RING A RING O’ ROSES

There are a number of versions of the children’s nursery rhyme *Ring a ring o’ roses*, but the it is believed by many to be a childish reference to the bubonic plague. The “*ring o’ roses*” is said to be a reference to sores around the mouth; “*pocketful of posies*” a reference to the medieval idea that sweet-scented flowers protect us from the disease; and finally “*all fall down*” a reference to the death of the people unfortunate enough to have contracted the plague.

However, some have cast doubt on this interpretation of the rhyme, mainly because the first written version of it can only be found as late as 1881 in Kate Greenaway’s book of nursery rhymes entitled Mother Goose; though there is some evidence that it was being sung by children earlier in 1790. The last outbreak of the plague, in London at least, was 1665. So the nursery rhyme would’ve had to have outlasted the plague as an oral tradition by at least one hundred and twenty five years.

But whatever the source of the rhyme there is no doubt that plagues and pandemics have brought devastation to the human population many times in the past. For example, the outbreak of Spanish flu following the end of World War I is estimated to have caused the deaths of between 20 and 40 million people worldwide. Cases of this outbreak were reported all over the globe, from the Arctic to the remote Pacific islands. All in all, it is estimated that over half a billion people were infected by the virus.

Against this historic perspective the recent outbreak of swine fever has been seized upon by the media with what can only be described as relish. Twenty four hour news channels are currently obsessed by virus H1N1’s progression from (probably) a Mexican pig farm to other parts of the world. So far nearly two hundred people have died in Mexico after contracting the virus, while people with symptoms have been reported from Scotland to New Zealand, though in all of these cases the virus was contracted in Mexico.

The financial markets seem less concerned by the outbreak than the media. The S&P500 has just turned in its best monthly performance for many years. During the outbreak of SARS back in 2003, which centred around South-East Asian economies including Hong Kong, the Hong Kong stock market fell by 10% between April and May of 2003 when SARS fears were at their peak. This decline was led by falls of greater than 20% in Hong Kong’s Airlines, Travel and Recreational Services sectors. And yet despite the fact that the Mexican authorities are now preparing to shut down all non-essential services across the country to combat the spread of the virus, the Mexican stock market rose by 10% over April.

The markets along with health experts at WHO believe that the virus can be contained and also that it will have only a limited impact on the ailing global economy. But to cheer everyone up, this week our chart shows the possible impact of a pandemic on UK economic activity. We used a real business cycle model that has been calibrated to approximate the stylistic behaviour of the UK economy in the event of the negative supply—
side shock that a pandemic would represent. We have then made some assumptions about the impact on labour supply of this hypothetical virus.

We assume that this virus infects 25% of the UK’s population, which leads to the direct deaths of 2.5% of this population (a typical death rate). We then assumed that each person that catches and survives the virus would take on average a full three working weeks to recover. We have further assumed that an outbreak of this kind would lead to an almost complete, but temporary shut down of the UK economy. This is because people will either stay at home and avoid contact as far as possible with others on a ‘voluntary’ basis, or because the government would declare a state of emergency and urge all those not connected with the health and emergency services to stay at home (as is happening in Mexico). Note also that we assume that there is no secondary outbreak of the virus, although apparently this is a typical feature of such pandemics.

The impact on labour supply and output

The chart shows what a devastating impact a pandemic of this kind might have. The blue line represents the change in output from trend, while the green line represents the change in labour supply from trend. With these parameters the model generates a massive output loss. These output losses cease after four quarters of the initial stages of the outbreak. The permanent loss in output that might occur as the result of the deaths is relatively small since we assume (cheerily) that the majority of those deaths would be confined to the young and the elderly.

At the moment it looks like swine fever can be contained. The view of Olivier Blanchard, the Chief Economist at the IMF, that swine fever will have a “limited impact” on global economic activity seems to be the consensus amongst both health experts and economists. This is just as well given the current state of the global economy.

However the same WHO experts (the Dr WHOs) believe that it is still only a matter of time before we do have to deal with a severe and devastating pandemic that would be much
more difficult to contain. If they are correct then at some time in the future a virus will mutate somewhere in the world and cause an economic downturn that could make the current one feel like a mild slowdown.

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