

What Type of Crisis is This?

The Coronavirus Crisis and the Vulnerability of Society

Lecture for
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In this lecture I want to give you some ideas to think about the Corona crisis to consider.

My lecture has four parts.

Video 1: Only a health crisis?

- In this video the question is raised whether and in what way the coronavirus crisis is not only a health crisis, but also a crisis that affects society as a whole, especially the economy.

Video 2: Why is society so vulnerable?

- In the next video, the question will be raised as to why the economy and many other areas of society are proving to be so vulnerable and what this means for society as a whole.

Video 3: Which image of society made society so vulnerable?

- In the third video, the question I address concerns what systems of thought about society have contributed to changing it into a society that is so fragile.

Video 4: Looking to the Future I

- In the last video two future scenarios are outlined.

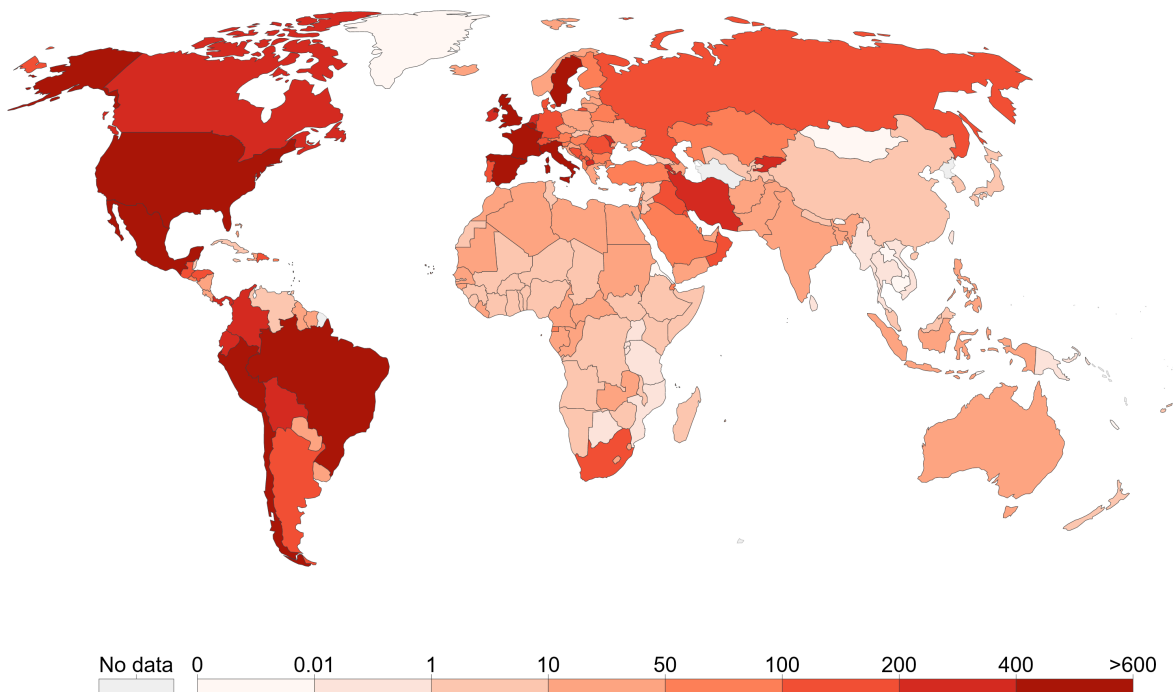
Part 1: Only a health crisis?

The coronavirus crisis is, of course, a health crisis caused by a virus. We have medical explanations for how this virus operates and spreads, but many factors are still unknown, such as whether and when immunity can be achieved and what long-term damage the disease can cause. Estimates of who has already been infected in which countries vary greatly. About 20 million cases have been confirmed, a quarter of them from the USA. Johns Hopkins University reports more than 700,000 COVID-19 deaths worldwide; the estimated number of unreported cases is much higher.

Total confirmed COVID-19 deaths per million people, Aug 10, 2020

Limited testing and challenges in the attribution of the cause of death means that the number of confirmed deaths may not be an accurate count of the true total number of deaths from COVID-19.

