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COVID-19: The False Choice Between Health and the Economy

For six months now, Republican legislators in Harrisburg have been telling a false story about COVID-19 and the economy. They have been claiming that we must choose between a growing economy and efforts to protect us from the COVID-19 virus and avoid overwhelming hospitals and health care systems. And they have held that government business closures and stay-at-home orders are responsible for the deep economic crash that has occurred in countries all over the world.

This is a false narrative that poses a false choice.

An economic decline was inevitable once the COVID-19 virus started spreading out of control because most Americans are sensible enough to understand the risks—not just to our own health but to that of those we care about—of interacting with others in stores, restaurants, religious services, sports and entertainment venues, and other recreational settings. Government orders may have heightened our concerns and forced some businesses to close that would not have done so—but a great deal of economic activity would have stopped with or without government orders. The customers of those businesses and many others would have simply stayed away. And many owners of those businesses would have closed to protect themselves, their employees, or their reputations. As a friend who owns a restaurant told me in March, "If I have to close for a few months, my business will suffer. If my restaurant becomes a vector for the disease that kills people, my business will die."

Moreover, the most effective way to ensure that the economy did not enter a deep and lengthy recession was to get COVID-19 under control as quickly as possible so that people had the confidence to return to work and to stores, restaurants and bars, theaters, and sporting events. That would have also prevented a second or a third spike in COVID-19 cases and deaths which would have again led to businesses choosing to close and customers choosing to stay home. We did that in Pennsylvania to a certain extent, although not as well as we might have. Those states that did not take this route—that opened businesses, especially restaurants, bars, and sports and entertainment venues prematurely—saw a second, deadly wave of COVID-19 that forced those businesses and others, as well as schools and universities to close, which in turn led to a second decline in economic activity.

The evidence in support of this conclusion is indirect but overwhelming.

One way to see the truth of this perspective on COVID-19 and the economy is to look at Sweden which, almost alone among advanced countries, did not require most businesses to close to limit the spread of COVID-19. Yet Sweden's economy declined in the second quarter of 2020 by 8.6%, which is almost as bad as the 9.5% quarter over quarter decline in our country.[1] Sweden may not have drastically limited economic activity through regulation, but most of those who could not work at a distance limited their own economic activity anyway and for public establishments like restaurants and theaters, business dropped dramatically. Sweden's economic performance was about 10% better than that of the United States, but it came at the cost of a mortality rate that was 14% higher than that of the U.S. (56.69 per 100,000 versus 49.65 per 100,000).[2] And if we compare Sweden to similar countries in Europe that did far better than the U.S. in addressing the threat of COVID-19 to our health, the difference is even more striking. Denmark aggressively regulated businesses and movement to reduce the spread of COVID-19. Its mortality rate of 10.7 per 100,000 was about one-fifth of the rate in both the U.S. and Sweden. Yet Denmark's economy dropped by 7.4% in the second quarter of 2020, not as deeply as either the United States' or Sweden's. While we do not have data about recent economic activity in Denmark, anecdotal evidence suggests that precisely because COVID-19 transmission rates remain low in Denmark, an economic revival is well under way.

Another way to see that economic activity would have declined dramatically in the United States and Pennsylvania even without government action is to look at the polls about the willingness of people to engage in their usual activities. A nationwide Harris Poll at the end of June, after the first COVID-19 spike and as the second one was developing, showed that only 40% of Americans were willing to go out to a restaurant within a month of a flattening of the infection rate. Over 20% said they would not eat at a restaurant for six months. A Gallup poll in early July, also in the same circumstances, found that 70% of Americans were "very unlikely" or "somewhat unlikely" to eat at a restaurant operating at full capacity. When asked if they would eat at a restaurant operating at 25% capacity, 50% of those surveyed still said they were "very unlikely" or "somewhat unlikely." A somewhat earlier Ipsos poll in late May showed that only small minorities of Americans were willing to do things that would expose them to large groups or crowds, such as attend a sporting event (21% willing), go to a movie theater (31%), go to church (49%), fly on an airplane (36%), or go to a gym (28%).

