



Florida TaxWatch
 ECONOMIC COMMENTARY

State COVID-19 Restrictions & the Road Back to Economic Normal

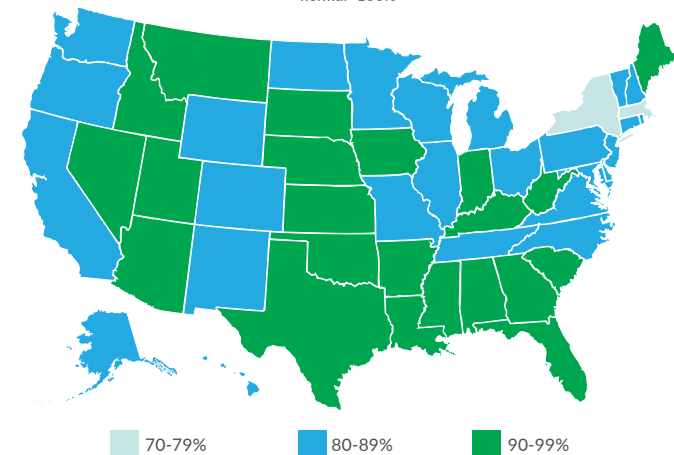
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IN THE PAST YEAR, THE COVID-19 PANDEMIC HAS GREATLY CHANGED THE WORLD, with much of the country implementing various measures to minimize the negative health and economic impacts of widespread infection. State responses to the pandemic have been diverse and complex, with some instituting strict restrictions on businesses and others rolling back restrictions at a faster pace. At the same time, vaccine rollouts are accelerating, and state economic recoveries seem to be on varied paths with some approaching pre-pandemic levels of employment faster than others. The present analysis offers a cursory look at the relationship between state COVID-19 restrictions and their respective economic recoveries by running a preliminary correlation test between the two measures.

COVID-19 STATE RESTRICTIONS AND BACK-TO-NORMAL INDEX

CNN and Moody's Analytics maintain a Back-to-Normal index that measures how close states are to their pre-pandemic economic levels in March 2020 (See Figure 1).¹ Scores range from 0 to 100 percent with a score of 100 indicating the state's economy is at 100 percent of its pre-pandemic level. The index is calculated at both a national and state level. The national index is more in-depth and uses thirteen metrics ranging from business confidence to a Gross Domestic Product (GDP) model. The state level index is made up of seven metrics, including the national index score, state-level employment, unemployment insurance

FIGURE 1. PERCENT OF THE WAY BACK TO NORMAL
 normal=100%



Source: CNN and Moody's Analytics (as of April 2)

¹ CNN Business, Tracking America's Recovery: Back-to-Normal Index, Accessed Apr. 2, 2021. <https://www.cnn.com/business/us-economic-recovery-coronavirus>

claims, seated restaurants open, and more.² The Back-to-Normal Index provides a general view of each state's economic health and serves as a basic proxy for economic recovery to date. As shown in Figure 1 (previous page), states in the South and Midwest tend to have higher scores, signaling stronger economic recoveries so far, relative to lighter shaded states along the west coast and northeast. As of the beginning of April, Florida ranked number one on the list and had a score of 97.4 percent, suggesting Florida is close to pre-pandemic economic levels.³

WalletHub produces a separate index that ranks states with the fewest COVID-19 restrictions.⁴ The index provides scores on a scale of 1 to 100 points, with higher scores indicating the state has fewer COVID-19 restrictions. Restrictions, in this case, refer to factors such as whether a state currently has face mask requirements, travel restrictions, bans on large gatherings, or restaurant closures in place. In total, there are fourteen metrics of which, re-openings of restaurants and bars, limits on gatherings, and shelter in place orders are weighted the heaviest in the scores.

Of all fifty states, Iowa leads the list in having the fewest number of COVID-19 restrictions (See Table 1). Florida and Texas occupy the second and fifth spots, respectively, and are the biggest states on the top ten list in terms of state population. In Florida, a state with relatively fewer COVID-19 restrictions, the state has a score of 90.70, placing it second on the list. The same analysis found that the most restrictive states at the bottom of the list were New York, Washington, Virginia, Delaware, and Vermont.

TABLE 1. TOP 10 STATES WITH FEWEST COVID-19 RESTRICTIONS

Rank	State	Score
1	Iowa	95.97
2	Florida	90.70
3	Wyoming	90.16
4	South Dakota	89.15
5	Texas	88.37
6	Alaska	87.83
7	South Carolina	87.02
8	Mississippi	85.66
9	Oklahoma	85.66
10	Montana	84.11

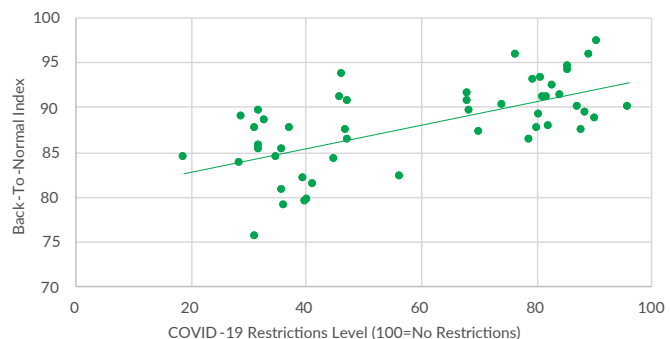
Source: WalletHub (as of April 6)⁵

CORRELATION BETWEEN RESTRICTIONS AND RECOVERY

The most basic way to study the potential relationship between a state's level of COVID-19 restrictions and economic recovery is through a simple correlation test. This test compares the two indices and allows for general inference as to whether there is a positive or negative correlation between the two measures. It should be noted at the onset that this correlation test does not seek to measure the relationship between state COVID-19 restrictions and resulting public health outcomes, such as death rates. Rather, the test merely seeks to analyze the relationship from an economic standpoint. The correlation test shows a moderately positive relationship with a correlation coefficient of 0.65 (See Figure 2).⁵ This positive correlation means states with fewer COVID-19 restrictions are typically found to have stronger economic recoveries.

