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COVID-19 – a historical perspective

"Those who fail to learn from history are condemned to repeat it."[i] *"History does not repeat but it rhymes."*[ii]
Any exchange of aphorisms should start a discussion. Partial truths cannot end a debate.

Historical understanding provides understanding and perspective. It suggests questions and hypotheses which may assist in analysing a current situation and it may provide tentative answers which stimulate further enquiry. Answers come from analysis, not from looking up a guidebook. This is especially so because the guidebooks which are misused are likely to contain not history but accepted myths loosely related to past experience.

Historical parallels

A first instinct might be to look to earlier pandemics. There have been several, and they share the characteristic of being health events which originated overseas and impacted on New Zealand. Within living memory, polio outbreaks caused schools to be closed and had lasting effects on those who were directly affected. A bigger event was the flu epidemic of 1918-1920 but even that did not have an economic or social impact comparable with that of Covid. It was familiar and not causing fear of the unknown. It did not generate a response which changed everyday life.[iii]

The Great Depression of 1931-34, on the other hand, was not a health event but it was an event which originated overseas, had direct impacts on life in New Zealand and evoked responses which had lasting economic, social and political effects. New Zealand shared the experiences of many others, but there were also some unusual characteristics. It therefore provides an appropriate point of comparison.

A comparison of the Great Depression and Covid-19

The Great Depression of the 1930s is often thought of as a social and economic disaster imposed on New Zealand from overseas, which was met by powerful social cohesion joined by all but a small band of fifth-columnists, stimulated a change of government and caused a long-term increase in the economic role of government. Some of this is true; some is myth.

The clearest similarity between the Great Depression and Covid-19 is that the problem originated overseas. Covid-19 was brought to New Zealand by people travelling. The Great Depression originated in the North Atlantic economy and arrived in New Zealand because New Zealand's export receipts fell.

In both cases, the impact in New Zealand owed something to the local circumstances. In the case of Covid-19, there is little suggestion that the nature of New Zealand society and institutions contributed to the severity of the impact. Perhaps some unwillingness to engage in recommended practices – notably the wearing of masks – could be nominated, but they have not been identified as major causes of the pandemic, let alone as elements in its origins. However, the overall impact of Covid has been modified by local responses. The Great Depression is less clear-cut. There were many contemporary and later suggestions of domestic contributions to the cause of the Depression – excessive borrowing or extravagant spending reduced resilience, land values had been allowed to become unrealistic and so on. It is no accident that these suggestions tend to have a basis in moralistic disapproval rather than economic analysis; there cannot be any doubt that the Great Depression originated overseas. Local responses modified what was experienced.

Covid-19 differs from the Great Depression in that it is clearly a health impact which has economic consequences; the Great Depression was inherently an economic event. It is easier to separate the meaning of Covid-19 from a description of its consequences than is the case with the Great Depression.

Indeed, we might conjecture that at some point in the future the "Covid pandemic" will become like the "influenza pandemic" a topic in medical history rather than in economic or social history.

Both Covid-19 and the Great Depression evoked a government response. The New Zealand government has rightly been credited with an effective response. Criticisms are mostly directed to implementation details – the effectiveness of border controls, management of hospitals, and above all, questioning of whether measures adopted were those which made the best possible outcome given conflicting objectives of minimising health impacts and incurring no more than necessary economic costs. There were plenty of clear lessons from abroad of what could be expected to work and what had proved to be ineffective.

The Great Depression was different. First, identifying the problem was much more difficult. Initially, the experience of diminished exports looked much the same as earlier experiences of fluctuations. The decline in exports 1929-31 was the same order of magnitude as the decline of 1925-26. Should it not be dealt with in the same kind of way? A more apparent problem was the experience of a decline in the exchange rate between New Zealand and Britain. Finding a solution to this involved for many people, even those engaged in trade and international transactions, a different conception of New Zealand's currency. There were complications from currency issues in the UK, especially the way that the London market was closed to Dominion borrowers when sterling left the gold standard. Conventional beliefs left little option but fiscal retrenchment. **While a myth gradually grew of an uncaring government doing nothing while social problems, especially unemployment, reached major proportions, the truth is that New Zealand governments reacted to problems as they were analysed and understood.**

The failure of the government to communicate its response facilitated the election of New Zealand's first Labour government in 1935. By then, the depths of the Depression had passed but the Labour government was credited with a successful recovery. Government responsibility for the economy became part of the story of the recovery.

