

Strategy & Corporate Finance Practice

Crushing coronavirus uncertainty: The big 'unlock' for our economies

To safeguard lives and livelihoods, we must restore confidence.



This article was a collaborative, global effort by Sven Smit and Martin Hirt, with Penny Dash, Audrey Lucas, Tom Latkovic, Matt Wilson, Ezra Greenberg, Kevin Buehler, and Klemens Hjartar, representing views from The McKinsey Global Institute, and Strategy and Corporate Finance, Healthcare Systems and Services, Public and Social Sector, and Risk practices.

Only eight weeks ago, we published “Safeguarding our lives and our livelihoods: The imperative of our time.” Back then, we worried about the supply of ventilators and critical-care capacity, the world’s ability to suppress the coronavirus, and how governments would respond to the pandemic’s economic fallout. So what has the world learned since?

We now know that we can curb the spread of the virus, can rapidly expand critical care, and are on our way to scaling the availability of testing. We have seen most governments and central banks rapidly move to implement stimulus and liquidity measures to cushion the economic impact. Unfortunately, we have also confirmed that lockdowns cause deep economic shocks: peak to trough, developed economies are likely to see GDPs decline by between 8 and 13 percent in the second quarter of 2020 (Exhibit 1). By the end of April, more than 20.5 million jobs have been lost in the United States since the start of the pandemic. Clearly, some of the initial uncertainty associated with the coronavirus has been reduced—but it remains high.

When we asked global executives how long they believe their economies will take to return to precrisis levels, their scenario choices indicated estimates ranging between three quarters and more than five years (Exhibit 2). Similarly, when we polled consumers about when they expect their lives to return to some level of normality, answers ranged from months to years.

Exhibit 1

What we have learned.

