

## The Coronal Virus and Challenge to Our State Organizations

Part 13  
Friday April 17, 2020

Month	World Virus Cases <sup>i</sup>	World Virus Deaths
January 31	10,017	120
February 7	30,000	700
February 14	65,000	1,400
February 21	77,000	2,250
February 28	84,000	3,000
March 6	101,000	3,408
March 13	136,000	5,000
March 20	250,000	10,000
March 27	550,000	25,000
April 3	1,010,000	54,000
April 10	1,615,000	96,000
April 17	2,200,000	150,000

### Cases In Texas<sup>ii</sup>

Date	Cases	Deaths
March 19	173	3
March 27	1,662	23
April 3	4,900	77
April 10	11,426	222
April 17	16,700	410

### Path of the Virus

As we noted last week we are now in the depths of the viral pandemic that began less than 4 months ago. **Limiting human movement and contact** is the major strategy to controlling the spread of the disease. Medical resources including manpower, equipment, and pharmaceuticals are being marshaled to meet the needs of persons afflicted. Much remains unknown including the origin of the virus, those most susceptible, the progress of the disease in the body, potential seasonal variation, virus mutation, can people develop immunity, and, if and when, a vaccine may be available.

The current strategy is an effort to **slow the rate of infection to avoid overwhelming and damaging the health system**. Avoiding

filling all of the intensive care units in a hospital along with the concomitant demands on physicians, nurses, staff and technicians is the critical strategy and the reason for establishing social distancing. That effort along with wearing masks and controlling groups of people including quarantine causes the virus to move more slowly through the population. The strategy is effective as in many localities the rate of infections and deaths are no longer rising. Moreover with adequate testing, protective devices and training, the social and economic disruptions may decline.

### **The Bigger Story**

But long after the worst of the virus has passed, the economic problems will remain and worsen. The economic vulnerability of the United States including Texas has been known for many years. Much critical manufacturing including pharmaceuticals has been moved out of the country to cheaper labor regions of the world. This is the driving philosophy of globalization with long supply chains and “just in time” inventories. Globalization in its current form was pushed in the 1970’s by Henry Kissinger and has roots in economic theory from the 1800’s of “comparative advantage” via David Riccardo<sup>iii</sup>. It grew as one example in Japan after World War II when the State Department brought W.E. Deming<sup>iv</sup> to teach the Japanese to shift their manufacturing and government from a dictatorial model to participation, Deming having been a major reformist in American manufacturing during the 1940’s. By the 1950’s Japan was producing motorcycles and then cars and then electronics soon superior and cheaper than America’s companies were producing. By the end of the 20<sup>th</sup> Century, Japan and then Korea, as examples, were selling more cars, electronics including televisions and soon computers than were made and sold in America.

While employment until this year in the United States has remained very strong, incomes have not, particularly if inflation is removed. As an example as late as 1980, one person working out-

side the home could support a family of four. Today most families have 2 wage earners working outside of the home. Debt loads are very high with college debt the most visible estimated at \$1.6 trillion by the Federal Reserve in 2019. Overall debt among Americans including college debt is over \$14 trillion in late 2019.<sup>v</sup>

The shutdown of economic activity based upon social distancing practiced in every state is having a devastating impact on the American economy with the St. Louis Federal Reserve at the end of March projecting 32% unemployment in April, May and June (2<sup>nd</sup> quarter).<sup>vi</sup> Jobless claims through April 16, 2020 for the last 4 weeks total 22 million. These are numbers not comparable at any period in the United States including the Great Depression of the 1930's.

## Texas Illustrations

This article from the Permian Basin area examines the impact in the major oil-producing region of Texas.

Author: Jonathan Polasek (News West9)  
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MIDLAND, Texas — We've seen the price of oil rise and fall on numerous occasions, but this time, it's different.

According to the president of Latigo Petroleum, Kirk Edwards, the price we see for a barrel of oil might actually be misleading. "Even though people see on your little ticker on channel 9 the \$25 oil price today, that's not what they're receiving in the field. For the month of April or May, it could be like \$5 a barrel," Edwards said. Edwards says that the West Texas area is dealing with attacks on multiple fronts: COVID-19 as well as Saudi Arabia and Russia flooding the U.S. market with cheap crude oil.

