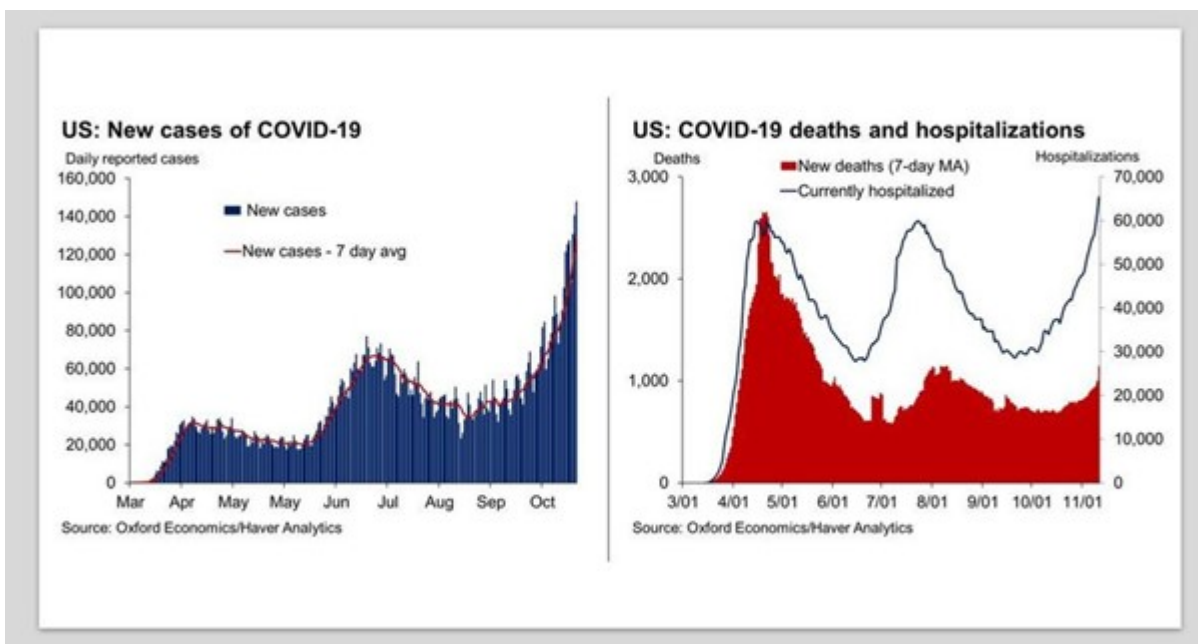
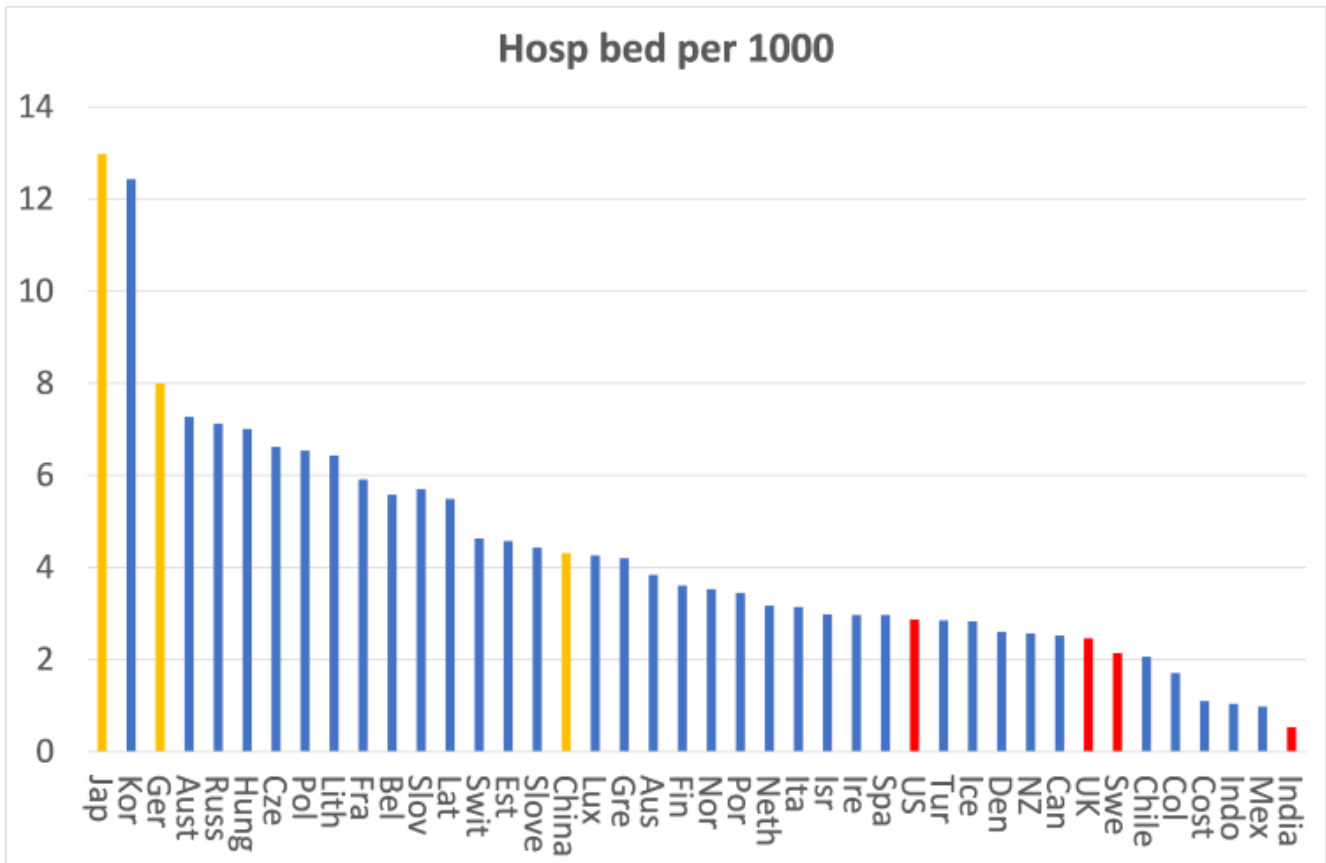


Covid 2021: more calamity ahead?