The notion that earlier governments believed that markets should be left to manage themselves is simply wrong but there were changes in general beliefs about the role of government. The strand of economic thinking which owed most to Maynard Keynes included a change from giving priority to managing external economic relations to regarding internal inflation and employment as its most important objectives. It had been growing through the 1920s, was strengthened by experience in Britain, the USA, and elsewhere in the 1930s and was formalised in Keynes's General Theory of Employment, Interest and Money (1936).

There were local peculiarities in the response of New Zealand's first Labour government. It sought a direct response to the overseas origins of the Great Depression. "Guaranteed prices" were intended to break the link between export prices and domestic incomes. The "grand idea", insulationism, was impractical and it was converted into a plan for smoothing the impact of changes in overseas prices across time. But when domestic expansion of incomes generated demand for imports beyond the capacity to finance them in 1938, the idea of "insulation" was converted into import licensing and exchange controls, and direct management of external transactions was entrenched for nearly 50 years. Furthermore, the origins of New Zealand's "welfare state" was traced to the 1930s and linked to insulationism; in most places expansion of social security came with the Second World War, and enhanced government concern with social cohesion was not linked with protectionist policies.

We see immediately that the impact of the Great Depression on government's role in the economy was to modify and intensify changes which were in existence before the Great Depression. We can expect the same to be true of Covid-19.

Distributional issues

Covid-19 has generated many references to the "team of 5 million". The Great Depression produced much discussion of "sharing the burden". The underlying idea of mobilising social cohesion was common. In the 1930s, there was little concern with New Zealanders overseas, nothing parallel to modern ideas that the "team" should be conceived as "6 million". Nor was there concern about visitors and temporary migrants:

population mobility is now very different from that of the 1930s. But there is a common theme of asserting social cohesion rather than identifying it through careful analysis. The strong belief in solidarity distracts from looking closely at distributional issues.

This is reasonably clear in the 1930s. Prices and volumes of activity then both fell but not by equal amounts. Some prices fell less than others. An individual's experience of the Great Depression depended on which prices were important in determining their money incomes and on the composition of their expenditure.

Anybody in the 1930s, whose money income was held constant experienced increased real incomes as they benefited from falling prices. Public servants were subjected to two compulsory reductions of 10% in money incomes and those who retained their employment on such terms had more or less constant real incomes. The prices of primary products fell more than most, and real farm incomes on average fell more than most incomes. And those who lost their jobs could not benefit from falling prices at all.

Within these broad categories, there were many variations. Although the government imposed some reductions in interest rates, compulsorily varying the terms of contracts, interest rates fell less than farm product prices. The real income of any farmer depended on how heavily indebted they were. Young farmers, recent entrants to the activity, were likely to suffer more than established farmers. But the network of lenders and borrowers was far more complex. In particular, farms often moved between generations with retiring former operators retaining a financial interest. Compulsory reductions in interest rates involved changes in family financial arrangements.

Furthermore, farming was far from homogeneous. In particular, export prices for dairy products took longer to recover than prices for wool and sheepmeat. The devaluation of 1933 was intended to raise domestic incomes in local currency relative to export receipts expressed in sterling. However, in Europe, it looked like an effort to reduce the sterling price of butter and cheese and seize market share from Danish exporters. Denmark countered by devaluing against sterling too. The overall effect was that British consumers benefited from lower prices while New Zealand dairy farmers found themselves disadvantaged relative to sheep farmers.

Not all of these differences were apparent at the time, but some were. The difficulties of the unemployed and their families were easily visible, but so was the relative prosperity of many in the crowds which continued to patronise race meetings through the 1930s. For those more attuned to statistical information, it was easy to notice that the number of new cars registered, and domestic consumption of electricity – for water heating and cooking especially – both showed only a brief, one-year stagnation, before resuming the upward trend which had begun in the 1920s. Different experiences were obvious, and the social mood was not one of a unified resistance to overseas challenges, but anxiety about the chances of sliding along the continuum of experiences to finish among those most affected.

