

# **Money, Politics, and Social Conflicts in the Age of Covid-19**

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**[Views expressed not those of any institution affiliated with]  
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discussions.**

The problem to be analyzed:  
Why in developed world are different  
political parties taking different  
positions on responses to Covid  
Pandemic?

Initial response almost everywhere was shock and disbelief, but strongly affected by local economic situations.

1. Countries near China often locked down faster, saving much grief – not because of “capabilities” in some cases, but reverse
2. Ski resorts, big sporting events, etc. just allowed to run elsewhere

Government reactions were out of phase: Financial regulators did not freeze up: Central banks moved rapidly to put off defaults in financial markets and to support fictional loss reserve accounting. The US Fed supplied dollars on a colossal scale to world. In developed countries with their own central banks, the finance ministry and the central bank quickly started cooperating to bail out financial markets; thanks to that intervention, private credit markets often reopen to stronger firms. Thus the central banks indirectly finance corporate takeovers, etc., as well as bailouts, almost everywhere with few strings, despite brave talk. Access to credit is a key driver in everything after. The Fed has privatized much of the bailout to large asset managers and keeps widening classes of assets it buys

In the Eurozone, bailout leadership by individual country finance and other ministries with their own budgets is more important, making each country's specific financial and economic conditions critical to the design of the bailouts.

In relation to production, everywhere countries stuck basically with Neoliberalism: “war” analogies stayed only analogies. They channeled interventions through existing firms, with some halting adaptations in heavily impacted health sectors.

And governments had to decide whether to lock down and for how long.

## Sorting out what happened and why is hard

1. Genuine and deep seated problems with statistics:
2. Countries count differently and testing is mostly patchy;  
nursing home death counts esp. unreliable
3. Economic evidence is rapidly evolving

### But bigger problem:

Default by governments and mass media profound:

1. Witness the “do masks protect?” fiasco
2. Government reporting of statistics is highly political; often bad even in normal times.
3. Bailout details in many countries deliberately obscured;  
US bailout legislation deliberately sought secrecy.
4. Great power conflicts further complicate a clear view.
5. Going into detail on US requires zooming past a lot of steps; almost a different literature

The way through the labyrinth:

The worker safety issue is the Ariadne's  
thread for unraveling the politics of

Covid:

How are the risks parceled out by public  
policy across social groups?

Closely related to income and  
unemployment

Contrast with Value of a Statistical Life  
Approach

## Consider some important facts:

1. In US and elsewhere, hospital staff who complained about unsafe conditions dismissed or threatened, sometimes even for wearing own masks when they are not supplied.
2. Government safety agencies irregularly active; US is close to total default with OSHA, labor relations, local law enforcement.
3. Union vigilance varies, not least because unionization varies enormously within and between countries and industries
4. Even center-left parties often focus on taxes or spending or bailout issues, but only inconsistently on safety; migrant workers especially low visibility

Bear in mind this paradox to understand what does not explain outcomes:

Economic anxieties run high, especially as the slump deepens. But polls in most developed countries show high and continuing concerns about public safety; plurality or majority fears too rapid reopening. One or two high trust countries perhaps less affected, for now.

So let's accept reality:  
median voters aren't driving  
outcomes anywhere. Bailouts for  
big business were not popular  
after 2008 and they are not now,  
either, especially when ordinary  
people languish unprotected.  
Governments and central banks  
may glance at polls, but they  
basically aren't doing what they  
are doing because of voter  
sentiment.

So go back to first principles:

Investment approach to party competition – only appeals that can be financed can make it in the public policy arena, no matter how many people might benefit in general (Ferguson, 1995).

Where labor interests are weak or disorganized, power thus passes by default to blocs of major investor groups.

They drives party competition, sometimes with labor groups in alliance. The blocs can be empirically analyzed in multidimensional policy space. Political money is the royal road to understanding, but the full “spectrum of political money” is rarely ascertainable. Some countries do have reasonable data about campaign contributions, but many don't, including many advanced countries – think Germany or Italy. Most social scientists would rather study anything except this subject. Aside: Event analysis often works fine as an approach, e.g., Ferguson and Voth, Quarterly J. of Economics 2008).

Which leads to a first major conclusion:

Covid affects every interest group, everywhere.

Think of it as a sudden, giant influx of dark snow, that makes doing virtually anything harder for everyone.