Our World
in Data



Source: European CDC – Situation Update Worldwide – Last updated 10 August, 10:34 (London time) OurWorldInData.org/coronavirus • CC BY

Total confirmed COVID-19 deaths per million people Aug 10, 2020

Source: https://upload.wikimedia.org/wikipedia/commons/2/26/World_map_of_total_confirmed_COVID-19_deaths_per_million_people_by_country.png

The chart shows the current confirmed number of deaths per million people. The dark areas show those countries where this rate is particularly high.

At the beginning of the pandemic, many people hoped that the number of new COVID-19 infections may decline in the summer. These initial hopes have since been dashed. In the USA, the number of

cases has risen particularly sharply since the beginning of the summer. Europe has also recorded rising numbers of COVID-19 cases for several weeks now, in the middle of summer.

The World Health Organization has now declared that there is no evidence that the prevalence of coronavirus cases is affected by seasonal variations, like influenza is, and refuses to talk of 'waves'. Globally, it is one big wave.

History shows that when we retrospectively discuss pandemics, we certainly talk of waves globally and for individual countries or regions. For example, the Spanish flu hit the world in four major waves. The flu spread throughout the world from March 1918 to March 1920, affecting one third of the world's population and killing between 50 and 100 million people, which amounted to 2.5 to 5% of the world's population at the time.

The next chart shows the second global wave in autumn 1918. The dark areas indicate the highest death rates, with examples from cities with particularly high death rates.



The second global wave of the Spanish flu

Source: Spinney, Laura: 1918. *Die Welt im Fieber. Wie die Spanische Grippe die Gesellschaft veränderte* (German translation of Pale Rider: The Spanish Flu of 1918 and How it Changed the World), Darmstadt: Wissenschaftliche Buchgesellschaft 2018.

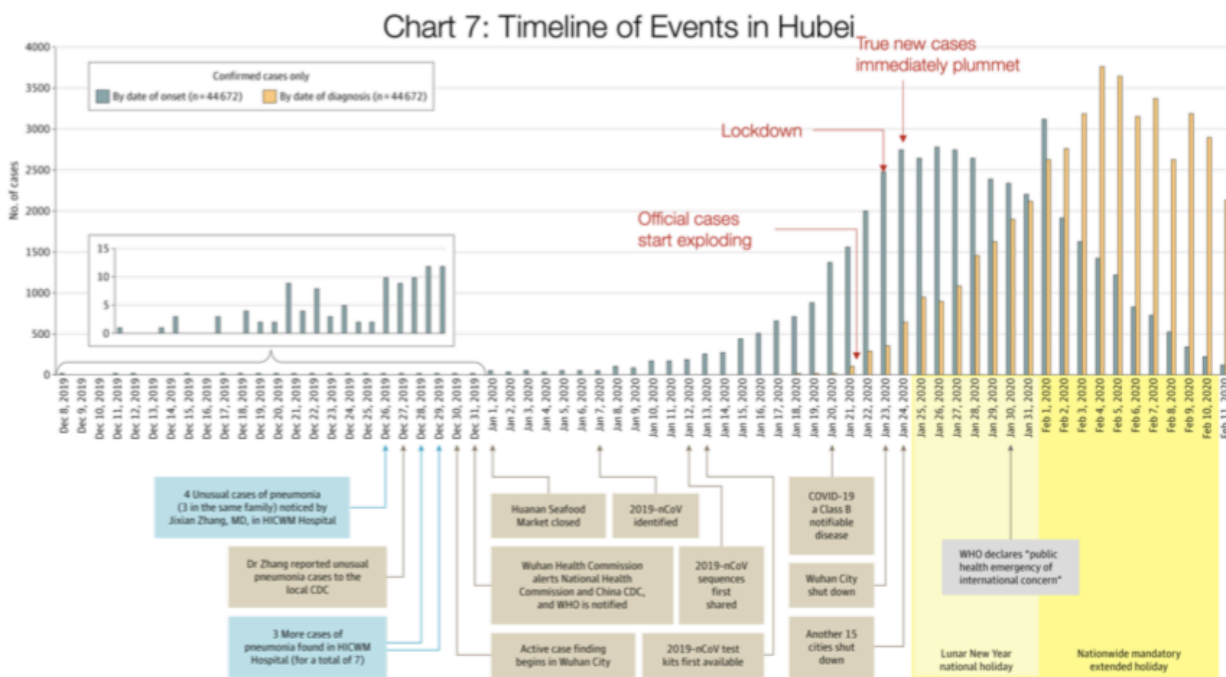
For a comparison of the Spanish flu with the coronavirus pandemic, cf.