‘Timeboxing’ the virus and the economic shock

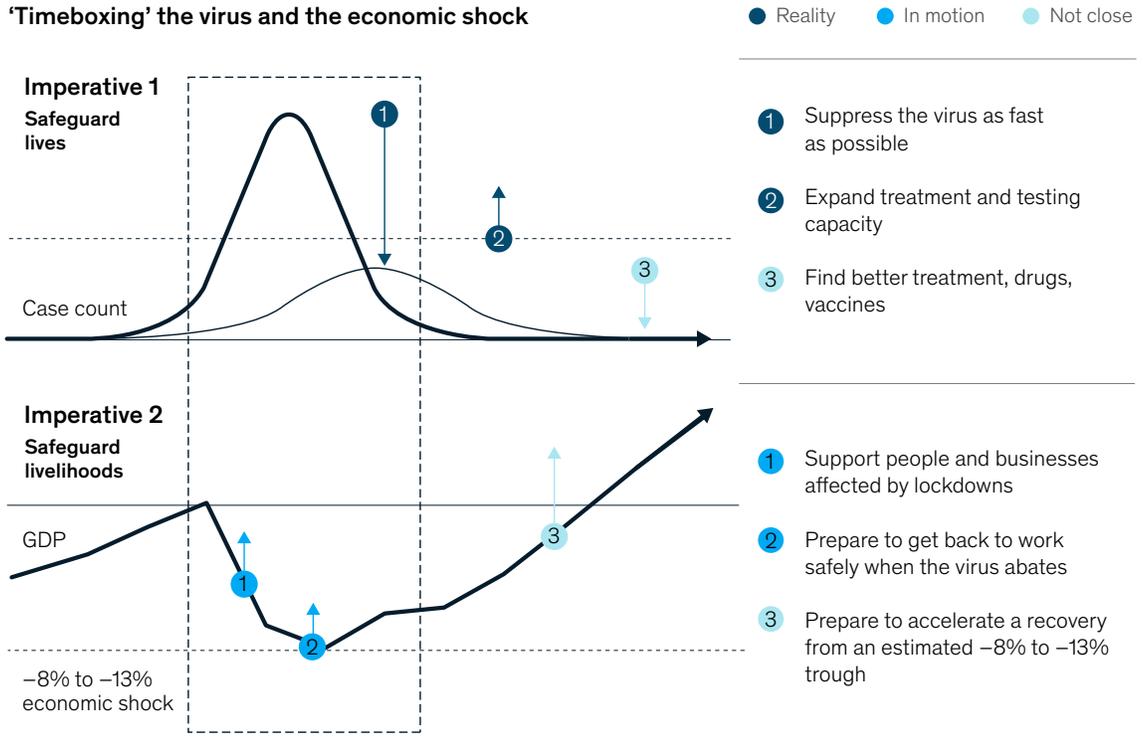
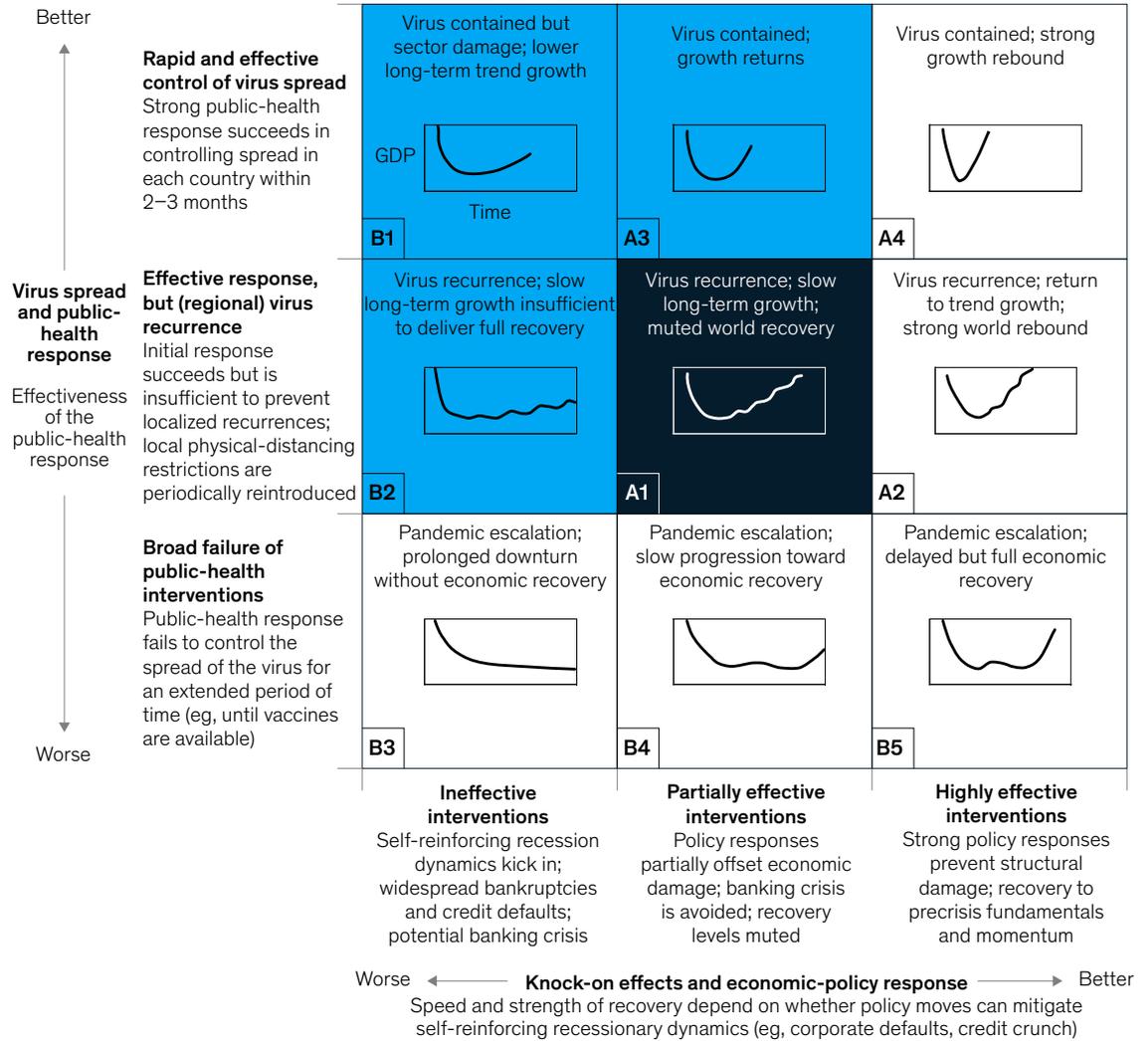


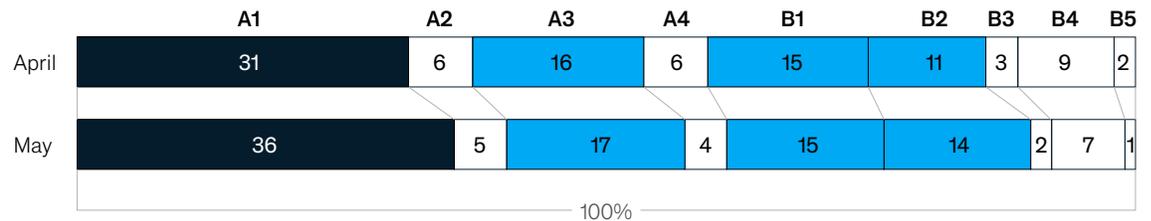
Exhibit 2

Executive uncertainty about the COVID-19 crisis.

