Winter Reading Economist Insights

Idea In Short

The winter 2020 Economist issues reveal interconnected forces: a pandemic that exposed healthcare inequality, China's retail dominance through superapps, a $90 billion 5G spectrum auction, infrastructure spending risks and cheap money driving stocks and corporate bonds. Telecommuting proved it works.

A Milestone Year Nobody Will Forget

The year 2020 was a milestone. A virus one-900th the width of a human hair waged war against healthcare systems, security and economies. There were triumphs amid the suffering. Healthcare workers donned masks and served the sick. Pharmaceutical companies innovated messenger RNA vaccines that gave bodies software instructions to make antibodies. Parents educated their children from kitchen tables while working.

Globally, there were 80 million-plus confirmed Covid-19 cases with 1.8 million-plus recorded deaths. The United States suffered a long list of failures. A fishbone diagram of root causes would include lack of leadership, lack of preparedness, disrespect of science, politicization of masks and general complacency. It was not the finest hour for civic action.

Healthcare Haves and Have-Nots

Covid-19 was eerily democratic because it afflicted heads of state and celebrities alike. However, approximately 8 percent of Americans lack health insurance, so even in mundane times the system is not equal. During the pandemic, survival rates improved as scientists learned more, but the gift of life was not shared equally. 1 parallels how systemic failures disproportionately harm the most vulnerable.

Poor populations were more likely to have chronic conditions and lack good nutrition. They relied on public services that shut down and were more likely to be uninsured or underinsured. They held jobs requiring in-person essential work and were more likely to suffer or die from the virus. A 40-year-old Hispanic American was 12 times more likely to die from Covid-19 than a white American of the same age.

The Global Economic Coma

Hundreds of cities and countries shut down for weeks at a time. The best description is an economic coma, not dead but certainly not vibrant. It was the biggest global drop in output since World War II. United States unemployment peaked at 15 percent in May. The government's quantitative easing pumped new money into the economy.

Government expenditure in 2020 increased about 50 percent compared with the previous year. Poverty was probably cut by 15 percent, the biggest one-off reduction recorded since measurement began. Frantic negotiations produced a 5,600-page piece of legislation to spend $900 billion in stimulus.

US Population Growth Stalls

In 2020, the US population grew only 1.2 million year-over-year to 329 million, the smallest gain since 1990. Population growth and dynamism are key ingredients to Gross Domestic Product (GDP) growth. As Americans have fewer children and the country turns away immigrants, growth stalls.

Two academics at University of California Berkeley suggested Covid-19 deaths, which may exceed 500,000 by April, would cut average life expectancy by more than one year. America's demography was starting to look European.

Retail Will Look Like China

Chinese megacities have become futuristic. Going from Shenzhen to Atlanta felt like going from the city to the village. China's e-retailing market is $2 trillion, more than America's and Europe's combined. Shopping is more than a website, because it is a mélange of digital payments, group deals, social media, gaming and live-streaming celebrities. 2 explains how superapps combine dozens of Western apps into one platform.

WeChat has 1.2 billion users driving massive network effects. China's mobile share of e-commerce is 90 percent versus 43 percent in the United States. The big three platforms control 90 percent of digital merchandise sales. Americans have 3.3 times the physical shop floor space per person than Chinese consumers.

5G as a Bidding War

Verizon needs to invest to keep its lead, while AT&T needs to buy good frequencies cheaply. More than 50 companies bid, including non-wireless rivals like Comcast and Charter Communications. Cheap money drove higher bids, because an extra $10 billion in bids cost just $500 million a year to finance at rock-bottom interest rates. 3 shows Verizon, AT&T and T-Mobile dominated the $81 billion auction.

Infrastructure Spending Debates

Infrastructure spending after a recession seems like a no-brainer, evoking Roosevelt's New Deal. The United States needs massive maintenance for highways and bridges, estimated at 3 to 5 percent of GDP. Interest rates are cheap and the income multiplier effect pays workers who then spend money. Increasing public investment by 1 percent of GDP globally could create 20 to 30 million jobs.

However, more than half of infrastructure investments destroy economic value. Cost overruns often exceed 25 percent, and nine out of 10 mega-projects overrun their budget and schedule. Two-thirds of foreign bribery cases involve infrastructure deals, which undermines the case for unfettered spending.

Chinese Extreme Poverty Nearly Eliminated

China has been an economic success story by most criteria. Extreme poverty, defined as earning less than $2.30 per day, has essentially disappeared. The World Bank estimates that 800 million people in China have escaped penury in four decades. In 1978, nearly 98 percent of rural residents lived in extreme poverty, and by 2016 that figure fell below 5 percent.

Cheap Money Drives Stocks and Bonds

If you had a retirement account, you were happy in 2020 as stocks rose while the economy stalled. This disconnect is problematic. Investors sought better returns, and United States equities surged. Tesla stock increased more than 700 percent over the year. Big tech companies performed well, with Amazon up 65 percent and Apple up 66 percent.

Corporations raised enormous capital because they could, rates were cheap and caution demanded cash. Boeing raised $25 billion in bonds, Amazon borrowed for 10 years at 1.5 percent and Tesla raised $5 billion in secondary shares. The ten-year Treasury yield stayed below 1 percent, and corporate bond spreads narrowed to pre-pandemic levels.

Telecommuting Works

The professional class had a rare opportunity to try remote work in earnest. Commuting and dry cleaning behaviors changed, and many people genuinely liked it. Secondary effects included decreased demand for expensive downtown office space, increased use of freelance and flexible workforces and decreased average salaries due to a wider remote talent pool. The pandemic forced managers to work harder and rethink how work gets done.

- 1McKinsey analysis of megaproject cost overruns
- 2The Economist on China's retail future
- 35G spectrum auction results

Summary

The winter of 2020 showed a world in transition. Covid-19 exposed inequality and triggered an economic coma, while cheap money inflated asset prices. China's retail future arrived early through superapps. 5G spectrum auctions and infrastructure spending debates signaled where capital flows. Telecommuting proved viable, reshaping work permanently.