October 26, 2020

The COVID-19 Tax: A View from Michigan

Your blogger drove down to work today. It was the first time since mid-December, and he didn't go into the office, which he believes not to be safe. What he saw was a pall of economic activity. Seven months into the COVID-19 pandemic, the streets are half-full, if that. Stores and restaurants are (largely) empty. YB's Wayne State campus was eerily quiet on a Monday afternoon. Ninety percent or more of the classes are on line.

Governor Whitmer has not turned Michigan into a "prison," irrespective of what President Trump has said. COVID-19 has. The Michigan citizenry, largely-masked, even in Macomb County (which famously flipped for Trump in 2016), have been very careful. They are not dining out. They are not going to movies. They are not driving, even though the price of gasoline has fallen below $2.00 per gallon. Commerce is down.

In his first blog, YB characterized COVID-19 as a "massive tax". Taxes fall hardest on those who cannot avoid them, and the measures needed to avoid COVID-19 involve masking, social distancing, and yes, refraining from commerce. This has happened in the places that shut down (New York, Michigan, New Jersey) … and in the places that didn't (Iowa and the Dakotas). Many of the places that have re-opened are considering shutting down again. The virus is an equal opportunity tax. It falls on the White House and on our house.

The tax didn't expire on Easter, or on Memorial Day, the Fourth of July, or Labor Day, however much we (and the President) wanted it. Big June weddings and graduation parties didn't happen. March Madness was canceled and the College Football season has taken on an *eerie* (that word again!) silence. The Big Ten did the right thing (canceling the season), and followed it up by doing the wrong thing ("uncanceling" the season). People have stopped traveling, and have stopped planning to travel.

The tax has settled into a "steady state" of about 1,000 deaths per day throughout the US, with the current total topping 230,000. We call this *mortality*. The long-term illness issues (*morbidity*) are less visible, but very real, and potentially long term in nature (call these the "long run" tax effects).

The remedies? Wear the masks and social distance to mitigate some of the "tax impacts." Learn to live with the higher prices due to the tax. Wait for the vaccine … sometime in 2021 or 2022, if we catch a break.

Allen C. Goodman
Professor of Economics