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COLES COLLEGE OF BUSINESS
*Bagwell Center for the Study of Markets
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Commentary

Title:

*"Revisiting the Economic Good
from a Pandemic"*

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Back in February, I wrote about the economic good of a pandemic.¹ Not much time has elapsed, but much has transpired. I didn't foresee most of it, and now my previous commentary seems outdated. At that time, life was moving along as normal in the United States. China had been in a lockdown, and I clearly was been naïve, but I did not think we would have the same thing here. To be sure, I thought COVID-19 would strike the United States, but I thought the response from governments, both federal and state, would be more muted and more focused on adapting to and mitigating the effects of the pandemic.

In the harmful effects of governmental responses to COVID-19, I do not want to minimize the severity of the illness in any way. As a survivor of it myself, I know firsthand how painful and difficult it is. Even if most victims are elderly or already sick, COVID-19 can be serious for anyone. The first point I want to make is that nobody really knows how widespread COVID-19 is. We will not know until testing is universal or randomized. For now, the sample of persons tested for COVID-19 is highly biased.

The governmental response has prevented many of the effects I anticipated from a COVID-19 pandemic, so the points I made in February need to be revisited. I assumed that doctors, nurses, hospitals, and manufacturers of medical equipment would be in high demand, but this has surprisingly not been the case. Many areas banned elective surgeries to reallocate resources to treat COVID-19 patients, but the predicted overwhelming of the healthcare system never actually happened outside of a few places. This cut off a major revenue stream for hospitals and doctors have been furloughed or laid off as a result.²

The healthcare sector should have done very well during a pandemic or any public health emergency. Furloughs of medical professionals and financial problems at hospitals at a time like this would not happen if there were a market response to the pandemic. Moreover, it is difficult for me to see any need for banning elective operations in the first place. Hospitals should already give priority to emergencies, and if there were an emergency, they would probably delay elective procedures anyway; not doing so would be a public relations nightmare. The policy response to COVID-19, not COVID-19 itself, has caused these problems in the healthcare sector.

I correctly assumed that vaccine research would go forward, but even this has had unintended consequences that I did not foresee. Multiple different vaccines are in development, with the Milken Institute counting 133 as of May 19, 2020.³ The hidden cost of vaccine research and the laser-like focus on COVID-19 exists in the form of neglect of other diseases. As bad as COVID-19 is, there are other diseases, many of which are even more dangerous, that are getting less attention. The World Health Organization is already worried about tuberculosis outbreaks in the developing world as screening and treatment are passed over in favor of COVID-19 mitigation.⁴ Tuberculosis is a much more devastating disease than COVID-19. Obsession over

¹ Gmeiner, Robert. "The Economic Good of a Pandemic," Bagwell Center Commentary, March 2020. <https://coles.kennesaw.edu/econopp/docs/March-2020-commentary.pdf>, accessed 19 May 2020.

² Bebinger, Martha. "COVID-19 Hits Some Health Care Workers with Pay Cuts and Layoffs" National Public Radio. 2 April 2020. <https://www.npr.org/sections/health-shots/2020/04/02/826232423/covid-19-hits-some-health-care-workers-with-pay-cuts-and-layoffs>, accessed 19 May 2020

Paavola, Alia "256 Hospitals Furloughing Workers in Response to COVID-19" *Becker's Hospital CFO Report*. 7 April 2020. <https://www.beckershospitalreview.com/finance/49-hospitals-furloughing-workers-in-response-to-covid-19.html>, accessed 19 May 2020

³ Milken Institute COVID-19 Tracker. <https://milkeninstitute.org/covid-19-tracker>, accessed 19 May 2020

⁴ World Health Organization (WHO) Information Note. Tuberculosis and COVID-19. <https://www.who.int/docs/default-source/documents/tuberculosis/infonote-tb-covid-19.pdf>, accessed 19 May 2020.

COVID-19 has also resulted in fear of going to hospitals for necessary treatment, causing more avoidable problems, such as appendicitis-induced infections and stroke complications.⁵

As for medical equipment, my predictions were partially accurate, but not solely for the reasons I anticipated. Demand has skyrocketed, not only for personal protective equipment but also for medical devices. New stockpiling efforts mean that demand won't diminish right away when the pandemic eases.⁶ To increase goodwill, China sent some equipment, including ventilators, to other countries in Europe, but this backfired when much of it turned out to be defective.⁷ There has indeed been an increase in the manufacturing of medical devices and personal protective equipment, as I predicted.⁸ If anything, this prediction was doubly true because of problems in sourcing these things from China.

I am a signatory of the recent letter from the National Taxpayers Union to President Trump, House Speaker Nancy Pelosi, and Senate Majority Leader Mitch McConnell opposing trade barriers as part of the fight against COVID-19.⁹ The letter correctly states that stockpiling medical equipment and obtaining it from diverse sources is necessary and costly, but a "Buy America" regime will be even more costly. Like nearly all economists, I oppose protectionist trade barriers. Concerning these proposals, I would add (somewhat cynically) that a "Buy America" regime may not even be all that necessary given trade restrictions in the rest of the world and defective equipment from China. Sourcing medical equipment from the United States may just turn out to be a prudent idea anyway, and not just because of higher demand. It is reasonable to "Buy American" in cases when the products are of higher quality and the suppliers are more reliable. It is not reasonable to artificially induce the need to "Buy American" with trade barriers.

