

## Covid-19 and Capitalism

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The disease Covid-19 is subject to two mathematical properties. The first is the transmission coefficient, under normal human-to-human contact this is greater than 2.0 with a doubling time of just a few days – similar in principle to an uncontrolled nuclear reaction with a critical mass. Second is the incubation period, typically two weeks, so that if strict separation is maintained for at least that amount of time, the transmission coefficient is brought down and the epidemic can be mitigated or suppressed.

Since physical separation is never perfect more than two weeks of draconian measures are required, but in every instance results *begin* to be visible within a month of the implementation of strict policies. Thus the cost of delay in putting strict measures into force is counted in the number of cases and deaths in the first wave, in the spatter of active cases across the landscape, and in the risk of secondary and tertiary outbreaks if strong controls are not maintained once the first wave passes.

The poor performance of the United States in this crisis was due to a complex of factors, all related to the declining competence of public authority. These included:

- Denial and dysfunction at the federal level, complicated by profiteering and electioneering;
- Decentralization and uneven action at the state and local level;
- The specialized, privatized, profit-centered character of US medicine, evolved to meet the needs of a wealthy clientele and away from public health in the face of infectious diseases;
- Globalization, financialization and the hollowing out of US corporations, thus their reliance on global supply chains vulnerable to disruption for many basic manufactures.

In short, the US system *ex ante* was efficiently adjusted to the conditions of an unequal, individualized society, but fragile, uncoordinated and unsuited to dealing with a common threat. Free market ideology and conservative social doctrine had buttressed this system and obscured its vulnerability, to the point of suppressing scientific evidence and political efforts to maintain a common defensive capacity.

Over time, nevertheless, the immediate issues of medical supplies and capacity do resolve, and even in America the population has largely fallen into cooperation with guidelines sufficient to show, so far, some deceleration of the pandemic. But this brings us to the second phase, which is the sustained effort required to keep society in function until an effective therapy is found or a vaccine developed and distributed. This is the economists' problem, and it comes in two parts: how to contain the epidemic for a sufficiently long period, and how to manage the aftermath.

During the containment phase there are two issues: how to keep the majority safe, secure and supplied while in lock-down, and how to assure that critical supply chains and social services continue to function for so long as social discipline remains necessary. After the containment phase, again two issues will appear: how to reorganize activity in the wake of behavioral changes and social learning imposed by the pandemic, and how to deal with the vast pile-up of unpayable debts.

The imperative of safety and security is a matter of covering essential costs, maintaining services, blocking evictions and foreclosures and utility stoppages, and keeping communication lines open. These measures have been implemented to a degree in some places, but unevenly. Over time services in the United States will come under threat as state and local tax bases implode, imposing austerity unless federal funding comes to the rescue. So far the major assistance is available only through the Federal Reserve; taking advantage of it is hobbled by constitutional restrictions on state and local debt.

The supply chain is a matter largely of pay and safety for the frontline workers; in the US both have been handled poorly so far. Workers in fields, warehouses, transportation, stocking, checkout and delivery are poorly paid and ill-treated, and this has not changed. Managers appear to believe that the problems are short-term, that the workers may be easily replaced and that customers will trust the precautions visible to them. None of these assumptions is secure. Protections are inadequate, facilities are in some cases contaminated, food banks are in crisis and the food supply chain may or may not hold up in the months ahead.

For the aftermath, the prevailing assumption behind US policy is that a short break in activity can be followed by a return to near-normal. This assumption underpins the bailout strategy for corporations such as airlines and hotel chains, the policy of loans to small businesses to retain their workers, and of the so-called “stimulus” payments intended to foster consumer confidence and return to past spending habits. On the other hand, the heavy reliance on unemployment insurance as opposed to wage replacement through businesses foretells large-scale labor shedding in the medium term.

Almost certainly, there will be no return to normal. Future patterns of demand will be different, because people will be poorer, because they will be risk-averse and because their values will have changed. These changes will be reinforced by a pattern of further outbreaks and lockdowns, as the promise of a quick fix is belied and the biological reality sets in. And each element of non-recovery will feed into another in a decentralized system, from spending to incomes to tax revenues to state capacity and service provision, and back around the circle again.

Looking forward, we can safely foresee a massive conflict between existing debt contracts – for mortgages, rent, student debt, consumer debt, business debts – and the capacity of incomes to meet them. There will either be a massive wave of bankruptcies, foreclosures, evictions and repossessions, provoking vast social conflict, or there will be a write-down and discharge of many debts on the principle of inter-allied loan forgiveness. If the first path is taken, creditors may be dominant but the economy will remain in depression for many years. If the second path is taken, the financial sector will have to be reorganized to function as a public utility, and the age of money-market capitalism will end.

There has been little thought given so far to the reorganization of activity that will be necessary for civilized life after this pandemic, including:

- sufficient investment in effective capacities for public health;
- effective monitoring, testing and payment for care of ongoing cases;
- the reorganization of all local activities for safety and distancing, including restaurants, theaters, bars, cafes, schools, cultural and political gatherings, elections; the question of economic viability in each instance will need to be addressed as fixed costs are spread over fewer units sold.
- job creation for those displaced in all the sectors that will not recover; support and succor for those who are rendered unemployable.

Can capitalism adjust to this challenge? History in the West and the more successful experience of the pandemic in Asia both suggest that it cannot. There may be hybrid solutions short of state socialism, along the lines of the New Deal in the United States under the presidency of Franklin Delano Roosevelt in the 1930s. The time available to discover, design and implement such solutions is quite short.

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