While there is no way to tell exactly what the economic damage from the global COVID-19 novel coronavirus pandemic will be, there is widespread agreement among economists that it will have severe negative impacts on the global economy. Early estimates predicated that, should the virus become a global pandemic, most major economies will lose at least 2.4 percent of the value their gross domestic product (GDP) over 2020, leading economists to already reduce their 2020 forecasts of global economic growth down from around 3.0 percent to 2.4 percent. To put this number in perspective, global GDP was estimated at around 86.6 trillion U.S. dollars in 2019 – meaning that just a 0.4 percent drop in economic growth amounts to almost 3.5 trillion U.S. dollars in lost economic output. However, these predictions were made prior to COVID-19 becoming a global pandemic, and before the implementation of widespread restrictions on social contact to stop the spread of the virus. Since then, global stock markets have suffered dramatic falls due to the outbreak, and the Dow Jones reported its largest-ever single day fall of almost 3,000 points on March 16, 2020 – beating its previous record of 2,300 points that was set only four days earlier.

The economic damage caused by the COVID-19 pandemic is largely driven by a fall in demand, meaning that there are not consumers to purchase the goods and services available in the global economy. This dynamic can be clearly seen in heavily affected industries such as travel and tourism. To slow the spread of the virus, countries placed restrictions on travel, meaning that many people cannot purchase flights for holidays or business trips. This reduction in consumer demand causes airlines to lose planned revenue, meaning they then need to cut their expenses by reducing the number of flights they operate. Without government assistance, eventually airlines will also need to reduce lay off staff to further cut costs. The same dynamic applies to other industries, for example with falling demand for oil and new cars as daily commutes, social events and holidays are no longer possible. As companies start cutting staff to make up for lost revenue, the worry is that this will create a downward economic spiral when these newly unemployed workers can no longer afford to purchase unaffected goods and services. To use retail as an example, an increase in unemployment will compound the reduction in sales that occurred from the closure of shopfronts, cascading the crisis over to the online retail segment (which has increased throughout the crisis). It is this dynamic that has economists contemplating whether the COVID-19 pandemic could lead to a global recession on the scale of the Great Depression.

Despite the clear danger that the global economy is in, there are also reasons to be hopeful that this worst-case scenario can be avoided. Governments have learned from previous crises that the effects of a demand-driven recession can be countered with government spending. Consequently, many governments are increasing their provision of monetary welfare to citizens, and ensuring businesses have access to the funds needed to keep their staff employed throughout the pandemic. In addition, the specific nature of this crisis means that some sectors may benefit, such as e-commerce, food retail, and the healthcare industry - providing at least some economic growth to offset the damage. Finally, there is the fact that the crisis may have a clear end date when all restrictions on movement can be lifted (for example, when a vaccine is developed). Taken together, this means it is at least possible the global economy could experience a sharp rebound once the pandemic is over. There are still many variables that could affect such an economic recovery – for example, a reduced supply of goods and services to meet lower demand could create mid-term shortages and price increases – but there are some reasons to think that, with the right mix of appropriate government responses and luck, some of the more apocalyptic predictions may not come to pass.

While there is no way to tell exactly what the economic damage from the global COVID-19 novel coronavirus pandemic will be, there is widespread agreement among economists that it will have severe negative impacts on the global economy. Early estimates predicated that, should the virus become a global pandemic, most major economies will lose at least 2.4 percent of the value their gross domestic product (GDP) over 2020, leading economists to already reduce their 2020 forecasts of global economic growth down from around 3.0 percent to 2.4 percent. To put this number in perspective, global GDP was estimated at around 86.6 trillion U.S. dollars in 2019 – meaning that just a 0.4 percent drop in economic growth amounts to almost 3.5 trillion U.S. dollars in lost economic output. However, these predictions were made prior to COVID-19 becoming a global pandemic, and before the implementation of widespread restrictions on social contact to stop the spread of the virus. Since then, global stock markets have suffered dramatic falls due to the outbreak, and the Dow Jones reported its largest-ever single day fall of almost 3,000 points on March 16, 2020 – beating its previous record of 2,300 points that was set only four days earlier.

The economic damage caused by the COVID-19 pandemic is largely driven by a fall in demand, meaning that there are not consumers to purchase the goods and services available in the global economy. This dynamic can be clearly seen in heavily affected industries such as travel and tourism. To slow the spread of the virus, countries placed restrictions on travel, meaning that many people cannot purchase flights for holidays or business trips. This reduction in consumer demand causes airlines to lose planned revenue, meaning they then need to cut their expenses by reducing the number of flights they operate. Without government assistance, eventually airlines will also need to reduce lay off staff to further cut costs. The same dynamic applies to other industries, for example with falling demand for oil and new cars as daily commutes, social events and holidays are no longer possible. As companies start cutting staff to make up for lost revenue, the worry is that this will create a downward economic spiral when these newly unemployed workers can no longer afford to purchase unaffected goods and services. To use retail as an example, an increase in unemployment will compound the reduction in sales that occurred from the closure of shopfronts, cascading the crisis over to the online retail segment (which has increased throughout the crisis). It is this dynamic that has economists contemplating whether the COVID-19 pandemic could lead to a global recession on the scale of the Great Depression.

