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Covid-19: Lessons for the Economy via Healthcare

by Ann Dodd

Covid-19: Lessons for the Economy via Healthcare

A Storm Arrives

In my study of economics, I don't recall ever evaluating the impact of health policy or crisis on our economy. Yet, here we are. The storm of Covid-19 crept up on us quickly and violently. We are now dealing with this crisis in our country and around the world. One pauses to ponder: Economic considerations drive investments and budgets for healthcare's bottom line, but the state of the general populous' health can also be a driver of the economy. So, is it "the Economy affecting Healthcare" or "Healthcare affecting the Economy?"

The number of people who have the coronavirus is not known, because of the vast range of its symptoms, along with limited testing and diagnostic procedures. Johns Hopkins University is currently reporting US cases over 1,000,000 with deaths at nearly 70,000.ⁱ The impact on our nation and world is currently being assessed in the short term. There is an enormous toll from a functional, personal, and economic standpoint. The longer-term impact will have to be evaluated as we move away from the initial outbreak and crisis stage. What is clear is the impact that this virus is having on our economy, and that a different immediate response and a different public health crisis plan may have resulted in a better outcome.

Shortly before the Covid-19 crisis hit US shores, I wrote an article, [Making Sense of Healthcare's Long Evolution](#), explaining the continuing evolution of the US healthcare system. This was done with the perspective of better understanding the complex and ever-changing US health delivery system in order to evaluate financing opportunities. I outlined the application of this information to evaluating financial strength and credit quality of hospitals and hospital systems for the purpose of investment and credit exposure.

Oh, how the world has changed in such a short time! This article focuses on lessons learned from prior historic pandemics and how healthcare delivery and policy can have a significant impact on our economy. I will also share updated information on the impact and evaluation of healthcare systems.

Crashing Waves

In 2007, an article in *The Journal of the American Medical Association (JAMA)*, written by Dr. Anthony Fauci and other prominent researchers, states: "Although most experts believe another influenza pandemic will occur, it is difficult to predict when or where it will appear or how severe it will be... Even though concern over the emergence of H5N1 pandemic is warranted...experts must also anticipate and plan for many other possibilities for pandemic emergence." ⁱⁱ

While this and other forecasts of another pandemic were shared, the timing of such an event could not have been predicted. Also, the characteristics and impact of each pandemic, based on available historical data, has been different. Other relatively recent outbreaks such as SARS and

MERS did not cause the global, societal, and economic devastation that we now see with Covid-19. While both viruses, with higher fatality rates, left tragedies in their wake, they were not nearly as contagious and, therefore, were easier to contain.ⁱⁱⁱ The Spanish flu was very contagious, and the societal damage and death rate were enormous. However, we lack good data to study the economic consequences and recovery from this pandemic.^{iv}

Prior to the Covid-19 outbreak, our economy was in relatively good shape as measured by the unemployment rate, GDP growth, and inflation. Even so, there were some economists indicating we were heading for a recession, based on leading economic indicators such as durable goods orders and interest rate movement.^v This virus is now having very disruptive effects on the overall economy and has prompted a downward revision to global growth. Some economists are forecasting the second quarter GDP down by 40%, and an unemployment rate of 20% in April.^{vi} Small businesses are seeing severe impact since they don't have the wherewithal to withstand closing or swings in demand. The pandemic is disrupting the global supply chains and workers in affected areas, making it harder for US firms to fill orders, and slowing the demand for US products and services.

The economic disruptions caused by the virus and the increased uncertainty are being reflected in lower valuations and increased volatility in the financial markets. The effect of the coronavirus on the U.S. economy is unknowable, it poses tremendous risks. The stock market has fallen into correction territory and is expected to remain volatile as measured by the Volatility Index. The yield curve inverted earlier in the year, further indicating a worry about the longer-term outlook for the economy.^{vii}

FIGURE 4

Financial market volatility has increased over the past few months

Chicago Board Options Exchange Volatility Index (VIX), January 2019 to present



Source: Federal Reserve Bank of St. Louis, "CBOE Volatility Index: VIX," available at <https://fred.stlouisfed.org/series/VIXCLS> (last accessed March 2020).