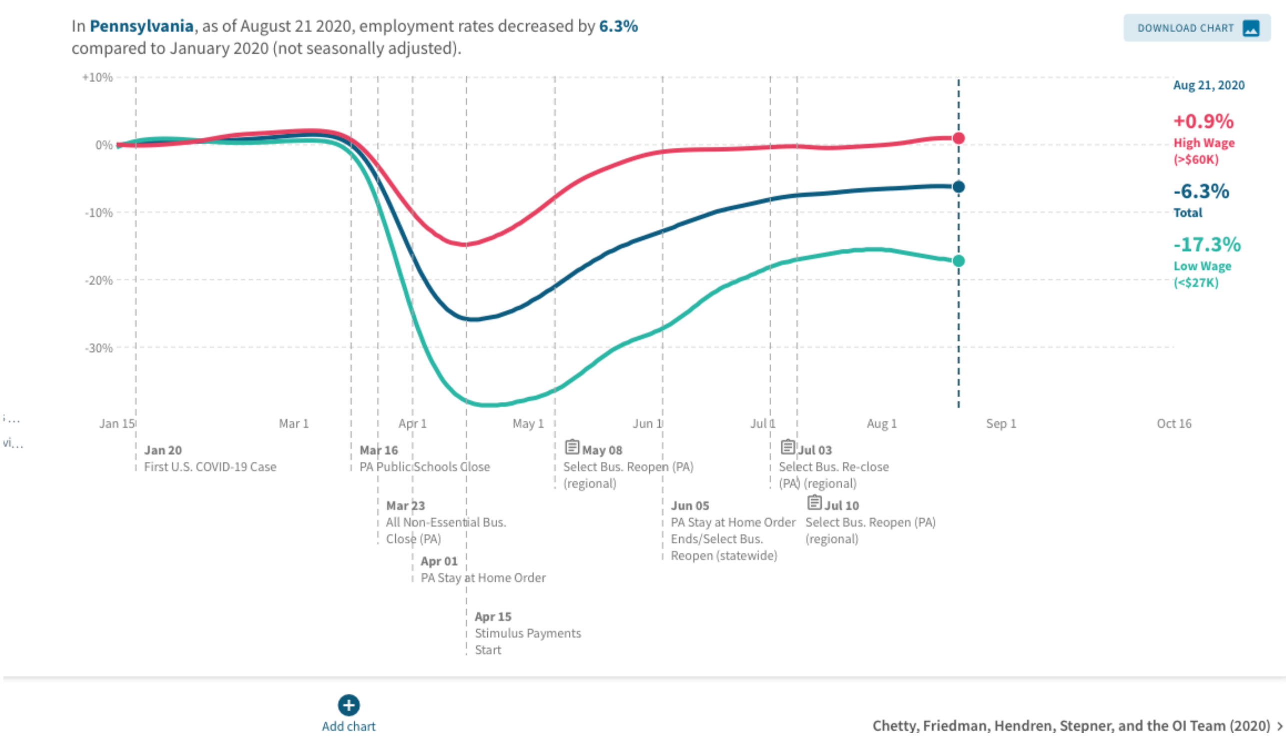
Remember that all these polls reflect the willingness of Americans to run risks after governors here and elsewhere, both Democrat and Republican, had taken actions that no doubt dissuaded some people from venturing out or opening businesses and so reduced the rates of infection and death from COVID-19. If these governors had ***not* acted, infection and death rates would have been higher still—and it is precisely for that reason that business activity would have declined even without stay-at-home and business closure orders.**

A second piece of indirect evidence supporting the notion that COVID-19 by itself would have shut down the economy is the impact of the disease on consumption by income. This economic recession was very different from a typical one in which those with low incomes are more likely to lose their jobs and thus see their consumption reduced more than the average person. The first part of the typical pattern was found. As figure 1 shows, low-income worker saw were more likely to lose their jobs than high-income workers. Yet as figure 2 shows, consumption by those with high incomes dropped much more deeply than those with low incomes.

[1] Sam Meredith, Sweden's second-quarter GDP fall was its worst in modern history – but it outperformed many in Europe, CNBC, August 5, 2020.

