

The psychological effects of the pandemic are likely already huge

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These social, political and economic changes can be grouped into four categories; new, accelerated, busted and possible trends

In 1930, 1,028 economists signed a letter to Herbert Hoover urging the US president to veto a bill that would raise tariffs once it became law.[1] Hoover refused and the **US raised taxes on about 20,000 imports and intensified a trade war that caused world trade to plunge nearly 70% from 1929 to 1934.**[2] (*BB comment: This is the way the world is heading now, May 2020*)

The uniform complaint of the who's who of economists was that higher tariffs clashed with a key tenet of classical economics, **the law of comparative advantage**. The theory from the 19th century postulates that everyone is better off when, first, people and countries specialise at what they are most efficient and, second, they engage in trade to acquire the rest.

The trade war of the 1930s, in effect, reaffirmed the law's validity. The global order post-World War II was designed so the law could operate unimpeded. It's not a stretch to say the **prosperity flowing from the globalisation of the past four decades is thanks to the recognition of the benefits of this law that in practice meant efficiency was prized above all.**

Not anymore. (*BB comment: To state the obvious, this is likely to mean a substantial drop in global GDP, with living standards falling for most people.*) The coronavirus that causes the illness known as covid-19 showed the law overlooked national security. The theory ignores trade's role in influencing the balance of power between countries. (It rests with manufacturers.) The law made no allowance for protecting populations during disruptions to trade from, say, pandemics.

Westerners confronting their mortality were alarmed to discover that the supply of vital health equipment and medicines depends on an increasingly assertive rival; namely, China. They were surprised that just-in-time global logistical networks producing essentials failed.[3] They now expect governments to ensure self-sufficiency in food, healthcare, basic goods, energy, fuel and IT. **Companies know they need to hold more inventory and strengthen supply lines.**

Government and corporate steps against globalisation are just some of the changes heralded by coronavirus's psychological effects, when mood shifts change human behaviour. If the virus did anything, it created a mass anxiety that has **upended the complacency, even arrogance, that progress is society's default condition.** This historical view had fashioned an overconfidence that traumas such as war, plagues and economic collapse were passé because human ingenuity had smothered abnormal threats, even those nature could devise.[4] **Now a gloomy, wounded and cautious public, grieving over what has been lost, peers into a poorer, less-secure and probably harsher future.**[5]

The deteriorating mood from such a sudden loss of security will bring **changes that can be grouped into four categories.** The **first is new trends.** This includes the partial retreat of globalisation – or its flipside, the reassertion of the nation state. It covers **higher personal sanitation standards, the rise of telemedicine, improved health facilities and wider health coverage.** 'Social distancing' will endure as **fear of viruses will keep people in a 'voluntary lockdown' mindset.** Essential workers have won newfound respect and the definition has widened to include service

labour. **Remote working will be more popular but not online schooling** because that, by most reports, flopped. Populations, having reflected on their priorities, might save a higher percentage of their (shrinking) income. Business, having discovered new risks, might be less confident about investing. Investors might worry more about preserving capital. Governments will relook at biosecurity, cybersecurity and the safeguards around utilities.

The **second category is the hastening of trends**. The group features the shift to the safer online world, notably the boost to virtual communications, cashless payments and online food delivery, shopping, entertainment and gambling. It covers the psychological shifts damaging the relationship between Beijing and Washington that is moving from rivalry towards hostility.

The **next grouping covers the ebbing of old ways**. US exceptionalism – **the US's view it is the world's proper hegemon – appears to have cracked**. So too has frictionless international travel, cheap flights, the popularity of cruise ships, and business models dependent on spontaneous and close human contact such as bars, cinemas, concert halls, eateries, gyms and professional sports.

The **fourth category gathers possible transformations**. A greater role for government in society, the rise of the surveillance state and renewed status for experts are included here. Other possible outcomes are demands to address inequality stirring politics, reduced legal immigration and a lower priority for climate change. An uptick in intergenerational resentment appears likely as the young will bear most of the costs in fighting covid-19. Respect for global bodies is under question. More obscure outcomes could be less-dense urban living and the return of the private car. Even if only some of these changes endure, covid-19's psychological legacy is likely to drive profound and durable changes, especially if the virus lingers.