The news that a COVID-19 vaccine could well be available by the start of 2021 sent the stock markets of the world shooting up to new record levels. However, the rally was quickly tempered by the rocketing rise in COVID-19 infections as the northern hemisphere enters its winter. The rise is most heavily exhibited in the US and most parts of Europe. The death rate from these new infections may be lower than in the first wave last March-April, but hospitalisations are reaching new peaks in the US and parts of Europe.



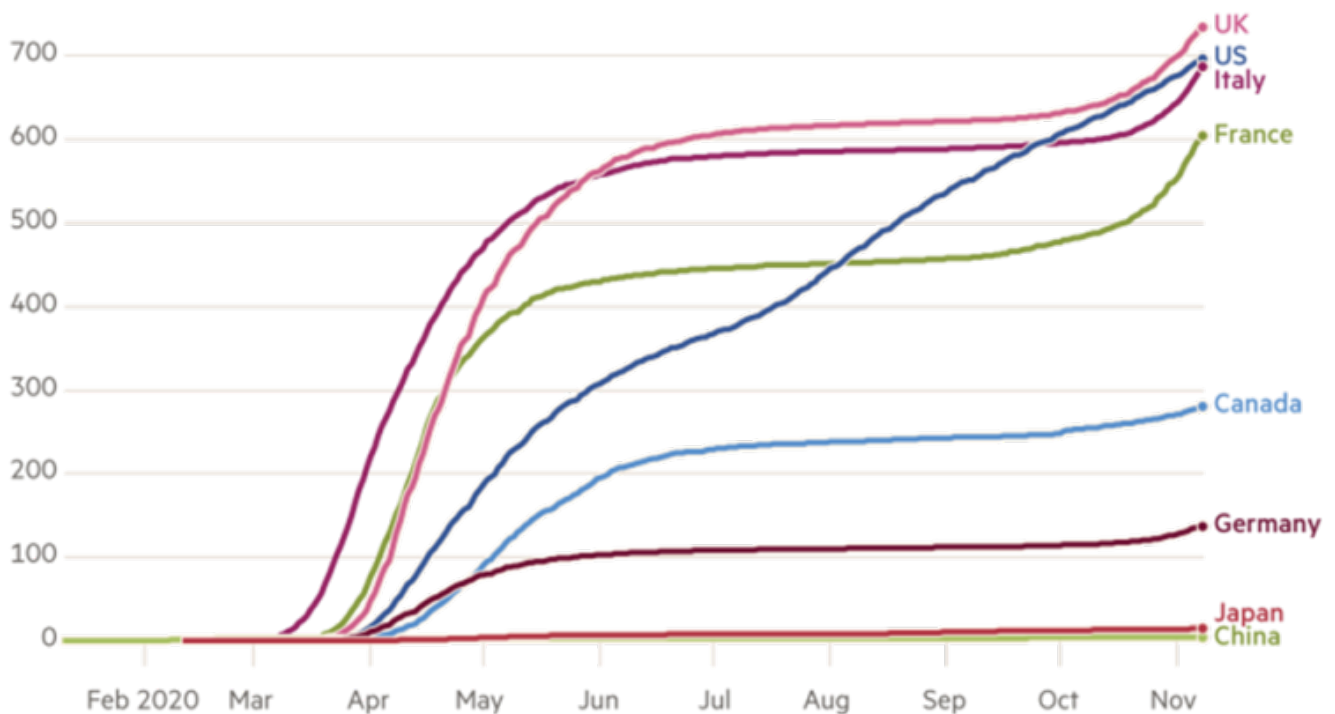
This is serious for health outcomes because hospital capacity was already low in many countries, after privatisations, public sector spending cuts and outsourcing of health services conducted by most advanced capitalist governments over the last 30 years before the pandemic. India is at the bottom of the pile for hospital beds per 1000 inhabitants, not surprisingly, but note that, among 'developed economies', Sweden, the UK, Canada, New Zealand and Denmark are also near the bottom, with the US not much better.



That explains why these countries had to resort to lengthy and severe ‘lockdowns’ in the first wave to cope. New Zealand and Denmark did so with relative success, but the US, the UK and Sweden did not in the first wave, with a relative failure in keeping deaths down. The countries with relatively low death rates from the first COVID wave were also ones with plenty of hospital bed capacity – Japan, Korea and Germany.

The US has among the highest mortality rates from Covid-19

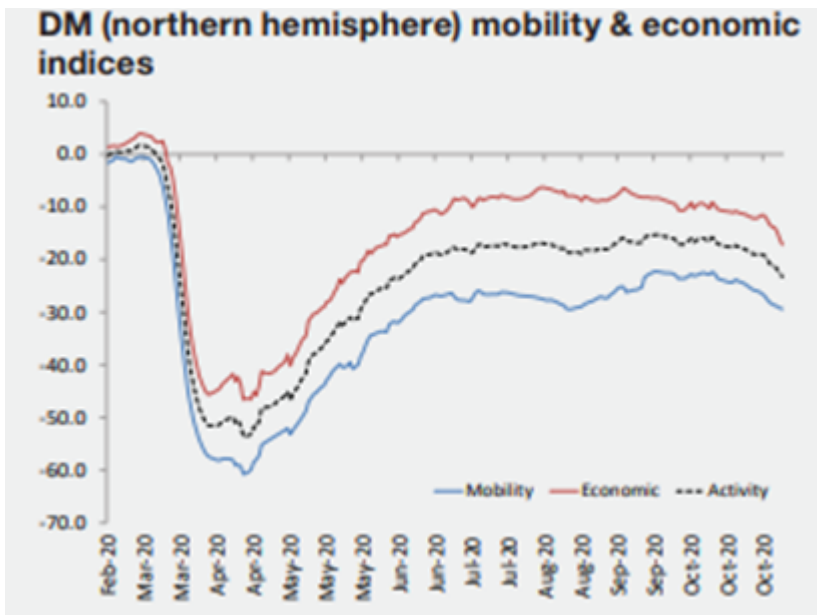
Cumulative Covid-19 deaths per million population



