Economic Impacts of a COVID-19 Recovery: Thinking through Growth, Decline and Rebound Logic

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Introduction

The current pandemic that the nation and world are experiencing is a new natural and/or man-made disaster on community economic and social resilience that comes without precedence. Social restrictions to stem the growth of COVID-19 that include both social distancing and self-quarantining, shutting down economic operations of industries and public services that are not deemed essential as well as travel restrictions, have generated record unemployment claims. Moreover, the more recent evolution of labor institutions to a gig economy contract structure has only exacerbated these trends in ways that leave even more workers vulnerable. The self-employed or 1099 workforce has also been adversely impacted by the COVID-19 virus itself given a lot of the self-employed are in the service sector.

Overwhelmed health systems caught many areas unprepared to manage the rapid increase with serious illnesses. State and regional systems that were deemed able to handle slow virus transmission and spread of the virus found it incapable of managing something like COVID-19.

COVID-19 is distinctly different and many of its attributes are unknown. Since these kinds of national and international health systems are part of the natural system, one can expect that while epidemics come and go with different effects on human populations which are unique to the organism, we can expect that there will be more epidemics. As such, communities and regions need to plan how both to prepare and respond to these mass public health impact events. This monograph will focus on the latter.

As mentioned above, COVID-19 is a unique virus and therefore difficult to accurately predict its transmission and infection rates. Regions will have to be vigilant and creative in reacting to it and recovering from it. A recent New York Times interview of 20 health experts expected that the status of health in the country will be improve slowly, and therefore there will be a slow recovery. We can get some insights by looking at how rural areas have been affected by past economic downturns. The remainder of this section will focus on the range of recovery patterns that might exist given the dependencies, social assets and institutions that exist in a community or region.

One approach would be to look at how rural areas responded to major economic events in the past. While a recession and a pandemic can have very distinctly different impacts, there are some insights we can gain from investigating how rural economies responded. Two recent studies investigating community economic resilience and recovery estimated slower recovery in rural economies relative to metro areas after the last recession using resilience models (Han and Goetz, 2015; Ringwood, et al., 2018). Han and Goetz (HN) measured the drop and rebound ability across standard county population classifications. Ringwood, et al. (RWL) compared farming versus manufacturing across
county types. Basing their analysis on the comparison of drop to rebound, smaller population counties had smaller drop and relatively larger rebounds. They attributed this to simpler more established economies such as farm-based counties. The Rocky Mountain West had stable drop/rebound issues while the Far West regions tended to show less resilience and more drop/rebound issues. This could be in part due to the metropolitan concentrations in the Far West region.

RWL evaluated the pattern of resilience using both demographic characteristics and economic dependency measures. They focused on two economic dependency measures: farm versus manufacturing. HN identified that overall farming dependent counties were more resilient than non-farming dependent counties across the country in the similar demographic characteristics. As for manufacturing dependent metro areas, they were more resilient than non-metro areas. Across all regions of the US, manufacturing dependency lowered resilience relative to non-metro counties. The authors attributed this to structural changes amplified during the recession that contributed to the decline in manufacturing nationally.

**Thinking through Recovery Patterns**

So, what can we expect from COVID-19? As mentioned above, there is a difference between a recession and a pandemic, there is considerable diversity among rural areas that would suggest that recoveries can vary. Epidemics and pandemics can have a more uniformly negative affect on economies. Labor impacts strike not just a subset of industries but all or most industries. Often in economic recessions some industries are impacted more than others or not impacted at all. During the last recession, the tourism sector, for example, was impacted less than the energy sector in the West. A pandemic such as COVID-19 affects a broader swath of the labor markets and may be less geographically constrained. More limited geographic epidemics may have intense but broad impacts with a set of geographies and even industries. As such, they can have effects that more approximate a recession.

Regions where industries are concentrated around retail spending such as tourism may see negative effects in both recessions and epidemics. In the case of both casino tourism and National Park tourism could see limited impacts if the parks and casinos remain open. Conversely, in the case of COVI-19 where retail-based spending locations like Parks and casinos are shut down local impacts can be severe. Both Nevada and Wyoming are experiencing this broad level of economic downturns. Wyoming, with a population of 579,000, has to accommodate a loss of 4.02 million visitors in Yellowstone alone based on 2019 visitation records. The downturn in the last recession for Yellowstone was minor, a 2.6% drop with rebound of 4.5% the next year. Las Vegas Convention and Visitors Authority estimated a decrease in visitor volume of 58.92% from March 2019 to March 2020. For the last recession, Las Vegas Convention and Visitors Authority estimate a 3.0% decrease during the downturn with a rebound of 2.7% the next year.