Shaping the Shoreline

Already, decreased spending by consumers is being exacerbated by confusion and a belief that there is no real plan nor end in sight. To address the economic impact, continued financial market intervention will be needed, as well as government financial resources for households and businesses to survive. All Covid-19 initiatives – financial, human, healthcare supplies, and treatment – need to take top priority. This IS the time for deficit spending. Organized, timely, consistent, and non-political communication with the public would do a great deal to build credibility and build optimism in the general public.

On the healthcare front, public health needs to be the top priority. Making it so involves an organized process for the distribution of supplies for health providers. It also requires sufficient financial support for all provider sites (hospitals and testing) and patients who need treatment or testing. A continued mandate to limit social interaction would go far to limit the spread. There are significant lessons to be learned from the 1918 Spanish flu pandemic, based upon the information documented.^{viii}

An April 2007 news release from the National Institute of Health (NIH) discussed conclusions from studies on the 1918 pandemic:

“Cities where public health officials imposed multiple social containment measures within a few days after the first local cases were recorded cut peak weekly death rates by up to half compared with cities that waited just a few weeks to respond. Overall mortality was also lower in cities that implemented early intervention... papers suggest that a primary lesson of the 1918 influenza pandemic is that it is critical to intervene early,’ says Anthony S. Fauci, M.D., director of NIH’s National Institute of Allergy and Infectious Diseases (NIAID)...”.^{ix}

A recent article in the *Farmington Daily Times* (New Mexico) discussed and shared its own articles, related to the pandemic, from its issues on October 24 and November 28, 1918. These articles indicated, among other factors, that the Spanish flu had taught the community stark lessons. From them we learn important facts, including:

1. The community had issued an early school closing, quarantine, and ban on social gatherings that prevented the initial scourge of deaths suffered by nearby communities.
2. “The outstanding feature of the situation is absolute lack of health preparedness” and the health facilities were overwhelmed.
3. The lack of readiness was remedied by a public health physician assuming a liaison responsibility for coordinated aid, supplying physician and nurses, and delivering needed supplies to this community and others in need of aid.

4. The November 28 article addressed reopening in December, if certain conditions were met, after six weeks of closure. The cases slowed after and the community reopened assuming the pandemic had passed. ^x

When Wilson Sits at the Peace Conference They Will Have to Sit Up and Take Notice

FARMINGTON TIMES-HUSTLER

WM. BUTLER, Editor FARMINGTON, NEW MEXICO, THURSDAY, NOVEMBER 28, 1918 Vol 29 No. 31

Fought Thru the Argonne Forest

Rev. W. B. Hayes, head Episcopal mission, received the following letter from his son in France.

Paris, Oct. 6, 1918.

Dear Mother—Some time has elapsed since I last wrote you; but I know you will forgive me when I tell you how busy I have been. I have the St. Michael and great peace drive. In the forest we were more troops; and as Fritz got up hills on our machine we were never called into action, but were kept on the move, all the while keeping in position.

We were then trashed over to the Argonne forest, where we were in the first week from Ypres to Hill, just west of Verdun. We were in the drive for six days when we reached Barrois, after which our way through the Argonne forest region, the last day being right on to France. The French and British had advanced this place in the beginning of the war as it was probable, but the Americans made the Germans "take it" in their own strength. We were opposed by Berlin divisions of the Prussian Guard, the Reserve of the German army, so we got pretty good over our noses. We had tough opposition, however, all the way, and I had a lot of narrow escapes. In fact, the six days were full of the most hair-raising happenings. We had a good many men.

How I came here is all in my mind—had some blows in the line all around me every day, and on one occasion my machine gun was blown off my back by a shell and my nose cracked. I was nearly dead, but I was saved by the machine gun.

I was nearly as my Testament, Prayer Book and hymnal were blown to pieces in my pack.

Now that we are in a lull some getting fixed up preparatory to going back into the thick of it, I write my mother tonight, "good night."

I didn't get much sleep while on the front—four hours during the first fortnight. I was "well" in the morning, but I had a headache and after lying out in the weather for weeks, I was very sore most of the time.

When I don't walk there, I find footmen are too tall, yet I am willing to suffer them. In some cases I find my shoes are too tight, but I am sure I will get a lot of use out of them.

Min. Miss Woodhouse says from the St. Michael school the lighter sort of tank work for a short time. She has been wearing the St. Michael look at the St. Michael and Toland schools.