<https://english.elpais.com/society/2020-03-27/the-surprising-similarities-between-the-spanish-flu-and-the-coronavirus-pandemic.html>.

The Spanish flu also showed that in the USA, for example, the death rates in individual cities were vastly different and that there was a direct link to the measures imposed by the authorities. Many debates from that time remind us of today's arguments about, for example, whether to wear masks and how to ensure physical distance between people.

With regard to the current pandemic, it can be said in simple terms that every country reacted too late and that a lockdown was imposed almost everywhere.

The next chart shows the reaction in Hubei Province, the starting point of the pandemic. The first cases were reported in December 2019 and some experts believe that the disease started even earlier. It took the Chinese authorities over a month to take effective action, which was then carried out very rigorously, with a total lockdown in Hubei and then in many other Chinese cities. The strategy pursued was to take the sting out of the first wave of infection; that is, to delay the spread of the disease, which affects the lungs, by restricting physical contact between people.



Source: Tomas Pueyo analysis over chart from the Journal of the American Medical Association, based on raw case data from the Chinese Center for Disease Control and Prevention

Timeline of Events in Hubei

Source: Tomas Pueyo: Coronavirus: Why You Must Act Now. Politicians, Community Leaders and Business Leaders: What Should You Do and When? March 10, 2020,
<https://medium.com/@tomaspueyo/coronavirus-act-today-or-people-will-die-f4d3d9cd99ca>

Most countries then adopted this strategy and made slight alterations to it. Air traffic practically stopped, borders were closed, major events were banned and many shops and businesses were closed. The vast majority of schools and universities have closed their buildings, affecting 90% of

the 1.5 billion children and young people in the education sector. In mid-August, this figure was about 60% of all pupils and students. As of the beginning of April, almost half of the world's population was subject to at least a partial lockdown. In many countries, a large part of public life was drastically cut back for three to four months.

In retrospect, these actions seem self-explanatory. For the historian, however, a new phenomenon emerges: namely, that a comprehensive global reaction has taken place in a way that has never been observed before. Why this has happened in this way appears to be a mystery. It seems that the approach China chose gave a model to the rest of the world. In Europe, the images of the military trucks that transported coffins from Bergamo at night caused horror.

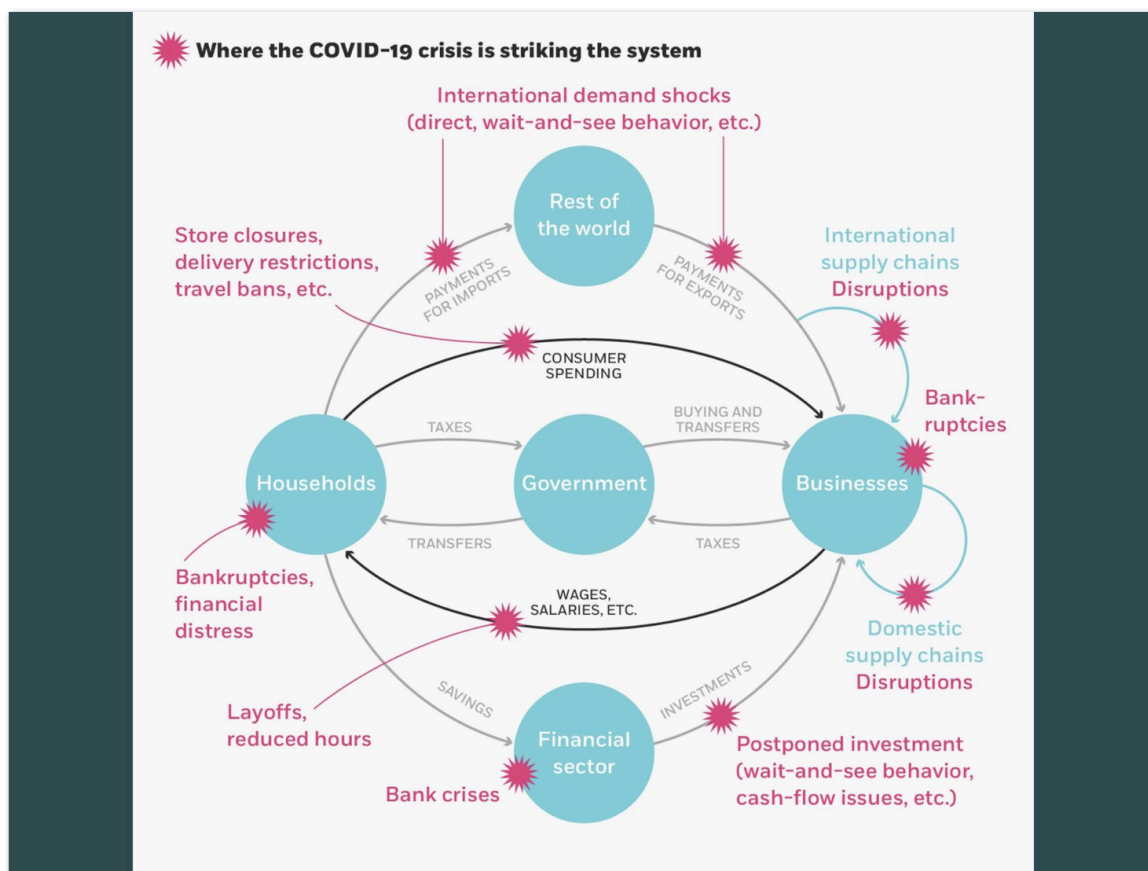
Several aspects characterise the global response. Science has been listened to. The state has intervened in people's everyday lives in a way for which (apart from during wartime) there are very few examples. Thirdly, the authorities are guided by a reproduction number; the number of people an infected person statistically goes on to infect. Finally, these restrictions were widely supported in the media and found approval among the general population in most countries. I will come to exceptions later.