GDP impact of COVID-19 spread, public-health response, and economic policies



Most likely scenario, % of respondents



Note: Figures may not sum to 100%, because of rounding.

Source: McKinsey survey of global executives, n = 2,079

Uncertainty about the continuing spread of the coronavirus makes people fear for their health and their lives. Uncertainty about their livelihoods makes them cautious about spending. Under high uncertainty, business leaders find it impossible to make reliable plans for investment.

This uncertainty is toxic for our economic recovery.

The objective now must be to *crush uncertainty as soon as possible*. As we have seen in previous crises, when uncertainty subsides, confidence returns and economic recovery unlocks—and the COVID-19 crisis has created the highest level of uncertainty in 35 years (Exhibit 3).

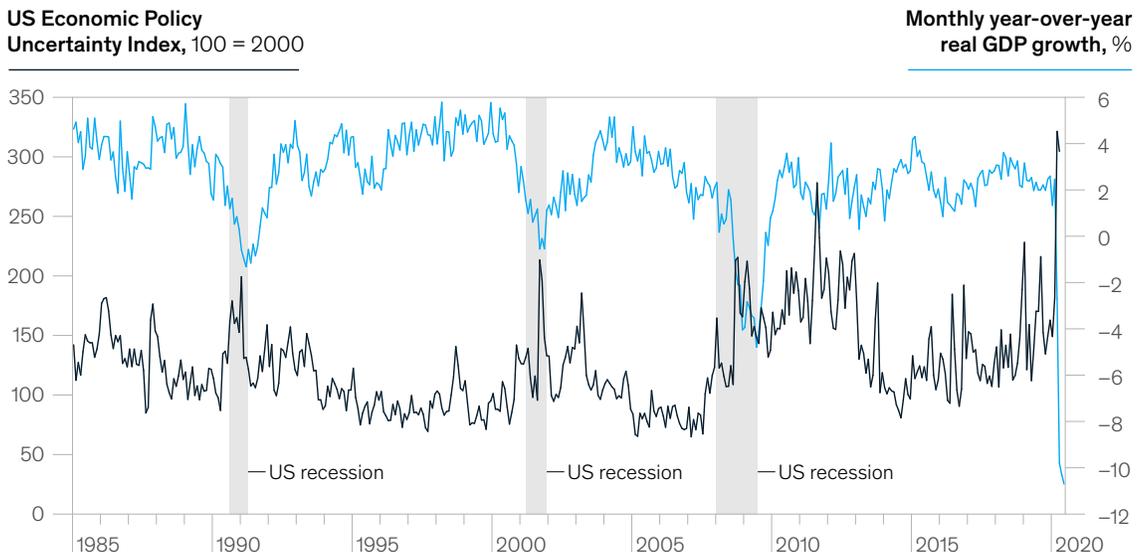
In many countries today, the uncertainty still starts with the virus. The path societies choose to control its spread as they strive to bring their economies back on line matters, and the stakes are high. We estimate that from now to the end of 2023, the difference—in lost global GDP—between economic scenarios with only partial virus-spread control and those in “near-zero virus” situations will be as much as \$15 trillion.

There are three main paths forward that leaders around the world are exploring:

- **Balancing act.** This path involves a staged reopening of the economy, controlling the virus spread within the capacity of the healthcare system.
- **Near-zero virus.** This path means opening the economy while imposing virus-control measures that stop short of a lockdown; these appear to be effective in preventing virus spread.
- **Transition act.** This path involves switching from a balancing-act path to a near-zero-virus path by implementing elements of near-zero-virus packages as soon as they are ready.

Exhibit 3

As uncertainty goes, economic growth returns.



Note: Policy-uncertainty index available through April 2020; April–June year-over-year real GDP growth estimated based on –10.3% contraction in McKinsey A1 scenario projections.

