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TALE OF TWO VIRUSES

Relevant for: Developmental Issues | Topic: Health & Sanitation and related issues

The anxiety over the ongoing new coronavirus pandemic from COVID-19 has motivated people to look for lessons from history, notably from the 1918-1920 Great Influenza Pandemic, often mislabeled as the Spanish Flu. While it is reasonable to look at the 1918-1920 event as a plausible worst-case scenario, the inferences have been clouded by the use of incomplete or incorrect data.

In an ongoing study (Robert Barro, Jose Ursua, and Joanna Weng, “The Coronavirus and the Great Influenza Epidemic: Lessons from the ‘Spanish Flu’ for the Coronavirus’s Potential Effects on Mortality and Economic Activity,” National Bureau of Economic Research, working paper no. 26866, March 2020), we assembled annual data on flu death rates for 43 countries from 1918 to 1920. These countries represent about 90 per cent of world population at the time. The numbers indicate a death rate out of the total world population of 2.0 per cent, corresponding to 39 million fatalities. These numbers likely represent the highest worldwide mortality from a “natural disaster” in modern times, though the impact of the plague during the Black Death in the 14th century was much greater as a share of the population.

The flu death rates from 1918 to 1920 varied sharply across countries, with the highest in India, 5.2 per cent, followed by South Africa at 3.4 per cent and Indonesia at 3.0 per cent. The rate in Spain was not special, 1.4 per cent — the pandemic should not be called the Spanish Flu, and a better name is the Indian Flu. The United States was much lower than the average, 0.5 per cent. Australia avoided the flu in 1918 by employing an extreme maritime quarantine and ultimately had a comparatively low death rate of 0.3 per cent. Of particular relevance to the current crisis is that Australia’s preventative actions did not just postpone the flu deaths; they apparently led to lower total mortality.

When applied to current world population, the overall death rate of 2.0 per cent from the Great Influenza Pandemic implies a staggering 150 million deaths. For the United States, the lower death rate of 0.5 per cent corresponds today to 1.7 million US fatalities (compared to the 5,50,000 deaths that occurred from 1918 to 1920).

Our study of the Great Influenza Pandemic emphasised death rates out of the whole population. The mortality rate out of the infected population is harder to assess. A frequently repeated estimate is that the pandemic eventually infected one-third of the world’s population, implying that the mortality rate out of those infected would have averaged 6 per cent. However, because this one-third number turns out to be based on little supporting data, we concluded that the death rate among those infected is not known with much accuracy.

The Great Influenza Pandemic killed a number of famous people, including the sociologist Max Weber, the artist Gustav Klimt, the child saints Francisco and Jacinta Marto, and Frederick Trump, the grandfather of the current US President. Many more famous people were survivors, including the US President Woodrow Wilson, whose impairment likely had a major adverse impact on the negotiations of the Versailles Treaty in 1919. Thus, if the harsh terms imposed on Germany by this treaty led eventually to World War II, then the pandemic may have indirectly caused World War II.

We studied the impact of influenza deaths from 1918 to 1920 on macroeconomic outcomes. This assessment was challenging because of the overlap in 1918 between the final year of World War I and the peak year of the pandemic. To isolate effects from flu deaths, we held

constant the intensity of war that each country faced, gauged by military combat deaths.

Within this framework, we estimated that a rise by one percentage point in the flu death rate led to a decline by 3 per cent in real per capita GDP and by 4 per cent in real per capita consumption. Therefore, the overall flu death rate of 2 per cent corresponds to a fall in the typical country by 6 and 8 per cent, respectively, in GDP and consumption. These results supported some previous findings that — after World War II, the Great Depression, and World War I — the Great Influenza Pandemic was the next most serious adverse global macroeconomic event since at least 1870.

From the perspective of financial markets, we found that higher flu death rates led to reduced real rates of return on stocks and on short-term government bills, as well as to higher inflation rates. The overall flu death rate of 2.0 per cent corresponds to an estimated decline in real returns by 26 percentage points on stocks and 14 percentage points on bills. However, at the US flu death rate of 0.5 per cent, these effects would be reduced to 7 and 4 points, respectively.

The implications of our study for the ongoing coronavirus pandemic are unsettling. As noted, the potential exists for unprecedented numbers of deaths. There is also the chance for major global economic decline, some of which is already being seen. On the bright side, these outcomes are only possibilities, corresponding to plausible worst-case scenarios. There is no doubt, however, that the potential losses in lives and economic activity justify large outlays — if useful — to limit the damage.

Unfortunately, there is incoherence in the US policies currently being followed. Some actions seek to mitigate the disease's effects effectively by lowering real GDP; for example, by closing businesses, curtailing work, and cancelling travel, meetings, and major events. Though costly economically, one can understand the logic in these policies. In contrast, other policies — such as the Federal Reserve's drastic cuts in interest rates and Congressional proposals to send out checks to everyone — seem to be ways to raise GDP by stimulating aggregate demand. Thus, these interventions run counter to the main thrust of fighting the spread of the coronavirus by curtailing economic activity.

Government involvement would more usefully focus on expansions of medical facilities, personnel, and supplies; funding efforts to develop new medical treatments; and so on.

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