But: big money and organized interest groups are better able to bear those costs. Bailouts compound their advantages:

They compel the public pay to bail out the wealth of the those who have it; in return, countries make varying efforts to maintain incomes of their citizens (Kane, 2019; Fessler and Schürz, 2020).

Migrants routinely left out in cold.

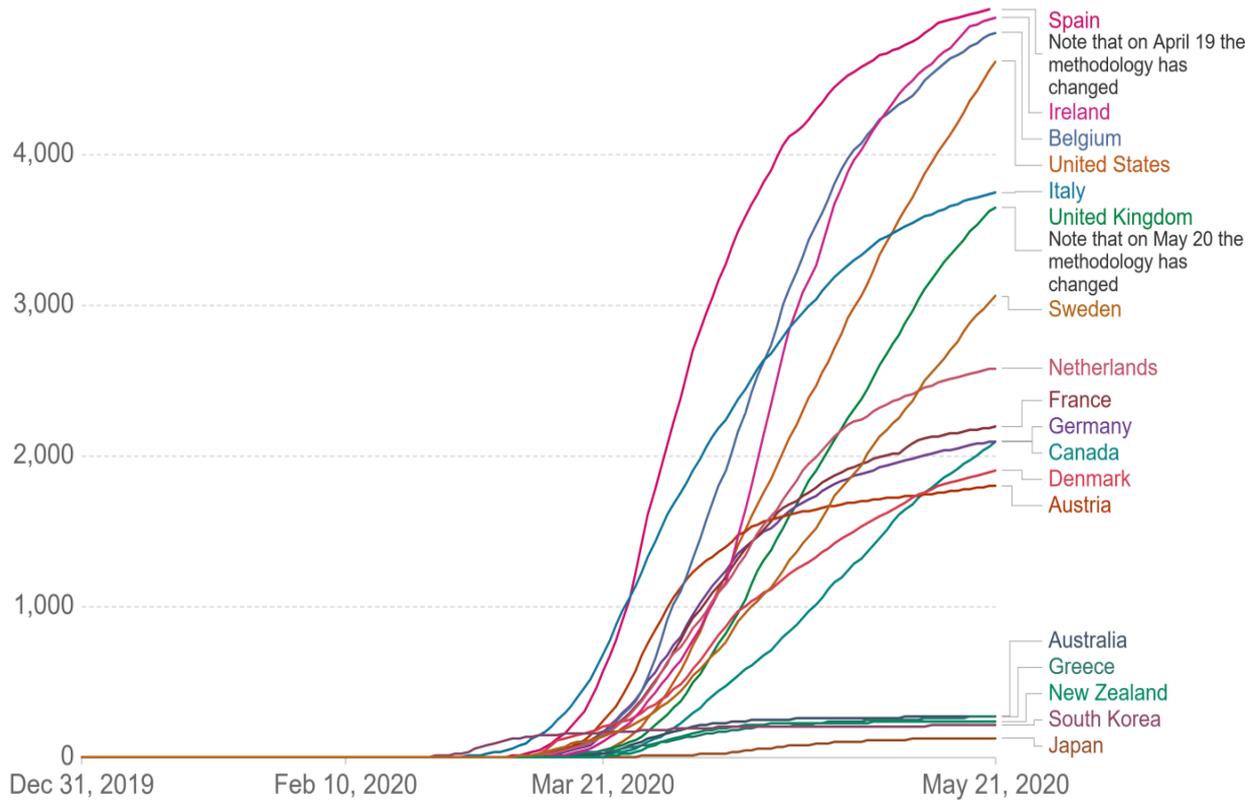
Only slightly extravagant comparison: The immediate impact of Covid is to shrink the public sphere almost to nothingness. Until ordinary people sort themselves out, Covid thus creates a kind of time machine in politics: back to the real “Gilded Age” where labor and ordinary humans, including small businesses, have trouble even getting on the scoreboard. Media follows power and essentially defaults on real news, esp. as it concentrates. So do government bureaucracies, including the justice system.

To make progress on analyzing lockdown analyze decisions, it is instructive to see how developed countries (so China or eastern Europe not included) have coped with Covid 19. But beware the cautions about cross-national statistics at the start of the talk.

What's wrong with the next picture?

# Total confirmed COVID-19 cases per million people

Shown is the rolling 3-day average. The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing.



