August 9, 2020

# Surprises in the Year of COVID-19

This is a health economics blog related to COVID-19. Your blogger (YB) has tried to apply health economics analysis to various events that have occurred. There has been a certain rueful self-congratulation relating to the ability to have predicted adverse events, such as the economic downturn, the problems with testing, and the problems with reopening. There have also been surprises. This entry looks at some of them.

1. YB is surprised at the reluctance of a fairly large part of the population to believe that public health measures work. YB grew up in the 1950s and 1960s where the tobacco industry insisted that there was NO link between cigarette smoking and cancer, and then watched one spokesperson after the next (it was equal opportunity for men and women) die of lung cancer. YB has seen a small but determined bunch of anti-vaxers insist that MMR vaccine has higher marginal costs than marginal benefits, and they won't vaccinate, even (potentially) if there is an anti-COVID vaccine. The opposition of millions of Americans to common sense mask rules has been astounding, despite the overwhelming evidence that these rules work. This is not climate change, where the results occur "slowly". This is real time, and thus far over 165,000 Americans have died.
2. That said, YB is surprised that where masking has been mandated and followed, it seems to have worked as well as it has. New York and New Jersey were COVID-19 wastelands in late March and April. Michigan, through strong leadership, and despite the callow opposition of the state Republican party and the *Detroit News*, has, for now, "gotten ahead" of the disease. It is again far too early to be self-congratulatory, but the evidence is there, and it is important. Contrast the New York / New Jersey story to Florida, Arizona, and Texas.
3. YB is surprised at the speed with which the American Congress and the Federal Reserve initially responded to the economic shutdown. Imagine a car engine that suddenly starts leaking oil. Without repair, and much more oil, the engine will seize up and the car will come to a sudden, eventful, and very costly halt. The Federal Reserve opened the cash spigots for liquidity for the American public. The Congress passed serious stimulus packages. Things were bad, but they could have been much worse.
4. That said, YB is surprised that as of the second week of August, Congress has balked at extending the stimulus (the Fed has been much better). It was clear that the recovery would be slow. Sending workers back to their jobs, when their jobs were unsafe, was not going to work … and it didn't. Sending students back to face-to-face school is not going to work … just watch. College football is not working and Major League Baseball is barely working. Yet, to date Congress cannot agree on an additional stimulus.

5. YB is surprised at the breakdown of both the global and the internal supply chains. Part of the problem involves the seriously bad game of "chicken" that the Trump administration is playing with China. Chinese parts and goods are essential to lots of things that we produce and consumer in the United States. Impeding trade is tantamount to an enormous tax hike facing the United States.
6. Following up on Surprise 5, YB is surprised at the holes in the internal US supply chain. Yeast, napkins, YB's favorite barbecue sauce, not to mention almost anything having to do with bleach. Masks are grotesquely expensive for what they are (pieces of paper), and the mask supply response has been slow and inadequate.
7. That said, demand for sweat suits has apparently increased. So, apparently, has the demand for bleach … and pianos. YB is surprised. Aggregate consumption has suffered mightily, but there are a few bright spots.

Earlier in the year, YB threw his lot in with the "hockey stick" crowd, predicting a quick decline, and a very slow recovery. He has been right about that. Regrettably, this has been no surprise.

Allen C. Goodman
Professor of Economics