

April 20, 2020

Revisiting Scheidel's Horsemen: Part I

Although we do cover current events in the *Weekly Geopolitical Report*, we also try to anticipate changes that may be a consequence of current situations. The COVID-19 crisis is just such an occasion. We regularly update the current path of the virus in our *Daily Comment*, but we will consider the longer-term ramifications of COVID-19 in this report. We have recently discussed the pandemic, in general, in our weekly reports, and in the previous two installments we discussed how the virus has frayed relations in the EU.

This week, we frame the impact of the pandemic using Walter Scheidel's book on inequality, *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century*.¹ [We reviewed this book in a previous WGR published in 2017](#). In Part I, we will examine Scheidel's thesis that says inequality tends to be resolved by violent or extreme events. Simply put, history shows little evidence that periods of high inequality are reversed without tragedy. Using this thesis, we will examine how the COVID-19 pandemic best fits into Scheidel's framework. In Part II, we will discuss the equality/efficiency cycle and introduce one of five problems that could be resolved by the pandemic. In Part

¹ Scheidel, Walter. (2017). *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century*. Princeton, NJ: Princeton University Press.

III, we will examine the other four problems, discuss the impact of inflation and conclude with market ramifications.

The Scheidel Thesis

Scheidel's thesis is that societies, regardless of economic system, tend toward inequality. Inequality is simply part of the human condition. Even Marxism, [in practice](#), led to differences in income and wealth, although the disparities were less than what was seen in the capitalist West. The level of inequality tends to rise over time, except when one of four disruptive events occurs. These are:

- Mass mobilization war
- Revolution
- Breakdown of civil order
- Pandemic

In general, the longer these four events are avoided, the more likely it is that inequality will rise. Why is this so? The wealthy tend to use their economic power to accumulate political power and thus create conditions that benefit their situation. These four events have been shown by Scheidel to not only undermine the economic power of the wealthy but their political power as well. Here is a short synopsis of how each event affects inequality.

Mass mobilization war: Scheidel did notice that small wars have a modest impact on equality; after all, if your local area was plundered, a householder's wealth would be lost or confiscated. However, to make changes at a national or international level, only major wars matter. In mass mobilization war, there are four ways that

capital loses to labor. First, fixed assets are often destroyed in war. Since the wealthy tend to own these assets, their wealth is often lost in the prosecution of war. Second, mass mobilization wars tend to last a long time and governments begin to take control of the economy and appropriate the national productive capacity of the war effort. Since the wealthy tend to have more of these assets, it makes sense that they would be at most risk of losing them. Third, a war requires the mobilization of soldiers which means fewer workers. Labor gains market power on capital which weakens capital income. Fourth, soldiers risk their lives and when their tour ends, they usually demand political influence, which weakens the political influence of wealth.²

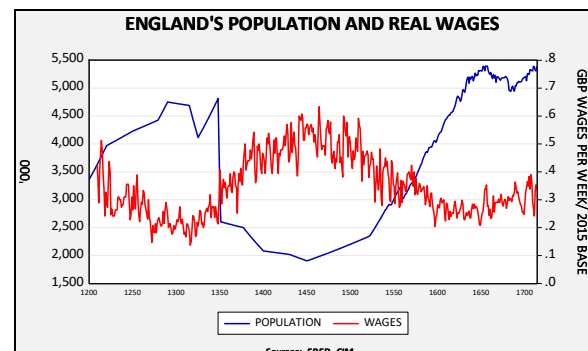
Revolution: A political action that undermines the existing order will almost certainly weaken the power of capital. The Russian Revolution led to the elimination of the landed aristocracy, collectivizing land holdings to the state. Similar actions were taken by Castro in Cuba and Chavez in Venezuela. In all these cases, inequality was reduced by reducing the overall wealth of the nation.

Societal collapse: Economic activity rests on the ability of the state to enforce contracts and provide enough security to support peaceful exchange. When governments collapse, it usually becomes impossible for the wealthy to maintain their

² For example, the gold standard was undermined by expanding suffrage. The operation of a gold standard requires the cost of adjustment to fall on labor; e.g., when there is a gold shortage, interest rates rise and usually business owners force wages lower, either by pay cuts and/or layoffs. In the absence of a gold standard, the policy adjustment can fall on both labor and capital. After WWI, returning soldiers demanded political representation which made policies designed to support the gold standard impossible to maintain.

