

Corona-Economics?

By Rep. Cynthia Browning

Public health measures to limit the spread of the COVID-19 virus have restricted economic activity. It is as if the economy were a person suffering from an infection that has to be treated by putting the patient into an induced coma until they can recover.

The toxic economic shocks of this virus pandemic will cause a recession intensified by weaknesses within our economy. When the health crisis has passed we should be able to re-start economic activity. I hope that we can also re-build a better system.

A supply shock came when illness in China led to disruptions in supplies of parts and products for U.S. companies. A financial shock from steep drops in stock values occurred as uncertainty grew about how far the illness and economic damage would spread. As the illness did spread a demand shock began as people cut spending and companies cut back on investment. Then as public health protections led to the closure of industries, rising unemployment further reduced consumer demand.

One weakness is that we have high levels of debt. Corporations and individuals borrow to spend or invest. When income or revenue drops, it can be hard to make required payments or to refinance, so assets are sold, and there are further cut backs in spending, which worsen the recession.

Another weakness is inequality of income and wealth, which means that low and middle income Americans will suffer the most during the recession, and it will be harder for them to recover, which will slow the overall economic recovery. Some inequality results from the functioning of the economy, but Federal tax cuts have often made it worse, favoring those with high incomes and substantial assets. Corporations used the latest tax cuts largely to buy back their own stocks, benefiting shareholders and corporate officers, while doing little to invest in productive capacity or to gather cash reserves.

Some of the Federal tax revenue given away to giant corporations and to high income individuals would have been better spent on public investments in the health care system, affordable housing, telecommunications, and transportation infrastructure. When the elites of a society are unwilling to contribute their share to public investments that undergird all of our activities, including theirs, it is a sign of real societal weakness.

As we wait for the health threat to subside there will be unemployment benefits for workers, loans for businesses, and perhaps cash payments for families. Changes in financial, insurance, and tax regulations will help. The costs of these programs will increase government debt, but that is justified in this emergency. All these supports are like the intravenous nourishment and the oxygen tube for the patient while they rest. The tricky part will be how economic activity responds when the public health restrictions are removed – whether the patient can wake up and recover fully.

In the long run we can re-build an economy that is stronger and more equitable, just as after an illness a person will sometimes begin healthier behavior. We must demand that at all levels necessary changes in public investments, tax policies, health care, and insurance are made.

But for now, let's just hold on. Ask for help when you need it, offer help when you can. Working together – even while actually apart -- we can get through this. Rep. Kathleen James and I have cancelled legislative office hours, but you can contact us at cbrowning@leg.state.vt.us and 802.375.9019 or kjames@leg.state.vt.us and 802.366.1158.