This also means that the course of the pandemic depends to a large extent on the reactions of the authorities and on the extent to which the populace is prepared to comply with the measures imposed on them. The projections made by epidemiologists agree on two things: COVID-19 is here to stay and the future largely depends on the choices people make. We can generalise this finding: it is insufficient to consider the pandemic to be a purely natural or medical phenomenon. It is a natural event, but only in part. It is, above all, a social event. This means that when we talk about the coronavirus shock or the coronavirus crisis, we are not talking about a crisis of nature (for which only medicine is responsible), but about a social crisis. A reflection on the coronavirus crisis must be a reflection on society.

I want to pursue this thought and illustrate it with an analogy. A crop failure does not necessarily mean that a country has to suffer a famine. If there is a famine, it is triggered by a natural phenomenon called crop failure, but not caused by it. A crop failure can only develop into a famine if the society it affects reacts in a specific way. This is because a crop failure can have many consequences. Is the society prepared for a bad harvest? Has it stockpiled? Can it organise help, internally or externally? What information do people have? Are sufficient financial resources and transport facilities available to prevent people from starving? How do the powerful in the country react? Do they care for those affected or do they leave them to their own fate? Every question depends on the society affected by the famine. A famine is always a social event.

In the same way, the coronavirus crisis marks a crisis in society. It is not a purely natural phenomenon. In every country, the quality of society is under scrutiny. The course of the pandemic illustrates how society functions. We can go country by country and describe, in detail, the social setting in each country. On the one hand, this concerns how politics works; whether there are, for example, leaders who can unite the country under one strategy. On the other hand, it concerns how society as a whole reacts to the shock: which areas of society are affected? How do people react, what aid is organised, what options for the future are there?

One important area is the economy. The coronavirus shock triggered the biggest economic crisis in 100 years. The reasons for this are obvious, as the next picture shows.



Major flows of money and goods (@ Baldwin 2020)

