BROWN School of Public Health

EDMOND J. SAFRA Center for Ethics

OPPORTUNITY INSIGHTS

The Economic Case for Robust Public Health Intervention to stop COVID

COVID is both a health crisis and an economic crisis. So long as the spread of the disease in the U.S. continues to be fueled by high levels of community-transmission, any prospect for a stable economic recovery will be undermined.

Washington has authorized unprecedented fiscal and monetary stimulus worth over $3 trillion since the pandemic hit American shores. Yet there are signs the U.S. economic recovery is faltering, exposing the limits of fiscal and monetary policies when the real economy is no longer functioning as before. More and more Americans are sick and unemployed, with communities of color and communities that are low income particularly hard hit. More and more businesses are shuttering. Economies remain disrupted. Those economies that are open are experiencing low levels of economic activity and consumer confidence.

The path of the virus will determine the course of the U.S. economy and the livelihoods tied to it. By the end of June, the U.S. economy saw the worst quarter of economic performance on record, shrinking 9.5 percent. The disease trajectory has worsened since then, keeping the U.S. at a quarter of total global cases while comprising just four percent of the world's population.

Only robust investment in federal, state and local public health infrastructure needed to support effective strategies like nationally-scaled testing, tracing and supported isolation (TTSI) and, ultimately, vaccine distribution, will allow for suppressing the virus and rebuilding the consumer confidence necessary for the economic recovery that political leaders are fighting for—a recovery that our communities desperately need.

ECONOMIC IMPACTS DRIVEN BY HEALTH CONCERNS

The unprecedented nature of the pandemic has created an economic crisis that is impacting our communities in a manner very different than previous recessions in terms of magnitude, location, and affected industries and sectors. Tracking real time trends in economic data demonstrates that the economic downturn is largely due to drops in consumption driven by health concerns and fears of the virus rather than initial reductions in income or government restrictions on activity.[1]

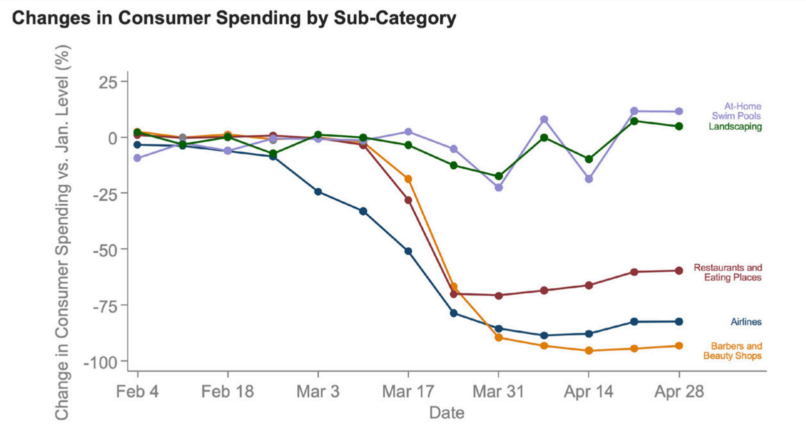
Spending declines were steepest and most persistent among the wealthy

Although the incomes of the wealthy have fallen relatively little during this recession, high earners are responsible for the vast majority of the drop in consumer spending in the U.S. since March. Households in the top 25 percent of the income distribution are responsible for over half of the overall spending reduction. And although spending in low-income households has nearly recovered to pre-crisis levels, high-income consumer spending was still down by almost 10 percent through mid-September.

Spending and employment reductions concentrated in industries reliant on in-person services

Spending dropped mostly on goods and services that require in-person physical interaction and thereby carry a risk of COVID infection, such as hotels, transportation, and food services and that are sectors that are more likely to employ low-wage, Black and Hispanic workers. At the same time, spending on luxury goods that do not require contact, such as landscaping services or home swimming pools, did not fall. Businesses that offer fewer in-person services, such as financial and professional services firms, experienced much smaller losses, and those reliant on face-to-face interaction continue to lag behind.

1. The economic data and analysis discussed in this brief is based on Raj Chetty, John Friedman, Nathaniel Hendren, Michael Stepner, The Opportunity Insights Team, "The Economic Impacts of COVID-19: Evidence from a New Public Database Built from Private Sector Data", Working Paper, September 2020; available at: https://opportunityinsights.org/paper/tracker/



Spending declines and impacts reveal income disparities and inequalities

This crisis has highlighted how the livelihoods of America's low-income workers are increasingly reliant on the consumption patterns of high-income households. Drops in consumer spending have resulted in drops in small business revenue, including and especially in wealthy areas. Small business revenue in the most affluent neighborhoods fell by more than 80 percent between March and April and low-income workers reliant on those jobs have been very hard hit. Sixty-five percent of low-wage workers at small businesses in affluent areas were laid off within two weeks after the COVID crisis began.

