

PCA Monthly Commentary

May 2020

The “New Normal”

The current pandemic has inflicted a terrible toll, but it has also engendered an outpouring of positive responses. We are fortunate to have few prior precedents of such magnitude. As we consider these events, the Spanish flu immediately comes to mind for comparison. In spanning a two-year period between 1918 and 1919, the infection rate was a staggering 27% of the global population, eventually causing a death toll calculated to be greater than 50 million people. That crisis altered the course of human interaction around the world.

A COMMON ENEMY

The coronavirus has already caused a shift in behavior and mindset. Our priorities have dramatically morphed over these past two months in how we work, play, interact, spend, save, travel, communicate and relate. Our outlook and approach to life was thrown into upheaval and won't likely return fully to prior norms. All we know is that this pandemic will have a profound impact on how people view the world.

It represents a common enemy, in which we see past our differences in facing a shared threat. The virus does not distinguish between politics, cultures, wealth, economies or education. This shock has the potential to shift America out of a decades-long pattern of escalating polarization and provides a singularity of purpose that might help us reset and regroup. We are finding new ways to connect and support each other in adversity, while we become newly conscious of interdependency and community.

Such shocks, be it economic, political or medical, have a way of reshaping expectations and mindsets. After World War II, western nations switched from conceding to strongmen, to firmly opposing actions deemed morally bankrupt. After the Vietnam war, the United States decided it needed to limit engaging in military conflict - until that view was again shifted following the 9/11 terrorist attacks. It's possible that fighting the coronavirus will reignite this kind of unity-seeking in the U.S. as well as across other nations.

Our collective reaction from governments and the global populace was merely an amplification of the dynamic that drove past crises, where reprioritization of values were crucial steps in recovering from disaster. When this pandemic abates, we will likely reorient our politics and make substantial new investments in public goods and services. Without doubt, the coronavirus pandemic will cause further pain and suffering. It will also force us to reconsider who we are and what we value, and over the long run, it could help us rediscover the better version of ourselves.

A watershed event like this might also reorient our attitudes about how the government should address public health issues and our interdependence could drive us to demand a more broadly supportive social safety net. We have seen precedents that have ushered in dramatic governmental shifts. Looking again towards the Spanish flu pandemic, we see that British colonial authorities failed to protect India during the crisis, which fueled the anger that drove an independence movement led by Mahatma Gandhi.



CHANGING BEHAVIOR

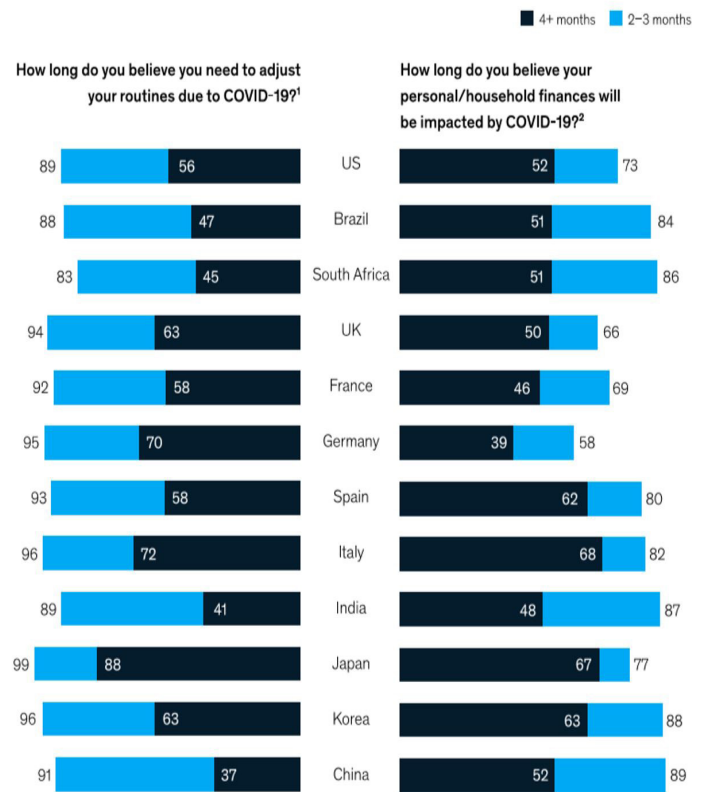
Initial changes in the US behavior were evidenced in simple form as the infection rate began to climb. An ongoing University of Southern California study published its first round of results in March, reporting that the coronavirus had already created significant shift in habits. Among numerous reported changes, 85% of people indicated they washed their hands or used sanitizer with much greater frequency.