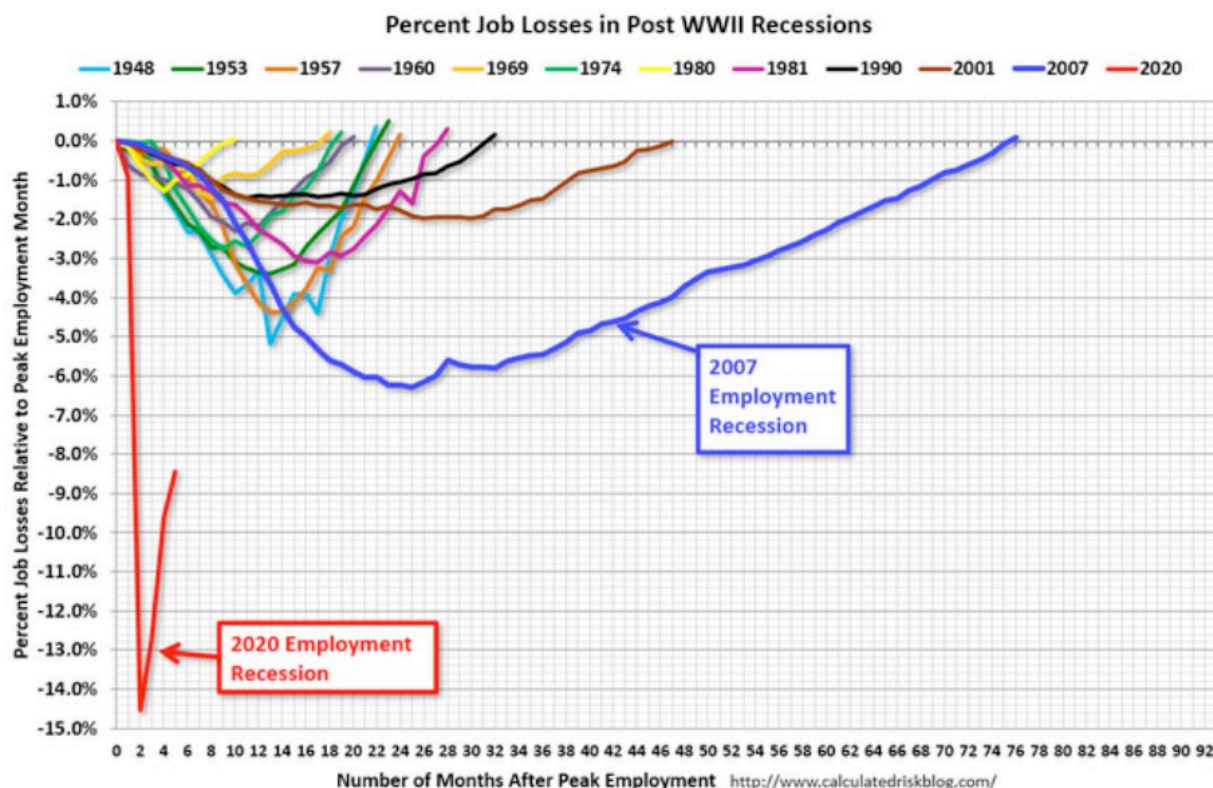
Source: Baldwin, Richard: To treat COVID-19's economic impact, start by keeping the lights on, *Chicago Booth Review*, March 21, 2020

On the left are the households, on the right the businesses, in the middle the state, at the top we find foreign countries with imports and exports, and the financial sector is at the bottom. The arrows show cash and financial flows. They were all interrupted by the crisis and the effects of this will last for a long time.

For example, curfews and lockdowns (shown in the upper-left corner) immediately reduce consumer spending. The result of this is that companies do not generate any revenue, they immediately lay off staff, wages and salaries fall, the purchasing power of households decreases, many go bankrupt etc. In the USA, for example, a good half of the population lives hand to mouth without any significant savings. Many can no longer pay their rent, which has risen sharply in recent years. The ten suns in the diagram symbolise ten different interruptions of global cycles, which were all occurring simultaneously. This fact amplifies the problems of each individual interruption.

The shock caused by the coronavirus has led to a sharp decline in economic performance and high levels of unemployment in most countries.

The next chart shows the slump in employment in the USA in various crises since 1948: by what percentage employment fell after the outbreak of the crisis and then rose again. The blue line shows the effects of the financial and economic crisis from 2007 onwards, the red line below the current crisis. Such large job losses have not been observed since the Second World War.