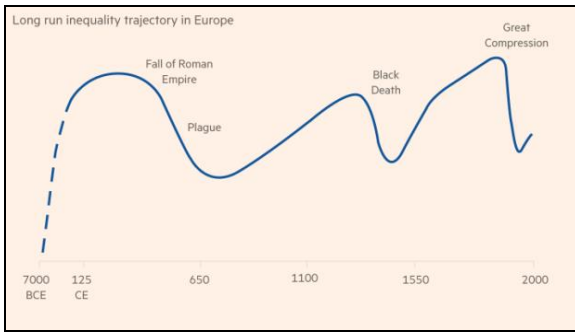
holdings. The lack of social order undermines the ability of economic actors to make transactions. Historical examples include the Fall of Rome which led to the Dark Ages and the collapse of the Tang Dynasty in China. In the aftermath, there was a period of warlord dominance that ran from 906 to 960, when the Song Dynasty was established.

Pandemic: The first three events reduce inequality by either destroying capital, depriving the owners’ control of capital, or creating conditions where capital isn’t protected. A pandemic works differently. In its classic form, it changes the relative power of labor to capital by reducing the supply of the former. In a widespread pandemic, fatalities lessen the number of workers, which lifts wages and reduces inequality.



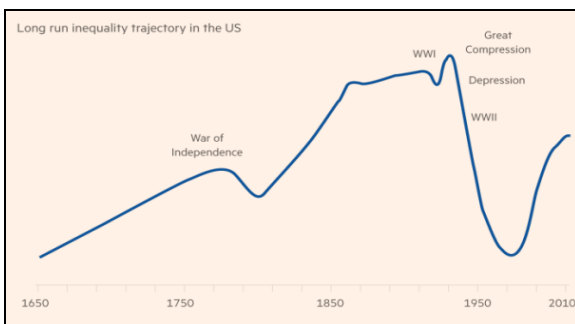
The bubonic plague hit Europe around 1350 and cycled through Europe in the 17th century. When it struck, England’s population fell by half and, as the chart shows, real wages rose.

The next chart shows a schematic of long-term inequality trends in Europe.



(Ibid., Scheidel, p.87, reprinted in the FT)

Here is a similar chart for the U.S.:



(Ibid, Scheidel, p.111, reprinted in the FT)

In both charts, the “Great Compression” is the impact of the Great Depression and, more importantly, WWII. It could be argued that WWI had little impact on inequality, but it could also be reasoned that the 1920s was the last gasp of the old order and the Depression and WWII were a natural consequence of WWI.

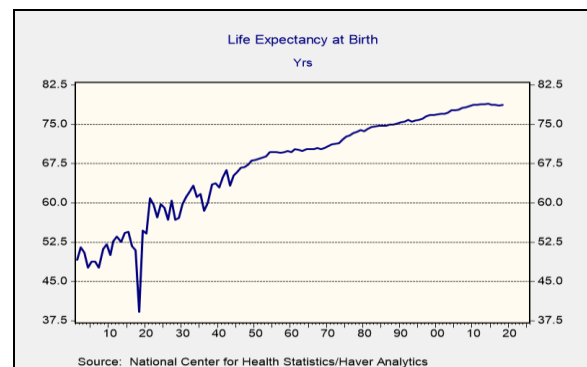
COVID-19

COVID-19 is obviously a pandemic. After all, it is a disease that is infecting hundreds of thousands and has killed tens of thousands. However, it is quite possible that modern medicine has reduced the chances of a repeat of the plague similar to what affected the world in the 1300s into the 1600s or even the Spanish influenza pandemic. Therefore, the impact of this pandemic will probably not be the same as earlier events.