It is not as easy to discern the distributional consequences of Covid. Prices are less useful in establishing differential experiences that they are for the Great Depression. But as in the Great Depression varied distributional effects flow from responses to the crisis as well as from its immediate impact.

Unlike the Great Depression, Covid-19 has direct health effects. Deaths and major health events occurred mostly among the aged and those with underlying conditions. Indirect health effects were experienced by those whose scheduled treatment was delayed as medical resources were diverted to treat Covid or who did not receive diagnosis or treatment, for the same reason. The distribution of these impacts is mostly by age although we know that access to medical services is least easy for those with poorer socio-economic status, including disproportionate numbers of Māori and Pacific people. Some journalism suggests that Covid affected Māori and Pacific people disproportionately but the underlying data suggests that any effect is indirect rather than direct. Māori and Pacific people benefited from a younger age distribution but were at greater risk of exposure to the disease due to higher involvement in high-risk occupations and environments, larger social networks, and more crowded housing. The same influences meant that there were disproportionately more underlying health challenges and avoidable hospitalisations.[iv]

For those who did not suffer direct or indirect health impacts, most depended on maintenance of their money incomes, whether it came from employment, benefits or business income. Existing benefits were maintained, and so adverse effects on beneficiaries fell on those who were usually able to supplement their benefits with casual work which dried up as aggregate demand fell. Among the employed, we can readily observe that the reduction in demand fell especially on activities which depend on face-to-face interaction. International education and hospitality services, especially those linked to tourism, are the outstanding examples. Government subsidies enabled many firms to retain employees, and the fall in income fell especially on those dependent on casual employment. Individual circumstances varied greatly. For the young reliant on casual employment, access to parental resources was significant, and among the worst affected were temporary migrants unable to draw on public welfare schemes or to return to their countries of origin.

We know that women are more likely than men to depend on casual employment. The Household Labour Force Survey (HLFS) suggested that in the second quarter of 2020, 10,000 women lost employment compared with 1,000 men. Interpretation is not simple. The HLFS depends on interviews and the quarterly figures were collected by telephone rather than with the usual combination of telephone and personal interviews. Furthermore, HLFS uses the standard definition of "unemployment" which includes "actively seeking" work and there were obvious factors discouraging job seeking – reports about the employment market were discouraging, and for many people any travel was difficult in lockdown conditions.

It is natural to look first to employees and especially to relatively low-paid employees. Poor people have fewer options than those who are better off. But the distributional patterns in the pandemic are complex. Those wage and salary-earners who remained employed on their usual conditions, perhaps with the aid of wage subsidies, experienced little direct impact of Covid. On the other hand, proprietors of businesses whose income depended on the revenue of the business, may well have experienced bigger declines in their money income despite various welfare benefits to businesses.

Wellbeing effects are wider than money income. For salary earners like public servants who could feel reasonably secure in their employment, wellbeing probably depended on their response to being asked to work from home rather than their usual offices. The distribution of these impacts depended on individual personalities and home circumstances, especially perhaps responsibilities for caring for children simultaneously.

While the distributional impacts of Covid are less easy to discern than those of the Great Depression, we can be confident that the same anxiety about moving from the insulated to the relatively more impacted exists as it did in the 1930s. The end of wage subsidies will be significant in this regard, and if wage subsidies are continued, then the longer-term impact will become prominent and impacts differentiated by age will loom larger. Like the Great Depression, Covid has caused a great decline in aggregate income. In the intervening years, much has been learnt about managing responses to aggregate declines but distributional issues still loom large. And as in the 1930s, they are not well identified in a great deal of commentary.

Unintended consequences of government intervention

Historical perspective enables us to identify cases in the 1930s where well-intentioned interventions had quixotic results. We have already noticed that compulsory reductions in interest rates caused social tensions, but in some ways how devaluation was implemented caused even more. In response to fears by the banks that they would be left holding sterling because of resistance to paying higher prices expressed in local currency, the government financed sterling assets at an interest rate which looked attractive relative to those ruling in New Zealand. What was intended as a reassurance to banks set a floor to the interest rate on bank lending.

