

Ryan J. Owens and Eric C. Tempelis: Public emergency reforms

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During public emergencies, governments often provide financial assistance to businesses and individuals. We face a serious and growing threat, however. Our federal and state government are incurring debt to such a degree that they may be unable to marshal effective public responses to future emergencies. To protect us against this likelihood, Wisconsin should consider adopting policies that save taxpayers money yet leave us financially secure to respond to future public emergencies. One such policy would be to reform Wisconsin's business interruption insurance system.

If recent history is any guide, public emergencies will continue to trigger increased government spending to support those affected.

The federal government's response to the 2008 Great Recession [cost](#) \$3.4 trillion over a four-year period. The post-9/11 airline bailout [cost](#) \$15 billion. The governmental response to COVID-19 also was massive. In an effort to forestall (even greater) economic calamities, Congress passed and President Trump signed the [Coronavirus Aid, Relief and Economic Security](#) (CARES) Act, which [allocated](#) \$2.6 trillion in federal money to individuals, businesses, and others. Last month Congress passed and President Trump signed additional coronavirus relief that includes a [reported](#) \$1.4 trillion in government funding. The state of Wisconsin also intervened financially by disbursing \$4.68 billion in [unemployment payments](#) during the pandemic.

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The problem is that our federal and state government are going so far into debt that they may be unable to respond with effective public resources in future emergencies.

By almost any account, our public indebtedness is alarming. Experts often view the financial health of the federal government by examining how much debt it carries relative to gross domestic product (GDP), with the goal of carrying debt well below 100% of the country's GDP. For example, the [European Union](#) encourages its member countries to maintain debt-to-GDP no greater than 60%. Unfortunately, U.S. debt-to-GDP today is [127%](#) and [growing](#). At the state level, Wisconsin recently [reported](#) "the State's General Fund is no longer running a deficit for the first time since the Thompson Administration." At the moment, however, Wisconsin's credit rating remains AA (half of the states earn higher AAA and AA+ ratings).

Put simply, government's power to respond financially to public emergencies is becoming increasingly untenable because of our growing indebtedness. Taxpayers alone cannot continue to shoulder such significant spending in the wake of crises. They need help.

Wisconsin's policymakers should take action to protect taxpayers, employers, and employees by giving [business interruption insurance](#) a more prominent role in the state's emergency response plan. Doing so can insure our businesses against interruption, ensure that our people obtain and retain jobs even during crises, and reduce some of the fiscal risks that can undermine our budget.

Business interruption insurance covers loss of net profit and payment of expenses "if the business premises, vital business equipment, or other business property becomes unusable because of a fire, explosion, or similar covered property peril." The goal of business interruption insurance is to make the business owner whole by covering what the business would have done had it not suffered an interruption.

Many businesses, however, [lack](#) business interruption insurance. A recent survey, for example, reported two-third of small businesses lack coverage. This is regrettable, as businesses are shuttering in record numbers. Yelp recently [reported](#) that 60% of the businesses that have closed since the pandemic began are not expected to reopen. That means a loss of jobs, a loss of healthcare, and a loss of economic independence for our friends and neighbors, many of whom may be forced on to public assistance.

The point of business interruption insurance, from a public policy perspective, is to spread the cost of business interruptions (from crises and other events) such that it does not fall entirely on the taxpayer. [One study](#) suggests that nationwide insurance premiums would have covered 38.4% of the \$1 trillion in COVID losses. A [separate report](#) suggests, more positively, that Wisconsin's premiums would cover roughly 76% of its costs. We cannot expect the public fisc to bear the brunt of crises alone. We need to determine where private insurance can play a greater role.

[In a series](#) convened by the Tommy G. Thompson Center on Public Leadership, we learned that Wisconsin could adopt legislation to provide a fair, moderate, and immediate recovery for every participating Wisconsin business impacted by an emergency. And it could do so while also benefiting insurers.

The solution resembles an insurance system Wisconsin has used for decades. In 1975, Wisconsin created the Injured Patients & Families Compensation Fund (IPFCF) "in response to concerns over the cost and availability of medical malpractice insurance." Funds of this kind, known as [excess coverage or excess liability funds](#), pay for judgments or settlements that exceed a statutorily established amount. Medical providers, school district and municipal governments have joined together to established liability funds of this kind in other states.

Wisconsin's IPFCF is valuable and secure. Right now, it holds a value of \$1 billion despite paying 673 claims totaling \$874.9 over almost a half century. Its [primary sources of income](#) are the assessments collected from fund participants and investment income. And Wisconsin law protects the fund as a property interest of participants so that it cannot be raided for other purposes.

A Wisconsin business interruption system similarly modeled could cover businesses and their employees during times of crises. It could include caps on recoveries from primary insurance; an irrevocable state Public Emergency Trust Fund to insure participating businesses beyond insurance thresholds established by statute; and a Board of Governors chaired by the Commissioner of Insurance. The fund could include discretionary caps on recovery set by the Board of Governors during public emergencies. Taken together, the insurance program could keep money set aside for times of trouble, and thereby require less from the taxpayers to respond with assistance to businesses and their employees.

Every dollar the government spends comes out of someone's pocket—and when it borrows substantial money to cover current costs, it sticks future generations with

the bill. We know future crises will come. We should do what we can to protect ourselves economically. Wisconsin should re-examine and prioritize its business interruption insurance system because a well-designed and capitalized system can help keep businesses afloat without straining public coffers at a time when governments can least afford it.

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