

Foreign Policy Association
GREAT DECISIONS *SPECIAL EDITION*
A THOUGHT PROVOKING COLLECTION OF OP-ED STYLE
ESSAYS BY LEADING POLICY MAKERS AND EXPERTS

AMERICA *in the*
WORLD 2020

Edited by Noel V. Lateef and Michael R. Auslin

Foreign Policy Association 1918 • GREAT DECISIONS *SPECIAL EDITION*



Russell A. Berman
Nicholas Burns
William J. Burns
Richard H. Clarida
Abby Joseph Cohen
David B.H. Denoon
Larry Diamond
Elizabeth Economy
James O. Ellis, Jr.
Niall Ferguson
Jeffrey E. Garten
Victor Davis Hanson
William A. Haseltine
John D. Hofmeister
Robert D. Hormats
Sarwar A. Kashmeri
Costis Maglaras
Harley McAdams
Michael McFaul
H.R. McMaster
Joseph S. Nye, Jr.
Evans J.R. Revere
William R. Rhodes
Kevin Rudd
Lucy Shapiro
Paul J. Sheard
Joseph E. Stiglitz
John B. Taylor
Michael Hao Wu

To reserve your copy visit:
www.fpa.org or call: 800-477-5836

Geoeconomic and Geopolitical Implications of the Pandemic

Joseph E. Stiglitz

The COVID-19 pandemic may well prove to be the most important event of the past century, redefining perspectives on government and markets. We all turn to government in moments of crisis. But forty years of denigrating the role of government—and three years of an administration particularly hostile to science and expertise—left it poorly prepared to deal with the challenge. At the same time, the crisis revealed weaknesses in the private sector. Forty years of short-termism—a focus on short-term profits at the expense of everything else—resulted in a private sector unable to respond to the urgent needs of producing even simple products like face masks and protective gear, let alone more complex things like ventilators and tests to detect the virus. The private sector has shown itself to be remarkably unresilient.

All of this has several implications for the international order that will likely emerge after the pandemic. Some of it will be a continuation of trends already in evidence in the years after the 2008 financial crisis: a retreat from the hyper-globalization that marked the early years of this century and the latter part of the 20th century, especially in global financial market integration, and further skepticism toward neoliberalism, with its excessive faith in markets. Markets have proven themselves neither efficient nor fair, and the growing inequalities—the fact that *only* people at the very top of the

Joseph E. Stiglitz was awarded the Nobel Prize in economics in 2001 and shared the 1995 Nobel Peace Prize for a report on climate change. He served as Chief Economist of the World Bank from 1997 to 2000. He is currently University Professor at Columbia University. His most recent book, *People, Power, and Profits: Progressive Capitalism for an Age of Discontent*, was published in 2019.

economic ladder seem to be doing well—has further dampened enthusiasm for capitalism, American-style. Like it or not, we have long been engaged in a battle for the hearts and minds of people around the world. For many, if not most, Americans, the battle was not only about increasing living standards here but persuading others of the virtues of a liberal democracy, a free market economy, and a respect for human rights. An economic and political system that, in spite of having the best universities and most advanced research in the world, saw declining life expectancies and widespread economic and social injustices, is not likely to win this battle.

There are thus four major changes in geoeconomics and geopolitics that may manifest themselves in coming years. First, there will be *some* insourcing of global supply chains, and almost certainly an attempt to make them more diversified and robust. The emerging new Cold War with China is only part of the story. A bigger reason is that the pandemic has shown just how reliant each country is on other countries, and has reinforced the realization that borders still matter (a point that has also been forcefully made by President Trump's erratic trade policy). That dependence itself means that this will not be a full retreat from trade interdependence because it would simply be too costly, and for some inputs into the production process, impossible. But just as monetary authorities stress test the financial system, governments should stress test the economic system, imagining the consequences of various conceivable interruptions and how the economy would fare.

Secondly, the pandemic has reinforced the importance of global cooperation, and the fears of what could happen in the absence of such cooperation. Trump had already attacked the rules-based international economic order and wrongly blamed it for America's ills, which is ironic since America, more than any other country, wrote those rules. The problem was that, to too large an extent, the rules had really been written by and for multinational corporations—often at the expense of workers in the North and South. Health pandemics and climate change are two problems that can only be addressed globally. As long as the disease is raging in some part of the world, the rest of the world is at risk. International organizations, like all human institutions, are fallible. The response to the failures of the Federal Reserve to prevent the 2008 crisis was not to abolish it, but to reform it, and it has now done some of the things it should have done before the crisis, such as pay attention to systemic risk. So too for the World Health Organization. I believe that in this, as in so many other areas, there will be a reset with the next administration.

Thirdly, the pandemic and how it is has been handled will reframe much of the global debate around alternative economic and political systems. Countries led by demagogues, autocrats, and would-be autocrats have not fared well. Countries in

which there is a high degree of social cohesion and that are led by democratic leaders who respect science and expertise have done remarkably well, in terms of both controlling the pandemic itself and preventing some of the worse economic effects, especially on the most vulnerable citizens. They have made it clear that when there are large externalities—such as those associated with a contagious disease—the only alternative to repressive actions to prevent the spread is a high degree of social solidarity, where citizens respect each other.

Moreover, as I have noted, the pandemic has exposed how badly neoliberalism has undermined the functioning of both the public and the private sectors. There may well emerge a new consensus around a better balance between the markets, the state, and civil society, of the kind that I call for in my recent book *People, Power, and Profits: Progressive Capitalism for an Age of Discontent*. Even markets themselves would perform better under progressive capitalism.

This demand for a new economy and a new politics is especially likely to be strong in countries, like the United States, where the pandemic has exposed glaring inequalities in income and health. The virus has been particularly devastating to people with lower incomes, many of whom are the front-line workers upon which the rest of society depends.

Unfortunately, the pandemic itself is likely to unleash structural changes in the economy, in patterns of production and consumption, which will lead to even greater inequalities—in the absence of strong government actions.

Finally, international financial markets are being tested by the pandemic. There are, in particular, many countries that borrowed excessively, which makes them vulnerable to any shock, and the pandemic was a *big* shock. They won't be able to repay, and it's more than just a matter of liquidity. The creditor countries resisted the demand of the vast majority of countries, voting at the United Nations, for the creation of a sovereign debt restructuring mechanism based on an agreed set of principles. So there will be debt restructurings, because you can't squeeze water out of a stone. The only issue is whether they will be orderly or disorderly. It appears that at least some of the creditors are acting in a short-sighted way, demanding far more from the debtors than is sustainable. In the past, half of such restructurings were followed by another one within five years. But in the context of the pandemic, this shortsightedness looks especially inhumane. If this persists, there will be long-term damage to the reputation of these markets—including some of the financial institutions that put themselves forward as good corporate citizens—further tarnishing the standing of American-style capitalism in the rest of the world.

AMERICA IN THE WORLD 2020

Economists are often accused of being too equivocating—on the one hand, but on the other hand—and rightly so. This is one of those instances. Much of what I have said here needs to have attached to it the phrase, “it all depends on the outcome of the 2020 election.” I’ve described forces pushing for deglobalization (for instance, making supply chains more resilient) and forces pushing for more global cooperation. And I’ve described how the pandemic has reinforced global trends already in place. One of those trends is the increasing skepticism toward America and its economic and political systems. The country has been losing its soft power, and with it the power to shape the world. Threats and bullying can only achieve so much. The 2020 presidential election will determine whether that trend continues—and with it a trend toward more autocratic and less democratic governments and a geo-economics and a geopolitics in which America is less and less at the center—or is reversed.