These trends and others driven by the COVID crisis are probably exacerbating inequality. As of July, employment rates for high income individuals were nearly back to pre-crisis levels. But at the peak of the crisis in mid-April, over 10 million workers in the lowest 25 percent of the income distribution lost their jobs, and employment rates among low-wage workers are still down by over 15 percent through mid-September. COVID has hit the Black community especially hard. Black mortality rates are twice as high for Black individuals than their white counterparts.[2] The employment rate for Black Americans dropped by over 14 percent between February and June, a decrease almost 50 percent higher than rates for white Americans.

Broader social impacts are also likely and will be long-lasting. When schools shut down in March, student engagement and progress in online learning platforms through the spring were much lower in low-income communities and predominantly Black schools than in their higher-income and whiter counterparts. As many schools continue to operate remotely through the fall in much of the country, these learning gaps will probably increase and could have significant long-term effects on opportunity for a generation of young people.

LIMITED EFFECTS OF PAST STIMULUS POLICIES

As the data reveals that the economic recession is being driven by high-income individuals avoiding businesses and services that require face-to-face contact, policies that do not restore consumer confidence in their health and safety are unlikely to restore the economy and put individuals back to work. Several examples of recent policy interventions that focused on economic stimulus as opposed to health policies to suppress the virus confirm these findings.

