



The Daily Dish

The Economics of Pandemics

DOUGLAS HOLTZ-EAKIN | JANUARY 24, 2020

Eakinomics: The Economics of Pandemics

The outbreak of the coronavirus in China and the incidence of a U.S.-based case is eerily reminiscent of the onset of the Ebola outbreak a few years ago. Coronavirus has prompted considerable concern over its [impact on the economy of China](#). A slowdown in China will have global consequences, for sure. But the potential for a coronavirus pandemic raises concerns about U.S. preparedness. (As an aside, the difference between an epidemic and a pandemic is that a pandemic is an epidemic on steroids. In particular, the incidence of new cases gets extremely large and the disease spreads over a wide geographic area.) There were three pandemics in the 20th century: the Spanish Influenza of 1918, the Asian Influenza in 1957, and the Hong Kong Influenza of 1968.

In broad terms, the economic impact comes from two areas. On the supply side of the economy, the pandemic harms the supply of labor, both temporarily – some workers get ill but recover – and permanently – sadly, there will be fatalities. With fewer workers and hours, the economy shrinks. The second area is reduced spending, that is, a drop in demand. The prevalence of the disease leads people to “self-quarantine” – they stop going to movies, restaurants, malls, and other public places. There are severe reductions in the entertainment business and smaller impacts elsewhere in the retail economy. (As China has moved toward a more consumer-oriented economy, it has simultaneously experienced a greater exposure to economic damage from this channel.) A while back, in work looking at avian flu, the Congressional Budget Office estimated the [effects](#) at between 1.5 and 5 percent of gross domestic product. The good news is that this impact is easily reversed as the pandemic is brought under control.

What should policymakers do? The first step is public health measures to cut off the spread of the disease. In other circumstances, for example, ramping up the production of vaccines is important. In setting priorities, the health perspective makes immunizing first responders the top priority. From an economic perspective, however, it is important to keep the supply chains running. The economic perspective puts a priority on air, train, trucking, and other shipping personnel. The second step is to build the response capacity of the health system with more hospital beds, personnel, and supplies.

Hopefully the coronavirus will be quickly contained. Regardless, however, there are steps that the United States should be planning to implement if needed.