Let's note that many things won't change. The likely effects of covid-19 look tame compared with history's greatest pandemics. It's hard to categorise things neatly into four groupings. Globalisation was retreating anyway so why is this a new trend? The answer here is that it's crumbling in a fresh and fundamental way because its central tenet is punctured. It's hard sometimes to distinguish between anxiety over covid-19's health and economic effects because they are intermingled. The decline in traditional media shows the economic damage of reduced advertising can outweigh a beneficial mood swing – that worried people sought credible news during the crisis. Many changes stemming from covid-19 will meet resistance. Big Tech's renewed leap, for instance, might hasten an anti-trust backlash. Covid-19 provided populations with time to reflect. That could spark psychological effects that are too intangible to be discussed here. These include any effects for 'busyness', community solidarity, drug abuse, family life, identity politics, individualism, materialism, mental health and religious belief.

The biggest disclaimer in analysing the psychological effects of covid-19 is the trap of thinking that initial reactions will prove lasting. Many might not. But enough surely will. People are likely to recall (recoil?) for a while yet the shock at how vulnerable the coronavirus made them feel emotionally, intellectually, economically, financially and politically. Consider that we have entered an age of vincibility.

Brand new

Zipnosis from the US provides 'white label' telemedicine software that automates triage. In March, the company's platform logged 412,553 visits compared with 37,170 the previous month.^[6] Remote medicine – often by phone – took off globally for obvious reasons.^[7] The convenience telemedicine offers patients and the way doctors can speed through appointments make it a new

trend likely to persist. So too will endure constant handwashing, higher personal-care standards and repeated cleaning of public places, as companies that sell such products already attest. ‘Social distancing’ will stay and prompt new ways of interacting from a distance.

Medical workers could likely enjoy better facilities as citizens will demand better facilities and comprehensive healthcare systems. Supermarket staff, cleaners, and truck and bus drivers are likely to be held in higher esteem thanks to their efforts during the crisis. That could enhance their bargaining power – past pandemics from the Black Death onwards suggest as much anyway according to a study by the Federal Reserve Bank of San Francisco that found 15 of the deadliest pandemics from the 14th to 20th centuries had one consistent result: “**Real wages (were) somewhat elevated following pandemics**”.^[8] While this pandemic has not been deadly enough to change the supply and demand dynamics of the overall labour force, it was notable that French warehouse workers took on their employer, Amazon, during the pandemic over safety and won.^[9] Notable too that many companies offering basic goods and services from Campbells Soup to Walmart voluntarily temporarily raised hourly rates or paid bonuses to their blue-collar workers during the pandemic.^[10] Acting against higher basic wages are the 1930s-like jobless levels though it’s not services workers losing jobs.

A feeling of insecurity that extends beyond being jobless **will likely prompt people to save more of their income**. That will only make **risk-conscious companies more cautious when investing, banks more prudent lenders, and investors warier of capital losses**, especially if financial losses mount. **Such caution could endure**. The French are said to be still wary of equities due to losses from investing in Imperial Russia pre-World War I.

One new trend that appeared to fail during the health emergency was **remote learning**. Most of the school children in western countries forced to do school at home are better schooled in the classroom, by most reports. Adult reviews showed remote schooling, while obviously safer, kept parents away from their work, proved bad for learning, was implemented unequally across schools and failed children who lack proper equipment at home, or even functional homes.^[11]

Remote working was more successful. Companies, however, are likely to want their staff back to office desks soon enough but the popularity and safety of working from home are likely to result in more ‘workplace flexibility’.

Accelerated trends

Joseph Schumpeter (1883-1950) was an **Austrian** political economist who is linked to the concept of ‘**creative destruction**’, the force by which **capitalism perpetually reinvigorates society**. New wealth smothering old is best symbolised these days by **the rise of Big Tech** and the **diminishing of traditional media and retail**. Covid-19 fanned this trend.

Amazon said it needed to employ 100,000 more workers so it could supply hunkered households while **Alibaba** proved a source of personal protective equipment for people outside China. **Facebook** kept isolated people in touch. **Google** and **Apple** helped create tracing apps. **Microsoft** and **Zoom** benefited as home-bound workers held virtual meetings. **Netflix** kept 15.8 million more subscribers entertained safely at home over the March quarter even if its production side was disrupted.^[12] Use of **Mastercard** and **Visa** plastic increased as shops assistants and shoppers preferred germfree, **contactless payment**. Use of food-delivery apps rose, as did traffic on online gaming sites.^[13]

Not everything, however, went tech's way. Fear of contagion along with restrictions battered 'sharing' tech companies such as **Airbnb** (that laid off 25% of staff in May), **Lyft** (17% of staff gone), **Uber** (14%) and **WeWork**.[\[14\]](#) Amazon said it would need to spend US\$4 billion more in the June quarter to keep workers safe.