Sources: FT analysis of data from the European Centre for Disease Prevention and Control, the Covid Tracking Project and the UK government coronavirus dashboard

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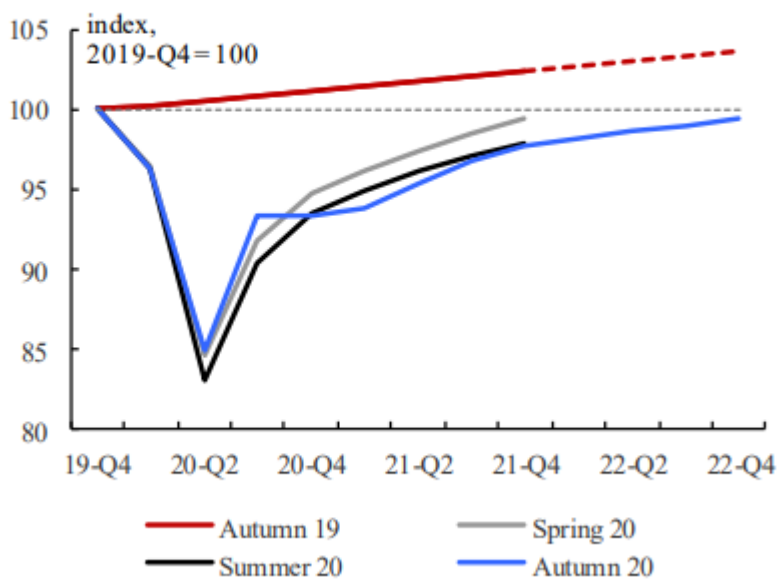
In this new 'winter wave', health systems are better prepared and resourced but even so, patient numbers are rising fast. And now many hospital staff have been infected and forced to self-isolate, reducing the ability of health systems to cope with the winter wave of COVID-19. This is forcing many governments in Europe and states in the US to resume new lockdowns of varying severity. At the same time, people are voting with their feet and millions are staying at home, not travelling, or shopping and working on-line, and not going to cafes, restaurants, etc. This combination of lockdowns and self-isolation has stopped the nascent recovery in economic activity that began in the summer. Economic activity, as measured by mobility and spending trends, is dropping back in the major economies of the northern hemisphere.



Covid is likely to get worse before it gets better. Daily infection rates, hospitalisation and positive testing all point in this direction. The R_0 (infection) rate remains well above 1.5 globally and closer to 2.0 in the US and Europe. The vaccination story provides no palliative for this in the next six months.

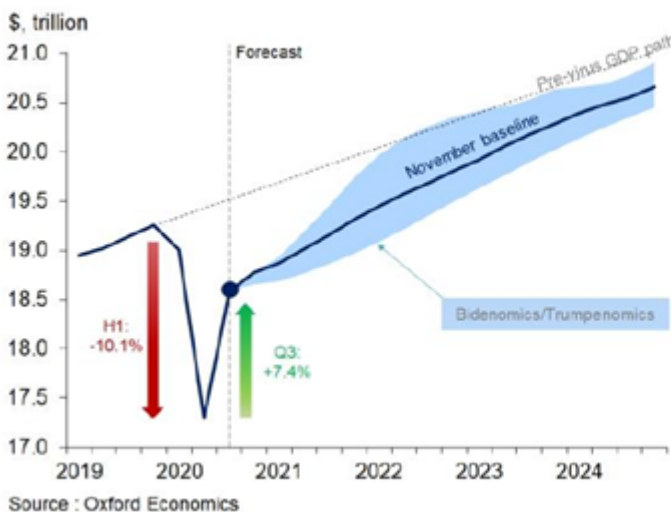
The hopes of further economic recovery in the last quarter of this year and next are being dashed. The European Commission has lowered its Eurozone 2021 GDP forecast to +4.2% from +6.1%. The Commission cut the GDP forecast because of the new wave in COVID-19 and the return of lockdowns. *“Going forward, remaining idle capacity in capital-intensive sectors, lower profitability and elevated uncertainty are expected to weigh on investment intentions.”* The Commission goes on: *“The low growth momentum expected implies an annual output level in 2022 that is slightly below that of 2019 for both the euro area and the EU and thus well below the pre-pandemic growth trend, such as the one derived from the autumn 2019 forecast.”* So no V-shaped recovery for Europe as the pandemic wave rises.

Graph I.1.28: Projected profile of euro area GDP, autumn forecast and previous forecasts



It's a similar message for the US. Oxford Economics reckons that the 'recovery' is plateauing and even with a vaccine, there is no prospect of the US economy returning to its pre-virus GDP path (weak as that was) for the foreseeable future!

US: Real GDP

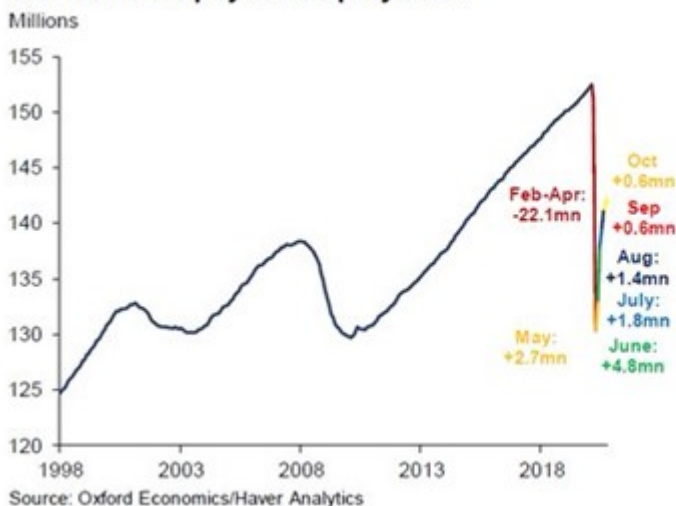


Given a worsening health situation and increased evidence of the recovery plateauing, we envisage slower economic growth heading into 2021. Since we don't foresee any major fiscal initiative following the election, our November baseline foresees real GDP averaging 3.6% in 2021.

