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The Economic Consequences of the Coronavirus

by Richard W. Rahn

WHY THE UNITED STATES MUST BE CONCERNED ABOUT CORONAVIRUS' NEGATIVE IMPACT ON THE WORLD ECONOMY

The stock market (Dow 30) dropped by more than 600 points this past Friday — allegedly because of greater concerns about the coronavirus outbreak which is centered in China. How big of an economic impact is it likely to have in the United States?

A few are arguing, such as Commerce Secretary Wilbur Ross, that it could be beneficial to America. Mr. Ross and his ilk have a zero-sum view of the world — in that for some to benefit others must lose. Such thinking is common among socialists — but a billionaire capitalist like Mr. Ross should know better.

Economic growth in one country tends also to benefit all who sell to them — a bigger market — and also benefits others from the increased supply of goods and services that the growing economy provides the rest of the world. Fifty years ago, an epidemic that was largely confined to China would have had little impact in the United States and most of the rest of the world. But that is no longer true as China has grown to be the world's second-largest economy.

Assuming that the U.S. public health defenses are sufficiently robust to largely contain viruses coming from China and elsewhere, the health effect may not be any greater than normal winter flu viruses that infect many Americans. However, the United States still needs to be deeply concerned, primarily for humanitarian reasons, but also for the potential negative impact on the world economy, including America.

The last great influenza pandemic was a little more than a century ago, in 1918 — the "Spanish flu" (which many health professionals now believe started in China, not Spain). This virus killed at least 50 million worldwide and 675,000 people in the United States (0.8 percent of the population at the time). In recorded history, only the Black Death in Europe (1347-51) is estimated to have killed more people — perhaps 60 million out of a much smaller population.

Large companies, such as Apple and Walmart, have global supply chains. So, a disruption because of a natural or medical disaster or political instability ripples through the entire chain. This leads to temporary shortages and/or price increases until adjustments can be made. The screwup at Boeing, leading to the temporary grounding and ceasing of production of the 737 MAX, has caused layoffs of Boeing suppliers in many European and Asian countries, hurting their growth.

Apple assembles iPhones in China, which is also their second-largest market. All of the world's major auto manufacturers have both production and sales facilities in China. McDonald's, KFC and many other fast-food restaurants have thousands of stores in China. Each day, we learn of more companies shutting down or reducing their activities in China until the medical emergency passes.

In 1918, many businesses experienced a big reduction in sales as people avoided going out as much as possible to stores, theaters, etc. — or were too sick to shop. Businesses experienced worker shortages as many of their employees were home sick. The same thing is also happening in Wuhan province and elsewhere in China. The Chinese economy will take a large hit, even if the epidemic begins to subside in the next few months.

The U.S. economy has been slowing and is only growing a little more than 2 percent. Administration economists and others argue that with the U.S. population and the workforce growing so slowly it is difficult to speed up growth because of the lack of workers. Despite the Trump administration's largely successful effort to reduce tax rates on labor and capital and to ease major regulations — there is still much that should be done to keep the economy growing, given the headwinds.

Many of the new tariffs and uncertainty about trade policy have increased costs and discouraged some investment. The Democrats' never-ending attempts to destroy President Trump — regardless of the costs to the economy — are another downer. The impeachment fiasco would have been a funny story for a "Seinfeld" episode (since it was about nothing), except the uncertainty it engendered caused at least a delay in business investment. Leading Democratic candidates have declared war on business. If you think Bernie Sanders is going to be elected, are you going to invest and hire new workers or are you going to pick up your marbles and go home? The states of California, Washington and Virginia have all recently passed laws which will increase the cost of hiring workers — bye-bye low unemployment rates in these states (the details are subjects for another column).

Most of the world's countries are even growing slower than the United States, and the coronavirus is also going to hit them — not necessarily directly, but indirectly as China becomes less of a market and supplier. In light of all these growing headwinds, the Trump administration needs to come up with more regulatory and tax reductions to keep the economy growing at even 2 percent. If it does not act, the coronavirus might do what the Democrats have been unable to do, and that is defeat President Trump by blaming him for not doing enough (which they and their media allies certainly will do), despite their own lack of solutions.

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