"That's what is so smart about the Saudis and the Russians: to launch their war on oil at the same time COVID is happening so nobody will see it. The energy producers will scream, but everybody's listening to the COVID answers right now," Edwards said. "The Saudis and the Russians are doing their best to put out the people in the Permian Basin right now out of the industry because we've gotten so good at what we do. We're producing so much more oil than we ever have out here and they are directly attacking the Permian Basin." As the industry that drives our economy, this could have disastrous results.

"We could easily lose 100, 200 hundred thousand people with the fallout from this just because of what's going on in the flooding of these markets right now," Edwards said. So is there a solution? Edwards and other industry leaders hope that by calling on the Texas Railroad Commission and the Trump Administration, a solution can be found.

"He could do some things through tariffs. We could do something in North America, and we have Canada and Mexico that we buy a bunch of oil from. Along with our current oil, we could be self-sufficient with the refineries in Texas, and we could have our own little micro center for just North America and maybe that's the way we need to go in the future," Edwards said.

Even if a viable solution is put in place in the coming days, it could be months before our region would have to ability to recover. "When are people going to feel good about getting on an airplane with somebody right next to you? Is it going to be this summer? Are you going to feel good about driving a car to go to meetings and things like that? So its going to take us a while to tippy toe back in to get the economy back up that's using more energy for jet fuel and gasoline, and that's gonna be the big what if over the summer: when we do start to see this taking place again?" Edwards said. With our country still importing foreign oil, Americans are losing jobs. Edwards says that we have to put America first and stressed we have to use our own crude oil before foreign crude oil.<sup>vii</sup>

As the President of the drilling company states, Texas oil production and refining is involved in an international price war and at a time of declining economies around the world. The price war is reflective of growing international tensions with Russia and Saudi Arabia both increasing production to weaken producing nations that may have higher production costs. This is certainly true for American oil particularly the newer oil fields developing by injecting water and sand into oil bearing strata making oil available for pumping. This technique called "fracking" apparently needs oil prices at or above \$50 a barrel to cover the additional drilling costs.

Trade tensions especially with China may also be playing out in the West Texas oil fields where an American oil company is actually a company created by a Chinese firm and competes with Texas companies.<sup>viii</sup> A friend with a long career in the American military brought this to my attention. Thus, the disarray coming from the virus may trigger deep trade and national conflicts. History teaches us that economic declines and high unemployment often

lead to large-scale wars such as the world last saw in the late 1930's and 1940's. Both World War I and II were preceded by extreme economic problems, inflation, trade and travel conflicts.

The economic decline across the United States is exacerbated by governmental restrictions on general movement such as shopping, eating out, congregating in groups such as at work and travel. An OPEC-led event of oil overproduction like this occurred in the mid 1980's that affected deeply most of Texas, but this is far, far worse. Oil consumption is down but so is all economic activity including travel, eating out, most shopping, vacations, manufacturing and farming.

### **Resources in Texas**

Unlike many states in the country Texas maintains highly fertile agricultural resources that meet all of the needs of the population and provides exports to other states and countries like Mexico. Oil is the state's greatest export, but its recovery costs are higher than areas like Saudi Arabia. It was the Saudis that demolished Texas oil businesses in the 1980's by oversupplying and pushing oil prices below the levels that were profitable for Texas' companies. Thankfully today Texas has a more complex economy with significant activities in manufacturing, particularly computer-related, software design and support, insurance, health, pharmaceuticals and banking.

