

The Economic Impact of America's Failure to Contain the Coronavirus

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Thank you Vice Chair Beyer and Chair Lee for having me in to testify today. You are meeting on a critically important topic and one that could not be more important for the economy.

I wanted to highlight some findings from recent economic research, my own and the work of others, that could have bearing on your deliberations. They relate to the unprecedented recession associated with the arrival of COVID in the United States.

I warned at the beginning of March in my *Economic View* column in *The New York Times* that the structure of our economy meant we would be particularly vulnerable to an outbreak of COVID.¹ Because so much of our economy is centered on service sector industries and exactly the kinds of activities that people withdraw from when there is an infectious disease, I warned that the economic impact could actually be even worse here than in China where the disease had been economically quite severe. Sadly, my warning came to pass.

The overwhelming evidence from across the U.S. and across countries in the world supports what I call the #1 rule of virus economics: the best thing you can do for the economy is to control the rate of spread of the virus.

It's important for everyone to understand that decisions about the economy are not made by mayors and governors and presidents. People make decisions about whether they feel safe and that is what drives the economy. The virus is the boss.

In my research with Chad Syverson, we got data on consumer visits to 2.5 million businesses across the country in 110 different industries.² We wanted to know how important lockdowns were for the unprecedented collapse in consumer activity during the outbreak of the pandemic. The problem is, when the disease is spreading, people stay home, the economy craters and the local authorities impose lockdowns. This can make it look like lockdown decisions are driving things but it's misleading because the policy itself is not the driver. The virus is.

To get around this problem, we compared places in the same week in the same metro area where one side of a border had a lockdown policy and the other side did not--places like the Quad Cities where Moline and Rock Island, Illinois faced lockdown orders while across the river, Bettendorf and Davenport, Iowa didn't. And if you look in the hundreds of places like that, you see that activity collapsed on both sides of the border by almost identical amounts. It wasn't about lockdowns. It was about fear of the

¹ "Why the Coronavirus Could Threaten the U.S. Economy Even More Than China's," *New York Times*, March 7, 2020.

² "Fear, Lockdown, and Diversion: Comparing the Drivers of Pandemic Economic Decline 2020," NBER Working Paper 27432, conditionally accepted *Journal of Public Economics*.

virus. If you don't control for the fear, you would conclude that lockdowns cut activity by 70%. If you isolate just the part that came from the lockdown, it's closer to 7%.

It's why in the data you see that when places repeal their lockdown orders, activity doesn't shoot back up. It basically comes back only about 7%--just like we estimate it went down.

The critically important thing is to actually control the spread of the virus. As long as people fear that they will bump into contagious people who do not know they have the disease, economic activity is going to be depressed. Testing, tracing, masks, medical equipment—anything you can do to reduce the rate of spread of the infection—are the keys to improving the economy.

If you compare the US experience to other advanced countries, it is quite clear that places that focused on slowing the disease have both had fewer deaths *and* their economies have suffered less. The US response has been plagued with conflicting goals and direction from the beginning. For every move that has helped fight COVID, there have been multiple moves that have undermined public trust in the system or even encouraged people to take actions that increased the spread of the virus.

It doesn't have to be this way. It's not too late to get control of the virus. Even without a vaccine, if you can slow the rate of spread of the virus enough, the disease becomes a dying fire. When the rate goes up enough, it is a nuclear explosion.

Our relief payments and rescue packages are important to deal with the potentially permanent scars from this temporary shock. But nothing is more important than slowing the virus.