Source: Scott R. Baker, Nicholas Bloom, and Steven J. Davis, “Measuring economic policy uncertainty,” Economic Policy Uncertainty, policyuncertainty.com; IHS Markit/Macroeconomic Advisors; McKinsey analysis in partnership with Oxford Economics

Each path implies very different outcomes for lives and livelihoods because each path's trajectory determines the spread of the virus, the pace of economic recovery, and the speed at which it can help crush uncertainty.

Possible paths out of the crisis

Geographies that have already achieved near-zero-virus conditions without strict lockdowns will likely try to continue on that course. So far, this method appears to be working for Hong Kong, Malta, South Korea, and Taiwan, among others. These countries experienced much lower initial declines in GDP (in the range of 1 to 2 percent, in contrast to the likely 8 to 13 percent), and they now have much lower uncertainty levels about the virus, which is accelerating their economic recoveries.

Most other geographies, having used lockdowns to suppress the initial spread of COVID-19, are now exploring one of the three paths previously mentioned (Exhibit 4):

- **Balancing act.** The goal often articulated by government leaders who have chosen this path is to lift lockdowns gradually while keeping the number of patients with COVID-19 within the capacity of their healthcare systems. If the public-health measures supporting the release of the lockdowns turn out to be sufficient to keep the virus spread at bay, this path could prove effective. But that is not assured. The virus could recur locally or regionally. After lockdown measures were recently eased in Germany, for instance, infection rates started to creep up again, and authorities are now discussing the risks of a second wave and even a new peak of infections.

Critically, the viability of this path to economic recovery is uncharted territory. Even if a specific version of the balancing-act path turns out to be successful, *uncertainty and risk will remain high* for an extended period. People may only feel fully confident about their safety when they see conclusive proof that this path does not cause a virus recurrence—an assurance that may not come until much later in 2020.

- **Near-zero virus.** When releasing lockdowns on this path, the goal is to crush uncertainty by implementing a collection of measures that have been observed to control the virus and are realistic in a given context (see sidebar, “Elements of a ‘near-zero virus’ package”). By effectively communicating the scope of these measures and presenting a clear road map to economic recovery, *uncertainty would be crushed faster*. With the confidence of consumers and business leaders restored, the recovery process would accelerate.

Elements of a ‘near-zero virus’ package

Measures implemented by countries that have controlled the coronavirus spread—either from the start or after an initial surge of cases—without strict lockdowns include the following:

- banning large-scale public events (“superspreading”)
- using masks
- testing
- tracking and tracing
- quarantining infected individuals and their contacts
- physical distancing
- controlling borders
- implementing work protocols
- modifying public-transportation frameworks

Importantly, once a geography achieves a stable near-zero-virus situation—which implies its near-zero-virus package is working—some of these measures could be gradually eased. Of course, uncertainty about a government’s ability to implement such protocols will vary among locations.

- **Transition act.** The goal of governments on this path may likewise be to reach near-zero-virus status, but the steps they take would reflect the time required to put the right package of measures in place. Obstacles might include a lack of testing capacity, personal protective equipment (PPE), or “intelligent border controls,” all of which may have to be procured and implemented.

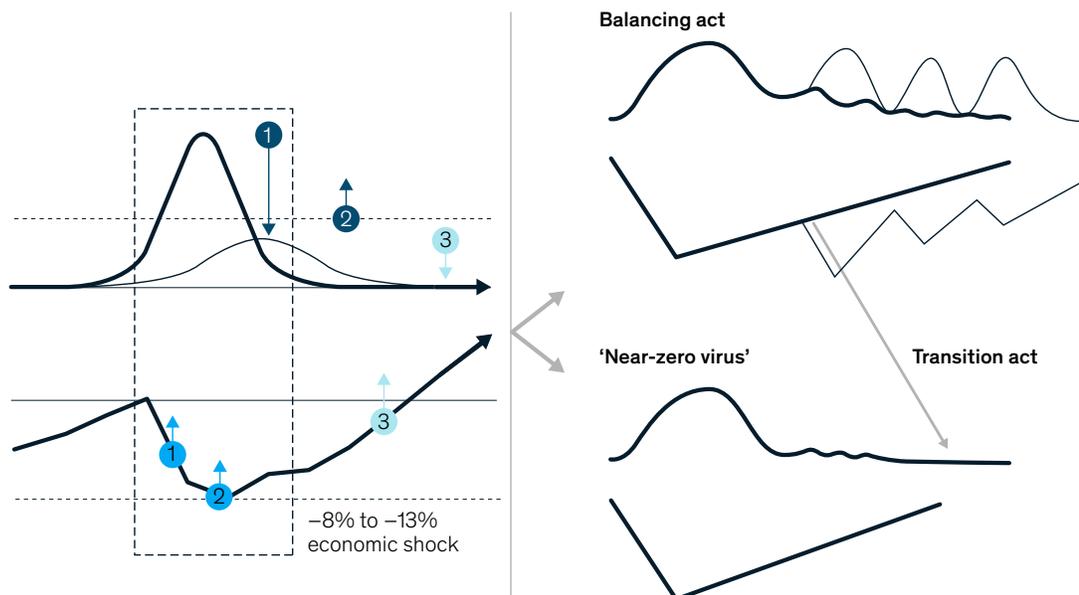
Recognizing that only a few places are close to having a near-zero-virus package ready, there are several key questions to answer. When can such a package be put in place? How soon after that could you transition to the near-zero-virus path? And what implications would that hold for your road map to reopening the economy? As answers to these questions become clear, the future would grow more predictable and *uncertainty would be reduced*. At the point of transition to the near-zero-virus path, *uncertainty would be crushed*.