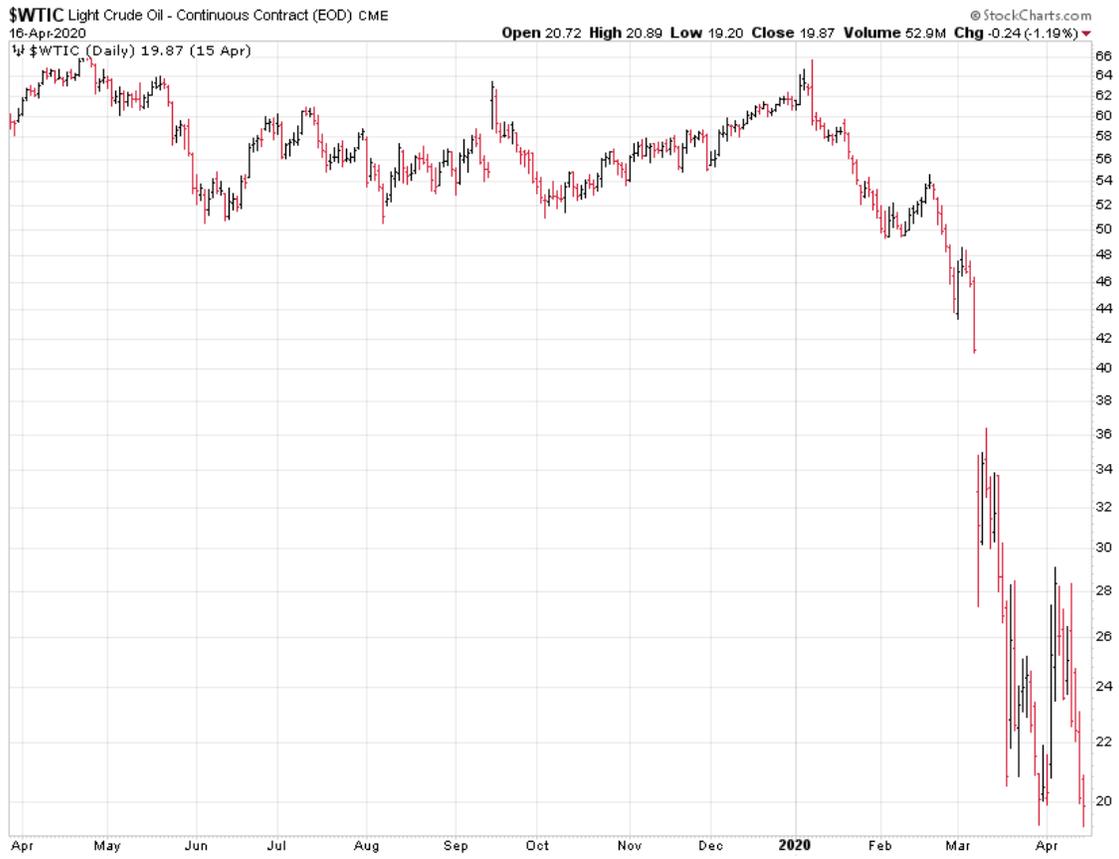
But most of these concerns will need to begin to reduce substantial reliance on overseas' suppliers and probably markets. The state's biggest export market for goods and agriculture products is Mexico. Since 1990 joint manufacturing, NAFTA, has grown in the border cities and the city of Laredo has the busiest land port in the world. However Mexico is becoming unstable. We will look more at that issue in the next update.