But even **as tech faced some setbacks, the victims of its rise suffered more.** Traditional retail was savaged by mandatory and voluntary lockdowns. 'Preppy' brand J Crew in May became the first national retailer in the US to file for bankruptcy and few would be surprised if the virus didn't claim many more.[\[15\]](#) Traditional media faces an existential threat from a plunge in advertising even as reader and viewer numbers soared during the pandemic.[\[16\]](#) Has the media's tendency to alarmism ever backfired so much on the mainstream media's business model?

In 1961, Roger Maris scored 61 homes runs in a season to beat Babe Ruth's record of 60 set in 1927. But Maris had taken 162 games to achieve his feat whereas Ruth only took 154. Baseball's solution to ensure Ruth was still hailed the best?[\[17\]](#) An asterisk to highlight Maris had played more games, a symbol that over time in popular culture came to mean fake. Hence the significance of the asterisk placed in April next to China's virus statistics by Dr Deborah Birx, the response coordinator for the White House Coronavirus Task Force.[\[18\]](#)

"China*" was just one deterioration in **the China-US relationship** that could well prove the most significant accelerated trend from covid-19. Psychological effects played a role. The US needed someone to blame for covid-19's harm and much of the US Midwest sees the virus as China's third blow – the first occurred when China stole manufacturing jobs; the second when the China-made synthetic opioid fentanyl caused widespread addiction and death. Pew Research Center polling released in April showed 66% of Americans view China 'unfavourably', the highest since the survey began 15 years ago.[\[19\]](#)

Busted trends

Carnival Corp, the world's biggest operator of **cruise ships**, in March was so desperate for cash it was negotiating with hedge funds for loans with punishing interest rates. Happily for Carnival, the Federal Reserve launched a bond-buying program for companies with 'junk' debt ratings that helped Carnival sell US\$6 billion of bonds at much lower rates than the hedge funds were demanding.[\[20\]](#) But that's about the only luck Carnival and other cruise-ship operators enjoyed during the health crisis. Ocean cruising suffered what looked like near-fatal reputational blows as the coronavirus spread through their passengers though the industry says it will survive.

Airlines – and the travel and tourism industries more generally – are facing as big a challenge due to travel fears and curbs. Just in the UK early into the crisis, British Airways slashed staff, Flybe folded and Virgin Atlantic sought a bailout. The loss of competition can only mean higher fares. Entering countries could become harder, or at least slower, if health checks and certificates are required. Tougher times are coming for business models that rely on crowds, from crammed food halls to crowded sports stadiums.

Another virus victim appears to be **US exceptionalism**, an idea that took hold from the 19th century. As the polarised country suffered the most covid-19 infections and deaths, images of struggling hospitals, nurses forced to wear garbage bags for protection, overwhelmed undertakers, 1930s-like unemployment queues, endless lines at 'food banks' and Wendy's hamburgers without meat **undermined American confidence in their society's resilience** and **highlighted its political dysfunction**. The images reinforced the **world's decision not to look to the US for leadership** –

though the Fed provided financial steerage and the US dollar reinforced its reserve status. In contrast, the competent response of Asia's Tiger economies, especially Taiwan, earned the west's respect.

Possible trends

In 1986, US then-president Ronald Reagan uttered what well might be his most famous statement: "The nine most terrifying words in the English language are: I'm from the government and I'm here to help". If he were alive, Reagan wouldn't have said that during the pandemic. Political leaders enjoyed favourable polling as governments seized control of societies to stem the virus's spread. The left-leaning Australia Institute released research in May that showed that around the world **government is the only institution people trusted to lead the world past the crisis.**^[21] Time will tell how long that confidence lasts, especially when **a bigger public sector signals higher taxes.** The **arguments between state interventionists and free marketeers are only starting.** The winner will vary across countries.

While turning to the state for succour, many people willingly conceded their data privacy to help society fight the virus. Another issue to be settled is whether or not concerns about the surveillance state will diminish such trust come more normal times. Arguments about the state's role could expand to include the emergency powers that people seemed unaware governments held. Greater demands for **change as people argue over inequality** and **paying off debt could radicalise politics,** the more so if the **young feel they are society's biggest losers.**

Some people see the plague as proof of abuse of the environment. While fear of the virus prompted the world to respond largely in unison, only time will tell if a battered world can marshal a unified response to fight climate change, a threat that, even in the form of bushfires, lacks the psychological menace of a highly infectious lethal virus.