And that is even taking into account any future policy measures by the new Biden administration to 'stimulate' the economy through more government spending. As it is, even the palliative emergency spending package being disputed between the Republican Senate and Democratic House seems locked into paralysis going into 2021.

The stalled 'recovery', such as it was, is going to leave permanent scars on the 'labour market' (ie people's livelihoods). The latest US jobs figures for October suggest that the return to work for millions has begun to fade. By last April, 22m Americans had lost their jobs or been laid off. So far, less than half of them have returned to those jobs.

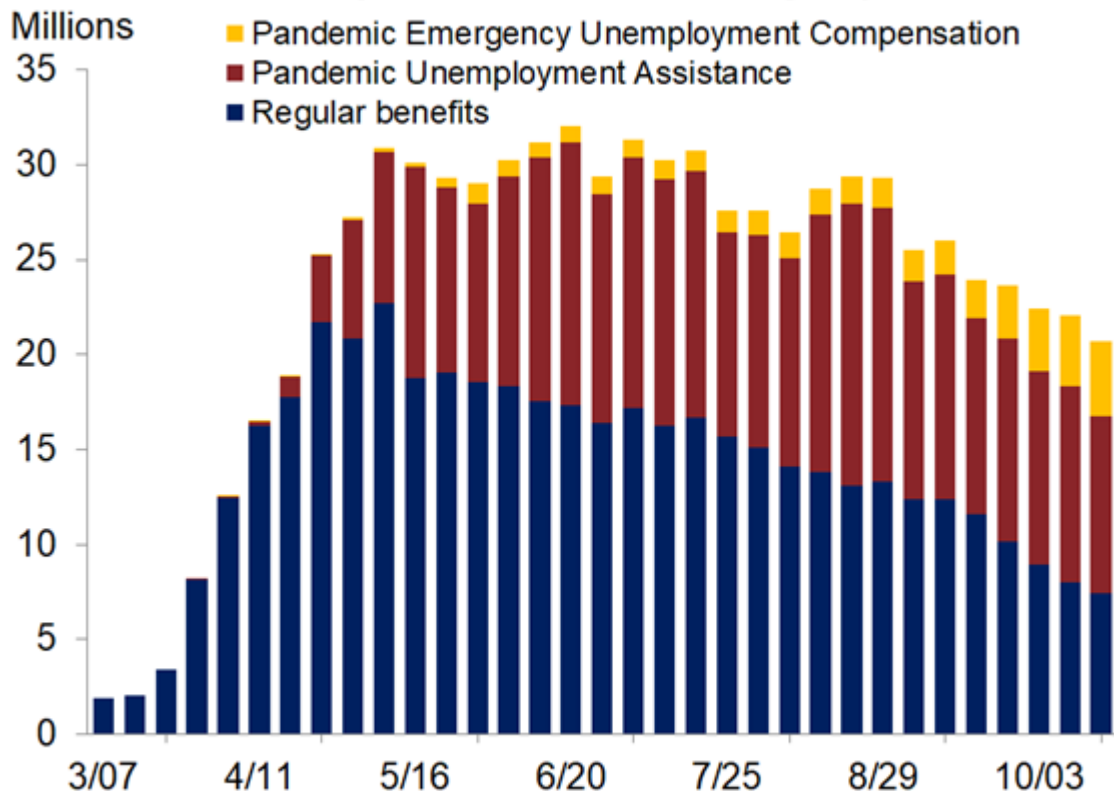
US: Nonfarm payroll employment



We expect nonfarm payrolls to rise 604,000 in October following a similar 661,000 gain in September. Our forecast would leave the level of employment 6.7% below its pre-recession level.

The rest remain on unemployment benefit and/or emergency assistance.

US: Continuing claims for unemployment



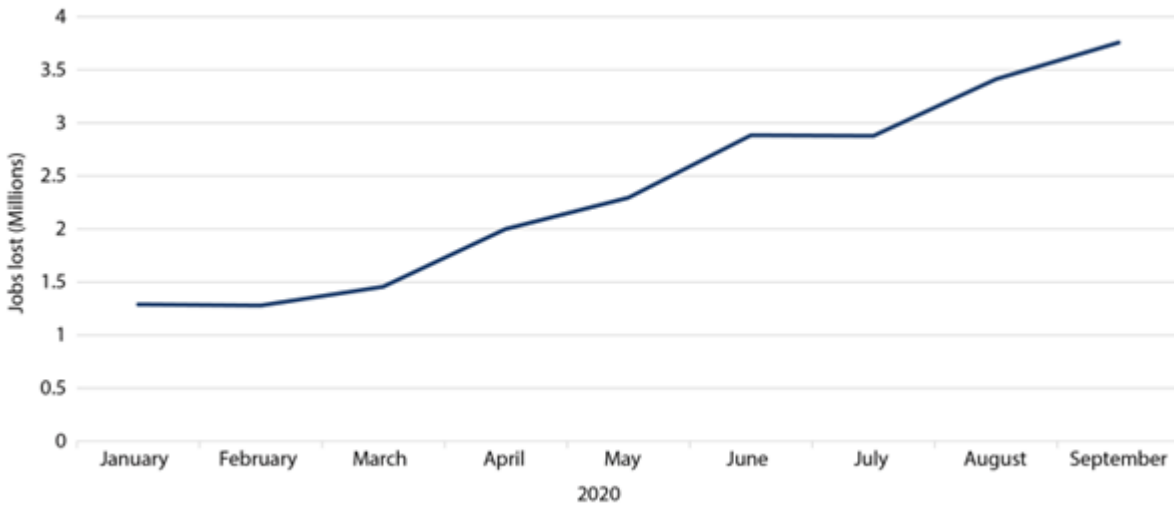
Source : Oxford Economics/Haver Analytics

The number of unemployed actually understates the problem as millions of individuals have left the labour force. Many rejoined over the summer, but the total potential labour force is still more than four million workers smaller than it was prior to the crisis, and it contracted in September, a disturbing stall in momentum.