[2] Coronavirus Resource Center, Johns Hopkins University of Medicine, accessed August 9, 2020 https://coronavirus.jhu.edu/data/mortality.

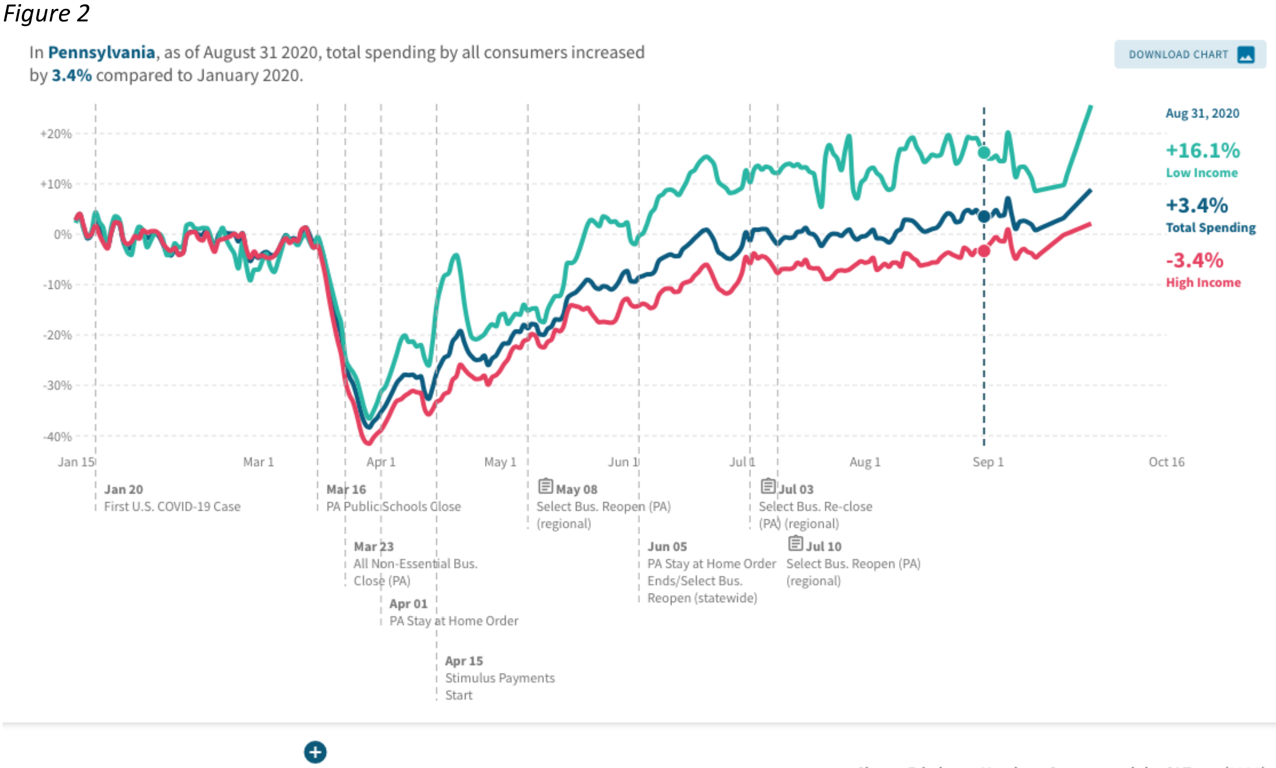
Figure 1



What accounts for this unusual inversion in consumption patterns during the recession? Two things. First, at least for a time, the federal government took extraordinary steps to support consumption by the unemployed with an expansion of unemployment insurances that included more workers, including gig workers and the self-employed and a bonus of $600 a week for all workers beyond that to which they were previously entitled. The expansion of unemployment insurance allowed those with low incomes to continue consuming—and since people with low incomes typically need to spend all of their income on the necessities of life, they spent almost all the income they had.

