THEN & NOW

Pandemic Economics

As the spread of the coronavirus disease (COVID-19) continues to emerge, global financial markets have reacted in ways not seen since the financial crisis of 2008. Talk of double-digit unemployment rates and steep drops in GDP – not considered since the Great Depression – have emerged. But fully understanding the potential future economic impact of the virus remains difficult as spread of a disease on this scale is unprecedented in the modern world. The closest parallel may be the 1918 influenza pandemic popularly known as the Spanish flu (because it was first reported in Spanish newspapers). So what are the lessons from this historical pandemic for economic historians today?

The 1918 flu was the last truly global pandemic, its potency exacerbated in an era before the existence of international public health bodies such as the World Health Organization, or social media coverage about the disease and how to combat it. About one-third of the world's population caught this acute respiratory tract infection. Conservative estimates put the death toll for the Spanish flu at 50 million, substantially more than the 6-13 million people that died during the First World War.

The immediate economic consequences of 1918 stemmed from the disruption surrounding the spread of the flu. Large US cities, including New York and Philadelphia, were essentially shut down. As during the COVID-19 pandemic, businesses were closed, sporting events canceled and private gatherings – including funerals – banned to slow the spread of the disease.

In a pandemic, the circular flow of income and product slows down. Illness cuts into the labor force and less is

produced. In turn, paychecks dry up or disappear and consumers cut back on their spending. Reduced spending feeds into still lower production.

In Chapter 20 of *Economic Episodes in American History*, we explained that there are reductions both in aggregate supply (the total production of goods and services offered for sale) and in aggregate demand (the amount that consumers spend on all goods and services). But even as these totals are falling, particular goods and services see an increase in demand – everything from disinfecting materials and critical healthcare supplies to on-time deliveries and nonperishable foods.

Can an economy recover from a pandemic? Economic reasoning suggests that the answer is "yes." Widespread illness takes its toll on the labor force, and yet an economy's capital stock and basic institutions remain in place. When the disease has run its course, economic activity resumes. The short-term disruptions from stopping the spread of the disease may then pay off in greater economic growth. From 1918-1921 pandemic saw national output decline by 5.5 percent. But by 1922, economic growth had snapped back to almost 16 percent, setting the stage for the "Roaring Twenties" that saw output and income soar to new heights (see Chapter 19). The same rebounds occurred for pandemics in 1957, 1968 and 2009.

As 2020's pandemic developed, no one could tell the ultimate effect on the economy. But if strong institutions and property rights prevailed, the smart money was on an eventual and perhaps even quick recovery after the disease came under control.

THEN & NOW QUESTIONS for DISCUSSION

1. In the reaction to the 2020 pandemic, people demand more disinfecting supplies and personal care items. Does that mean the aggregate or total demand increased?
2. What sectors of the economy are most affected (positively and negatively) by health pandemics?
3. How are the economic effects of the COVID-19 pandemic similar to, and different from, the Spanish Flu?

ANSWERS

1. *No. Even as the demands for a small number of particular goods and services were rising, people were buying much less of many other goods, from air travel to restaurant meals. The overall total of spending declined sharply, and that is what matters for aggregate demand.*

2. *Accept a variety of answers. Positively affected sectors would include those associated with disinfecting and reacting to the pandemic. Grocery stores were busy trying to keep shelves stocked. With social distancing in place, many consumers turned to companies like Amazon for purchases. Negatively affected sectors would include transportation, entertainment, and luxury goods in general.*

3. *Accept a variety of answers. Both outbreaks involve a reduction in aggregate supply and demand and therefore in economic output. The differences have to do mainly with changes in medicine, transportation and technology. These changes make it easier for a pandemic to spread internationally, but also make it possible for knowledge and cures to be adopted quickly.*

Web Resources

History of Pandemics:
https://www.cdc.gov/flu/pandemic-resources/basics/past-pandemics.html

Content from the Center for Disease Control and Prevention (CDC) and National Center for Immunization and Respiratory Diseases (NCIRD)