Coronavirus disease 2019 (COVID-19) has created an economic crisis alongside a health care crisis. During the 2 weeks ending on March 28, nearly 10 million people filed for unemployment insurance, dwarfing any previous monthly numbers. Estimates suggest that the US economy will contract by 10% to 25% during the second quarter. The US has entered a COVID-19 recession.

Historically, health care has been relatively immune from recessions. People get sick during both good and bad times, so demand for medical care is relatively constant across the business cycle. Furthermore, health insurance reduces the out-of-pocket costs for care that people face; thus, many sick people—at least those with health insurance—can still afford to visit physicians.

However, the COVID-19 recession is shaping up to be different. For starters, people are being asked to curtail outside activities. This is particularly true for those who have medical conditions that put them at higher risk—the type of individuals who use health care the most. On top of this is the desire to keep medical offices clear to reduce the risk of being a point of disease spread. In addition, the insurance that privately insured patients have today is less generous than it was during past recessions. More than one-quarter of those with private insurance have an insurance policy with a deductible of $2000 or more, 4 times the percentage of people who had a deductible that high one decade ago. With cash tight, people will postpone all kinds of care, from office visits to imaging procedures to filling prescriptions for medications.

Health care offices are already feeling the pinch. Although there are no national data, some primary care practices are reporting reductions in use of health care services of up to 70%. Without major cash reserves, the salaries of clinical staff are being frozen or reduced, and some staff are being furloughed. For the week ending on March 21, the second largest source of unemployment insurance claims in Michigan was from health care businesses, trailing only restaurants and bars.

The federal government’s response has been 2-pronged: the Federal Reserve is cutting interest rates and flooding the markets with cash. On the fiscal side, Congress enacted the largest relief bill in history. The $2 trillion relief bill provides cash to most US families, loans for small businesses, and $100 billion set aside for hospitals overwhelmed by COVID-19. The federal response was admirably quick and generally well designed. For once, politics moved past dysfunction. The key question is whether it will be enough.

Mind Your V’s and U’s

Recessions come in 2 types: V-shaped and U-shaped. A V-shaped recession is short, with recovery following rapidly from the downturn. A U-shaped recession has a longer period before recovery. The recession of 2007-2009 was a U-shaped recession. V-shaped recessions are much less memorable.

Because the COVID-19 recession was partly self-induced, the tendency is to assume it will be short. This was the rationale behind President Trump’s since-abandoned proposal to reopen the economy in mid-April. But this idea is incorrect. As long as there is significant community spread of COVID-19, people are going to be hesitant to reengage. Suppose restaurants open this week and you are not working late, would you go out for dinner? If there were a professional society meeting in another city 2 weeks from now, would you attend?

It is the hesitancy of people to expose themselves to risk that matters, as much as the formal restrictions on movement. Put another way, the economy will not regain its footing until the health crisis is addressed.

This is where the failure of the federal government to ensure adequate testing capacity for COVID-19 is having a major economic effect as well as a health effect. Had adequate testing capacity been built up in January and February, when there was a chance to do so, the country would be in a better position to selectively reopen. As it is, the economy will sputter until testing capacity is sufficiently extended.

Harm of Sustained Shutdowns

The longer the U lasts, the greater the economic harm. Businesses can survive a short time without customers, longer with the relief bill passed by Congress. But sustained shutdowns become increasingly more painful. As time passes, the relief checks will be exhausted. And without
access to credit, some retail businesses—perhaps including medical offices—will shutter permanently. The situation feeds upon itself: fewer jobs means fewer people getting paid and lower wages when people work, which means fewer dollars to spend, and so on. That is why government action is essential in a recession.

One silver lining for medical care is that some of the care people are deferring now will be sought later. For example, postponed primary care visits may be rescheduled for the summer. If so, medical staffs that are on furlough now may be able to catch up on billings later. That is not true for other industries like restaurants and entertainment, which may never recoup services not provided now.

However, there are other dangers a long recession poses to health care workers and institutions. Permanent job loss brings with it a reduction in employer-provided insurance coverage. More people will be uninsured or on Medicaid, where payment rates are lower. And as state and local budgets are stretched thin, governments will likely respond with cuts in Medicaid fees and lower payments from the insurance plans of public sector workers. These changes may stay in force for years.

The longer the recession, the more likely additional policy actions will be needed. The $2 trillion relief bill is roughly 10% of annual gross domestic product. Thus, it makes up for perhaps 1 month of the contraction the economy is currently experiencing. If the retrenchment goes much longer, more relief will be needed.

Will the political process be able to follow up with additional action? The unanimous Senate vote for the relief bill shows an appetite for action, but the political parties have not demonstrated the ability to agree on much of anything during the past few years. On both the health and economic fronts, therefore, the situation is fraught with peril.

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