On the other hand, those with high incomes typically are able to purchase far more than necessities. They can go out for dinner or shop for new clothes or take vacations and so forth. However Pennsylvanians with high incomes did not do so and not just because government orders prevented them. Even after some businesses reopened in May, consumption among those with higher incomes was 20% below levels found at the beginning of the year. And in July, when the consumption rates of those with low incomes was 10% above the level found at the beginning of the year, high-income Pennsylvanians were still spending roughly 10% less than they had been at the beginning of the year. The reason should be obvious. High-income Pennsylvanians had the money to spend but were unwilling to do so to avoid becoming infected with the coronavirus. This was partly because some businesses were closed, such as theaters, movie theaters, and restaurants, at least for indoor dining. But there were other ways those with lower incomes could have spent their money, including take-out dining, shopping for clothes, and so forth. But they didn't do so—except with regard to home renovations which seem to have taken off during this time. And most likely they did not because they did not feel safe interacting with others, as the polling research we examined shows.

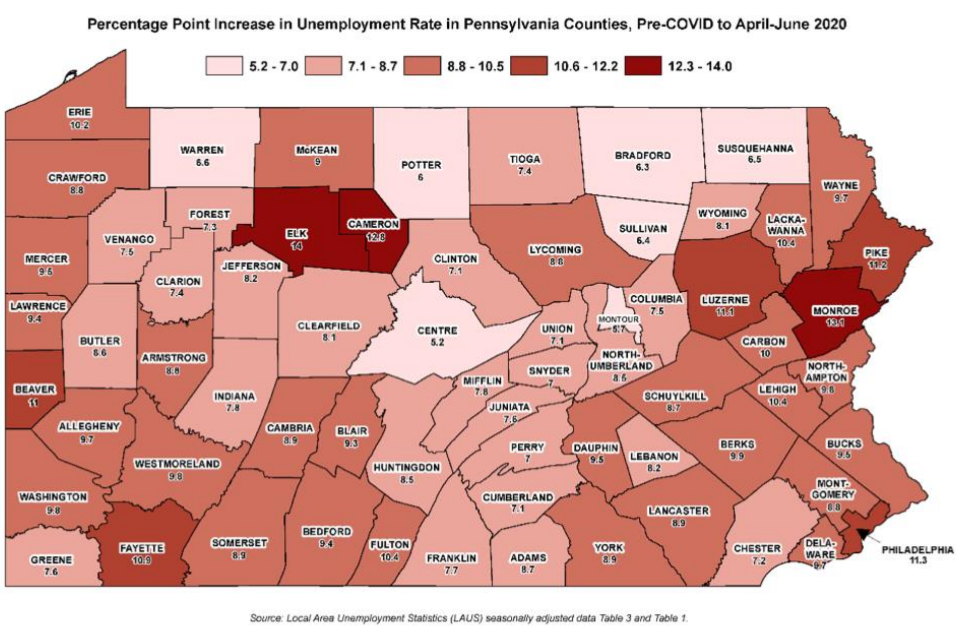
Figure 2



[Source: Opportunity Insights, Economic Tracker.](#)

