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EDITORIAL

The Case for a Temporary COVID-19 Income Tax Levy Now, During the Crisis

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1 Introduction

Governments' handling of the novel coronavirus 2019 (COVID-19) pandemic can be debated, but most countries have now implemented strategies that significantly restrict social interaction to limit the spread of the coronavirus. Concerns are now growing about the effects of these strategies on the economy and the associated effects on social determinants of health. Governments and communities may be willing to spend to counter the immediate effects of the crisis on social determinants of health, but the opportunity costs of such spending will be significant forgone benefits in the future, associated with reduced access to healthcare and reduced spending to address social determinants of health.

One policy option that could reduce the longer-term consequences of increased government spending in response to the crisis is a temporary COVID-19 income tax levy. Two broad characteristics of the COVID-19 crisis suggest that the implementation of an income tax levy now, during the crisis, is a positive policy option.

2 Constrained Consumption

It has been noted that we are at war with the coronavirus, and an important economic aspect of life during the COVID-19 crisis resembles conditions during the world wars: constrained opportunities to consume. Social distancing advice and regulations have resulted in the closure of shops, restaurants and bars and virtually no opportunities for travel.

The main argument against raising income tax is that it reduces incentives to work, which reduces economic activity, which reduces living standards and government revenues in the longer term [1]. The evidence on the overall effects of tax increases on population wellbeing and government revenues is highly uncertain. However, the effects of a temporary COVID-19 income tax levy may be more predictable: the constraint on individuals' ability to consume and maintain economic activity reduces the likelihood that a temporary COVID-19 income tax levy will reduce economic activity during the crisis.

This means increased tax revenue collected during the crisis is unlikely to displace economic activity or reduce population wellbeing and longer-term government revenue. A temporary levy is proposed, meaning it can be removed at the point at which constraints on consumption are relaxed and economies require increased spending to boost the recovery.

3 Equity and Externalities

Another important characteristic of the economic impact of the COVID-19 crisis is that it is unevenly distributed. Incomes for the majority of the working population are unaffected, but a significant minority of the population are losing their working income—recent estimates in the USA suggest the unemployment rate will increase from 3.5 to 20% [2]. It is clear that the economic effects of the COVID-19 crisis are predominantly falling on low-income earners. Research on the longer-term effects of natural disasters found that most people never make up the income they lose in times of crisis [3]. The magnitude of the COVID-19 crisis means that large increases in inequalities are expected.

Most people feel a natural empathy when other people become unemployed due to external forces, but news of job losses is generally not a common event, and people move on with their lives without having to consider the consequences more deeply. Given the scale of the current and expected job losses, I detect a stronger reaction in the current climate. Almost everyone knows someone who has become

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unemployed, and the effects of the COVID-19 pandemic on the economy is consistently in the news. People remaining in employment are experiencing negative externalities from the large-scale increase in unemployment. The utility function of individuals who remain employed is being reduced by the effects of the pandemic on the people who have become unemployed.

Many employed individuals are trying to support local businesses directly, but the extent to which this is possible is clearly limited. Individuals can donate more to charities, but perceptions about the extent to which charities are able to support unemployed people and the marginal effects of individual contributions may limit the extent to which such contributions reduce the negative externalities of the economic effects of the COVID-19 pandemic.

The introduction of a COVID-19 income tax levy provides employed individuals with the knowledge that they are supporting those most affected by the COVID-19 crisis through their government's stimulus and support packages. The size of a COVID-19 levy would need to be determined (my preference is that households in the lowest income quintile would be exempted, with a 1% levy applied to the second quintile rising linearly to 4% for highest quintile), but the understanding that employed individuals are contributing to the effort to reduce the effects of an ongoing crisis, relative to their ability to contribute, may further reduce negative externalities.

4 Silver Lining?

The characteristics of the economic effects of the COVID-19 pandemic—constrained consumption and the negative externalities associated with widespread unemployment and worsening social determinants of health—inform an expectation that temporary income tax levies will increase population wellbeing over the medium term, i.e. the next 5–10 years. In addition to the direct effect of induced constraints on consumption limiting our ability to spend our way out of the economic crisis, constrained consumption also further diminishes the marginal utility of income [4]. This means that the disutility of paying additional income tax during the COVID-19 crisis is reduced relative to the disutility of paying more income tax in normal times.

The COVID-19 crisis is a waiting game—economies cannot start to recover until the pandemic is under control and social distancing practices and regulations are removed. This waiting period provides an opportunity to act to reduce the effects of the crisis on government deficits, worsening social determinants of health and increasing inequalities over the medium term, but it may also provide an opportunity for governments to reduce social divisions that appear to have been growing in recent years.

Prior to the COVID-19 crisis, increasing partisanship was a common topic. In the USA, the Pew Research Center reported "intense partisan division and animosity" during the 2016 presidential campaign, which had further deepened by October 2019—almost 60% of respondents said that members of the opposing political party did not share the same non-political values and goals [5]. Media commentaries in other countries such as Australia also reflected on the "downward turn in the civility of discourse" [6]. This manifested in the form of panic buying and viral videos of supermarket confrontations in the early stages of the crisis.

In only December last year, Frank Newport observed that "At some point, our society must balance the internal conflict resulting from differences in partisans' views of the world with a broader agreement on how we as a society adapt to external threats and achieve societal objectives. What will it take to do that?" [7]. The COVID-19 pandemic may be the required turning point, providing a catalyst for societies to reflect and realize that there is a need and a desire for people to show compassion and come together (figuratively, not literally) to get through this crisis. This may be the silver lining of the COVID-19 pandemic. A COVID-19 income tax levy may provide one mechanism by which governments can ignite the catalyst, supporting an all-encompassing communal response to this all-encompassing event.

Compliance with Ethical Standards

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