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Market and Social Collateral Damage of Wuhan Coronavirus

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Abstract

When millions of people in China and abroad are confining themselves at home because of the coronavirus epidemic, they are taking time off the rat race and thinking about the real meaning of life. But can the free market deal with such an epidemic when it calls for minimal government? And when there is huge disagreement over what to do in a panic, can a fully democratic government deal with new crises that are unprecedented in recent history? The recent debate in the West whether democracy is failing stems from increasing disillusionment with what the neoliberal order promised and what was delivered. In Social Contract in the 21st Century, McKinsey Global Institute has just published an excellent survey on what has happened to workers, consumers and savers in 22 advanced economies covering 57 percent of world gross domestic product. The neoliberal order preached free markets, individual freedom, human rights, rule of law and electoral democracy-essentially government of the people, by the people and for the people.

Keywords: *market, social contract, coronavirus, government*

1. Introduction

The neoliberal order, of which Hong Kong and many Asians are believers, mis founded on free markets and an important social contract: that the state and the market will take care of the individual citizen. The new coronavirus (CO VID-19) epidemic raises a fundamental question whether society can take care of the individual as promised under the social contract? The term social contract stems from a book by the French revolutionary Jean-Jacques Rousseau (1712-1778), which argues that individuals enter into a contract with the state which promises to provide and protect his or her natural and legal rights. He differentiates between what he calls natural inequality and moral or political inequality. His famous opening phrase in *Social Contrast* (1762), “man was born free, and everywhere he is in chains”. Became the political battle-cry that eventually led to the French Revolution of 1776, but unfortunately he himself was guillotined in 1778.

But what McKinsey found was that since 1970s, workers, consumers and savers in 22 countries of the Organization for Economic Cooperation and Development (OECD) had more jobs, but their rights as employees were eroded, with more job insecurity, they had insufficient pensions and health care on retirement, and savers do not have enough income. Although average income had risen, the median or most people in the middle were actually worse off.

Because the neoliberal ideology preached free market competition, union power weakened, more people were put on short term contracts, and income insecurity rose significantly . at the same time, consumer protection worsened as “buyer beware” shifted responsibilities to consumers and investors who did not understand what risks they were taking or assuming. Furthermore, pension rights shifted from defined benefits to defined contributions, with risks on returns on pensions shifted from the employer to the employee. For example, one half of adult population in the study did not have enough savings for retirement, with one quarter having no savings at all.

Indeed, in the United States, probably the best off terms of economic performance in OECD countries, 23 percent of US households had zero or negative net worth, compared with 16 percent in 2001. So when Oxfam announced that the world’s richest 1 percent have more than twice as much wealth as 6.9 billion people, no wonder people, no wonder people feel that the system is rigged. Inequality has become unjust and extreme. Gross domestic product has risen, but the people feel had.

What can be done about this inequality? McKinsey suggests two priorities for the next decades of the 21st century. First, sustain and expand the gains through technology, productivity and higher job and opportunity creation. Second, find solutions for the most adversely affected groups, such as low-skill, low-wage workers, women and minorities, under-developed regions and young people, but this implies that the politics and the state would have the capacity to agree on taxing the rich, investing in the masses, and provide more protection for all. As the recent global cynicism has shown, that is a big if.

2. Wuhan coronavirus and broken social contracts

The Industrial Revolution pushed the idea that science and technology promised new degrees of freedom and opportunity, democracy with knowledge for the masses (through the internet) and more equal opportunities for all. As Hong Kong has shown, with all such knowledge available under the free market, if the collective system does not have the political will to tackle growing social inequality, and the bureaucracy does not know how to adapt to the changing context, then inequality grows in spite of good intentions.

There are three options during a crisis when you cannot estimate its outcome: fight, flight or unite. Fighting between everyone will go nowhere because the common threat is existential and does not distinguish whether you are white, black, brown or yellow, rich or poor, your chances of survival is like the next guy. How can hospital staff deal with the medical crisis when some staff are on strike? Flight seems pointless when there is panic over such fears that aggravate ignorance and prejudice, like the Chinese student in Sheffield being attacked for wearing a mask. They only option forward in this existential crisis is to unite, cooperate and live to refresh the social contract. Even with the most efficient of governments, the speed and scale of pandemics, this and others to come, are outside their realm of knowledge and experience. This cannot be tackled by the state alone. It is a cooperative effort between all-for-all, because modern interconnected crises are many-to-many. To face any crisis, what it takes is courage to admit that we as individuals may be wrong, we need to work with everyone, even people we do not like, and work for the common good. Man is a social being, which is why we contract socially, even though it may be COVID-19. Figure 1 shows Distribution of COVID-19 cases as of 12 March 2020.