FLU EPIDEMIC PASSES AND BAN IS REMOVED

After a week's quarantine, the ban on meetings, churches, schools and schools will be lifted Monday, December 2, by order of the county health physician and the mayor of Farmington. Due to the timely precautions taken by our officials and physicians, the flu did not make a great headway here, and most of the cases reported were of a mild nature. In Farmington usually there were only a few cases. The following is the official order of the Board of Health:

Public Health Notice Rescinding Order of October 10, 1918.

After advising with all the doctors in the county and the Mayor of Farmington, regarding the influenza epidemic, that County Health Physician, deems it advisable to rescind the CLASIFIED ORDER of October 10th, and permit the opening of all Public Schools, Churches, etc., on and after Monday, December 2, 1918.

If in certain school districts in the county the situation does not warrant the opening of the schools, the school directors of such districts may order their districts as to date of opening. In such cases all other public assemblies shall remain closed in this district until such notice is given.

The teachers of the county are hereby requested to inform themselves on the symptoms of influenza, and to hold their children from the first indication of the disease. Some of the leading symptoms are as follows: Firstly the attack is sudden, some children feel tired by fever, swelling of the head, loss and fever, vomiting of the small intestine, vomiting and in the local symptoms of the disease, influenza, etc. The first symptoms are very similar to an ordinary cold. A few days would be to see any child become whooping cough or any other disease, and in the case of influenza, the symptoms are very similar to an ordinary cold. It is due to the influenza epidemic, given the health officer by the doctor, school directors, and the public in general. This order of only and temporary nature will always apply.

W. B. TAYLOR, M. D., County Health Physician
Approved by the Board of Health.
and E. P. Woods, Mayor of Farmington.

Seasonable Suggestions

Ranges	Cook Stoves
Heaters	Furniture
Kitchen Cabinets	Beds
Sweaters	Winter Underwear
Wool Socks	Overshoes
Mackinaws	
Cow Boy Boots	Shoes
Colthing	Hats Caps Gloves

OUR STOCK IS COMPLETE

Hunter Mercantile Company

Flu Situation in New Mexico

The influenza epidemic in all parts of New Mexico and it has been in some measure limited by our officials and physicians, but by preventable disease, New Mexico has had a lot of narrow escapes. In fact, the six days were full of the most hair-raising happenings. We had a good many men.

How I came here is all in my mind—had some blows in the line all around me every day, and on one occasion my machine gun was blown off my back by a shell and my nose cracked. I was nearly dead, but I was saved by the machine gun.

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Min. Miss Woodhouse says from the St. Michael school the lighter sort of tank work for a short time. She has been wearing the St. Michael look at the St. Michael and Toland schools.

Of course, this is just a piece of the 1918 story. The region cited failed to recognize there could be another outbreak. In 1919, another, more virulent wave hit. There were no vaccines at that time, and health treatment and communications were far less sophisticated.

This pandemic toll on human life was enormous – estimated at 50-100 million lives lost globally with a population just a third of what it is today. ^{xi}

Many parallels remain to the pandemic a century ago. The Spanish flu spread internationally through ships carrying WWI soldiers from port to port and home. Very large outbreaks and death rates occurred in densely populated areas, triggered by large gatherings, such as a parade in Philadelphia. History suggests that the pandemic ended by the individuals either dying or producing the antibody. The article from Farmington indicates that social isolation and intervention, like what is being recommended today, was effective.

Economic parallels with Spanish flu pandemic are difficult to find. A report by the St. Louis Federal Reserve, derived from a number of

newspaper articles around the country indicates: "Most of the evidence indicates that the economic effects of the 1918 influenza pandemic were short-term. Many businesses, especially those in the service and entertainment industries, suffered double-digit losses in revenue. Other businesses that specialized in health care products experienced an increase in revenues." ^{xii}

Conditions Today

It is already clear that the ongoing healthcare crisis will have serious consequences for the US economy. All pieces of the healthcare delivery system in the US will be affected. With that in

mind, let's take an updated look at evaluating financial strength and credit quality of hospitals and hospital systems.

In my February 2020 article, I outlined considerations and questions to address in order to analyze the credit quality of a hospital or health care system. All questions listed there remain important, but now, due to the coronavirus, there are additional considerations and a new perspective that are needed when evaluating these entities over the next couple of years. Careful selection is required, as is keeping abreast of Federal, State, and local payment, regulatory, and market conditions. Strong and strategic organizations should continue to do well, long-term, and still represent good investments. Providing healthcare is, and will remain, an important part of our communal well-being and our economy.