Source: European CDC – Situation Update Worldwide - Data last updated 21st May, 05:48 (GMT-04:00)

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Look up the vertical axis at the slopes of countries by time.

There is one outlier, Belgium. Not much doubt why: Virtually alone among major developed countries in Europe and North America, its authorities have insisted on trying to count nearly every case, including nursing homes.

Otherwise the higher up you look you see countries with really bad outcomes. These share some common features:

Except for Sweden and the Netherlands, probably most everyone would agree the others are strongly oriented toward laissez faire, with the UK and US representing uniquely extreme cases. (Spain and Italy are southern European countries long suffering from EU austerity.) The Swedish case proves to be most interesting: despite its famous system of social protection, in fact health care and nursing homes have been thoroughly privatized and little supervised (Bhidé and Pagrotsky, 2020, for details).

In all these countries, lockdowns were heavily opposed by many business interests.

1. Financial Times, March 26, 2020, quotes a prominent Swedish industrialist on the dangers of social unrest arising from a long lockdown and prolonged high unemployment. He asserted that members of the European Business Roundtable share these concerns.
2. Conservative German economist in an official advisory position warns that Germany probably couldn't go longer than three months in a lockdown. (Die Welt, March 22, 2020)
3. The dream of herd immunity – Initially prominent political leaders and business figures in Sweden, Netherlands, and UK at least coquetted with ideas of “herd immunity.” A few, including a key political adviser of the UK prime minister, are reported to have commented about how pension pressures might be reduced with such a strategy; they later deny it.

1. Talk about herd immunity in the UK abruptly diminished with the publication of the Imperial College model projecting enormous number of deaths; this led to reappraisal and a decision to lock down. The dramatic and highly visible change in UK policy had effects in the US and elsewhere.
2. But not for long: “Tory grandees tell PM: it’s time to ease the coronavirus lockdown”  
London Times, April 26, 2020. “A pincer movement of Conservative Party donors, cabinet ministers and senior Tory backbenchers is putting Boris Johnson under concerted pressure to ease the lockdown.”

President Trump's administration has so consistently downplayed the hazards of Covid 19 that some critics, such as Thomas Friedman of the New York Times, have wondered if he really favors "herd immunity."

Blackstone CEO Steven Schwarzman, Rupert Murdoch, along with some other prominent Wall Street private equity executives have often been instanced as members of the President's "Kitchen Cabinet."

New York Times, April 3, 2020 "The Business Leaders Trump Asks for Advice on the Coronavirus":

"The top of any list is always Steve Schwarzman.'

- In the business world, Mr. Trump most often turns to the founder of Blackstone, according to [New York Times Correspondent] Maggie [Haberman]. Rupert Murdoch is also an important confidant. Generally speaking, the advice the president receives from corporate moguls he trusts has been to worry about the effect of an extended lockdown on the economy."

New York Times April 11, 2020  
(Updated April 21):

“The president was surrounded by divided factions in March even as it became clearer that avoiding more aggressive steps to stop the spread of the virus was not tenable.

As he prepared to give an Oval Office address on the evening of March 11, Mr. Trump continued to resist calls for social distancing, school closures and other steps that would imperil the economy. Seeking to understand the potential effects on the stock market and the economy, he reached out to prominent investors like Stephen A. Schwarzman, the chief executive of Blackstone Group, a private equity firm” .....

Later, Mr. Trump reflected on that period of debate among his advisers, saying: “Everybody questioned it for a while, not everybody, but a good portion questioned it,” adding: “They said, let’s keep it open. Let’s ride it.”

Reuters, May 1, 2020  
Conservative groups  
advising White House push  
fast reopening, not testing

Business Insider, May 22,  
2020  
Roughly half the Twitter  
accounts pushing to 'reopen  
America' are bots,  
researchers found

Washington Post, April 20:

“Top executives from some of America’s biggest companies pressed President Donald Trump to move toward reopening the U.S. economy, while urging him to ensure that robust testing regimes are in place, according to people familiar with the discussions.”

Cf. Ferguson, Jorgensen, and Chen, 2018 on the critical role large private equity firms played in financing the Trump 2016 campaign

& Ferguson, Jorgensen, and Chen, Structural Change and Economics Dynamics, 2019 on the private equity role in saving Republican control of the Senate in 2016

Very doubtful that countries resisting lockdowns the most will show better economic outcomes in the end. As I read the evidence, they have not, but the data are very messy and it's early.