Food and grocery delivery services, like Instacart, GrubHub, and DoorDash, have done very well during the lockdowns, as I predicted. The success of this end-user service, however, does not mean people can buy everything they want. Shutting down the economy has constricted the supply chains for many goods by keeping many workers home and by altering patterns of consumption (e.g. more home cooking and less restaurant dining).

Staples like flour, yeast, meat, and paper products disappeared from store shelves and are often rationed when they are in stock. The proximate cause of shortages is that prices cannot adjust upward either because of price gouging laws or the very real fear of a public backlash. This would not even be an issue if government rules had not caused a supply contraction in the first place. These policies are the ultimate cause of the shortages.

Most of these supply disruptions are due to the government response to the virus, not the virus itself; markets do an excellent job of getting food to people. Much fresh produce that was

⁵ Bernstein, Lenny and Frances Stead Sellers. "Patients with Heart Attacks, Strokes, and Even Appendicitis Vanish from Hospitals" *Washington Post*. 19 April 2020. https://www.washingtonpost.com/health/patients-with-heart-attacks-strokes-and-even-appendicitis-vanish-from-hospitals/2020/04/19/9ca3ef24-7eb4-11ea-9040-68981f488eed_story.html, accessed 19 May 2020.

⁶ "Personal Protective Equipment Manufacturing Industry in the US - Market Research Report" IBIS World. May 2020. <https://www.ibisworld.com/united-states/market-research-reports/personal-protective-equipment-manufacturing-industry/>, accessed 19 May 2020.

⁷ Bradsher, Keith "China Delays Mask and Ventilator Exports After Quality Complaints" *New York Times*. 11 April 2020. <https://www.nytimes.com/2020/04/11/business/china-mask-exports-coronavirus.html>, accessed 19 May 2020.

⁸ Newmaker, Chris "U.S. Ventilator Manufacturing Is Rapidly Expanding: Here's How" *Mass Device*. 1 April 2020. <https://www.massdevice.com/u-s-ventilator-manufacturing-is-rapidly-expanding-heres-how/>, accessed 19 May 2020.

⁹ National Taxpayers Union. Letter to President Trump, Speaker Pelosi, and Leader McConnell. <https://www.ntu.org/library/doclib/2020/05/economist-letter-2-.pdf>, accessed 19 May 2020.

bound for restaurants and school cafeterias has been left rotting in fields or sold at a steep discount because grocery supply chains cannot adapt at the last minute.¹⁰ Unlike field crops, fresh produce is not part of government subsidization programs, meaning that these farmers could face major losses. Waste is never good, but it is especially tragic at this time when many people are out of work and demand at food banks has sharply increased.

Supply chain disruptions are the most disconcerting thing to me about the recession just getting underway, which looks very different from recent recessions. The Great Recession and the early 1980s recession were characterized by losses throughout the economy, with more losses in some sectors than others. The mandatory lockdowns at stay-at-home orders in this current crisis affect both supply and demand, not just demand. This current recession is caused by a mandated cessation of economic activity, which cascades throughout the economy, stopping things at all levels, likely making recovery more difficult.

In the piece I wrote in February, I predicted that productivity gains would happen in some industries as people spent less time commuting and found new ways to do things with fewer people and social distancing. Here again, my thoughts were upended by the government response. Productivity gains may have happened, but their economic good may not be very perceptible for a while. Working at home has its own detrimental effects as some firms have begun to fear intellectual property losses when things are not as secure as they were in a physical office.¹¹

I indicated earlier that fiscal policy was possible, but not being discussed, and that monetary policy had little potential because interest rates were already low. I thought that the government response would focus on medical innovation and adapting to the presence of the virus. Fiscal policy in the form of stimulus payments happened shortly after I wrote. Instead of focusing on fighting the virus, most of the government's focus was on mitigating the economic pain directly caused by the government's own response to the virus. A severe contraction in economic activity will make it harder to pay for this stimulus over the coming years and decades, something mitigated only by the government's ability to borrow at incredibly low rates because of easy monetary policy.

The cause of these problems is, in many cases, the government response. The economic shutdowns have enjoyed popular support, at least as measured in opinion polls. This shows a lack of understanding of all costs and benefits and the interrelated, cascading effects of any policy. In my earlier piece, I was worried that there would be too much focus on costs that we would miss the economic benefits of a pandemic. Now I think that there has been too little focus on costs of the government intervention, which has resulted in government intervention going so far as to destroy most of the benefits of the pandemic, while still not avoiding the harm it brings.

¹⁰ Gangitano, Alex. "Fresh Produce Goes to Waste as Coronavirus Wrecks Supply Chains" *The Hill*. 17 April 2020. <https://thehill.com/business-a-lobbying/business-a-lobbying/493252-fresh-produce-goes-to-waste-as-coronavirus-wrecks>, accessed 19 May 2020.

¹¹ "Protecting IP in a COVID-19 Remote Work World" *JD Supra*. 30 March 2020. <https://www.jdsupra.com/legalnews/protecting-ip-in-a-covid-19-remote-work-27948/>, accessed 19 May 2020.