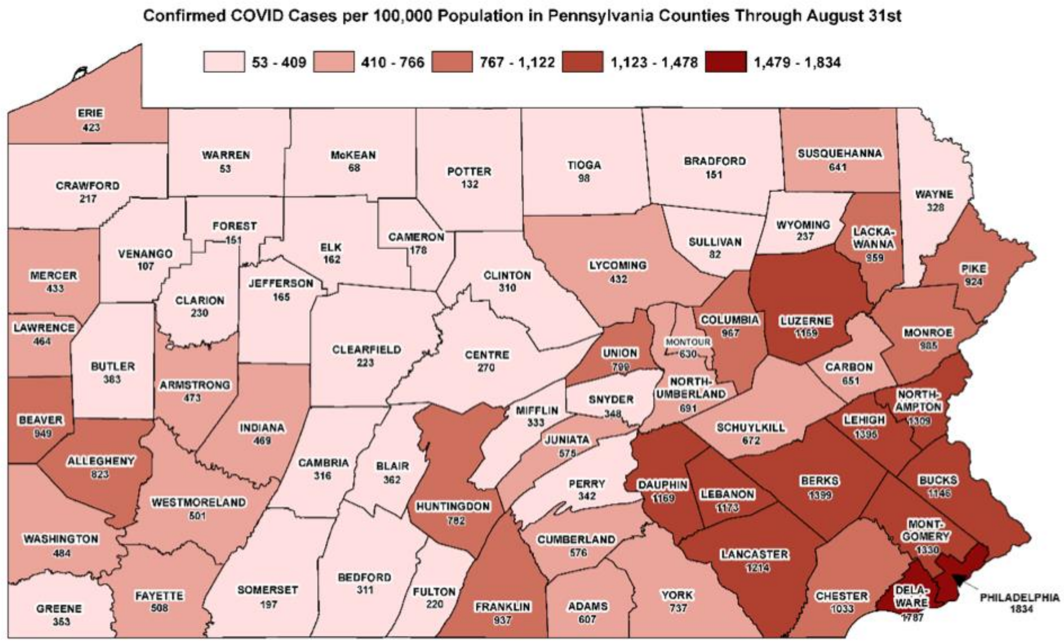
A third piece of evidence that provides inferential support to the claim that COVID-19 alone would have created an economic disaster is the relationship between COVID-19 and unemployment in Pennsylvania. The recession caused by COVID-19 has been different than previous recessions in Pennsylvania in which the economically weaker and declining rural parts of the state suffered from higher rates of unemployment than the economically stronger urban areas. As figure 3 shows, with some exceptions, it is urban and suburban areas that have suffered the largest drop in employment during this crisis.

Figure 3



Why did urban and suburban counties suffer so much distress? Largely because, as figure 4 shows, they were more likely to be the areas of the state that had higher incidences of COVID-19 cases. Indeed, the correlation between the unemployment rate and the rate of COVID-19 cases was .33, which shows a strong relationship between the counties with high unemployment and those with a high incidence of COVID-19 although certainly other factors were also responsible for variations in the unemployment rate.

Figure 4



Source: Confirmed cases through August 31st from the Pennsylvania Department of Health: https://www.health.pa.gov/topics/disease/coronavirus/Pages/Cases.asp; county population for 2018-19 from U.S. Census Bureau.

Government regulations limiting economic activity were instituted earlier in these urban areas, so these data don't show that economic decline would have occurred due to COVID-19 even without those regulations. But ultimately, the governor's orders were extended to the whole state—yet the economy continued to suffer more in areas where COVID-19 was most severe. This suggests that economic decline was in part a response to the disease itself or, at the very least, the willingness of people to follow the governor's emergency orders precisely because people recognized that their own safety and that of their friends and loved ones depended on keeping their distance from others.

It is also no accident that it is in the rural areas of the state, where COVID-19 was least threatening, that resistance to the governor's orders was most intense. In many of these areas, government regulations preceded the spread of the virus which was already out of control in the eastern part of the state. Had Governor Wolf waited to apply his stay-at-home and business closure orders to these counties, it is likely that people would have been more compliant with them and the political opposition to them would have been less intense. But, more people would have died as well.

In sum, the right-wing narrative about COVID-19 and the economy is simply wrong. We have never had the choice of protecting our health or our economy. People, especially those for whom some consumption is not a necessity, were always going to shy away from taking unnecessary risks during a pandemic and the existence of the pandemic itself would have caused a sharp economic decline. There is no doubt that government regulations shut down economic activity more quickly and more deeply than might have occurred without it. Keep in mind, however, that if in the absence of government regulation COVID-19 infections increased even more quickly than they did, more people would have chosen to stay home or temporarily shutter their businesses. At any rate, economic activity in the U.S. would have suffered a deep drop because of the pandemic, with or without government regulation.

Thus, there is no real trade-off between protecting our health or the economy. From the beginning of the pandemic, our only sensible decision has been to protect the economy over the long term by reducing the impact of COVID-19 on our collective health. That's why responsible governors of both parties followed the same policies of business closure and stay-at-home orders almost exactly—not the ones that mostly Republicans in the Pennsylvania General Assembly have been supporting for months.