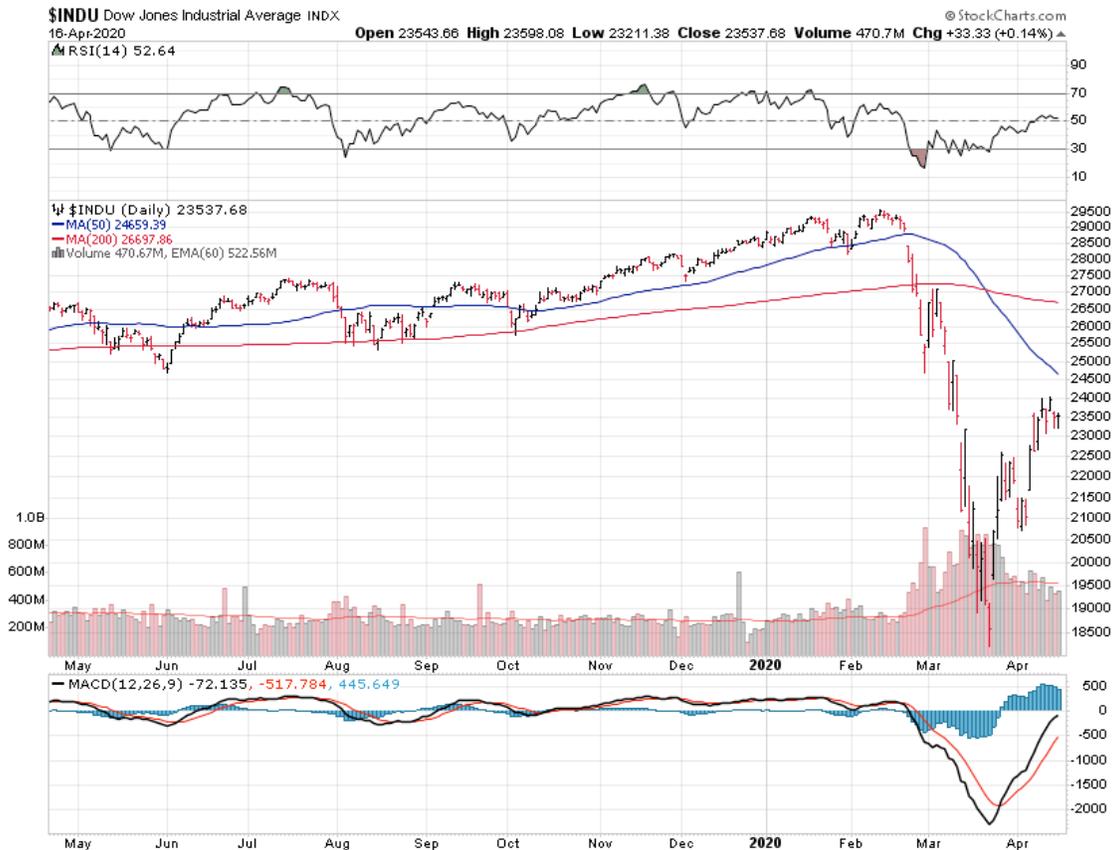
Our state agencies can provide continuity through these turbulent times by being aware of all of these issues, communicating clearly with colleagues and with all other organizations in every community. Be active in one's neighborhoods, business and professional associations, the public schools, religious organizations, helping develop greater resiliency and local competence. Remember the example of the “**neighborhood watch**” to expand police presence for neighbors by neighbors in times of challenge. Knowing, trusting and working with others is termed **social capital**. It is the basis of building wealth including creating better organizations and new organizations. Our state agencies represent a huge store of social capital for the state.

### Key Economic Indicators: Oil and Stock Market

West Texas Intermediate Crude is the oil the United States produces. It competes with oil produced in many countries with Saudi Arabia being the largest world oil producer. The price remains below \$50 and the consequences are negative. It is a measure of activity in the nation's economy providing fuel for transportation as well as many refined products, and is a critical part of paying for government in Texas. The Dow Jones Industrial is a summary of the valuation of the nation's major companies. This is from a web posting of a gasoline station on IH35 in Salado, Texas. For days this has been the lowest price in Texas. Who would have thought we would see gasoline below \$1.00!







## References

- <sup>i</sup> <https://www.worldometers.info/coronavirus/>
- <sup>ii</sup> <https://www.livescience.com/coronavirus-updates-united-states.html>
- <sup>iii</sup> <https://www.thebalance.com/comparative-advantage-3305915#citation-4>
- <sup>iv</sup> Deming, W. Edwards (1993). *The New Economics for Industry, Government, and Education*. Boston, Ma: MIT Press
- <sup>v</sup> <https://www.newyorkfed.org/microeconomics/hhdc/background.html>
- <sup>vi</sup> <https://www.stlouisfed.org/on-the-economy/2020/march/back-envelope-estimates-next-quarters-unemployment-rate>
- <sup>vii</sup> <https://www.newswest9.com/article/money/economy/how-will-the-opeac-deal-impact-the-permian-basin/513-2f9b596f-b547-4e0c-8c0a-ef0667752186>
- <sup>viii</sup> <https://www.theamericanconservative.com/articles/how-china-is-using-the-covid-crisis-to-turn-american-oil-red/>
- <sup>ix</sup> <https://www.facebook.com/JDs-Travel-Center-and-Grill-149886761735568/#> =