In the longer run, resorting to direct controls as imports surged in the recovery, and as an exchange rate other than parity with sterling was accepted as other than temporary became a barrier to participation in international economic growth throughout the 1950s, 1960s, and 1970s. Decisions within those decades were more responsible but the apparent integration of insulation into the welfare state deepened the challenges of later decades.

The fundamental direction of government policy towards domestic welfare rather than giving attention only to the external balance, a feature which New Zealand shared with many other countries, was a positive outcome, and the Great Depression stimulated the final move in that direction. As has been observed in relation to the USA, great events have widespread effects, not all in the same direction, and usually unforeseen. “The Great Depression spurred isolationism, nationalism, fascism, and World War II—but also led to the New Deal, the rise of the United States as a global superpower, and eventually decolonization.”[v]

It is obviously too soon to be sure of parallel results from government interventions in response to Covid-19. The government has responded with fiscal support of the order of 20% of GDP. While more or less in line with government actions overseas, managing a return to intended levels of government expenditure and indebtedness is a challenge.

One uncertainty is whether there will be a permanent shift in the extent of government’s economic role. Much journalistic commentary refers to reliance on “the market” and disdain for government action, especially from the 1980s. But “the market” is a construct of human intelligence, and it has always required government participation. Markets depend on legal requirements that agreements be enforced and legal enforcement requires direct or indirect government intervention. The relevant question has not been government or market but the optimal allocation of responsibilities between individual and collective decisions, both of which are always involved. The thrust of the 1980s was always regulatory reform, adjustment of the balance between the individual and the collective, and it was simplified to deregulation only because it started from a position where too much reliance had been placed on direct government controls. The issue is never more regulation but is always regulation which is better designed and better implemented.

It is therefore far from certain that Covid will lead to a larger role for government. It is likely to lead to intensification of existing trends towards better directed and implemented government. There is unlikely to be any equivalent to the “insulationism” of the 1930s; economic knowledge is now more organised and better disseminated.

There is one striking parallel with the 1930s. We currently hear enthusiasm for “modern monetary theory” and even resuscitation of old suggestions that the government should create money rather than borrow from banks. In the 1930s, the suggestion took the form of “social credit” and was popular with dairy farmers (whose adverse experience relative to sheep farmers was noted above) and by activists for the Labour Party although not for the first Labour Government as guided by the Minister of Finance, Walter Nash. It is a chimera; borrowing from the Reserve Bank creates deposits in trading banks which are simply an indebtedness of government to private creditors.

We might also note that the government of the 1930s did not intend to create tensions within families when it imposed changes on private contracts and undertakings. The possibility of creating similar tensions by imposing “rent holidays” is something to be avoided. Not all landlords are rapacious corporations, whether or not foreign-owned. Many rented properties are the retirement savings of individuals. Reductions in business revenue changes the value of property but the optimal sharing between landlords and tenants is not simple and uniform. The danger is making policy with inappropriate abstractions.

The private sector response

Conceiving regulation as the balance of government and private decisions directs attention to the significance of private responses.

The challenges of the 1920s and 1930s were not only those of traditional exporters and land prices. The general challenge was to adapt to new technologies. The New Zealand private sector had developed a “making and dealing” economy, modestly processing farm products for export, and processing imported components so that local consumption could be what was known from newspapers and magazines to be available overseas, especially in Britain.

Differential tariffs made a contribution, but the driving force was simply minimising transport costs by importing in bulk and adding locally produced components.

This pattern was built up in an age of horse-drawn and steam technologies. In the 1920s, the new technologies were motor vehicles and electricity. It took time and imagination to find ways for domestic production to adapt. Initially, locally produced wooden bodies could be added to imported chassis to make motor vehicles but eventually ckd packs – "completely knocked down" vehicles convenient to transport – became the norm. Preferential tariffs led to a switch from US sources to products from British and Canadian factories – partly from subsidiaries of American firms. Electricity was even harder to disaggregate into imported and local components. Eventually, the trend for imports to be increasingly of equipment and components rather than of finished consumer goods which had ruled in the steam/horse economy was resumed, but it was slow and is often attributed to the impact of import licensing which intensified an existing trend.