Some likely changes and additional considerations:

1. Financial metrics will diminish, at least for this calendar year. Operating margins will be negative. Drivers of each measure need to be understood along with how, and how long, it will take to get back to "normal".
2. Costs are expected to increase substantially. Reasons for this include high costs for labor and supplies. Nursing costs are high due to high occupancy and high demand. Additional nurses and other staff are sourced through per diem agencies at much higher cost. Needed supplies, equipment, and safety gear are being bid up to higher prices.
3. Revenues will likely decrease since elective medical procedures are being delayed. This is being done to contain infections and to free available space for Covid-19 patients. The elective procedures generally bring in higher revenues which improve the hospitals' bottom lines.
4. Liquidity is decreasing due to high cash outlay for increasing expenses. The significant market decline will make many systems borrow short term rather than liquidate any of their investment portfolio.
5. The actual impact will be determined by the duration of the pandemic, the amount and type of government subsidies, and the method of distribution of these subsidies.

There may be some differences of opinion on whether this is a "risky business." I, for one, continue to believe it is a solid business that is critical to our well-being and will remain a large and important part of our economy. Major systems continue to be good investments, and perception may drive returns higher than comparable risk. There may be changes in some systems' business affiliates due to experience and segment financial performance during the pandemic. Discussing and understanding rationale and strategy is critical.

Energy from the Waves

Predicting the future of our economy – whether on the enterprise or the macro level – at a time of such unprecedented disruption to public health and safety is perilous. One economic report states: “It’s hard enough being an economist without also having to be an epidemiologist... The main downside risk to the forecast is that the efforts to mitigate the spread of the virus take a greater toll on financial market confidence and carry a longer duration across a broad set of countries. Our baseline forecast is pinned to economic disruptions persisting through April, with the recovery taking hold thereafter. If we are wrong on the period of disruption, then the economic pain will be more severe... there could also be some unexpected surprises to the upside in the months ahead. The outlook now incorporates significant monetary and fiscal stimulus. As these measures feed through the economy with lags and linger, it’s quite possible that the recovery stage of the economy later this year proves stronger than expected”.^{xiii}

As always, there are variables and assumptions in every forecast. What is critical here is the link between population health and the economy. At the moment, this link does not appear to be in policy setting.

My prior article addressed the ever evolving and loosely structured US healthcare system. In it, I stated that – unlike many other countries – the US never set up a system with an overt public health objective. It appears to be time for that evolution to begin. The Covid-19 pandemic illustrates this need from a human, societal, healthcare, and economic standpoint. An individual’s health is affected by the health of all those around us, access to health providers helps prevent and contain illness, investment and research in causes and cures for illnesses, and crisis planning is always needed. Global health initiatives need to be coordinated. Based on my many years professionally following the healthcare industry and the parallels between the Covid-19 pandemic and the Spanish flu, I believe it is time for policy change to define, incorporate, and expand public health. Investments in public health will provide a very good ROI. It can save money, lives, and our economy.

Stay healthy!

About the Author: Ann Dodd

With 30+ years of financial services experience, combined with problem solving, needs analysis, writing and communications skills, Ann Dodd provides the expertise to plan and structure solutions to achieve measurable goals. She has a proven, consistent record of establishing mutually beneficial relationships in sales; comprehensive expertise in financial solutions and products; and exceptional leadership and management skills.



Ann has designed and facilitated learning programs in credit; pension and 403b plans, and financial management. She has also worked on the development of Basel II compliant internal grading scorecards, and has been a subject matter expert for numerous specialized industry scorecards due to their unique credit characteristics. She has led teams of credit professionals in risk assessment of loan portfolios for sale, and assisted with credit asset reviews for banks. In addition to her own consulting business, Riosca Training and Consulting, Ann has extensive financial services experience with Wells Fargo Corporation where she managed and approved credit risk for clients in both the Corporate and Investment Banking Healthcare and the Not-for-Profit Healthcare groups; Toronto Dominion Bank where she was a Senior Credit Officer in Corporate Banking; and Bankers Trust where she was trained and started her banking career.

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