Florida's Economic Recovery: Four Factors to Consider

Randall G. Holcombe

The current economic crisis has hit Florida harder than most states because of its heavy dependence on tourism. The state's unemployment rate rose from 2.8% in February to 14.5% in May. One result of the economic decline is declining tax revenue, compromising the ability of governments to respond to the spread of COVID-19. The shortfall in Florida's 2020-21 state government budget now looks like it will be around $5 billion because of the COVID-19 related recession. That shortfall is entirely due to the reduction in economic activity that, as a result, is reducing tax revenues. The fiscal health of Florida's state and local governments depends directly on the degree to which the economy recovers.

Three factors that will affect the recovery are (1) the degree to which the economy "re-opens" as government restrictions are lifted, (2) the degree to which consumers, and especially tourists, return to their prepandemic activities, and (3) the degree to which long-term damage from the shutdown will slow the recovery. A fourth factor to consider is the long-term effect of far-reaching government mandates on future government operations. Government policies enacted in response to the virus set precedents that could compromise liberty in the future.

Reopening the Economy

The economic collapse that began in March was not the result of the COVID-19 virus. It was the result of government policies enacted in response to the virus. Whether government-mandated closures of businesses went too far or did not go far enough has been extensively debated. Regardless of one's views on that question, the fact is that the economic damage was the direct result of government policies designed to slow the spread of the virus. Setting aside whether the mandates were appropriate, the first step in evaluating Florida's potential for economic recovery is to recognize that the severe recession was the result of government policy.

Understanding this puts some perspective on the state's decisions to reopen the economy. Governor DeSantis has left many of the decisions on reopening to local officials, which is reasonable because the impact of the virus has varied substantially in different parts of the state. Critics who argue that Florida needs a uniform state-wide policy to combat the virus are mistaken. Regardless of whether one thinks that the state's mandates overall have been too loose or too stringent, policies that make sense in one part of the state place overly-harsh burdens on other parts.

The economic burden is more than just a decline in state income. People have lost their jobs due to state mandates, businesses have been forced to close, in many cases bearing such a great financial burden that they will never reopen. To frame the trade-off as people's health versus the economy misses the point. The issue is imposing costs on people in one way versus imposing costs on them in another.

Governor DeSantis has been criticized by some for reopening the economy too soon, putting people's lives at risk, but there is less to this claim than at first appears. Yes, COVID-19 is very contagious, but people can choose to protect themselves by staying at home, without a government mandate requiring that everyone stay home. If the economy is allowed to re-open, people can make their own choices about how much risk they want to take. Nobody is being forced to mingle with others.

This is a difficult issue. More mandated business closures will slow the rate of transmission, but will prevent some people from working to pay their rent and put food on the table. Any policy brings with it both costs and benefits. The bottom line is that the more slowly the economy re-opens, the greater the economic costs—to citizens, and to government budgets.

Consumer Reponses

A second factor standing in the way of economic recovery is the response of consumers. The state can allow restaurants, theme parks, and other businesses to reopen, but it cannot force people to go to them. A big factor in the recovery is how rapidly people will resume the consumption patterns they had prior to the pandemic. While the economy is in the early stages of reopening, it appears that many consumers are restless and ready to venture out, but surely many people will remain cautious until the virus is brought under control. A full economic recovery will not occur until an effective vaccine is available and, even then, because the downturn has shuttered many businesses permanently, the economy will not bounce back right away.

Restoring consumer confidence is somewhat, but not completely, outside government control. President Trump has been criticized for downplaying the severity of the virus. Without passing judgment on the president's statements, his downplaying the severity of the virus has the effect of boosting consumer confidence. Statements instilling fear (from politicians and the news media) have the effect of reducing consumer confidence. Regardless of whether one thinks the severity of the virus should be downplayed or emphasized, public perception on this affects consumer confidence, and lower consumer confidence will slow the recovery.

Permanent Damage from a Temporary Shutdown

Some businesses have sufficient financial strength that they will be able to weather the temporary downturn and return to business as usual when the government restrictions are lifted and their customers are ready to return. This is less true of locally owned businesses that often count on revenues coming in from month to month to maintain their businesses. Already, many small businesses have permanently closed and will not reopen. The financial strain of the temporary closure was too great for them to continue.

The longer the government-induced recession continues, the greater will be the number of businesses that will be so financially crippled that they will never reopen. One might like to imagine that if a vaccine became rapidly available and government restrictions were lifted, the economy would rapidly return to its pre-virus state but, for many businesses, and therefore for many employees, this will not be the case. The longer government mandates to close businesses persist, the slower will be the recovery once the restrictions are lifted.

Restrictions on Liberty

In response to government-mandated business closures and other mandates, citizens in Florida and around the country have pushed back with protests and, in some cases, lawsuits. These protests should be taken seriously for their long-term consequences in addition to their immediate effects. Shutting down a business today deprives its owners and employees of their incomes, but it also sets a precedent that makes similar future mandates more likely. Business owners are right to challenge the constitutionality of government mandates that force them to close. The pandemic will end, but one long-term threat is that it will leave increased government power over people's economic activities because of precedents set in these unusual times.

How quickly governments should allow the economy to reopen is often couched as weighing the benefits to public health against the economic costs of a shuttered economy. This is a poor way to look at the trade-off. There are costs to any option and, for that reason, no matter what policymakers decide, they will be criticized for it. Because all options entail costs, options should be framed as imposing costs on people in one way versus imposing costs on them in another. But beyond the immediate costs and benefits, another factor is the compromise in individual liberty.

Some people argue that if the economy is reopened too fast, the virus will spread more rapidly which will put others at risk. This argument is flawed. If the economy opens faster than some people would like, they have the option of sheltering at home, regardless of what others are doing. Everyone can choose to stay home. They can have their groceries delivered to their doors. Should those who want to work to pay the rent and put food on the table be forced out of a job so others can feel safer? Should local businesses be forced into bankruptcy through government mandates that prevent them from opening? Regardless of government policy, people who feel threatened by mingling with others have the option to isolate themselves, without government mandating that everyone do so.

There are difficult trade-offs, to be sure. People are frequently advised to err on the side of caution, but in the current situation that advice applies more to individuals than to government policies. As the economy reopens, individuals can choose to self-isolate if they think that is prudent. The longer the economy remains throttled by government mandates, the slower will be the recovery once it begins.

Dr. Randall Holcombe is the DeVoe Moore Professor of Economics at Florida State University and a member of the JMI Research Advisory Council