1. The campaign to end lockdowns rapidly basically boils down to white collar executives who can work at home insisting that blue collar, and in the US, disproportionately non-white) workers should take risks they wouldn't. (Dingel-Neiman, 2020) analyze jobs that can be done at home, also by sector. (Mongey, Pilosof, Weinberg, 2020) add physical distance, with some demographic data.
2. Their results overlap, and lead to important caveats about the “can work at home” criterion.
  - a. Firstly, some outdoor or transitory indoor jobs – notably in construction, probably have low rates of danger.
  - b. Some white collar jobs may be turning into “Information Age blue collar positions”: Notably teaching at all levels and vast parts of the non-profit sector, including much of the arts. Health care may share features of this, where random contacts with patients without much protection are likely inevitable.

To understand the stages of the US political crisis, begin with some basics about labor's position in the system:

1. Developed country economies have become “dual economies” (Taylor, Temin, Storm, Lazonick, etc.) to varying degrees. In these, “reverse Lewis” processes move people from higher to lower productivity jobs or out of the ranks of the employed altogether. The U.S. shows this especially clearly, but not uniquely. To the extent that sick pay, health insurance, and unemployment benefits are all weak, Covid economies will become nightmares for precarious workers, and especially for migrants.
2. In dual economies, race and ethnic issues are often intertwined; (Temin, *The Vanishing Middle Class: Prejudice and Power in a Dual Economy*, 2017; Lazonick, et al., forthcoming on deindustrialization and role of “new economy” business models)

How the worker safety issue, which is closely related to income and unemployment – is resolved will fundamentally affect the form party competition takes  
Where labor is weak, groups of investors and firms will dominate the system and take strong positions in multiple parties. (Ferguson, 1984, 1995).

Right now: Depression levels of unemployment, but widespread awareness of Covid dangers  
Wildcat strikes are multiplying; (Elk, Payday, 2020) maps more than 200; situation in many industries is serious  
State of aggregate demand will be critical in resolution  
High unemployment is a powerful factor in forcing workers to take on risk

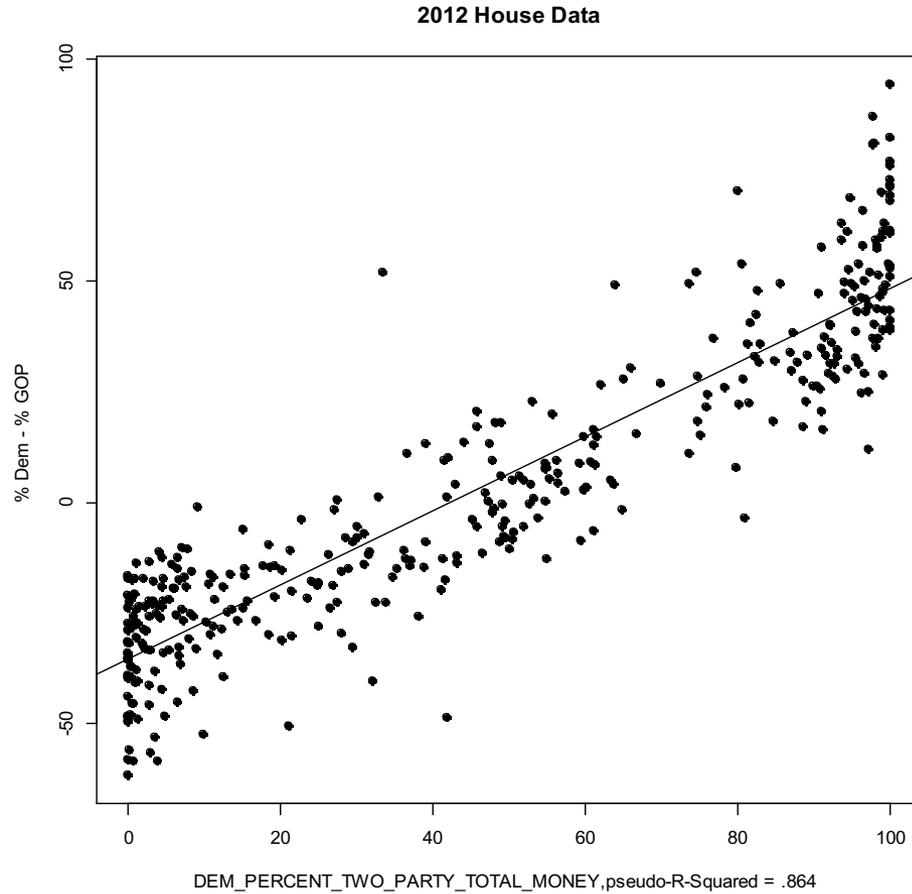
Basic relation between labor strength and party competition: as the strength of labor increases, more and more businesses peel off to their own parties.