It should be noted that for many emerging markets, a near-zero-virus package may not be realistic for financial and other reasons. Additionally, in many developed countries, some measures may be socially or politically unacceptable. We also observe big differences in the level of intensity and quality of execution today. However, given the benefits of paths that drastically reduce uncertainty, even countries facing significant obstacles would benefit from exploring the viability of such packages.

Other epidemiological outcomes may yet materialize. The development of COVID-19 herd immunity (on which scientific evidence is so far inconclusive) could emerge as a side effect of the balancing-act path. The discovery of effective treatments or vaccines would, of course, crush uncertainty instantly. Unfortunately, it’s not clear whether and when such solutions may become available.

Exhibit 4

Possible paths forward?



Which path? A ‘trillion dollar’ difference

The reason for putting uncertainty squarely on the table in any discussion about the best path forward is that the stakes are high. No matter which scenario ultimately emerges, the economic cost of the coronavirus crisis will be unprecedented. In our earlier article, we laid out nine potential economic outcomes of the COVID-19 pandemic based on healthcare systems’ and policy makers’ responses (see Exhibit 2, above). Even a moderately favorable scenario (A3) could result in a global GDP decline from 2019 of \$4 trillion to \$5 trillion. The toll on individuals, in lost jobs and income, will be equally grave.

Importantly, the difference between ending up in a *first-row scenario versus a second-row scenario* (for example, A3 versus A1) is *material*. The reason is that in scenario A1, in which the virus recurs, more businesses will go bankrupt, more supply-chain bottlenecks will appear, and structural or even systemic damage to the economy is more likely to occur. The result would be a deeper drop in GDP and a different recovery trajectory. Scenario A3 would produce a recovery to precrisis levels in late 2020 or early 2021; scenario A1 would produce a muted recovery only after two to three years.

The cumulative difference in lost global GDP between scenarios A1 and A3 could be as high as \$15 trillion to \$20 trillion, with more than \$5 trillion lost in the United States (equivalent to ten times the country’s annual military expenditure) (Exhibit 5) and more than €4 trillion in Europe (including the United Kingdom). Additionally, scenario A1 could produce approximately ten million to 15 million more unemployed people in the United States and seven million to ten million more jobs lost in Europe throughout the period of economic recovery than scenario A3 would.

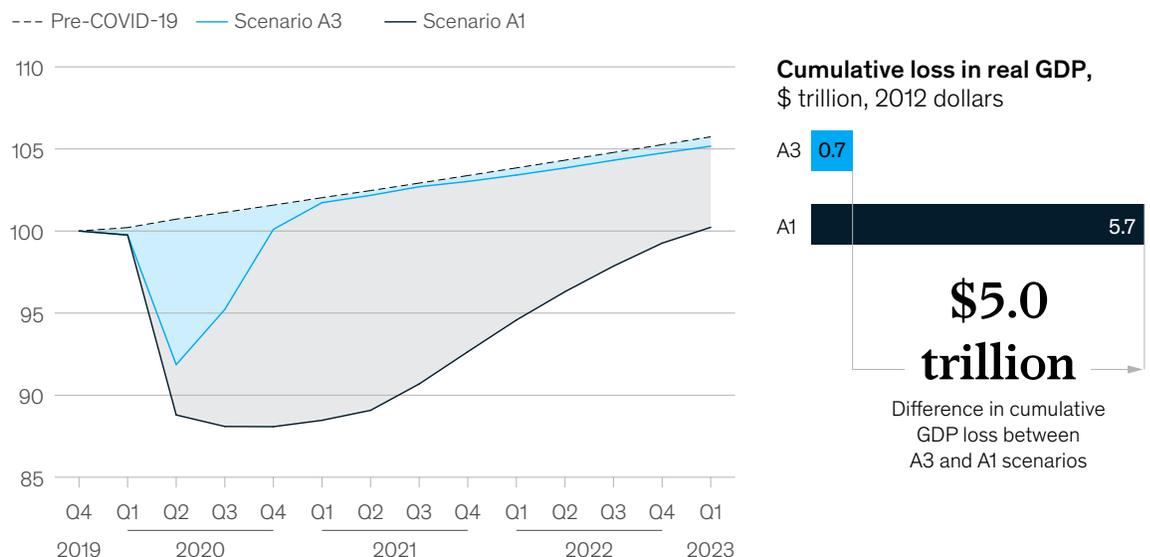
Geographies pursuing a balancing-act path could end up in a second-row scenario on the matrix (A1, for example). Those on a near-zero-virus path are likely to emerge in one of the first-row scenarios (A3, for example), with those on a transition-act path landing somewhere in between.

