The Real Pandemic Danger Is Social Collapse
As the Global Economy Comes Apart, Societies May, Too

By Branko Milanovic  March 19, 2020

A
s of March 2020, the entire world is affected by an evil with which it is incapable of dealing effectively and regarding whose duration no one can make any serious predictions. The economic repercussions of the novel coronavirus pandemic must not be understood as an ordinary problem that macroeconomics can solve or alleviate. Rather, the world could be witnessing a fundamental shift in the very nature of the global economy.

The immediate crisis is one of both supply and demand. Supply is falling because companies are closing down or reducing output in response to COVID-19, and demand is falling because consumers are staying home.

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The supply shock is exacerbated by a decrease in demand due to the fact that people are locked in, and many of the goods and services they used to consume are no longer available. If you shut countries off and stop air traffic, no amount of demand and price management will make people fly. If people are afraid or forbidden to go to restaurants or public events because of the likelihood of getting infected, demand management might at most have a very tiny effect—and not necessarily the most desirable one, from the point of view of public health.

The world faces the prospect of a profound shift: a return to natural—which is to say, self-sufficient—economy. That shift is the very opposite of globalization. While globalization entails a division of labor among disparate economies, a return to natural economy means that nations would move toward self-sufficiency. That movement is not inevitable. If national governments can control or overcome the current crisis within the next six months or a year, the world would likely return to the path of globalization, even if some of the assumptions that undergirded it (for example, very taut production chains with just-in-time deliveries) might have to be revised.

But if the crisis continues, globalization could unravel. The longer the crisis lasts, and the longer obstacles to the free flow of people, goods, and capital are in place, the more that state of affairs will come to seem normal. Special interests will form to sustain it, and the continuing fear of another epidemic may motivate calls for national self-sufficiency. In this sense, economic interests and legitimate health worries could dovetail. Even a seemingly small requirement—for instance, that everyone who enters a country needs to present, in addition to a passport and a visa, a health certificate—would constitute an obstacle to the return to the old globalized way, given how many millions of people would normally travel.

In the current crisis, people who have not become fully specialized enjoy an advantage. If you can produce your own food, if you do not depend on publicly provided electricity or water, you are not only safe from disruptions that may arise in food supply chains or the provision of electricity and water; you are also safer from getting infected, because you do not depend on food prepared by somebody else who may be infected, nor do you need repair people, who may also be infected, to come fix anything at your home. The less you need others, the safer and better off you are. Everything that used to be an advantage in a heavily specialized economy now becomes a disadvantage, and the reverse.

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The movement to natural economy would be driven not by ordinary economic pressures but by much more fundamental concerns, namely, epidemic disease and the fear of death. Therefore, standard economic measures can only be palliative in nature: they can (and should) provide protection to people who lose their jobs and have nothing to fall back on and who frequently lack even health insurance. As such people become unable to pay their bills, they will create cascading shocks, from housing evictions to banking crises.

Even so, the human toll of the disease will be the most important cost and the one that could lead to societal disintegration. Those who are left hopeless, jobless, and without assets could easily turn against those who are better off. Already, some 30 percent of Americans have zero or negative wealth. If more people emerge from the current crisis with neither money, nor jobs, nor access to health care, and if these people become desperate and angry, such scenes as the recent escape of prisoners in Italy or the looting that followed Hurricane Katrina in New Orleans in 2005 might become commonplace. If governments have to resort to using paramilitary or military forces to quell, for example, riots or attacks on property, societies could begin to disintegrate.

Thus the main (perhaps even the sole) objective of economic policy today should be to prevent social breakdown. Advanced societies must not allow economics, particularly the fortunes of financial markets, to blind them to the fact that the most important role economic policy can play now is to keep social bonds strong under this extraordinary pressure.

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