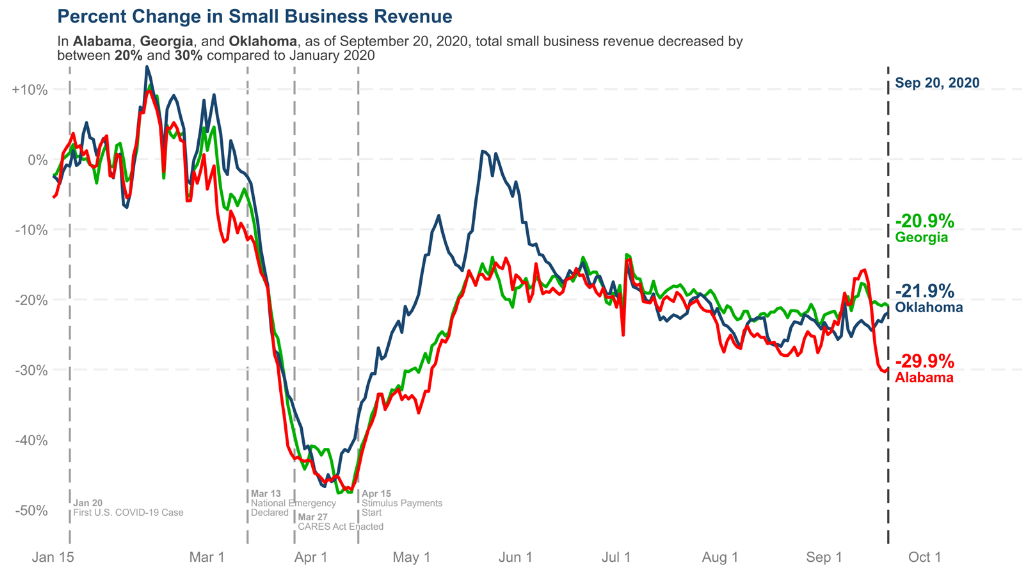
State Re-Openings

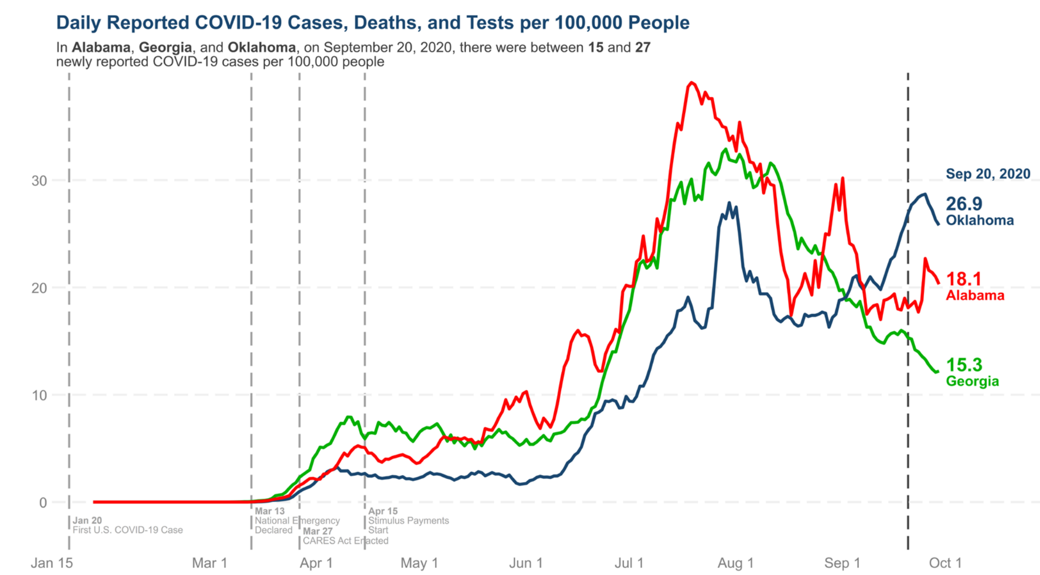
Early in the pandemic, there was a prevailing notion that state re-opening policies would encourage spending and jump-start economic recovery. Several months into reopening decisions, it is clear that re-opening policies, when not paired with an improved public health context, could actually accelerate community-level transmission of COVID-19 leading to minimal economic benefit at best and potentially erasing any transient economic gains.

Comparing outcomes in states that re-opened earlier than neighboring states with similar spending patterns, we find that earlier re-openings had no impact on consumer behavior, and consequently no impact on employment. For example, Colorado and New Mexico had very similar drops in consumer spending before both states closed down in late March. Both states have seen nearly identical spending trends since that time despite Colorado beginning re-opening in late April, several weeks before New Mexico.

2. APM Research Lab, https://www.apmresearchlab.org/covid/deaths-by-race#data

Additionally, when the number of COVID cases began to rise again across the country in early June, rebounds in economic activity stalled. After steep decreases following the beginning of the pandemic, small business revenue rebounded significantly in states like Alabama, Georgia, and Oklahoma. However, after COVID case rates rose, small business revenue declined again noticeably, even in the absence of sweeping re-closure policies. We see from available evidence that indicators of economic health are a byproduct of safety perceptions and not of business access.





Data for every state and county in the country across a range of metrics is available at www.tracktherecovery.org

Without design and implementation of public health measures, like a TTSI infrastructure necessary for disease suppression, the virus will not be curtailed and consumer safety will remain at risk. In such a scenario, a policy focus on business re-openings will be largely ineffective. As we see in several states with COVID spikes, premature reopening policies that lead to further virus transmissions may actually undermine economic recovery by further eroding consumers' sense of safety.

Past Stimulus Policies

Stimulus payments this spring significantly increased total consumer spending but, crucially, did not return money back to the businesses that were hardest hit by the crisis.

Nearly $300 billion in CARES Act funds were distributed directly to over 160 million people. The goal of the stimulus was to restore employment by increasing spending. The payments had a large effect on spending for low-income families but less so for high-income families. And importantly, spending did not increase in the sectors that lost the most revenue since the start of the COVID crisis. As of June, while spending on durable goods returned to above pre-crisis levels, spending on in-person services was still down by 50 percent. Small businesses in high-rent areas, the businesses that lost the most revenue due to the crisis, saw little to no increase in revenue after the stimulus payments were made. In these areas, low-wage employment rates remain 45 percent below pre-COVID levels.

Small Business Relief

Without addressing the core issue of the virus and consumer concerns about in-person interaction, and without furthering targeting resources to need, small business relief programs will probably have limited impact. Congress devoted more than $500 billion to small business loans as part of the Paycheck Protection Program (PPP), so named because the loans do not need to be repaid if businesses maintain employment at pre-crisis levels. These loans had little impact on employment rates at small businesses and were largely ineffective in industries that require face-to-face interaction where business is suffering due to concerns about the virus. In March and April, after the distribution of PPP loans began, employment rates were very similar at businesses that were eligible for PPP loans compared to business that were too large and ineligible.