The number of individuals who say they are on permanent layoff has also grown considerably, from 1.5 million in March to 3.8 million in September. This rise in permanent layoffs is unusually swift. In the first six months of the Great Recession, the number of permanent layoffs grew just half a million. Furthermore, research suggests people overestimate the likelihood of re-employment and each month they are out of work reduces the chances their layoff is in fact 'temporary'. As time passes, improvements in the labour market will become harder.

FIGURE 3.

Permanent Jobs Lost



Source: U.S. Bureau of Labor Statistics (2020); author's calculations.

BROOKINGS

One factor that has kept some afloat while being laid off has been the relative rise in real household incomes in the couple of years before the pandemic hit in 2020. According to the US Census Bureau, US median household real incomes rose 6.8% between 2018 and 2019. This rise can be disputed as it is based on inadequate surveys. Also, the rise only meant that households had clawed back their living standards after deep losses following the Great Recession ten years ago. In 2019 the unemployment rate was at a record low, while inflation had also fallen to near historic lows. As a result, households had two or even three earners, maybe at low wage rates, but combined, that improved the household income levels.



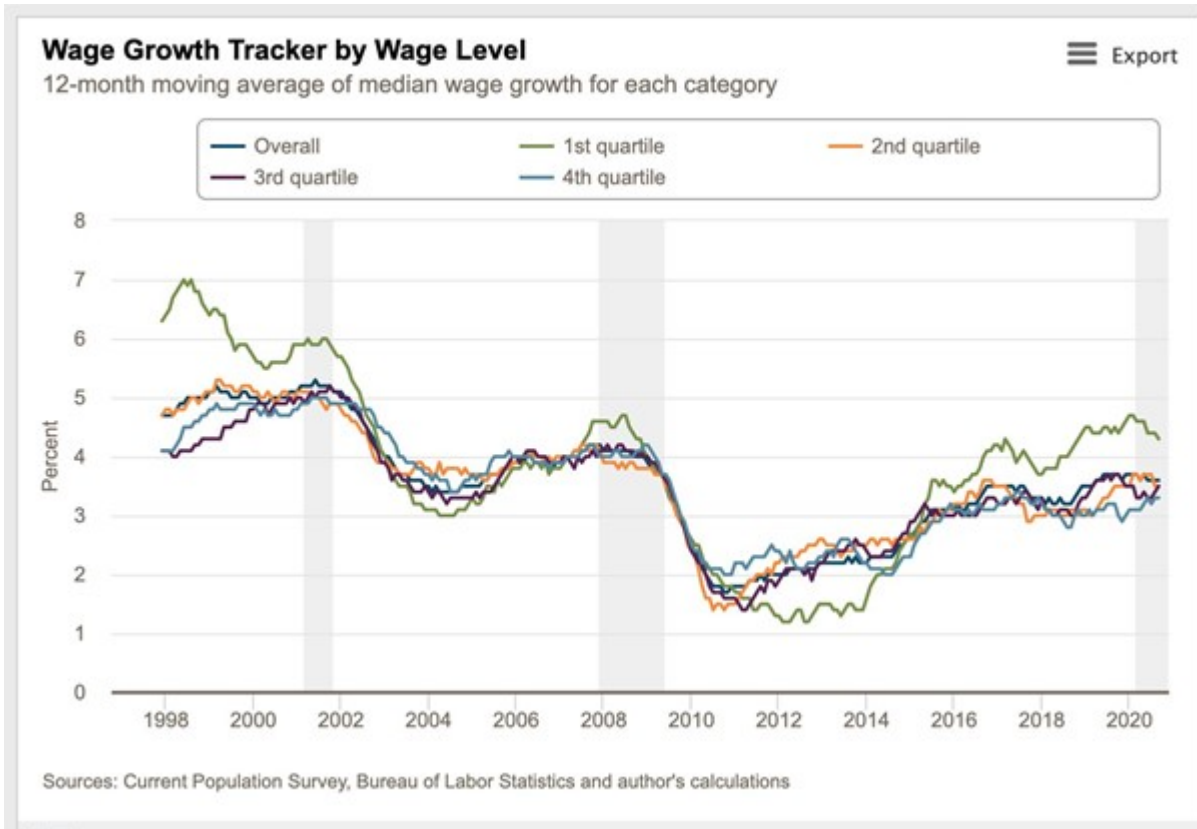
U.S. recessions are shaded; the most recent end date is undecided.