In many regions, the National Forest Service are also closing more developed recreational facilities that are not already closed due to seasonal reasons to follow social distancing guidelines. However, dispersed access is still allowed. The agency will likely re-assess access to developed facilities at a later date depending on COVID-19 trends and other issues.

Mining and energy are not retail connected but are often indirectly connected to changes in retail spending. Those industries can see downturns though smaller than retail industries. Furthermore, recessions or

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1 The authors use the USDA/ERS Rural / Urban Continuum codes, USDA 2016.

![Figure 1. Friedman’s Plucking Model of economic recovery.](image-url)
pandemics do not necessarily change structural trends. Coal production declines exhibited before the recession or pandemic might not experience upturns after the recovery that may have little to with the downturn.

We know that the COVID-19 pandemic is not a recession. It could, however, push the national economies into recession. The impacts, however, could diverge from what is seen in a typical recession. The downturn and rebound that occurred during the Great Recession is not necessarily a precise map of rebound for the pandemic but it is a start. To help understand possibilities, we can use the range of different types of recovery scenarios laid out in Martin (2011).

We start with Friedman’s ‘Plucking Model’ (Figure 1) where employment or output drops due to crisis or disaster from a long-term trend. The economy sheds employment and reduces output, but then rebuilds and ultimately reaches long-term growth. This interpretation of recovery is traditional and is used often to describe recoveries at the national level.

Friedman identified the downturn and rebound as plucking a rubber band. After the event, excess labor is re-employed and growth rates accelerate until it reaches long-run growth levels. The underlying assumption is that resources and assets restart growth levels.

However, the rebound in a region, especially a small region does not have to be like the Plucking Model. Negative growth or at least a flat recovery can occur and is illustrated in Figure 2. Instead of accelerating back to long-run growth a region might see a downturn where long-run growth is restarted at a lower level (A). Long-run growth rates follow national growth rate patterns but at a lower starting level. This can happen when a primary economic base is the source for the decline and dominates a region’s economy, and the second tier economic base then becomes the prime driver of the economy. That second tier has a lower employment level to start with, then the long growth curve shifts downward.

Worse, a long-run decline (B) could occur when the negative impact affects industries across the board, and there is a loss of resources to assist communities in pivoting to newer industries and occupations. This can include the loss of public agency funds for local economic development and public finance needs, loss of K-12 schools, labor and entrepreneurial out-migration and more. Other major public good changes that can cause a decline path are a loss of school funding, degradation of the downtown, among others. The ability not to change old occupations into occupations or occupational skills needed by the high-tech or a new economy will reduce options for new growth trends by the economy. Also, lack of infrastructure such as broadband will restrict the ability to return to high-growth rates and/or participate in the new economy.

Figure 2 presents a depressing picture of decline in rural areas but Martin (2011) also presents a positive alternative to decline. Figure 3 is a picture of what we might call rural transformation. The loss of an industry
creates an opportunity for rural growth focused in other areas that capitalize on natural assets, human capital, and social assets. Also, disrupters can change ongoing economic institutions to be more efficient. An example of a disruptor is UBER. When thinking of expanding a taxicab company, the cab company owners would go to a car dealership and buy a new fleet of cars whereas UBER just adds people to their computer platform, a more efficient expansion shift for serving the public. This is the intangible asset economy that is becoming more prevalent in our new economy (Haskel and Westlake, 2017).

Examples of rural transformation in the West are not uncommon and have been the focus of other studies but they essentially involve pivoting and reorienting natural and human resources to other industry groups. One does not end support to the traditional economic base but tries to both broaden the base and facilitate changes in the traditional component base by redirecting to other markets that may be growing. For example, the decline of traditional coal or uranium mining still has different niches in each market resource that potentially could still provide a significant employment base. These could range from both non-energy uses of the resource (e.g. activated carbon from coal charring) to reclamation industry clusters. Existing water resources can be pivoted to other markets that might be more lucrative ranging from direct marketing of water for cities that need that option to protect municipal and industrial users to indirect approaches that could include the production of pumped storage for economical back-stop technologies for renewables, high-value specialty crops and livestock, and others.

New occupations or changes in occupational skills that would allow automation to add a positive force to future rural economic growth can also change the recovery rate and potential.

What Figure 3 suggests is where communities are organized around resilience the pivoting and reorientation require both State and local government involvement as well as engagement with local business leaders and entrepreneurs. What are the challenges to business retention and expansion and what can local government can do to break down those challenges?

References