One of the most important implications is that the financial cost of a near-zero-virus package of public-health interventions—aimed at changing the economic outcome from the second to the first row of the

Exhibit 5

The difference between outcomes is material.

US real GDP, indexed, Q4 2019 = 100



We now know that stay-at-home lockdowns work to control the spread of the virus. We also know that lockdowns kill the economy. The consequences are not just financial: there is also a direct human toll.

scenario matrix—is dwarfed by the heavy economic price of ending up in the second row. After all, consider how many test kits \$5 trillion could buy. Accordingly, *the financial cost of a near-zero-virus package could be irrelevant.*

Is near-zero virus even possible without a lockdown?

We now know that stay-at-home lockdowns, with physical distancing in supermarkets and other public spaces, work to control the spread of the virus. We also know that lockdowns kill the economy. The consequences are not just financial: there is also a direct human toll. The silent victims of the coronavirus include people dying from other diseases because they are unable to access urgent care, individuals with mental-health issues, victims of domestic violence, people suffering from intensifying poverty, and the millions of newly unemployed.

Lockdowns also cause uncertainty to remain high, as the extent of the structural damage to the economy becomes less predictable the longer lockdowns stay in place. This uncertainty is paralyzing. Government leaders lack reliable data on which to base their decisions about safely relaxing lockdowns. Bankers don't extend credit, because they don't know when their clients' businesses will be back in operation. Manufacturers reshape capital-investment programs because they don't know how much cash they will need on their balance sheets to survive the crisis. Shopkeepers and restaurateurs are forced into bankruptcy because they don't know when (and under what conditions) customers will return. And consumers continue to defer discretionary spending, as they are unsure when their lives will be back to some level of normality.

Fortunately, we have observed near-zero-virus outcomes in places that chose not to lock down their economies. For example, Hong Kong, Iceland, Malta, Shanghai, South Korea, and Taiwan all implemented locally adapted versions of near-zero-virus packages (Exhibit 6).