Labor has been weak for more than a generation.

Assuming labor stays weak in 2020, then look hard at competitive dynamics across business sectors, especially with regard to big business and major investors. For Democrats, capital intensive and high tech firms, and finance, are historically very important (e.g., Ferguson, 1995) (Ferguson, Jorgensen, Chen, 2013)

# Money really talks in such money-driven systems

Ferguson, Jorgensen, and Chen, 2019



In 2020, many of these sectors are promoting remedies that strongly reflect their own self-interest.

1. High tech companies often promote testing as a solution; but regulations are often lax and so far many tests produce many false positives and negatives
2. Big Silicon Valley firms push contact tracing; they divide on whether “back doors” should be allowed for state authorities; this has many weighty social implications; they also exalt the net and most push surveillance as clearly beneficial; some have designs on educational “reform”
3. Some pharmaceutical firms promote various potential treatments; clear signs of political favoritism right now
4. Others push vaccines; these may raise serious issues about price and patent status.

The design of bailouts is disastrous and needlessly rolling up public and private debts. By channeling aid to firms with no or few strings, governments create little incentive for firms to restructure work safely, which is going to be required in the absence of a vaccine and maybe even afterward, depending on how effective it proves. In US, relief aid is running out. This fact will play a huge role in politics in the next few months.

A crucial point:

What needs to be moved onto the public balance sheet are the costs associated with safely redesigning work. I doubt that most businesses, especially smaller businesses, want to expose their workforces or their customers to serious risk. But if firms are not assisted with the costs of redesigning production for the safety of both, they will cut corners, dig in, and fight many salutary changes. Such aid, obviously, must be monitored closely, which would be easy to do by involving the workforce and looking at real outcomes. Blanket immunity is not a sensible option; whistleblowing laws badly need beefing up in enterprises of all types.

Some outstanding issues in bailouts, not just in US, but weighty here

1. Revenues of states and localities have collapsed
2. Educational institutions in the US and UK are facing crisis; other countries also face problems. Dorms are cruise ships and tuition dependence high in US and UK; question of standards for bailed out institutions; crucial for inequality issues in long run
3. Whistle blowing legislation is very weak as is privacy protection
4. The medical sector and sick pay issues wide open

# Sliding into political crisis:

## Different stages in different countries

1. EU policy is propelling the south out of the system; ECB has barely held the show together in very short run. But macro responses for recovery are way short, save possibly in Germany. Merkel, Macron recovery proposal overestimated and will take time to do anything. Any resurgence of infections will create havoc. Corporate bond crises likely in Eurozone. Individual countries will fall into crises at different rates, with France and the south especially acute. UK may be less stable than it looks, too. Despair among those left out likely to show vividly in many countries over time and conditional on how much social protections have decayed.
2. European outcomes greatly affected by Libya, Turkey and other neighbors.

