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Capital Losses and a Domestic Marshall Plan

It is Christmas Day, 2020, and as of today, 337,842 Americans have died of COVID-19 (Source: World-Meter). Over the past week approximately 18,000 died. We have lost the equivalent of six World Trade Center bombings in the past seven days.

While it is essential to address the current pain and suffering, it is equally important to look at the enormous "capital losses" that we have incurred over the past nine months. *Capital losses?* How can you say that when the stock market has reached new highs in the past calendar quarter?

Your blogger is concentrating here on the loss of productive capital. In our economics principles courses, we talk about the distinction between consumption and capital. Consumption means consuming goods and services *now*, for personal pleasure. Eating, drinking, going to the movies (remember that?) all constitute present consumption. Investing in education, health, buildings, highways, and the like do not necessarily bring current bliss, but provide for production *in the future*. We have seen staggering destruction of the stocks of such capital goods in the past nine months.

Loss of life – Valued at (a conservative) $5 million per person, we have lost nearly $1.7 trillion dollars in productive capital.

Loss of education – In 2019, there were approximately 57 million students attending elementary and secondary schools (https://educationdata.org/k12-enrollment-statistics). The period from March 2020 until Fall 2021 will be remembered for enormous education displacement from the shift in teaching methods. One could easily argue that each of those students has lost *at least one-half year of learning*. Some (particularly those in early years) will probably catch up. A very large number will not. Students in athletics and in the arts may never catch up, as others behind them will take their places.

Buildings – Thousands if not millions of buildings have experienced accelerated depreciation, or advanced obsolescence. The physical capital retail sector (malls and many urban shopping areas) was already reeling from online competition.

The office sector will have to be reimagined from top to bottom. Crowded cubicles, obsolete ventilation systems, uncomfortably close stairways, elevators, comfort facilities and common areas will all have to be changed, at the costs of billions of dollars. School classrooms will also have to change, for similar reasons.

> Capital stock relating to certain consumer sectors have also been savaged. The restaurant and entertainment industries have experienced massive drops in demand. Large numbers of movie theaters are permanently dark. These may not be permanent, but they will almost certainly be long-lasting.

There are, of course, some offsets. Amazon is growing like gangbusters. They have increased investment in warehouses, delivery vehicles, and the like. With two to three-year lead time on many of these investments, however, many of the adjustments will be slow.

Similarly, downtown offices are being replaced, in part, by home offices. People who are now working from home, need more room, more furniture, better Wi-Fi and the like.

YB has written of COVID-19 being like a tax, but in a November 17 note, long-time friend Larry Siegel wrote “I see it more like a war, except that there is no upside, no spoils of war.” A good, and scary, analogy.

Following the end of World War II, with the European economies in shambles, the United States engaged in the Marshall Plan, to help with the rebuilding. We poured billions of dollars into the economies of our victorious Allies, and the economies of our vanquished enemies. The incoming Biden Administration may want to consider a domestic Marshall Plan to address our capital destruction. The economics suggest that it would be worth it.

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