Despite the clear danger that the global economy is in, there are also reasons to be hopeful that this worst-case scenario can be avoided. Governments have learned from previous crises that the effects of a demand-driven recession can be countered with government spending. Consequently, many governments are increasing their provision of monetary welfare to citizens, and ensuring businesses have access to the funds needed to keep their staff employed throughout the pandemic. In addition, the specific nature of this crisis means that some sectors may benefit, such as e-commerce, food retail, and the healthcare industry - providing at least some economic growth to offset the damage. Finally, there is the fact that the crisis may have a clear end date when all restrictions on movement can be lifted (for example, when a vaccine is developed). Taken together, this means it is at least possible the global economy could experience a sharp rebound once the pandemic is over. There are still many variables that could affect such an economic recovery – for example, a reduced supply of goods and services to meet lower demand could create mid-term shortages and price increases – but there are some reasons to think that, with the right mix of appropriate government responses and luck, some of the more apocalyptic predictions may not come to pass.

The bipartisan answer to the coronavirus pandemic seems to be: shutter the economy, then bail out everyone who is suffering economic pain. Of course, as RealClearMarkets editor John Tamny has observed, if we bail out everyone, we bail out no one. Instead of directly confronting the cause of the pandemic spread of COVID-19, we are inflicting vast damage on great swaths of the economy, likely bankrupting millions of small businesses, which we then seek to fix with massive fiscal and monetary stimulus. Stimulus can only bolster economic activity when slack resources – including the newly unemployed – can be put back to work in a timely way, to produce goods and services.

The unintended consequences of current policies are vast, in both human and economic terms. The governments of Taiwan, Japan, and South Korea seem to have shown that even a democracy can manage a health crisis directly, by seeking to minimize spread of the disease, in ways that won't cripple the economy.

Rules vary by country and jurisdiction, but – especially in urban centers – the following generally apply. On leaving home, you must wear a mask. On entering an office building or store, your temperature is taken. If it's elevated, you will be tested. Apart from that, if you are not feeling well, you can get tested at a convenient location. If you test positive, they will ask about whomever you've seen in the past week, and will test them, too. You are then placed on mandatory home quarantine, as are those who live with you. Hospitalization is reserved for serious cases. Direct and unambiguous.

COVID-19 and the Unintended Consequences of Economic Shutdown

The bipartisan answer to the coronavirus pandemic seems to be: shutter the economy, then bail out everyone who is suffering economic pain. Of course, as RealClearMarkets editor John Tamny has observed, if we bail out everyone, we bail out no one. Instead of directly confronting the cause of the pandemic spread of COVID-19, we are inflicting vast damage on great swaths of the economy, likely bankrupting millions of small businesses, which we then seek to fix with massive fiscal and monetary stimulus. Stimulus can only bolster economic activity when slack resources – including the newly unemployed – can be put back to work in a timely way, to produce goods and services.

The unintended consequences of current policies are vast, in both human and economic terms. The governments of Taiwan, Japan, and South Korea seem to have shown that even a democracy can manage a health crisis directly, by seeking to minimize spread of the disease, in ways that won't cripple the economy.

Rules vary by country and jurisdiction, but – especially in urban centers – the following generally apply. On leaving home, you must wear a mask. On entering an office building or store, your temperature is taken. If it's elevated, you will be tested. Apart from that, if you are not feeling well, you can get tested at a convenient location. If you test positive, they will ask about whomever you've seen in the past week, and will test them, too. You are then placed on mandatory home quarantine, as are those who live with you. Hospitalization is reserved for serious cases. Direct and unambiguous.

The health of the economy is not as important as the health of the citizenry. However, the two are interconnected. You can't crush the economy without exacting a human toll. In a 2018 academic article, Taiwanese researchers Yu-Hui Lin and Wen-Yi Chen showed a link between unemployment and suicide, one that may linger for two to three years after the job market has improved. These findings suggest that even a short, sharp recession has lasting consequences. In rough terms, they postulate that each 1% rise in unemployment leads to one additional suicide per 100,000 people, and a rise in divorces of up to 1%. If unemployment jumps by 5% in the current shutdown of the U.S. economy, that would translate into some 16,500 additional suicides and up to 3 million divorces. The human toll is very real.

Robert Zoellick and others have noted that supply chain disruptions are jeopardizing the health and lives of patients facing much more serious health risks than coronavirus. There are 23 million Americans with cancer or who have had cancer, another 30 million with heart disease, 34 million with diabetes, and 35 million with chronic lung disease. Given the overlap between these groups, around 70-80 million Americans are being treated for one or more of these ailments. If one in a hundred of them die because they can't get their medicine, or the hospitals can't take them, there's another 750,000 deaths.