One common official response to this invisible 'foreign' threat was to tighten or close borders and halt immigration as the US did in April.^[22] At the same time, many of these non-citizens are risking their lives in hospitals, sanitising public spaces, delivering essential supplies and providing aged care. Public support for large intakes of legal immigrants could go either way in time, though economic arguments will probably hold more sway than the virus's psychological effects.

Other changes to be worked out over time include whether the private car will enjoy a resurgence because it was a safer way to travel compared with public transport during the crisis. In the same vein, might people shun the high-density inner-city suburbs of cities where the virus roamed more freely?

During the debate surrounding the UK vote to leave the EU in 2016, a penetrating comment was when (the now) Minister for the Cabinet Office Michael Gove dismissed Brexit apocalypse warnings by saying people "have had enough of experts".^[23] Perhaps they had then but the coronavirus has restored respect for qualified people (including those in government). An open question is whether respect for experts lasts. As ever, the question of which experts to trust will re-emerge. Even when experts act in unison they might be ignored if populists exploit economic troubles. A bunch of economists who tried to prevent the Great Depression 90 years ago could attest to that.

By Michael Collins, Investment Specialist

- [1] The New York Times. '1,028 economists ask Hoover to veto pending trade bill.' 5 May 1930. The bill was the US Tariff Act of 1930, which is better known as Smoot-Hawley after its sponsors. timesmachine.nytimes.com/timesmachine/1930/05/05/96118183.html?pageNumber=1
- [2] See The Blog of Herbert Hoover Library and Museum. 'The Smoot-Hawley Tariff of 1930.' hoover.blogs.archives.gov/2018/03/14/the-smoot-hawley-tariff-of-1930/
- [3] See Foreign Affairs. 'Will the coronavirus end globalization as we know it.' 16 March 2020. foreignaffairs.com/articles/2020-03-16/will-coronavirus-end-globalization-we-know-it?utm_medium=newsletters&utm_source=weekend_read&utm_content=20200425&utm_campaign=FA_WEEKEND_042520%20Will%20the%20Coronavirus%20End%20Globalization%20as%20We%20Know%20It?&utm_term=FA%20Weekend%20Read-012320
- [4] See Didier Saint Georges, a member of the investment committee at Carmignac, a French asset manager. 'Post corona growth should be more robust but less optimal.' Financial Times. 27 April 2020.
- [5] See Robert Samuelson. 'We should know by now that progress isn't guaranteed – and often backfires.' 27 April 2020. washingtonpost.com/opinions/we-should-know-by-now-that-progress-isnt-guaranteed--and-often-backfires/2020/04/26/cc74a062-863a-11ea-a3eb-e9fc93160703_story.html
- [6] See Zipnosis. 'Health tech to the rescue. Combatting covid-19 with virtual care and predictive analytics.' 1 May 2020. zipnosis.com/news/health-tech-to-the-rescue-combatting-covid-19-with-virtual-care/
- [7] See The Wall Street Journal. 'The doctor will Zoom you now.' 26 April 2020. wsj.com/articles/the-doctor-will-zoom-you-now-11587935588?mod=opinion_lead_pos1
- [8] Òscar Jordà, Sanjay Singh and Alan Taylor. The Federal Reserve Bank of San Francisco. 'Longer-run economic consequences of pandemics.' March 2020. ssingh.ucdavis.edu/uploads/1/2/3/2/123250431/pandemics_jst_mar2020_.pdf
- [9] See The New York Times. 'How French workers took on Amazon in the middle of a pandemic and won.' 29 April 2020. nytimes.com/2020/04/29/opinion/amazon-france-coronavirus.html?action=click&module=Opinion&pgtype=Homepage
- [10] See The Wall Street Journal. 'More companies offer employees bonuses, extra pay'. 24 May 2020. wsj.com/livecoverage/coronavirus/card/tYa4baf1Q4MuTHfWPnZa?mod=article_inline
- [11] See The Economist. 'Closing schools for covid-19 does lifelong harm and widens inequality.' 30 April 2020. economist.com/international/2020/04/30/closing-schools-for-covid-19-does-lifelong-harm-and-widens-inequality
- [12] See The Economist. 'Netflix will remain a blockbuster hit beyond the covid-19 era.' 23 April 2020 edition. economist.com/business/2020/04/23/netflix-will-remain-a-blockbuster-hit-beyond-the-covid-19-era?cid1=cust/ednew/n/bl/n/2020/04/23n/owned/n/n/nwl/n/n/AP/458000/n
- [13] See the 'real-time spending tracker' developed for Australia by analytics firm AlphaBeta, which is part of Accenture, and the credit bureau illion. Food delivery for the week April 13 to 19 was 192% than its pre-pandemic norm while online gambling was 71% higher. To see the tracker,