The private sector faces challenges in response to Covid too. Can it shift resources from tourism and international education to healthcare – whether medical equipment or personal care for the aged – and the digital economy? Policy debate is more about the pointless question of whether we are too reliant on China[vi] and whether we can "build back" towards a green economy as though these were questions for government policy.

The gap is sometimes diminished by the reflection that expenditure on skills and expertise will be required. So it will, but we should learn from the experience from the 1980s onwards, that employability and capability to move between industries does not depend on education qualifications alone.

The challenge to the private sector is intense. New Zealand has long relied on immigration to generate aggregate growth despite slow increase in labour productivity and per capita incomes. New Zealanders have relied on public schemes and property investment to provide retirement income. In turn, property investment has depended on capital gains which are likely to be muted in an era of lower immigration (despite an inflow of returning New Zealanders) and the government's fiscal space will be limited.

There are many differences between the 1930s and the current situation of the private sector. In particular, there was no issue about returning New Zealanders in the 1930s and the pressures of ageing on public accounts were less intense. But there is a similarity in that attention is too close to being monopolised by the public response. The long-term impact of Covid depends on how the private sector responds to the changed international economy.

Adapting New Zealand to digital technology is as challenging as the conversion from steam to electricity, and finding the right extent of economising on fossil fuels is as challenging as the change from early forms of transport to motor vehicles. As much depends on the private sector response as on government policy. The deepest role of government is in fostering a willingness to tolerate change and to ensure that innovation is not smothered by a focus only on short term winners and losers.

Conclusion

Cogitating on the Covid pandemic in the light of New Zealand's experience of the Great Depression directs our attention above all to distributional questions, accurately analysed rather than asserted in conventional terms, to the unintended as well as the intended consequences of collective responses, and to the aggregate impact of private decisions.

The world will continue to evolve. New Zealand will have to make its way in a world less dominated by major powers which we expect to have congenial stances. Making and developing international norms will be more contentious and we may be asked to make choices which we would prefer to avoid. None of this is the direct result of Covid but existing trends will be accentuated. Within a more fractured international framework, digital technology is likely to promote more intense international cooperation as production is divided among people and organisation across international boundaries.

The pandemic has generated additional caution about relying on cross border interdependence rather than sacrificing output by focusing on domestic production alone. Geostrategic competition will accentuate this trend, while digital technology will push in the opposite direction.

The direct impact of Covid is likely to be far from dominant, but while technology usually wins in the long run, the pace of change is highly uncertain.

History can easily be misread. "*How the world copes will depend on the strength of its institutions and, at crucial moments, on leadership. Weak and indecisive leaders may allow bad situations to get worse, as they did in 1914. Determined and ruthless ones can create wars, as they did in 1939. Wise and brave ones may guide the world through the storms. Let us hope the last group has read some history*."[vii]

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i Churchill. Poignantly, probably a misremembering of Santayana's "Those who cannot remember the past are condemned to repeat it."

ii Mark Twain.

iii Rice, G. W. (2017). *Black Flu 1918: the story of New Zealand's worst public health disaster* (Christchurch: Canterbury University Press).

iv Cf Emma Russell "Covid 19 coronavirus: Māori more likely to die from the virus, says new study" *N.Z. Herald* (4 September 2020) and Michael Plank, Andrew Sporle, Kate Hannah, Melissa McLeod and Nicholas Steyn "Research shows Māori are more likely to die from COVID-19 than other New Zealanders" *The Conversation* (4 September 2020).

v Francis Fukuyama "The Pandemic and Political Order: It Takes a State" *Foreign Affairs* (July/August 2020).

vi John Ballingall "How Many Eggs, in How Many Baskets? An Update on NZ-China Trade Patterns" *Sense Partners for NZCTA* (September 2020).

vii Margaret MacMillan "Which Past is Prologue? Heeding the Right Warnings from History" *Foreign Affairs* (September/October 2020).