

Flu in a post-truth world

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Homeward bound: The collapse of demand in the travel and tourism industry is one of the side effects of the flu contagion - REUTERS/THOMAS PETER

The coronavirus is perhaps a greater political challenge than a public health threat

Intimations of human fallibility always lurk on the other side of the glitter of progress. Rising global inter-linkages were once a matter of pride for champions of globalisation. But at first signs of discord within the global elite over free flows across borders, vicious strains of racism resurfaced. Rapidly spreading panic over the novel coronavirus, or Covid-19, opens a deeper vein, as the global majority that lived through decades of benign neglect under neoliberalism, finds its precarious existence dissolving in deep insecurity.

Prudence is the balance between the fear that paralyses and the casualness that could kill. In the case of Covid-19, the quest for balance came after an initial effort at suppressing the bad news. Denial proved costly for China's communist government, allowing space for the virus to multiply. The world's second largest economy could not afford isolation. Pragmatism dictated that China's war against fact be transformed into a harsh lockdown in affected provinces. It was a strategy that may have fetched results, aided by the civic culture of obedience that China's single-party monopoly on power has nurtured.

The political culture in the next worst-affected country, Italy, proved less amenable to the lockdown. There was almost immediate pushback against the mass quarantine of the northern territories, involving a quarter of the Italian population. Ironically, resistance was most acutely manifest among the prison population that revolted against the doubling down of their confinement through the curbs on visitation and parole rules.

The US response was uniquely inflected by the personality of President Donald Trump and his proclivity to see all bad news as a design to make him look bad. The bluster gained him hours of airtime but earned little credit beyond his far-right congregation. Trump may have had the commendable aim of calming economic anxieties and keeping the markets ticking. But the farrago of self-praise and half-truths he served up, almost always in contradiction to expert opinion, compounded worries. Markets went into a swoon, the worst since the global meltdown of 2008, and an emergency rate cut by the Federal Reserve did little to restore confidence.

Economist Paul Krugman has read the potential impact of the flu contagion in terms of the two distinct forces of supply and demand. Originating in China, the “workshop of the world”, the contagion has disrupted supply chains both upstream and downstream. Since going into lockdown, China’s exports have fallen 17 per cent in comparison to the same time last year. Without the hitherto constant and reliable supply of Chinese merchandise, retail operations in various parts of the world are at risk of shrinking.

The fall in purchasing power of retail sector workers is one among several potential demand-side effects. Other direct effects could come from the collapse of demand in the travel and tourism industry, which could lead to a broader decline of purchasing power. Unlike in the economics textbooks, supply and demand are not quite distinct in terms of their dynamics in the real world.

A new imponderable was introduced when Saudi Arabia, after the failure of negotiations over a coordinated production cut with Russia, announced the sharpest cut in crude oil prices in over three decades. All else being equal, that may have meant an easing of supply constraints in the travel and transportation industry, stimulating demand for its services. But the global oil market has also

been a gigantic siphon, channelling money into the US financial markets. A contraction of those flows could dampen market sentiment, shrinking demand that was otherwise sustained by the so-called “wealth effect”.

The US administration claimed “containment” of the contagion after 14 deaths, but then, in panicky retreat, began ramping up the availability of testing equipment and quarantine capacities. After some initial parsimony, budgets for the public health emergency were significantly raised. But rather implausibly, as the markets persisted in their downward plunge, Trump administration officials began thinking out loud about a possible tax cut to stimulate investor interest.

At a time when the stimulus imparted by Trump’s first round of tax cuts has worn out, leaving the troublesome legacy of a trillion-dollar deficit, further giveaways may seem the least-prudent course. Linkages of trade and finance between the US and China, already troubled by tit-for-tat tariff impositions, will take time to recover from the flu contagion. A tax cut now may be the kind of economic shock that pushes the relationship over the tipping point.

Perhaps the flu contagion today is a test of how vital the attribute of trust is in sustaining economic relationships. Civility and social cohesion, already threatened by growing economic anxieties, have suffered a massive dent since the first intimations of the crisis. The factually impaired discourse promoted by political leaders, particularly in the US, has done little to sustain public confidence. The flu contagion is perhaps a greater challenge on the political terrain than it is in the public health domain.



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