“These adaptations are likely fear driven,” said Valeria Martinez-Kaigi, a psychologist at the Yale School of Medicine. She also added that this type of modification is not likely to persist over the long run. But that doesn’t mean that newly formed behavioral shifts would completely abate in time. For example, the Spanish flu pandemic killed about 675,000 people in the U.S., and reshaped hygiene in lasting ways. In following years, spitting in public became illegal and covering your cough or sneeze grew to become common courtesy. Prior to 1918, this etiquette was unheard of.

From an economic standpoint, the shift in behavior was quickly seen in consumption patterns concluded within a recent McKinsey & Co survey. Almost immediately, discretionary spending abruptly ended, downtime turned towards digital channels, and purchases shifted towards online. According to the global survey conducted in April, planned expenditures in every category declined, with the only exceptions being the purchase of groceries, household supplies, and home entertainment.

When participants were asked about their expectations for the duration of personal impact, the response varied somewhat by country. Yet, the large proportion of individuals believed the impact will be long term, with the greatest anticipation of disruption coming from residents of Japan and Italy.

Consumers expect the personal effects of COVID-19 to be long-lasting.



Source: McKinsey & Company

While not a quick or easy process, many of us have become accustomed to interacting from a distance. Insurance companies, regulators and much of the medical profession have resisted delivering care remotely. This pandemic has forced a change in course, where elective visits have been halted to preserve capacity for urgent care. In-person doctor visits are woven into the fabric of healthcare, but the current tendency to reserve doctors’ offices for the sickest patients, and seeing the rest via telemedicine, is likely to persist long after the contagion has abated.



OTHER BEHAVIORAL SHIFTS WILL LIKELY INCLUDE...

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- **TELECOMMUTING** - Social distancing has tested our capabilities for teleworking. While it has been a challenge in many respects, there have been some positive outcomes that may endure: reduced traffic congestion, improved air quality, and possible increases in family time.
- **DISTANCE LEARNING** - This has already been adopted throughout all grades across the country, in both public and private settings. While most schools are anticipated to return to the physical classroom, policies relating to distancing, infection-testing, and tracking will likely change student routines for the long term. Before the outbreak, higher education started testing the waters for remote learning. As closures are contemplated across campuses throughout the 2020-2021 academic year, families and students are weighing the new value proposition against the escalating cost of tuition.
- **THE DIGITAL DIVIDE** - Without reliable access to internet-powered classrooms, distance learning may be impossible for the segment of our population that has been most marginalized, regardless of a rural or metropolitan setting. The ITU found in 2019 that while 97% of the world's population live in areas with some internet availability, only 54% are connected. This will remain a crucial challenge, especially within densely populated areas of the impoverished. Cheap and reliable connectivity will be one key to a sustained economic and social recovery.

- **HOME BIAS** - Online cooking, fitness, and counseling services have given us a small degree of normalcy. This has taught us to prepare available foods at home rather than eat out multiple times per week. We have also learned to stay active without requiring high-cost gym memberships. In short, we are more accustomed in being self-sufficient at home and found satisfaction with what we can access nearby. There's little doubt that we will invade our favorite restaurants and hangouts after the distancing policies have been lifted. But we're also likely to trim back the number of visits from our prior norms.
- **INDUSTRIAL PRODUCTION AND SERVICE INDUSTRIES** - These segments are no longer a singular race towards profit maximization. The new challenge is how to maintain a reasonable level of profitability while protecting the welfare of workers. Margins are inextricably tied to employee health and wellbeing within many parts of our economy, ranging from energy production to food service. Answers that improve worker safety and security will likely also contribute to the bottom-line.
- **UNIVERSAL HEALTHCARE** - This is no longer an isolated question that is mainly discussed within progressive segments of our society. It has become a matter of national security and economic wellbeing. For example, how do we test and track on a large scale without requiring each individual to pay for these services? Much of this will require the unification of public policy with private sector economics in order to succeed in providing consistent testing across the population.

HARD QUESTIONS AND HOPE

In recent weeks, we realize again how society is increasingly interconnected. Some old topics are at the forefront of discussions again: increasing wages, improving unemployment benefits, offering paid sick leave, and a better security net for those that are most vulnerable.



For years, we've received warnings about the increasing reliance on technology, and that social media displaces human interaction. But as we continue our separation from friends, relatives and colleagues, we are finding that technology at its best facilitates our bonds. It has enabled us to stay connected and even foster relationships within our professional and personal lives.

After the pain of the Spanish flu and World War I, many Americans sought carefree entertainment that was facilitated with the advent of new technologies, such as the car and radio. Important social reforms in terms of gender equality came into being. Given past precedent, when this pandemic abates, we're likely to respond with the same sense of relief and a greater search for wellbeing. There will be a strong desire for rebirth and renewal, which precedes evolutionary shifts in our mindset and behavior.

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