



## Research Working Papers

# Health versus Wealth: On the Distributional Effects of Controlling a Pandemic

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A lockdown policy that mitigates the effects of COVID-19 for both older and younger people would be less extensive than in April but remain in place through the summer.

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To slow the spread of COVID-19, many countries are shutting down nonessential sectors of the economy. Older individuals have the most to gain from slowing virus diffusion. Younger workers in sectors that are shuttered have the most to lose. In this paper, we build a model in which economic activity and disease progression are jointly determined. Individuals differ by age (young and retired), by sector (basic and luxury), and by health status. Disease transmission occurs in the workplace, in consumption activities, at home, and in hospitals. We study the optimal economic mitigation policy of a utilitarian government that can redistribute across individuals, but where such redistribution is costly. We show that optimal redistribution and mitigation policies interact, and reflect a compromise between the strongly diverging preferred policy paths of different subgroups of the population. We find that the shutdown in place on April 12 is too extensive, but that a partial shutdown should remain in place through July. People prefer deeper and longer shutdowns if a vaccine is imminent, especially the elderly.

JEL Classification: J08, J23, J63, J78

## Article Citations

- Glover, Andrew, Jonathan Heathcote, Dirk Krueger, and José-Víctor Ríos-Rull. 2020. "Health versus Wealth: On the Distributional Effects of Controlling a Pandemic." Federal Reserve Bank of Kansas City, Research Working Paper no. 20-03, May. Available at <https://doi.org/10.18651/RWP2020-03>

## Related Research

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Andrew Glover is a research and policy advisor in the economic research department at the Federal Reserve Bank of Kansas City. His research studies labor and credit markets from a macroeconomic perspective. Prior to joining the Federal Reserve of Kansas City, Mr. Glover was an assistant professor of economics at the University of Texas at Austin. He earned his PhD from the University of Minnesota in 2011.

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