Sources: U.S. Bureau of Economic Analysis, U.S. Census Bureau

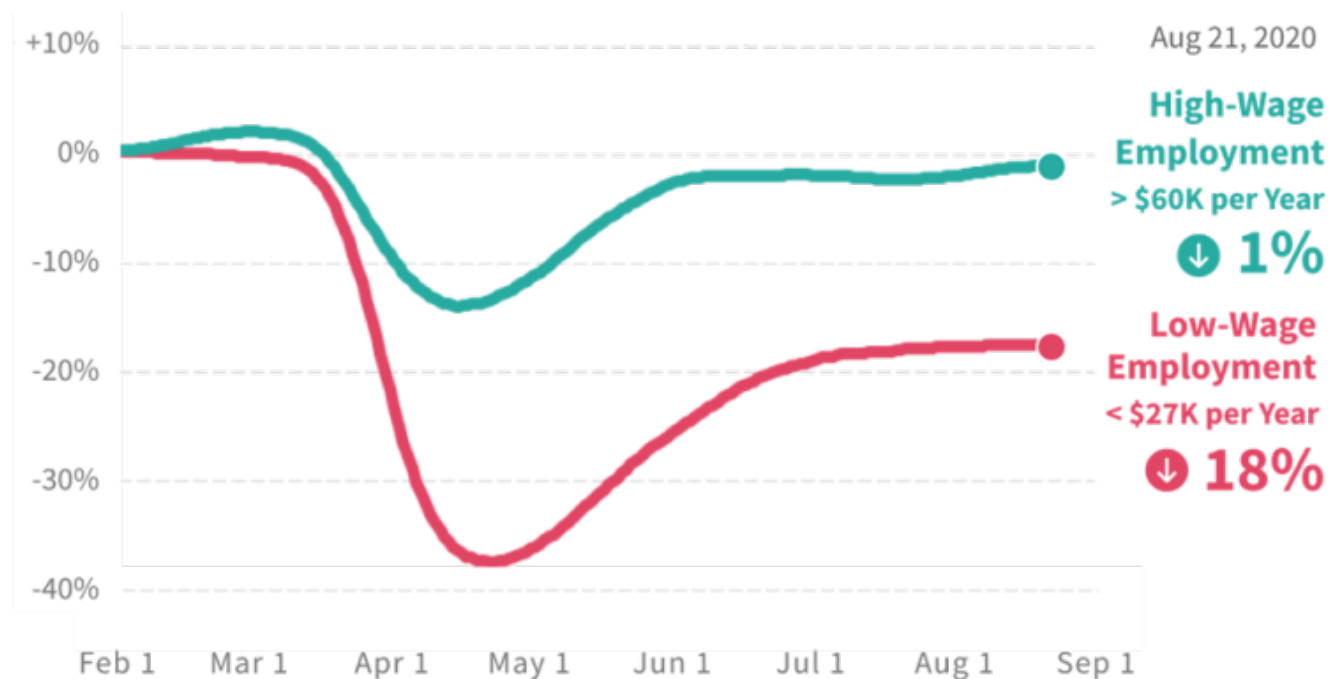
fred.stlouisfed.org

There was also a rise in wage levels from the lows post-Great Recession, and in the two years before the 2020 pandemic, that benefited the lowest paid quartile most – although with wage

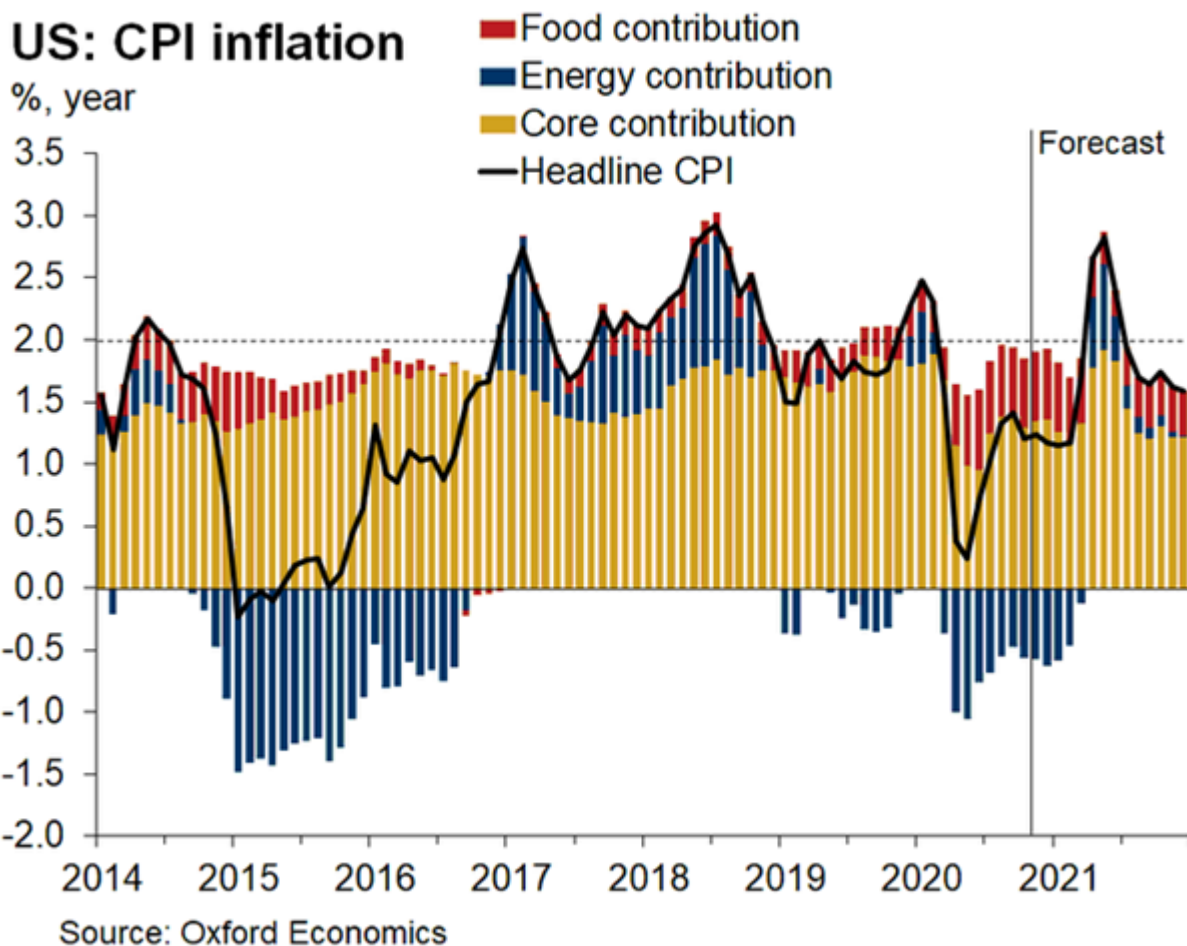
rises still way below the period before the Great Recession.