Percent Job Losses in Post WWII Recessions, USA

Source: Jim Welsh: A Long Way to Go, Econintersect, August 10, 2020

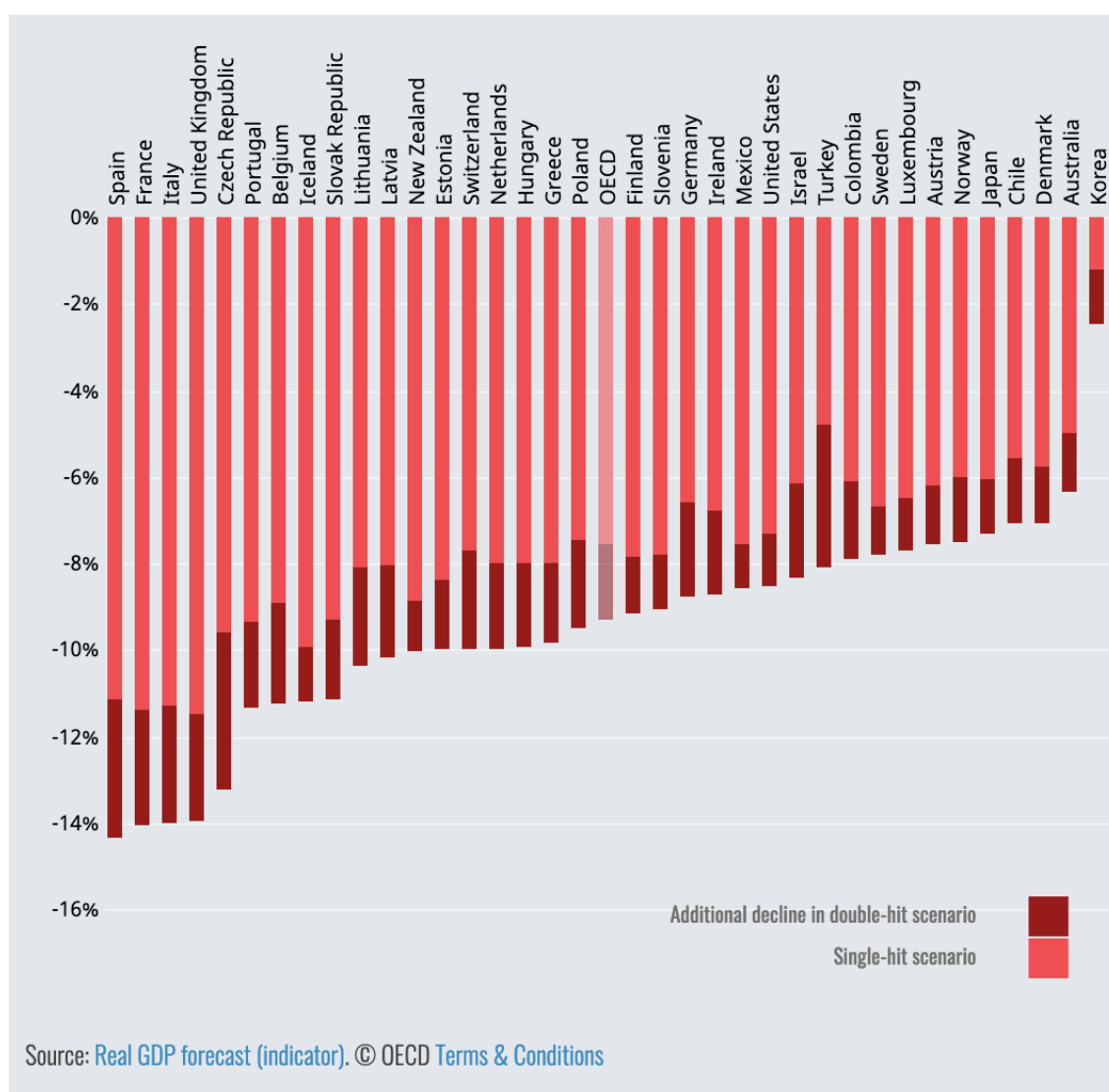
<http://econintersect.com/pages/investing/investing.php?post=202008110319>

Now a few figures on the predicted economic situation in 2020.

A survey of 500 economists at the end of July conducted by Reuters shows that the global economy will shrink by 4 percent this year.

The June edition of the OECD Economic Outlook expects a decline of 5.3 percent.

The Outlook focuses on two probable scenarios – one in which a second wave of infections with renewed lockdowns hits before the end of 2020 (in this situation, growth would collapse by 6.5 percent), and one in which another major outbreak is avoided. The bar chart shows the two scenarios for the OECD countries. The dark red parts symbolize the additional decline when the second scenario occurs. Spain, France, Italy and the United Kingdom will be the worst affected.