go to [alphabeta.com/illiontracking](https://www.alphabeta.com/illiontracking). For April 13 to 19 results, see, [smh.com.au/business/the-economy/new-lockdown-spending-habits-will-outlive-the-pandemic-20200426-p54nbi.html](https://www.smh.com.au/business/the-economy/new-lockdown-spending-habits-will-outlive-the-pandemic-20200426-p54nbi.html)

[14] See Airbnb's letter to employees where it announced job cuts go to Airbnb newsroom. 'A message from co-founder and CEO Brian Chesky.' 5 May 2020. news.airbnb.com/a-message-from-co-founder-and-ceo-brian-chesky/

[15] For bleak retail predictions, see 'J Crew files for bankruptcy, the first national retail casualty of the coronavirus pandemic.' 5 May 2020. [washingtonpost.com/business/2020/05/04/jcrew-bankruptcy-chapter-11-coronavirus/?utm_campaign=wp_todays_headlines&utm_medium=email&utm_source=newsletter&wpisrc=nl_headlines](https://www.washingtonpost.com/business/2020/05/04/jcrew-bankruptcy-chapter-11-coronavirus/?utm_campaign=wp_todays_headlines&utm_medium=email&utm_source=newsletter&wpisrc=nl_headlines)

[16] In Australasia, News Ltd stopped the print production of more than 30 local papers in Australia while Bauer Media pulled out of New Zealand, cancelled the TV Logie Awards and stopped printing some magazines in Australia.

[17] See Newsday. Roger Maris: Still 61* after all these years.' 24 September 2016. [newsday.com/sports/baseball/yankees/roger-maris-still-61-after-all-these-years-1.12358581](https://www.newsday.com/sports/baseball/yankees/roger-maris-still-61-after-all-these-years-1.12358581)

[18] Newsweek. 'Dr Deborah Birx calls China's low coronavirus death rate unrealistic.' 18 April 2018. [china-newsweek.com/dr-deborah-birx-calls-chinas-low-coronavirus-death-rate-unrealistic-1498778](https://www.china-newsweek.com/dr-deborah-birx-calls-chinas-low-coronavirus-death-rate-unrealistic-1498778)

[19] Pew Researcher Center. 'US view of China increasingly negative amid coronavirus outbreak.' 21 April 2020. [pewresearch.org/global/2020/04/21/u-s-views-of-china-increasingly-negative-amid-coronavirus-outbreak/](https://www.pewresearch.org/global/2020/04/21/u-s-views-of-china-increasingly-negative-amid-coronavirus-outbreak/). Anti-China tensions rose elsewhere too. China threatened Australia with a consumer boycott for calling for an inquiry into the origin of the virus that first appeared in Wuhan. Amid calls for reparations from China, Germany and the UK are reconsidering using Chinese telco Huawei to modernise their networks.

[20] The Wall Street Journal. 'How the Fed saved Carnival.' 26 April 2020. [wsj.com/articles/how-fed-intervention-saved-carnival-11587920400](https://www.wsj.com/articles/how-fed-intervention-saved-carnival-11587920400)

[21] The Australia Institute. 'Trust in the time of covid-19: Global polling shows governments are the only institution trusted to lead the world out of the pandemic.' 4 May 2020. [tai.org.au/content/trust-time-covid-19-global-polling-shows-government-only-institution-trusted-lead-world-out](https://www.tai.org.au/content/trust-time-covid-19-global-polling-shows-government-only-institution-trusted-lead-world-out)

[22] White House 'Fact sheets' 'Immigration'. 22 April 2020. [whitehouse.gov/briefings-statements/president-donald-j-trump-honoring-commitment-protect-american-workers-temporarily-pausing-immigration/](https://www.whitehouse.gov/briefings-statements/president-donald-j-trump-honoring-commitment-protect-american-workers-temporarily-pausing-immigration/)

[23] Financial Times. 'Britain has had enough of experts.' 4 June 2016. [ft.com/content/3be49734-29cb-11e6-83e4-abc22d5d108c](https://www.ft.com/content/3be49734-29cb-11e6-83e4-abc22d5d108c)