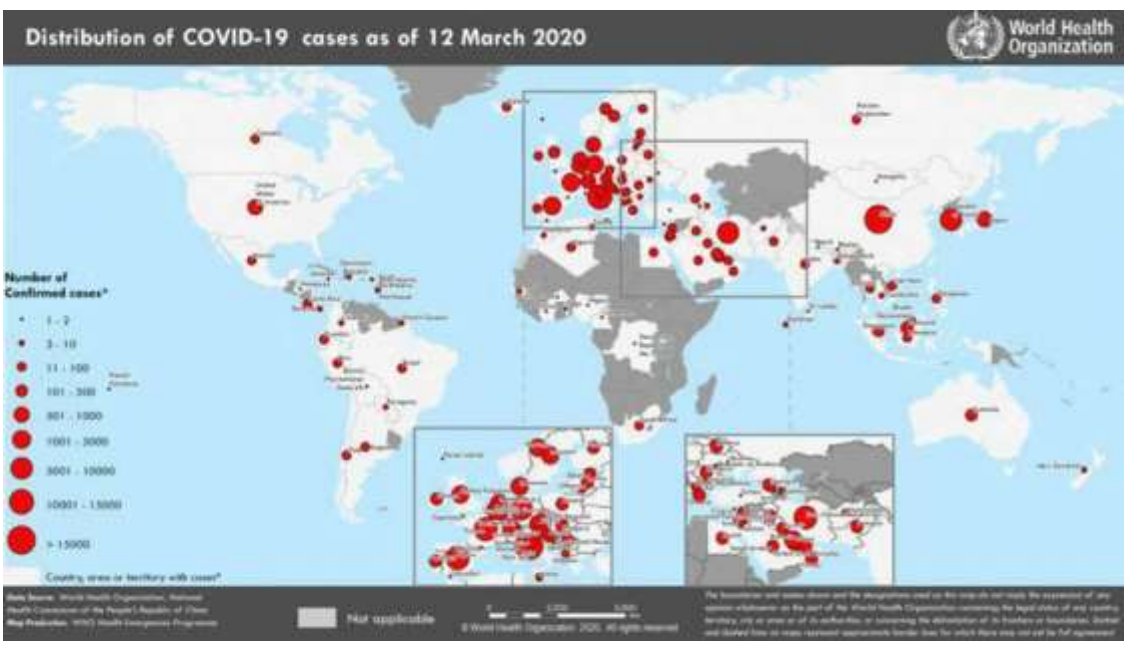

Figure 1. Distribution of COVID-19 cases as of 12 March 2020.

It's said that the most costly words on Wall Street are "this time is extraordinary". However, this may be one of only a handful hardly any occasions where the expression applies. The majority of the fast sell-offs in values in the post-money related emergency time were stemmed by compelling national bank articulations, for example, when then-European Central Bank president Mario Draghi said in 2012 that he would do "whatever it takes" to spare the euro during the tallness of the area's obligation emergency. Or on the other hand, when current Federal Reserve seat Jerome Powell made his "hesitant turn" toward the beginning of January 2019 by saying the national bank would be "tolerant and adaptable" when it came to considering future loan fee increments. Yet, what makes the present dive diverse is that it's being driven by an occasion – the danger that the coronavirus will get overall pandemic – that is out of the control of financial approach creators and Wall Street. In this way, there is probably not going to be some "enchantment" feature that looks over the PC screens of financial specialists and merchants that says it is finished. Possibly the updates on a novel immunization or compelling treatment would work, however clinical specialists for the most part say none is on the quick skyline. So as to redress, markets must limit all present and future terrible news.

3. When markets finally reach bottom

Along these lines, the market needs to cost in more diseases, more outskirt terminations, more extensive travel limitations, more and bigger isolates, and the potential for an across the board flare-up in the United States that prompts mass retractions of social affairs and terminations of school and work locales. The market additionally needs to limit longer-term impacts from de-globalization, waiting store network disturbances, an uncomfortable open that loses confidence in government and other authority establishments, just as an arrival of the infection this fall.

