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Commentary – Q2 2020 - The Pandemic New Deal

The struggle to manage the societal impact of the ongoing pandemic has been cast as a choice between preserving public safety and supporting the economy. But isn't there a way to do both?

One possible solution is the government-led coordination of public-private initiatives to create jobs on a scale last seen in the World War II (WWII) era. These would be jobs designed to build heightened capacity in public health, environmental conservation, education and infrastructure. To begin with, it is becoming clear that our system cannot fully function with the virus still in circulation without a robust network of testing and contact tracing in place. Implementing a strong testing and tracing infrastructure would not only enable us to get back to a semblance of normal daily activity but could also employ large numbers of people. As we have all experienced, the preventative measures in place to slow the spread of the virus have made certain activities like going to the movies, attending live theatre, holding political conventions, etc. ill-advised at best, and economically unfeasible, at least in the near term. The large numbers of people filing for unemployment benefits over the last few months are disproportionately employed in sectors like the arts, leisure, travel and tourism. It is fair to say that employment opportunities in these fields may also be impaired, and job migration may end up being inevitable.

This is not to imply that our discretionary spending habits will never return to their former levels of glory. But it does suggest that exclusively relying on a consumption-based foundation for economic stability is both unsustainable and prone to damage from exogenous events like pandemics. Perhaps this era may signal a return to infrastructure and investment as an engine for economic growth.

Many have rightly observed that COVID-19 may end up being a mere dress rehearsal for the biggest and most urgent risk we face today: climate change. If climate science is right — and there is no reason to think it is not — massive loss of life and wealth will likely follow if climate change is not mitigated now, at speed and at unprecedented scale, with no time to waste in each step involved.

Creating jobs to address the climate crisis is an example of infrastructure spending that would serve to address the damage to the economy and employment brought on by the pandemic while re-positioning the workforce at the same time. Indeed, in a report published towards the end of the second quarter of 2020 (Q2), the International Energy Agency (IEA) itself officially advocated for a rethink of how we address the climate crisis and the current state of unemployment due to the pandemic, including a total overhaul of how we meet the world's energy demands in a sustainable way. The IEA has estimated that adopting various climate-friendly engineering and infrastructure programs would boost global economic growth by 1.1 percent and save or create about 9 million jobs annually over the next decade.[1]

These jobs may include work such as conservation and ecological protection initiatives, retrofitting urban real estate to become more energy efficient, the wide-scale installation of solar panels, planting gardens, and painting white roofs on top of buildings – and would potentially employ millions of people. In some cases, private industry would be best suited for the task. In others, these would be jobs designed by and for governments, in the same way that police forces and the Food and Drug Administration (FDA) are public sector domains. It has been estimated that bringing U.S. public sector employment to the same per capita level as Canada's for example would create 8 million jobs alone.[2]

The mobilization of a newly idle work force to address our current reality will rely on coordination and cooperation between public and private interests. For example, early in the COVID-19 crisis farmers were reported having had to destroy their crops and pour their milk down the drain due to a partial disruption of their normal supply chain. This was economically devastating to small-scale farming operations. At the same time, and as of this writing, there are needy families who continue face food insecurity. What is needed of course is the political will and the administrative sophistication to bring these two parties together to solve both problems at once.

It is certainly true that these are not quick fixes, but instead somewhat radical changes to society. They bear intense scrutiny for that reason, and their risk-reward assessments should be carefully analyzed. Projects that would be implemented to address climate change are not all created equal. From a business analysis perspective, the focus for climate mitigation must be: (a) identifying which mitigation measures are particularly scalable at blitz-like speeds and which are not, and (b) accelerating and ramping up measures that are, while ruthlessly scrapping those that are not, because we have no time to waste. For example, building a nuclear power plant and-or a large hydroelectric dam are projects that are design heavy, slow to build and carry large amounts of financial risk; whereas wind farms and energy storage systems are modular, fast to build and relatively capital-light. By choosing wind over nuclear, the risk of financial burden is lessened, and climate goals reached sooner.

From a societal perspective, an effective response to this crisis would be to revive and modernize the welfare state in the developed world, and to accelerate its development in emerging markets. This new social state would demand a fair tax system and create an international financial register that would enable it to bring in the largest and richest firms to that system. The net result of these actions would be to relieve the burden of economic inequality which has flourished over the last several decades. But of course, these conditions are not new.

It has been argued that World War I and World War II were largely the result of the extreme inequality that existed in European society at the time – both within those societies and internationally, due to their accumulation of colonial assets. That inequality was not sustainable, and it caused those societies to erupt – particularly in WWI. Along with the war, Europe was reeling from the fallout of the Russian revolution, and the world was dealing with the 1918 Spanish flu pandemic. Then as now, the pandemic preyed on the disadvantaged sectors of society, with their poor access to healthcare, and it was exacerbated by the war. The result of these cumulative shocks was a compression of inequality over the next half-century.

To go back even further, in December 1862, with the Civil War raging, President Abraham Lincoln said, “As our case is new, so we must think anew, and act anew. We must dis-enthrall ourselves, and then we will save our country.” [3] Those words are as meaningful today as they were when Lincoln spoke them over 150 years ago.

As the second quarter of 2020 ended, the initial shock brought on by the suddenness and severity of the pandemic and the subsequent lockdown had abated. The markets stabilized, aided with an outpouring of support from central banks worldwide, which have committed to keeping lending rates low for an indefinite period. The initial panic in the markets also calmed significantly as investors gauged the severity of the impact on economic activity and looked towards a post pandemic landscape. The S&P TSX Index (TSX) rallied by 16% during the quarter, rebounding from a difficult end to the first quarter of 2020 (Q1). The S&P 500 (S&P) also regained significant ground, up over 24% for the three months ending June 30th, after tumbling in Q1. To be fair though, most of the advance was led by a select group of technology stocks that make up a disproportionately large percentage of the index currently. The broader indices on both sides of the border remain firmly below their peaks from earlier in the year.

As we enter the second half of this unprecedented year, what remains to be seen is whether this optimism in a quick recovery is warranted and whether this market rally has legs. Is leadership here and abroad up to the task of guiding us through a post-pandemic future? And most importantly, are there ways for us to create a sustainable economy that addresses public health threats (pandemics, climate change or otherwise) for future generations while at the same time providing employment opportunities that address the needs of this new world we will emerge into.

Best regards,

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July 2020

Sources: TD Wealth – Q2/20 – Quarterly Market Review; TD Wealth - Straight Forward – Summer 2020; [2] Bent Flyvbjerg - Saïd Business School, University of Oxford; [3] Thomas Piketty, Capital in the 21st Century; excerpt from Vox Magazine ; [1] International Energy Agency - *Special Report on Sustainable Recovery* - *World Energy Outlook* – June 2020

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