But the pandemic has brought that relative recovery in real incomes to an end, especially for the lowest paid. It's low wage employment in key services and industries that is taking the biggest hit, as better paid technical and professional workers can stay at home and work and have suffered fewer job losses.



With the supply side of economies falling back as we go into the winter and 2021; demand for basic essentials still strong; and some 'effective demand' still there as some people run down savings and others continue to work through, there is also every prospect that the very low inflation levels of 2020 will turn up in 2021. For example, Oxford Economics forecasts a spike in US annual inflation to 3% as food and commodity prices rise because supply will lag demand and international trade growth will be weak. Even 'core inflation' (excluding food and energy) could jump to 2% in 2021. This matches a recent tentative forecast made on this blog using [a Marxist model of inflation.](#)



So in 2021, wage growth will slow, high unemployment will remain and inflation will pick up. It's three-way hit to living standards for the average American family and that story applies to Europe as well.

But what about the billions who live in the so-called

'developing economies' of the so-called Global South? Many of these countries have been even more badly hit by the COVID-19 pandemic. Countries in Latin America lead in COVID death rates (Peru, Bolivia, Ecuador, Brazil, Argentina, Mexico), because their mainly privatised health systems cannot cope and because millions there on casual labour have been forced to go to work, if they can, to survive. Only a relatively younger population and more dispersal geographically (as in India, South Africa etc) has kept mortality rates down.

But there has been no escape economically. The economies of the global south have been trounced by the COVID pandemic as international trade closed down (-10%) and domestic economic activity collapsed. For the first time in records, the so-called emerging economies combined will suffer a contraction in real GDP, and that average includes giant China where success in dealing with COVID has meant that China is one of the few countries that will grow in 2020 (if only by about 1.5%). Among the worst hit are supposedly dynamic emerging capitalist economies like India (-10%), Brazil (-6%), Mexico (-9%), South Africa (-9%).

Inevitably this is leading to defaults by various national governments on the debts owed to private sector creditors (banks, hedge funds etc). And this is despite the claims of the IMF and World Bank that it will save such countries from the burden of servicing their debt in the pandemic. Only this week, Zambia is expected to default on its payments, thus joining a long list of past defaulters in 'emerging economies'. As I have explained before, it's a debt disaster, no longer waiting to happen, but already here.

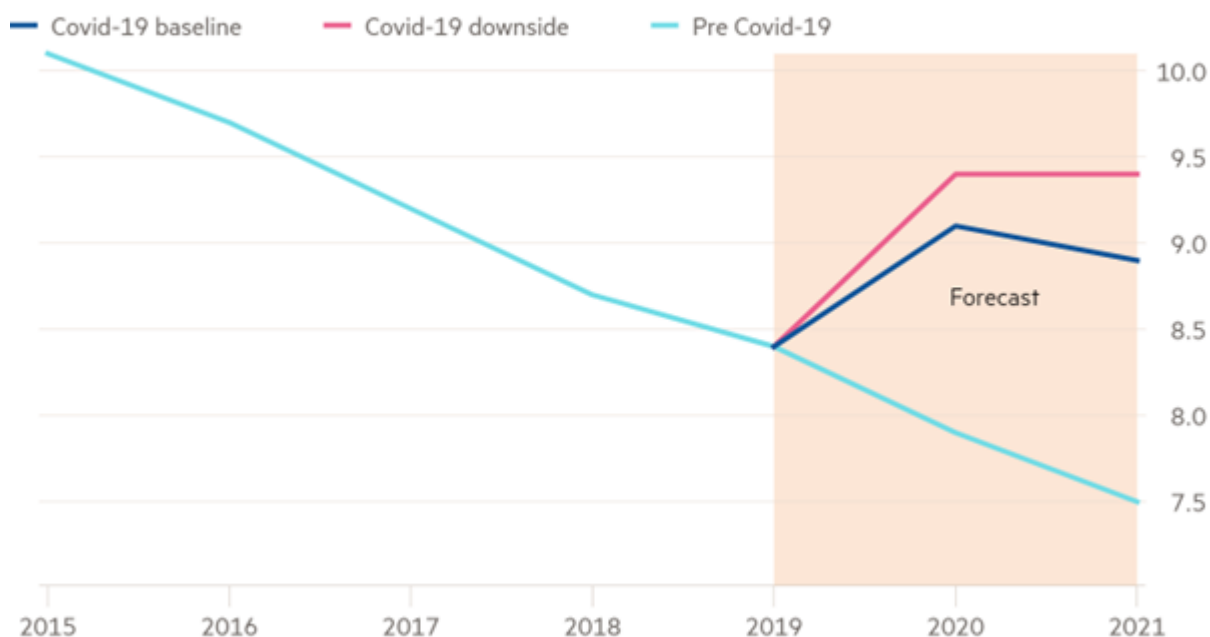
Private sector bond holders are demanding their payments and there is little help from the international agencies. New World Bank chief economist Carmen Reinhart has warned that the global south faces "*an unprecedented wave of debt crises and restructurings*". Reinhart said: "*in terms of the coverage, of which countries will be engulfed, we are at levels not seen*

even in the 1930s.” “It is unthinkable that in a global pandemic, the world’s poorest countries are having to choose between making debt service payments and keeping their economies afloat,” said Gayle Smith, president of the One Campaign against poverty. It’s unthinkable, but it is happening.

[As I explained in a previous post](#), this disaster will reverse what little progress has been made in reducing world poverty, where near 4bn people live on less than \$5 a day (a more realistic threshold for poverty than that of the World Bank).