## US case, 2020:

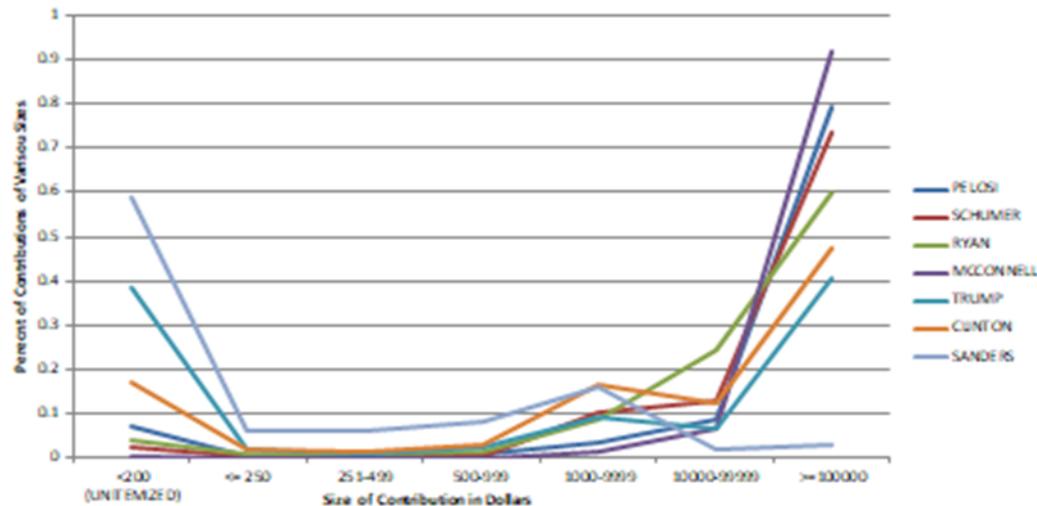
Much of Silicon Valley was cranking up for a campaign for U.S. government aid before Covid 19 hit, using Chinese competition as the rationale. As (Webb, 2020 and Klein, 2020) show, when the virus hit these groups refashioned their appeals to emphasize how aiding them could help rescue the U.S. from the pandemic. It is obvious that web based working, contract tracing, and other high tech applications will be very attractive, even to other businesses and in education, which is starved for funds. Facebook, Google, and other corporations are also increasing their efforts to influence public policy and stave off anti-trust actions.

Many of these firms do not run on low wages, though there are exceptions: at least one major executive at Amazon, a high tech firm but with an important line of business in logistics, resigned in protest over what he regarded as the firm's lack of interest in worker safety.

# What just happened in the 2020 Democratic race in one picture from four years ago

(Ferguson, Jorgensen, Chen, 2019)

## Size of Contributions: Profiles of American Political Leaders, 2016 Cycle



## Understanding the present:

Sanders and Warren candidacies failed; single payer insurance for people was dismissed as too expensive. But single payer insurance for the financial system is being implemented regardless of costs. Unemployment is at Depression levels, and entry level jobs are super-scarce. Quality education is becoming unaffordable for average Americans. Normal rules of law about police misbehavior appear not to apply where black Americans are concerned. Should be obvious that for many citizens, but especially young people on all sides of the political spectrum, none of the established parties offers much.

Two models of 2020  
campaign

For Republicans: 1968

For Democrats: 2008

Next slide from Ferguson, Page,  
Rothschild, Chang, Chen, 2018 APSA

- **Weighted Racial Resentment Means**

- 2008

- overall mean = 3.46
- GOP mean = 3.84
- Dem mean = 3.16

- 2012

- overall mean = 3.52
- GOP mean = 3.99
- Dem mean = 3.11

- 2016

- overall mean = 3.19
- GOP mean = 3.78
- Dem mean = 2.63
- GOP primary voter mean = 3.84
- Trump primary voter mean = 3.99

**Racial Resentment  
Four Question Scale  
Repeated From  
Election to Election  
Means in Both Parties**

Beware of pure identity politics models.

Republican campaign efforts have realigned voters, so that attitudes on race now line up much more sharply along party lines.

But claims that race and gender explain the Trump vote in 2016 are false

(Ferguson, Page, Rothschild, Chang, and Chen, 2018, 2020)

(Monnat and Brown, 2017)

Final Reflections:

What happens if there's an  
international crisis?

Unlike in 2008-09, when great power friction was much less, efforts at international cooperation to surmount the pandemic now are fitful and far between.

The Trump administration's "America First" campaign has not made it many friends  
U.S. relations with China have gone steadily down hill.

The European Union has nothing to compare with Silicon Valley and retooling in any recovery from the pandemic is going to pose a challenge, especially in the automotive industry. How this can be done in a less than federal union is a key question. France, Germany, and other countries are quite openly changing their positions on bank mergers, telecomm policies, and takeover laws to favor national – or it is European? – champions.

The atmosphere between the great powers often more resembles the eve of the (failed) London Conference of 1933 than what happened a decade ago.

International economic coordination is just not happening and as in the 1930s, emerging market debt problems look overwhelming. And I am too polite to note the possibility that German domestic politics might yet produce a disaster in the Eurozone that uncomfortably resembles the 1931 breakdown (Ferguson and Temin, 2003), though the domestic political constellation is not at all comparable. And probably not this summer....probably

# Final Warning: Daily Price of Contract on Republican Senate Victory 2016

## Fan Shows Forecast Values as of October 25 Bottom Ferguson, Jorgensen, Chen, 2019

