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The unintended consequences of the pandemic

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The myriad of programs designed to help address the effects of the COVID-19 epidemic are just beginning to have an impact on the economy. It will be months before we know if they worked and what may be their unintended consequences. One thing is clear, the impact of COVID-19, like pandemics of the past, has fallen more heavily on the poor.

Historically those with low incomes live in more densely populated communities and crowded living conditions and have more pre-existing medical conditions. Hence, they have a much greater chance of transmitting disease.

It is no wonder then why some in Washington, D.C. and in state capitals are recommending policies they believe will simultaneously address COVID-19, income inequality and poverty. It will be difficult to accomplish this dual task because policies put into place to address the immediate impact of COVID-19 are sometimes antithetical to solving long-term poverty issues caused by unemployment.

For instance, part of the COVID-19 recovery efforts gives $1,200 stimulus checks to most Americans. However, when those payments are combined with state unemployment checks, recipients can receive more income than their weekly take-home pay. This, according to various reports, could cause some workers to ask their bosses to leave them on furlough so they can collect larger checks.

The causes of long term poverty are often cited as lack of education, unsatisfactory housing, poor medical care, etc. Clearly, these characteristics represent the outcomes of poverty, but they are not necessarily the cause. Sometimes it is various government programs and laws that unintentionally sow the seeds of poverty.

Michael Tanner, Senior Fellow at the CATO Institute and author of The Inclusive Economy, is now studying California as a case study of how a state, that most would agree is on the cutting edge of legislation to help the poor, actually makes low income residents worse off. He identifies many examples. For instance, California's recently passed Assembly Bill 5 which mandates that companies reclassify many independent workers, such as contract nurses, programmers and many others, as full time employees. This reclassification requires companies to provide many benefits to their employees which in turn raises the employer's costs to the point where they cannot afford to keep workers.

A similarly contradictory California regulation inhibits low-income individuals from saving even a small portion of their meager incomes. If Californians receive public assistance, they are not allowed to have savings of more than $2,250 even if it is in a 529 savings plan for their child's education.

Not unique to California, but prominent therein, are a myriad of occupational licensing laws that preclude people from establishing businesses in fields that traditionally have been open to low income entrepreneurs. The costs in terms of money and time necessary to secure licensure to establish small businesses in fields such as childcare, beauty salons, and construction, etc. are often insurmountable and retards new start-ups.

Another set of regulations that deters economic betterment of the poor are zoning laws. Zoning regulations are most often established to assure that land development occurs along the lines of established community aesthetics and within pre-determined environmental standards. Particularly prevalent in California, these regulations often prevent higher density, relatively inexpensive housing from being built. Lower income families are willing to give up amenities or extra square footage in their homes to live in a location with safe neighborhoods and good public schools. However, they cannot do so because zoning regulations raise the price of housing above what they can afford.

Because consumer spending accounts for 70% of our GDP, short-term legislation that pumps money to consumers, such as the Paycheck Protection Program, are probably the right thing to do now.

However, Americans should be very leery of proposals directed at delivering relief from the COVID-19 crises but are designed to solve what their proponents believe will alleviate long-standing poverty and unequal income distribution. While well intentioned, such legislative issues often produce unintended negative consequences for low income citizens that far exceed their benefits.

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