The pandemic will reverse progress in reducing world poverty

Share of world population living on up to \$1.90 a day, %



Source: World Bank
© FT

And now we have [the shocking report just issued by UNICEF](#). UNICEF reckons that approximately 150 million additional children are living in multidimensional poverty – without access to these essential services – due to the COVID-19 pandemic. Around 45 per cent of children were severely deprived of at least one of these critical needs before the coronavirus pandemic even hit. UNICEF: “the situation for children living in multidimensional poverty is likely to worsen unless national governments and the international

community step up to soften the blow.” 188 countries have imposed countrywide school closures during the pandemic, [affecting more than 1.6 billion children and youth](#).

At least a third of the world’s schoolchildren – [463 million children globally](#) – were unable to access remote learning when COVID-19 shuttered their schools. [Schoolchildren in the poorest countries have already lost nearly four months of schooling](#) since the start of the pandemic, compared to six weeks in high-income countries. *“Even short disruptions in children’s schooling can have long-lasting negative impacts due to factors including the lack of structured programmes for catching up. In the past, school closures have led to an increase in child marriage and child labour which often prevent children from continuing their education.”*

According to a [study covering 118 low- and middle-income countries by the Johns Hopkins Bloomberg School of Public Health](#), an additional 1.2 million under-five deaths could occur in just six months due to reductions in routine health service coverage levels and an increase in child wasting. As many as 132 million people may go hungry in 2020, of that 36 million are children. And 370 million children may miss out on nutritious school meals. The nightmare of global capitalism that billions in the ‘developing countries’ already suffer is going to be intensified for years ahead.

But wait, what about the vaccine – is it not arriving as a white knight to save the world, or like a silver bullet to kill the disease of the ‘vampire’ bats? History is littered with vaccines that once introduced had to be withdrawn because they failed – and, more often than not, did harm. Vaccines are more likely to fail if they are developed under great pressure from government and the populace with trials and approvals being expedited in the name of expediency. In the development of Covid-19 vaccines it is noteworthy that so much of the testing is being done in poor countries where ‘life is cheap’. Moreover, much of the original science was done by publicly-

funded institutes, but it is governments that will pay millions in exorbitant prices being charged by big pharma for the vaccines.

The intention of any vaccination is to achieve 'herd immunity'. This calls for the R_0 infection rate to fall below 1.0 and the pandemic to fade away. At a guess, herd immunity might be achieved at 50% of the population (though some say 70%). To achieve herd immunity for the one billion or so people in rich countries would therefore take 1.2 billion inoculations if two doses per person are needed, or 600 million doses if only one is required. This assumes an 80-90% efficacy rate for the vaccine. An efficiency rate closer to 50% would need double the amount of people to be inoculated and a lot more vaccines.

Extending coverage to middle-income and poor countries would multiply the required doses to between three to six billion. Theoretically, based on five to six successful vaccines being developed by mid-2021, herd immunity in rich and most middle-income countries could be achieved by production of one billion doses of each vaccine per year. This might be possible within 12-18 months according to statements of the drug companies involved. All the 'front runner' vaccines will be unveiled or disproven by June 2021. If successful, ramping up production to say one billion units per vaccine could take another 6-12 months.

One significant challenge in switching from laboratory to mass production scale is preserving the purity and efficacy of the product. Distribution is also a big issue. Some of these vaccines need deep-freeze, long-range distribution and transport. The Pfizer-BioNtech product – for example, needs to be kept at very low temperatures before use (as low as minus 70C).

Then there is the willingness of individuals to take vaccines. Apparently 30-50% of people in the US and Europe say they

won't take it. Up to 30% of US nurses have indicated they would not take a vaccine! There is also the issue of each vaccine's effectiveness. It is easier to achieve herd immunity with an 80%-90% effectiveness ratio than it is with 50%. And of course, there is also the question of how long it is effective for. Current indications for most of the front-runner vaccines under development is for them to last for one to two years.

And here is the big problem. [COVID-19 emerged, like other new pathogens for which human beings had no immunity from their transfer from wild animals in remote parts of the world](#) through to animals being 'industrially farmed' and food markets into humans. There are many other pathogens out there still, with nothing being done to stop the transfer mechanism because nothing is being done to curb or stop fossil fuel explorations, logging, deforestation for plantations and livestock, all in the drive for more profit for agro and energy industries.

Moreover, just as worrying is that it seems these viruses can mutate as humans infect animals in a vicious cycle, leading to further infections in humans that the current vaccines cannot be effective against. [The shocking example of the Danish mink industry confirms this serious risk.](#) It seems that caged minks (kept in tiny cages to be killed for the international fur trade) caught COVID-19 which then mutated into a variant of the virus, infecting fur farm workers. The government has been forced, in the teeth of opposition by fur farmers, to cull more than 15 million of the animals, due to fears that a Covid-19 mutation moving from minks to humans could jeopardise future vaccines.

So, as we head towards 2021, the pandemic infection rate shows no sign of stopping or even slowing. Hospitals in the northern hemisphere are under pressure and economic activity is dropping back. Employment levels are still down and real incomes are set to fall, especially for the lower paid as jobs

disappear and inflation rises. For the billions in the 'global south' the spectre of poverty, illness and exploitation will be realised. [The scarring is long term.](#)

What can be done? [Some have called for a 'war economy'](#) where the state replaces the capitalist sector and directs and controls national and global resources towards people not profit. [I prefer the term 'social economy'.](#)

This would mean: 1) emergency action to provide funds for millions north and south who have lost their livelihoods; and immediate cancellation of the debts 'owed' by governments of the poor south; 2) national and international plans through state projects to employ people, restore proper health and education systems free at the point of use and invest in industry, particularly 'green' industry; 3) take the major financial institutions into public ownership and control, along with big pharma and other strategic companies in energy, food, manufacturing and communications and 4) longer term, initiate state-led plans internationally coordinated to deliver social needs and environmentally harmonious results (ie stop deforestation and fossil fuel exploration etc) rather than expansion for private profit that will deliver yet more disasters.