These states are found in the upper right portion of the graph. Even with a moderately high correlation score, however, we cannot say having fewer COVID-19 restrictions is the actual cause of a quicker recovery because correlation does not indicate causation. It is impossible to deduce an exact cause-and-effect process based solely off the correlation of these two variables, but there is a relatively strong positive association based on the data at hand.

FIG 2. CORRELATION BETWEEN STATE COVID-19 RESTRICTIONS & ECONOMIC RECOVERIES



Source: Florida TaxWatch calculations

² For a full explanation of the index's methodology, visit Moody's Analytics: <https://www.moodyanalytics.com/-/media/whitepaper/2020/back-to-normal-index-methodology>
³ CNN Business, Tracking America's Recovery: Back-to-Normal Index, Accessed Apr. 2, 2021. <https://www.cnn.com/business/us-economic-recovery-coronavirus>. NOTE: the data for this index is likely to have changed slightly since this paper accessed it on April 2.
⁴ WalletHub, States with the Fewest Coronavirus Restrictions, Updated Apr. 6, 2021. <https://wallethub.com/edu/states-coronavirus-restrictions/73818>. NOTE: the data for this index is likely to have changed slightly since this paper accessed it on April 6.
⁵ The correlation coefficient uses data as of April 6, 2021. An identical test using more updated data may produce slightly different results.

Even after controlling for the rate of new COVID-19 cases per state,⁶ the linear relationship between the two variables is still statistically significant.

Another way to study this association is by comparing states that have larger population sizes and economies but responded differently with restrictions. For example, two large states with relatively more lenient COVID-19 restrictions are Florida and Texas, and two large states with relatively more strict restrictions are New York and California. Of these four states, Florida is the closest to having complete economic recovery with a Back-to-Normal score of 97 percent—well above the national average of 87 percent. Florida is also ranked second in terms of the fewest COVID-19 restrictions, which follows our correlation trend. Texas is ranked the fifth in the nation for economic recovery and is known to have a lack of strict restrictions. California and New York both have COVID-19 restriction scores of 31 and are known to be some of the strictest states in the country based on the data from WalletHub. Their economies are recovering slower than the average.

ANALYSIS AND IMPLICATIONS FOR COVID-19 RECOVERY

Overall the data suggest that states implementing stricter COVID-19 guidelines are recovering at slower speeds compared to states that have lifted restrictions sooner. Even though the correlational results should be viewed with a degree of caution, it is worth understanding this trend in the data. The effect of restrictions on employment outcomes, especially among small businesses, appears to be driving the relationship in the results. For both measures—both the Back-to-Normal index and the state restriction level—employment is heavily weighted. As such, state measures that negatively impact local employment are likely to hurt economic recovery efforts. According to the Federal Reserve,⁷ there is evidence that small businesses fared better in states with less-stringent restrictions compared to more restrictive states. Severe restrictions limited mobility and local commerce, placing an inordinate strain on small businesses who did not have adequate cash reserves and the ability to boost customer traffic.

It is also important to study the unequal effects that state COVID-19 restrictions have had on various subsets of the population. Evidence suggests that more restrictive COVID-19 shutdowns disproportionately affected low-income households during the pandemic's earliest months, especially for Black households.⁸ Unlike high-income families, these households in low-income areas were less able to switch to remote work throughout the pandemic, and as a result, faced greater job loss, food insecurity, and higher indebtedness.⁹

CONCLUSIONS

Across the U.S., states will continue to grapple with differing economic recoveries even as the pace of vaccine administration quickens. Cross-country and cross-state research studies seem to suggest that although stay-at-home orders, lockdowns, and other restrictions can minimize the transmission of the virus and reduce health care utilization, these measures come with economic and societal costs that may hamper economic recoveries.¹⁰ Tradeoffs between restrictions and recovery exist and warrant more evidence-based research to understand their complex relationship. The emergence of more contagious virus strains coupled with an imprecise timeline for widespread herd immunity means the “health and wealth” tradeoffs debate will continue for the foreseeable future. For Florida specifically, the decision to maintain relatively fewer COVID-19 restrictions throughout the course of the pandemic, has positioned the state in a stronger economic recovery relative to other states.

⁶ Source: Statista, Rate of Coronavirus (COVID-19) Cases in the United States as of April 16, 2021, by State (per 100,000 people). Methodology: In a statistics software, we regress Back-to-Normal index scores on Restrictions and New Cases and find that the Restrictions variable is still statistically significant with a p-value < 0.01.

⁷ Board of Governors of the Federal Reserve System, The Economic Outlook and Prospects for Small Business Speech by Governor Michelle W. Bowman, Mar. 22, 2021.

⁸ Princeton University, “COVID-19 Shutdowns Disproportionately Affected Low-Income Black Households,” Nov. 30, 2020. <https://www.princeton.edu/news/2020/11/30/covid-19-shutdowns-disproportionately-affected-low-income-black-households>

⁹ Ibid.

¹⁰ International Monetary Fund, The Great Lockdown: Dissecting the Economic Effects, Oct. 2020; (2) Vanderbilt University, “State-by-State Decisions on Shutdowns to Minimize COVID’s Economic Impacts,”

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