



ECOGNOSIS ADVISORY LTD

From the Greek: ΟΙΚΟΝΟΜΙΚΗ ΓΝΩΣΙΣ (Economiki Gnosis, Knowledge of Economics). Ecognosis is a global financial, economic advisory and information service, covering economic and financial developments, equities, fixed income, forex, commodities and other assets. Econotes is a research publication available free on our internet site and to the public in Hong Kong. It is not a solicitation for business and neither does it contain investment suggestions on specific and named securities including any buy sell or hold advice. It is written by Dr. Andrew F. Freris based on 52 years of market experience which includes senior positions with GT Capital, Salomon Brothers, Bank of America and BNP Paribas as well as senior academic posts with universities in London and in Hong Kong

Level 20, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong. Tel: 852 3167 4591, Mob 852 9738 0944, Email: afreris@ecognosisadvisory.com, Website: www.ecognosisadvisory.com, FB: @ecognosis

ECONOTE No 92: The world and capitalism after Covid 19- Same as we know it.

14/4/2020

Summary	Investment Conclusions
Competing closely with the guesses as to the end of the global crisis triggered by Covid 19, are futurological essays bearing, titles such as "The end of the world as we know it", "Capitalism will never be the same" and, best of all, "The end of work as we know it". I am offering here two sets of arguments why all these claims lack factual foundation and are too West and US centric. A third set of arguments is based on my subjective beliefs and expectations and you can delete them even before you read them! My conclusions are best summarized by a paraphrase of "The Who" lyrics "Meet the new world, same as the old world"	Wisely (but untimely) current investment suggestions are based on the very risky and naive advice to "buy the dips" and "cheap opportunities of a lifetime". None of these are based on a quantifiable forecast of the peaking and end of Covid 19 infection, the only cause of the lock down of most economies, and, hence, the only cause of a reversal of the current disruption. We will simply add that buying anything on the assumption that after the Covid 19 is over, the world and economies will be unrecognizable is also based mostly on opinion but not on facts.

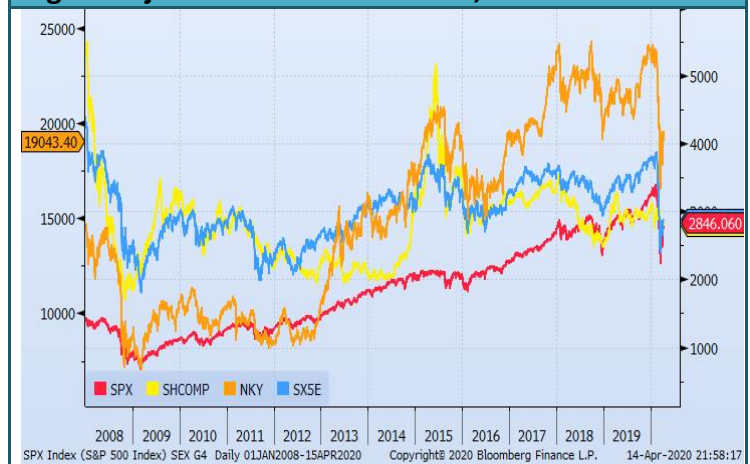
Arguments 1 : Why capitalism will not change

The nearest "controlled experiment" we have to what the world is going through now, was the purely financial upheaval of 2008-9. Even that event has been massively misinterpreted as a global event when in fact it was as American as apple pie, albeit with severe impacts on some (NB "some") other financial systems as well as short term shocks on some GDP growth rates. Consider the following.

(1) The crisis started and partially ended with the US mortgage market collapsing and dragging major banks with it. The collapse of the US financial and banking system had severe repercussions on the UK banking system and on some EU countries, especially Germany and Iceland (!). It had no, repeat no, repercussions on the banking systems of China, Japan, India, Hong Kong, Singapore, Australia to mention but a few. The Fed and US Treasury had, at one stage, effectively nationalised the US banking system and also witnessed major institutions disappearing: Bear Stearns, Lehman Bros and Merrill Lynch. No Chinese, Indian, Japanese etc banks had to be rescued by the state. Some British and German banks did. But a "global financial crisis" is a crass Americanisation and an inverted compliment on

influence of the US on the world. (2) State intervention in the form of central banks injecting liquidity plus other emergency funding were widespread. (3) Once liquidity was restored and the US financial system was stabilised, there followed nearly a decade of uncontrolled stock market boom, lead by the US. (Fig. 1). So much for financial capitalism changing. What this has to do with Covid 19 ? The answer is that it provides an example of no-change after a major shock. Simple but true.