The best approach to tell whether the limiting has been completely come to is the point at which the market quits responding adversely to each awful feature, which still can't seem to occur. Yet, when it occurs, the market can genuinely base and start to recuperate when a portion of the normal negative occasions neglect to appear, despite the fact that it might revitalize even with other "terrible" news it previously limited. What is keeping this from occurring? Who things. The first is an incredulity or absence of direness about the extent of the coronavirus issue. This absence of frenzy takes numerous structures, with the most well-known being the abstain this is "only seasonal influenza". Prepared market watchers ought to be helped to remember comparable rejections in late 2007 that "subprime is just 2 percent of home loan showcase".

One special case in the Chinese government, which didn't close down its economy and isolate a huge number of individuals since they are unnecessarily terrifying. Those activities signal an earnestness that the remainder of the world ought not expel. The second is the Federal Reserve. The establishment of the post-emergency period has been that accommodative financial arrangement rides to the salvage of each market decrease. Thus, an equal conversation that is going on is whether the Fed will cut financing costs at its next money related strategy meeting that closes on March 18. Information accumulated by Bloomberg show the likelihood of a decrease in the Fed's objective rate at that gathering is marginally better than even cash. At the end of the day, trust is at a fever pitch that simpler financial arrangement can help balance out business sectors. In any case, once more, the coronavirus isn't an issue that pain free income, either by means of lower rates or extra resource buys, can fix. Such activities will, best case scenario, just incidentally bolster markets, however they won't keep them from arriving at genuine base.

1. Markets valuing in coronavirus downturn

A significant number of the greatest European organizations have issues that originate before the infection alarms. With an expanding measure of interests in aloof record assets there's a reef impact. Reweighting out of values into the apparent wellbeing of securities is the automatic response, regardless of whether yields are nonexistent. It turns into an arrival of capital game (that is, returning it some place safe) instead of profit for capital. Poor corporate outcomes will be rebuffed all the more vigorously in a febrile market condition.

The United States economy specifically is still fit as a fiddle. The United Kingdom is preparing for its greatest monetary lift in history and there are even signs Germany has the message. Clamors out of the European Commission are that budgetary cutoff points can be facilitated. China has dealt with the emergency consistently and Japan can't be far away from pulling the boost switch once more.

Is it accurate to say that you are listening Group of 20? That is the place the deliberate political and monetary reaction needs to originate from. This is anything but a lethal executioner like Ebola. Markets will in the end excuse what's happening, and acknowledge that the world can return to business – with reasonable safeguards. There will be a first-quarter hit to worldwide development, yet it will ideally be contained – insofar as the infection is contained. Nations vigorously subject to the travel industry will endure longer.

Fixed-salary showcases specifically have in front of them-selves in heading toward untouched lows. This viably flags downturn, with a further three US Federal Reserve loan cost cuts currently being estimated in during the current year. So far the response from the Fed, the European Central Bank (ECB) and the Bank of Japan is that none will be approaching . This may change, obviously, given the profound sell-offs on Friday. Be that as it may, it's ideal for national investors to keep a more quiet head than advertise dealers.

A token Fed cut – or possibly a guarantee of continuous liquidity arrangement - wouldn't hurt temporarily. Christine Lagarde has said the ECB doesn't have to make a move yet, yet again some confined measure may support certainty. This is both an interest and supply stun, given the strain it puts on worldwide stockpile chains and on buyers and explorers. Actually there's almost no national banks there's next to no national banks can do to capture it - bar some representative gesture to improve slant. The Hong Kong government even attempted helicopter cash this week, with no noticeable impact. Money related arrangement is essentially pointless right now. It's down to government to start up the monetary motors.

2. Conclusion

Worldwide markets have entered the emergency organize, quickening in the previous hardly any days past a generally systematic securities exchange amendment. With coronavirus cases now on all landmasses this is never again a local China issue; that abruptly unfolded on smug financial specialists after a large flare-up in Italy. Thus the rush to get into money as lockdowns and highly sensitive situations have duplicated, from Lombardy to Japan's northern island of Hokkaido. Any endeavor by the securities exchanges to skip is simply being viewed as a chance to offload more offers. This is a trick up impact and is beginning to look exaggerated. Indeed, financial specialist detest vulnerability and the storm of infection admonitions from organizations is disturbing, yet the business sectors are beginning to cost in a worldwide downturn and that doesn't appear to be a genuine reflection – in any event, not yet – of the infection's effect. To a great extent, this is down to portfolio assurance. It's additionally an indication of the longest-ever positively trending market for a long late amendment that has been conveyed at the same time.

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