OECD Economic Outlook, June 2020

Source: <http://www.oecd.org/economic-outlook>

These forecasts are based on optimistic assumptions that are not necessarily true, such as that the huge rescue packages that have been agreed on are having an effect and that the economy will soon returns to its "normal" state. But we don't know that. We do not know when the crisis will be over and how long the restrictions will remain in place. According to a survey by the Ifo Institute for

Economic Research, a Munich-based research institution, Germany's economic leaders expect public life to be restricted for another eight and a half months. Service providers and traders expect about 9 months and companies in the leisure industry fear restrictions of 13 months. Those in the fields of the arts and gastronomy expect 11 months.

The expectation that things will pick up again strongly after a sharp economic slump also seems to be shared by major investors on the stock markets.

The next picture shows the development of five major indices over the last 12 months. On the left is the DAX, which shows the top 30 companies in Germany; next comes the TecDAX, which tracks the performance of the 30 largest German companies in the technology sector. The EURO STOXX 50, a stock index composed of 50 large listed companies in the Eurozone, is next. Further right is the Dow Jones, which is made up of the 30 largest companies listed on stock exchanges in the United States. Finally, we have the Nasdaq-100, a stock market index of the largest 100 firms that engage in banking, insurance, mortgages, securities trading and real estate.



Indices, August 10, 2020

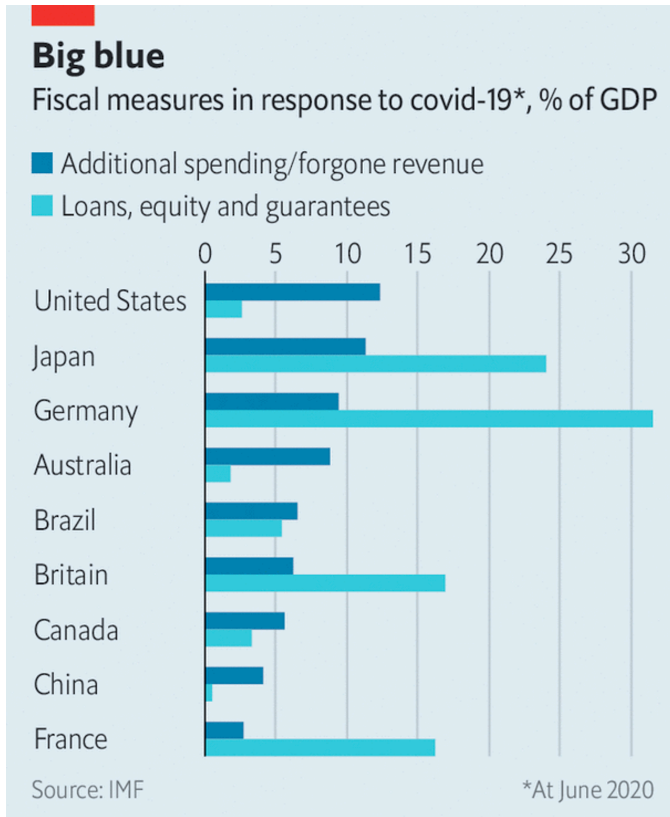
Source: <https://www.finanztreff.de/indizes/>

All indices show the same qualitative findings: a sharp slump at the beginning of March followed by a strong rise. The crash in March of around one third represents the biggest drop in prices for 100 years. It was triggered by a dispute between Saudi Arabia and Russia over funding policy in OPEC+. Since then, the price of Brent oil, which had reached almost 70 USD in January, fell from \$50 to about \$20 and has since risen to over \$40 again. It seems as if the stock markets have completely decoupled from the "real" economy.

This strange development is also due to the immensely large sums of money that have been announced or spent in the world's wealthier countries on policies to support the economy.

The chart shows the bailout measures announced by some countries as a percentage of economic output (GDP) plus direct financial aid, especially to companies, by taking on guarantees or providing cheap loans, for example. These countries have announced record rescue packages; in any case, the sums are greater than the measures taken to counter the financial crisis in 2008 and the economic crisis in 2009.

The still-rising prices on the stock markets can be taken as an indication that investors are hoping that these rescue packages prove effective. But this is uncertain.



The Economist

Source: The Economist 2020/07/22, based on data of the International Monetary Fund.

A long lasting economic crisis or a deep crash on the stock markets is also possible.

In the next video, the question will be raised as to why the economy and many other areas of society are proving to be so vulnerable and what this means for society as a whole.

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