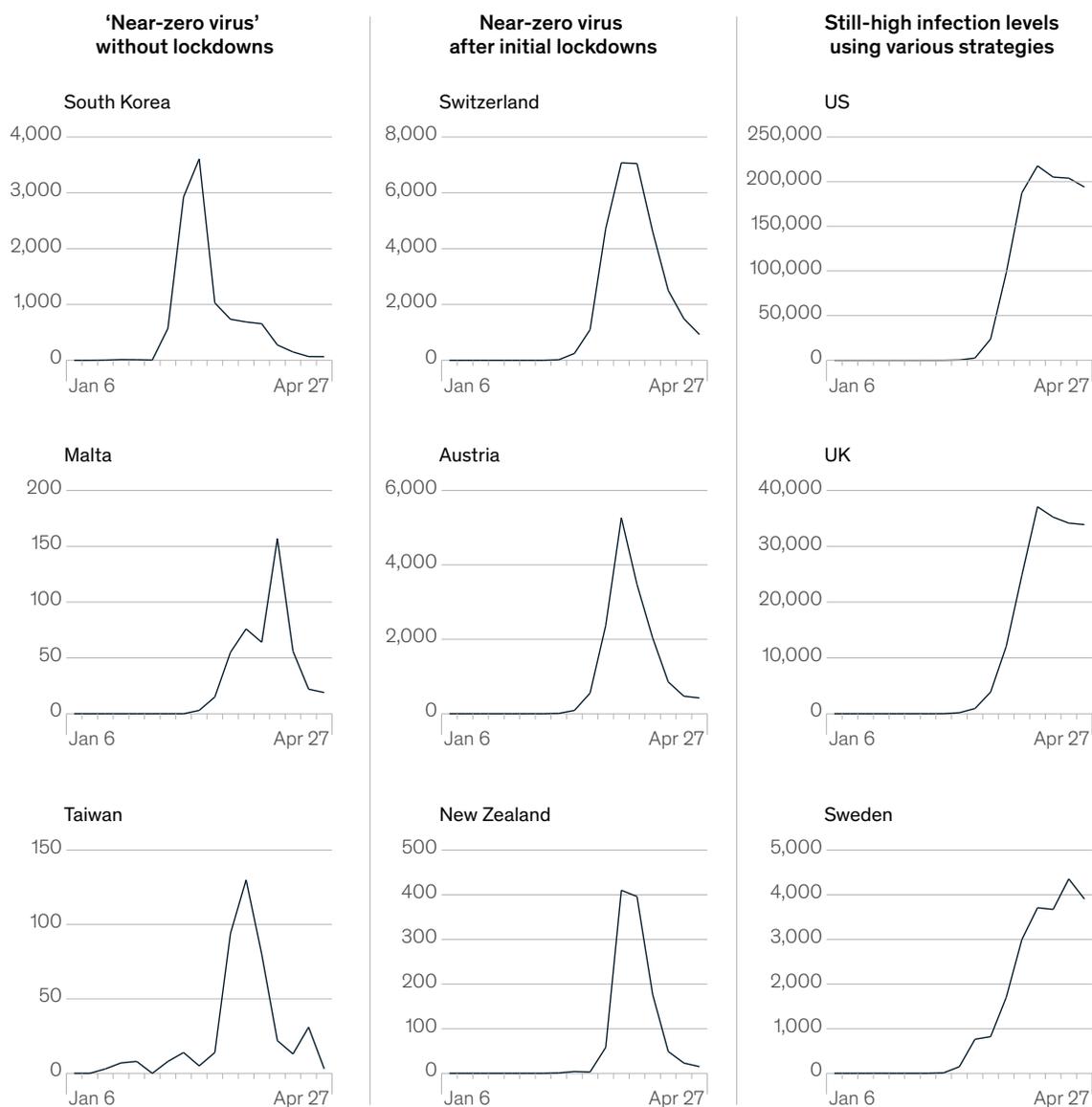
It does seem that near-zero-virus outcomes are possible even without running a depression-level economy. With virus spread under control, life can come back. In Hong Kong, for example, restaurants are open again. Yes, they require everyone to wear masks, limit seating to four per table, and maintain a distance between tables of two meters. Yes, there are clear rules—but just thinking about the possibility makes people long for a more normal life. That is exactly how it feels when uncertainty is crushed and confidence returns. But people will only resume their lives when they *believe* they are safe, not when they merely hope so.

Similarly, the economy cannot be forced to return to normal. People concerned about their safety will not go into their workplaces or flock to their favorite coffee shops and retail stores. We have seen many worker protests demanding PPE before employees would return to their jobs.

Exhibit 6

Is 'near-zero virus' a possibility?

Number of new COVID-19 cases per week in selected geographies



In a way, we are saying that lower virus levels are good for protecting lives (for example, you need fewer tests and can detect more with the same number of tests) and good for protecting livelihoods, as it is easier to feel safe “returning to normal.” Of course, there are many potential complications (for example, herd immunity may become the only alternative if a vaccine or better treatments fail to materialize).

The greatest difference achieving a near-zero-virus condition makes, relative to scenarios in which the virus is not fully under control, is that uncertainty is drastically lowered. Near-zero-virus packages and clear communication about the restrictions they require, along with fact-based justifications for them, encourage citizens and leaders alike to make decisions with more confidence. This, in turn, helps unlock economic recovery.

The choice of path depends on local context

We acknowledge that moving from high infection rates to a near-zero-virus situation is very hard and may be impossible in some geographies. National and local authorities are in the best position to judge how realistic it is to implement effective near-zero-virus packages short of lockdowns. But they can lean on the examples of some that have done it.