A disproportionate number of PPP loans actually went to those states and Congressional districts that were least affected by the pandemic and to industries that were least impacted. For example, firms in the professional, scientific, and technical services sector received a greater share of PPP loans than those in accommodation and food services. Yet accommodation and food services accounted for half of the total decline in employment between the two months prior to PPP enactment whereas professional, scientific and technical services sector accounted for less than 5% of the decline. Why is this the case? Companies in industries like professional, scientific and technical services where many businesses were probably able to continue work remotely and no layoffs were anticipated still probably applied for and received the money even though they did not need it to keep employees on payroll.

Federal response is critical to stave off growing inequities

Without agreement on and quick passage of a second round of COVID relief legislation, the recession driven by the pandemic could deepen and have cascading effects. Many low-income households will face extreme and deeper financial stress without a new round of fiscal stimulus and unemployment support. Consumer spending in low-income households recovered from March and increased significantly directly after stimulus payments were distributed on April 14. However, since the CARES Act expired at the end of July and combined with high unemployment rates among low-income workers and high-income households continuing to spend less due to public health concerns, low-income households will be hard hit as the recession continues. Support is needed now for the millions of families facing deep financial uncertainty. Resources for low-income families, like those proposed in the HEROES and HEALS Acts, are needed to help sustain families while the proper health measures are put in place to restore our economy. The President's August 8th Executive Orders have provided only limited relief. These orders reduced the previous enhanced benefits by half and through the end of August had been distributed only by a few states. The elimination or reduction of supplements to unemployment will not only imperil families directly but may also lead to renewed drops in consumer spending, increased unemployment, and further economic fallout.[3]

3. Miguel Garza Casado, Britta Glennon, Julia Lane, David McQuown, Daniel Rich, and Bruce A. Weinberg, The Effect of Fiscal Stimulus: Evidence from COVID-19, NBER Working Paper No. 27576, August 2020

PANDEMIC SAFETY NECESSARY TO GET U.S. ECONOMY BACK ON TRACK

COVID has sharply reduced spending in sectors that require physical interaction. This spending shock led to losses in business revenue and layoffs of low-income workers, ultimately reducing their own consumption levels. Because this trend is driven by virus spread and related health concerns, the effectiveness of policies geared towards restoring economic activity without addressing the virus itself will likely be limited.

State ordered re-openings had limited and—in cases of premature re-openings—often negative impacts with states being forced to shut back down to halt disease spread. Stimulus checks increased some spending but primarily among low-income persons with less discretionary income to begin with; in all cases, very little of the additional spending flowed to the most impacted businesses. These are examples of how traditional economic stimulus policies will falter without the public health investments necessary to halt COVID.

Continued virus spread in the U.S. will prolong the economic shock and undermine a sustained recovery. Strategies needed to suppress the virus like increased testing, tracing, and supported isolation are necessary to safely re-open economies until an effective vaccine is developed and widely deployed. For economies with near-zero disease prevalence, leaders still need to invest in TTSI infrastructure to effectively surveil the local population for new outbreaks and imported cases.

Significant resources and coordination will be necessary to support TTSI at scale. An estimated 20-30 million tests are needed every day to fully re-mobilize the economy (including diagnostic, screening, and surveillance tests; including all testing modalities such as reverse transcription-PCR and antigen; and including testing modalities undertaken outside of Centers for Medicare and Medicaid Services-regulated labs). Current levels of test production and lab utilization are inadequate for the 24-48 hour test turnaround time necessary to break the chain of transmission. Even with the arrival of high frequency, low-cost tests, large-scale contact tracing and the rapid notification of individuals who may have been exposed to COVID is still needed to work in tandem with testing to slow and suppress disease spread and may require the hiring and training of as many as 100,000 contact tracing personnel nationally.[4] At present, the nation is approximately halfway to that goal for contact tracers. (For more details on the TTSI framework, see the Edmond J Safra Center for Ethics and the Harvard Global Health Institute's **Key Metrics for COVID Suppression** a policy framework, including locally-relevant strategies, metrics, and key indicators for suppressing COVID-19.) Investments in the infrastructure necessary to distribute and administer tests will also facilitate rapid distribution of vaccines, once they are available at a mass scale.

A TTSI package of $75 billion could equip the nation's leaders to deliver a suppression strategy. This investment is well worth the cost. The U.S. economy lost $450 billion in the second quarter alone owing to the pandemic, this in addition to compounding social costs of unemployment. Further, the evidence demonstrates that without restoring consumer confidence and addressing safety concerns, the economy will continue to stagnate even if it remains open. Addressing public health concerns and opening the economy are not at odds, but rather two goals that must be pursued in tandem for our nation to viably recover from COVID.

WHO

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4. Johns Hopkins Center for Health Security