Fig 1: Major stock markets indices, 2008-2020



Source Bloomberg

Argument 2: Why the role of the state and of work will not change

There has been, in terms of size, an unprecedented state injection of funds in most of the developed and the richer developing economies in the form, mostly, of support for wages and incomes during this period of enforced, but likely temporary, unemployment. There has been no need to support any banking system so far, except by pushing interest rates further down and subsidizing or guaranteeing bank loans to businesses. In short, the state has not taken over industries or sectors, has not nationalised any companies or in any manner confiscated or took over the direct use of means of production. Companies have been asked to produce medical equipment which was then bought (NB bought) by the state. In short, the state has not expanded its role in the allocation of the means of production but has offered some direct funding which will not be repaid but which will be funded by loans but, later on by taxes, to repay the loans. In short there will be more taxes

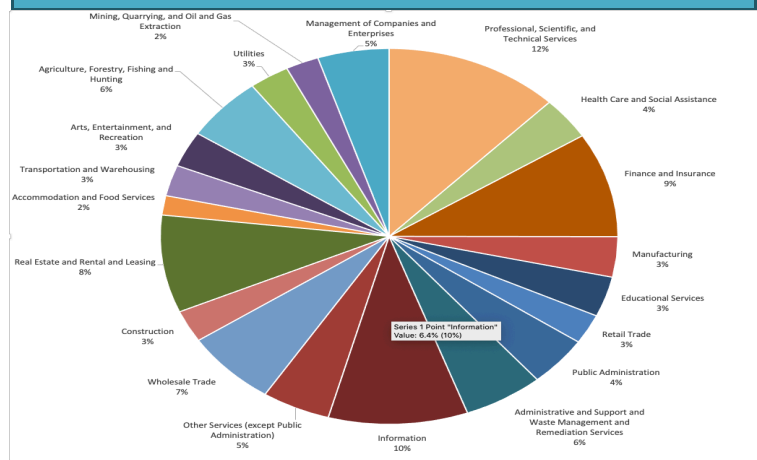
FACTBOX: The Who and “Won’t be fooled again”

The UK pop group “The Who” had a major hit in June 1971 with this song. The lyrics were a criticism of revolution and violent change and the, inevitable, disillusionment with the false promises of a radical dawn. However in the context of expectations of radical changes in the world and work as we know it following Covid 19, the lyrics act as a welcome reminder. *“There’s nothing in the streets, Looks any different to me, And the slogans are replaced, by-the-bye. And the parting on the left, Is now the parting on the right...Meet the new boss, Same as the old boss....”*

The French author **Jean Baptiste Alphonse Karr**, (1808-1890) predated The Who by 122 years by his, now famous, quotation in 1849: *“Plus ça change, plus c’est la même chose”*
“The more things change, the more they stay the same”

To pay in the future and more loans to repay. All these are very large costs which the wealthy economies can, and will, sustain and repay in the future and which poor economies will not be able to afford now, and as a consequence will face a much higher death toll and economic misery than otherwise. (See the Third set of arguments). All this does not change one iota the role of the state in capitalist economies, let alone in state capitalist countries like China, as it involves state funding and not control. **As for the change in the work environment-** “we will all work from home”- all the forecasts are exclusively based on the experience of the US and EU leaving aside China and India which account for 36.0 % of world population! Fig.2 (Global Workplace Analytics, ACS 2016 US data) shows that the top 3 sectors are Prof. Scientific & Technical with 12.0%, Information 10.0% and Fin.& Industry 9.0%. These are very small percentages indeed, which will need spectacular and consistent growth rates to lead to

Fig.2: US: Percent of work at home by sector and industry, 2016



a high percent of people working from home. The Covid 19 could be a one-off experience, leaving aside the physical impossibility in sectors where work cannot be transferred at home. Westcentricity can be very misleading indeed.

Argument 3 : Why the poor, as always, will pay

The following are subjective observations and not necessarily backed by facts and data. **(1)** IMF has just published their estimates on the impact on global GDP growth. (IMF April 14). Not surprisingly the developed countries, because of their interdependent and sophisticated economies will be hit most with 6.0% shrinkage in 2020 while the developing economies by 1.0%. This however cannot account for the impact in terms of human misery in developing economies which can not be accounted by GDP alone, such as the massive displacement of, reputedly, more than 25 million migrant and itinerant workers in India’s major conurbations, combined by the mostly primitive health and prevention care in India’s public health system. The same picture can be multiplied by taking in Africa with some countries having less than 10 respirators for the whole of their population. **(2)** This picture is a grotesque parody of the importance and extent of globalization, here not of trade and fund flows, but of the uncontrolled infection. The aftermath of the Covid 19 will be, once again, total absence of global efforts to help the weaker as, however realistically cruel, national governments will have to look first after their own. An unsettling example has been the EU wrangling over emergency aid, especially to Italy, which was to be conditional to post-epidemic promises of economic reform and macro conditions to ensure absence of moral hazard. This will definitely not be a changed world after the epidemic is over. It will be depressingly very much the same as the world we lived in before the virus hit.

Andrew Freris (writing completed 14 April 2020)