In January 2020, for instance, Taiwan launched its version of a near-zero-virus package. It included 124 distinct measures and successfully blocked even the initial spread of the virus without a lockdown. As of early May, it has recorded fewer than 100 cases of community transmission, fewer than 450 infections, and only six deaths. Similarly, South Korea successfully controlled its initial outbreak through its version of a near-zero-virus package, which relied heavily on testing and quarantines but avoided full lockdowns. The country is currently tracking fewer than 20 new infections per day and has had a total of 250 deaths in a population of 52 million.

You might say, “124 measures—that’s complex. How can that be the answer?” A general involved in the New York City coronavirus-relief effort recently said, “When uncertainty is high, answers need to be simple. If the answer is not simple *and* executable, it is not an answer.”

The simplicity inherent in near-zero-virus packages lies in their use of known measures—ones that have been observed to be effective in reducing the probability of virus transmission in a number of geographies and contexts. Nobody knows exactly how much each element of such a package contributes to slowing virus spread, but in combination, the measures push the transmission rate to a basic reproduction number (R_0) of less than one.

The reason the packages work is rooted in one of the characteristics of the epidemic. Given that the coronavirus is very contagious (even before symptoms appear), each improvement in the infection chain makes a big difference. If physical distancing, for example, reduces viral spread by just 10 percent, then it cuts the total chain by 20 to 25 percent. This is a “convex” problem: every little bit helps, and the more things we do, the better—especially if the cost of those things is very low.

In the absence of both lockdowns and packages of measures, the risk of virus recurrence is just as high as when the COVID-19 pandemic arrived earlier this year. An 80 percent solution is no solution.

What does this mean for your organization or your country? That probably depends.

There are many reasons that implementing a near-zero-virus package in your context may be near to impossible. They might include a lack of testing capacity or PPE availability, legal challenges on civil rights, privacy concerns related to contact tracing, and other societal issues. It is evident that social acceptability of near-zero-virus packages is greater in some Asian countries. A high degree of physical distancing might already be culturally common, and there might be fewer sensitivities to accepting certain social measures in the interest of public health. It has been common for years, for example, for people in Asia with respiratory infections to wear surgical masks to avoid infecting others.

We don’t pretend to know what is legally, socially, or financially best suited to your specific circumstances. But we believe it is worth at least including the goal of reaching a near-zero-virus objective as one of the alternatives you consider. In strategy, you need to debate alternatives in order to avoid being led astray by biases.

The stakes are high and speed is of the essence—and we would argue that everybody can pitch in.

Governments

It has been a challenging time for governments and their citizens alike. Fighting off the initial spread of the virus, passing huge stimulus packages to support people and businesses, and navigating a complex situation have heavily taxed the public sector's resources, both financial and human.

Now that we have learned more—and, in many places, infection curves have at least started to flatten—governments should start focusing on crushing uncertainty. Which path is the right one? Should you push for the near-zero-virus goal? You will know best. Whichever path you choose, however, you should try to provide as much clarity and certainty as possible. Restoring confidence must be a priority.

Businesses and other institutions

You will know best how many elements of a near-zero-virus package you can afford and can execute on your premises. We see many companies already calculating this and moving forward. Physical-distancing and PPE-wearing measures are widespread, and some companies are building on-site testing capabilities to try to ensure safe work environments for their employees.

All those elements can also play an important role in keeping communities safe. In many countries, business leaders are collaborating on government-led efforts by joining advisory councils and coordinating the corporate portions of public-health responses to ensure consistency—and thereby accelerate progress toward near-zero-virus conditions.

Speed and clarity: The only known 'vaccines' against the coronavirus crisis

In January 2020, hardly anybody took notice of COVID-19. Back then, most of those outside China who did notice shrugged their shoulders. Then, all of a sudden, the pandemic was upon us. Humans have innate difficulty in processing exponential events. That may explain why so many organizations are lagging behind in their preparations for getting people back to work safely. It is hard to blame anyone for not anticipating the full extent of the economic issues coming toward us—few of us have ever experienced an economic shock of this proportion.

We now know that speed is of the essence. It was for controlling the initial spread of the virus; it is for stopping its spread now; and it will be for decisively moving onto the path to recovery. Ultimately, speed helps reduce uncertainty, which, in turn, will revive economic growth and lessen human suffering.

Communicating clearly to citizens and employees about actions, timelines, and expected outcomes is another critical factor. The more factual and forward looking your messages are, the faster confidence will return—and the faster economic recovery can begin.

We slowed the virus. Now we need to *crush uncertainty and rebuild confidence* to avert structural damage to the economy—and do it fast. Lives and livelihoods will depend on it.

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