonable approximations of what the economy and individuals were going through. And this is a really critical point – the way the economy responded changed over time. The economy showed a remarkable ability to learn and adapt.

Let me illustrate this. In the first lockdown, in March 2020, 24 percent of firms reported they had paused trading. In the second lockdown, in November of that year, this had fallen to 11 percent of firms. Within the food and accommodation sector, the effect was even more stark. 82 percent of firms were not operating in April 2020, in the second lockdown, 55 percent closed for business.[\[10\]](#)

So, any attempt to estimate the economic impact of later lockdowns or restrictions, based on experiences earlier in the pandemic, would have hugely over-estimated the associated economic cost.