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Why the Coronavirus Could Threaten the U.S. Economy Even More Than China's

If people stop traveling and going to the dentist, the gym or even March Madness basketball games, the impact could be enormous, an economist says.

By Austan Goolsbee

After a string of deaths, some heart-stopping plunges in the stock market and an emergency rate cut by the Federal Reserve, there is reason to be concerned about the ultimate economic impact of the coronavirus in the United States.

The first place to look for answers is China, where the virus has spread most widely. The news has been grim with deaths, rolling quarantines and the economy's seeming to flat line, though the number of new cases has begun to fall.

Advanced economies like the United States are hardly immune to these effects. To the contrary, a broad outbreak of the disease in them could be even worse for their economies than in China. That is because face-to-face service industries — the kind of businesses that go into a tailspin when fearful people withdraw from one another — tend to dominate economies in high-income countries more than they do in China. If people stay home from school, stop traveling and don't go to sporting events, the gym or the dentist, the economic consequence would be worse.

In a sense, this is the economic equivalent of the virus's varied health effects. Just as the disease poses a particular threat to older patients, it could be especially dangerous for more mature economies.

This is not to minimize the indiscriminate and widespread damage that the disease has caused by disrupting the global supply chain. With shortages of everything from auto parts to generic medicines and production delays in things like iPhones and Diet Coke, a great deal of pain is coming from the closing of Chinese factories. That proliferating damage has central banks and financial analysts talking about a global recession in the coming months.

Nor is it to discount the possibility that the United States will be spared the worst effects. Scientific and public health efforts might limit the spread of the virus or quickly find a treatment or vaccine. The warmer weather of summer might slow the spread of the coronavirus as it usually does with the seasonal flu. Many things could prevent an outbreak as large as the one in China.

But it is to say that an equivalent outbreak in the United States might easily have a worse economic impact.

As a baseline, several factors work against the United States. China's authoritarian government can quarantine entire cities or order people off the streets in a way that would be hard to imagine in America, presumably giving China an advantage in slowing the spread of the disease. In addition, a large share of American workers lack paid sick days and millions lack health care coverage, so people may be less likely to stay home or to get proper medical care. And 41 percent of China's population lives outside urban areas, more than twice the share in the United States. Diseases generally spread faster in urban areas.

Beyond those issues, however, is a fundamental difference in economic structure: When people pull back from interacting with others because of their fear of disease, the things they stop doing will frequently affect much bigger industries in the United States.

Consider travel. The average American takes three flights a year; the average Chinese person less than half a flight. And the epidemiological disaster of the Diamond Princess has persuaded many people to hold off on cruises. That cruise ship stigma alone potentially affects about 3.5 percent of the United States, which has about 11.5 million passengers each year, compared with only 0.17 percent of China, which has about 2.3 million passengers.

People may stop attending American sporting events. There have even been calls for the N.C.A.A. to play its March Madness college basketball tournament without an audience. But sports is a huge business in the United States. People spend upward of 10 times as much on sporting events as they do in China.

And if 60 million Americans stop spending $19 billion a year on gyms, that would be a much a bigger deal than if the 6.6 million gym members in China stopped spending the $6 billion they devote to gyms now.

That's just a start. Who wants to go to the dentist or the hospital during an outbreak if a visit isn't necessary? Yet health spending is 17 percent of the U.S. economy — more than triple the proportion spent in China.

Of course, not every service sector is so much larger than in China. Retail and restaurants, for example, have comparable shares of gross domestic product in both countries.

But over all, the United States is substantially more reliant on services than China is. And, on the flip side, agriculture, a sector not noted for day-to-day social interaction and so potentially less harmed by social withdrawal, is a 10 times larger share of China's economy than it is in the United States.

So for all the talk about the global "supply shock" set off by the coronavirus outbreak and its impact on supply chains, we may have more to fear from an old-fashioned "demand shock" that emerges when everyone simply stays home. A major coronavirus epidemic in the United States might be like a big snowstorm that shuts down most economic activity and social interaction only until the snow is cleared away. But the coronavirus could be a "Snowmaggedon-style storm" that hits the whole country and lasts for months.

So go wash your hands for the full 20 seconds. And show some more sympathy for the folks quarantined in China and elsewhere. Because if it spreads rapidly in the United States, it could be a heck of a lot worse.

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