The 1918-19 Spanish influenza is probably the closest event in modern times to the

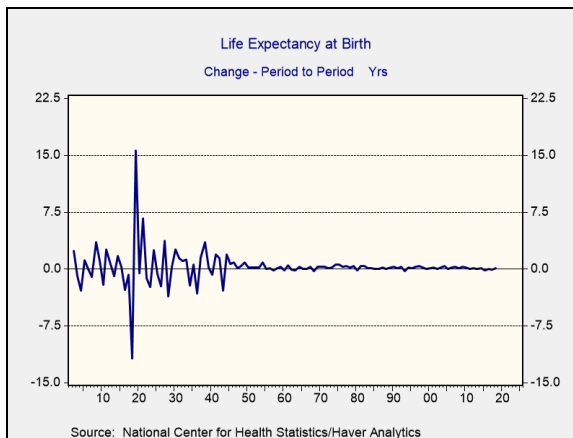
plague. The Spanish flu was a killer; although the total number of fatalities cannot be determined exactly, it is estimated to have infected 500 million and may have killed 50 to 200 million worldwide. In the U.S. alone, it is estimated that [675k perished from the disease](#). Although COVID-19 is clearly a scourge, the death toll from it will probably not reach the level seen in 1918-19. Modern medicine has more tools to assist the afflicted. Ventilators can keep those with impaired lung capacity alive. Medical science has a much better understanding of viruses compared to a century ago. Although bacteria were understood, viruses had not been isolated in 1918.

At the same time, there was a greater degree of fatalism in the early part of the last century. In 1900, [30% of all deaths occurred in children under five years old](#) compared to 1.4% in 1999. American life expectancy in 1900 was less than 50 years mostly because of the high mortality rate among the very young.



This chart shows life expectancy at birth. As sanitation, antibiotics and vaccines became widespread, variation in life expectancy declined.³

³ Note on both charts the impact of the Spanish influenza pandemic on U.S. life expectancy.



In 1900, pneumonia, influenza, tuberculosis and enteritis were the leading causes of death and children under five accounted for 40% of those fatalities. For those under five, even in 1960, pneumonia and influenza caused the death of 314 per 100k; in 1999, that number fell to eight in 100k. This data has continued to improve. For the 2019-20 influenza season, we are on pace [for 0.7 deaths per 100k from influenza and related diseases](#) for those under five years old. In the past, communicable disease was simply part of the landscape; people died of such diseases and often at an early age, so fear of such events was less due to their common occurrence.

The world in 2020 is far different. Infectious disease has become so rare that some people have concluded that the risk of vaccination outweighs that of the disease. In 1918, the idea that governments would enforce national social distancing to prevent the spread of communicable disease would have seemed rather foreign. As we noted above, such diseases were part of the norm and fatalities were to be expected. Consequently, the Spanish influenza pandemic led to a [variety of responses by state and local governments that led to widespread differences in infection rates](#). But part of the reason the narrative surrounding the 1918 event was somewhat matter-of-fact is (as we have detailed above)

because deaths by infectious disease were frighteningly common. Our current fear level is bound to be higher because we simply have less experience with death via communicable disease than our grandparents and great-grandparents did.

Therefore, this pandemic probably won't have the same impact on inequality as did the Black death or similar events. There won't be enough fatalities to reduce the number of workers that leads to a boost in real wages.

Instead, this event will tend to act more like a war, perhaps a cyberattack where there would be a notable disruption of economic activity but little in physical destruction like what would occur after a kinetic war. There has been a profound decline in economic activity that is similar to what one would expect if a nation were under attack. At the same time, the productive infrastructure is mostly in place; unlike a kinetic war, offices, buildings and factories remain standing. Thus, the bounce from rebuilding that can follow a kinetic war is unlikely. As we often see in wartime, there is a reorienting of production; white collar work has shifted to homes and factories are being repurposed for the production of medical devices, such as ventilators, medical masks and gowns. At the same time, workers in food processing and delivery, logistics, [grocery](#) and medical care, many of whom are either low paid or gig workers, are now critical to the economy continuing to function. It is reasonable to assume that these workers will demand higher pay and [improved job security in return for the risks they are taking during the crisis](#). After WWI, citizens demanded a greater voice in their government which undermined the gold standard. A similar scenario is possible in the aftermath.

Next week, we will introduce the equality/efficiency cycle and begin the discussion of what five issues could be affected by the shift from efficiency to equality.

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