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"Tech Titans at Bay?"

(Project Syndicate, July 31, 2020)

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Though the tech monopolists may capture significant short-term gains from the accelerating shift online, the recent congressional antitrust hearing showed that they can no longer avoid the harsh glare of the political spotlight. The writing may be on the wall.

CAMBRIDGE – Big Tech is back in the spotlight – and not in a good way. On July 29, the chief executives of Amazon, Apple, Google, and Facebook spent more than five hours fielding tough questions about their overwhelming market power from a bipartisan antitrust panel in the US House of Representatives. Is the end of an era approaching?

In many ways, the COVID-19 pandemic has been a boon for tech companies. As Amazon's Jeff Bezos, Apple's Tim Cook, Google's Sundar Pichai, and Facebook's Mark Zuckerberg all noted in their opening statements at the antitrust hearing, people appreciate the services their companies provide. Recent research indicates that the COVID-19 crisis has deepened this appreciation.

This is not surprising. Digital technologies have enabled workers to do their jobs from home, students to continue their classes while schools are closed, and people to stay in touch with loved ones and entertain themselves while sheltering in place.

Tech companies have been reaping enormous benefits from this shift. In the first half of 2020, while the global economy confronted an unprecedented recession, Amazon's share price rose by about 40%, fueled by rising online purchases and increased used of cloud services. Zoom's market value has more than tripled since the start of the COVID-19 crisis, as it became a hub for remote meetings and online socializing.

As for Google and Facebook, they suffered temporary losses from reduced advertising revenues. But they still account for an overwhelming share of the digital-advertising market – four-fifths in the United Kingdom, to cite one example. Moreover, while Google and Facebook are free to use, the UK Competition and Markets Authority (CMA) has concluded that consumers are effectively paying for their services indirectly through advertising revenues, at a rate of £500 ($656) per household annually – a testament to their market power.

It is too early to say how much of people's lives will move online, or for how long. People may fear COVID-19, but they also suffer from Zoom fatigue. Nonetheless, it seems likely that work and social patterns will undergo some sustained changes, which will have far-reaching policy implications.

For starters, closing the digital divide will become more urgent than ever. Of the many forms of inequality the pandemic is exposing and exacerbating, unequal access to the Internet and digital technologies is among the most prominent.

All the services that have made lives so much better under social-distancing rules – from remote working to online shopping to streaming services – are available only to those with access to a reasonably fast and reliable Internet connection and suitable hardware. Many are also receiving health care and accessing government support online, further highlighting the critical importance of universal access.

In recent years, governments have increasingly recognized this imperative. For example, in 2018, the US Federal Communications Commission made closing the digital divide a high priority. And yet about one in 20 people in the United States still have no high-speed Internet connection. In rural areas, about one-third of households are not connected. The figures are similarly bleak in the UK.

Closing the gap will require large-scale investment in digital infrastructure, including broadband connectivity and 5G for mobile services. In both the US and the UK, governments are working to deliver on the first imperative, by making the low-return rural investments that cannot attract private capital. Progress on the second imperative may be more difficult, owing to political opposition to the Chinese telecoms giant and 5G leader Huawei.

But Huawei may be turn out to be the tip of an iceberg, because the current shift online will lead to greater political and regulatory scrutiny of tech giants. For one thing, regulators are likely to pressure telecommunications companies to increase investment, spurring debates about license obligations and pricing (how much companies must invest, and how they will fund it). Past disputes about where along the value chain costs should fall – from physical network operators to streaming services – may re-emerge.

But, as the recent US antitrust hearing suggests, the most contentious issue will probably be the market power of digital companies. Even in today's highly polarized political environment, growing concern about Big Tech – including the viability of small producers and the economy's dependence on digital market access – is broadly shared. And US regulators have already signaled their concern, with inquiries by both the Federal Trade Commission and the Department of Justice.

The European Union is far ahead of the US when it comes to regulating, taxing, and constraining Big Tech. The European Commission has pursued multiple antitrust cases against the tech giants, as well as broader initiatives such as the proposed Digital Services Act. Margrethe Vestager – previously the European commissioner for competition, and currently Executive Vice President of the European Commission for A Europe Fit for the Digital Age – has led the way on this front.

In the UK, the CMA is working to implement the Furman Review, a government-commissioned report on digital-market competition published in March 2019. The panel recommended subjecting strategically important companies to targeted regulation, including a code of conduct that will likely cover issues such as favoring one's own services, changes in terms and conditions, and pre-notification of all mergers.

It remains to be seen how such efforts will play out, especially in a US headed toward a highly contentious presidential election. But one thing is clear: Though the tech monopolists may capture significant short-term gains from the accelerating shift online, they can no longer avoid the harsh glare of the political spotlight. The writing may be on the wall.

"SHOULD GOVERNMENTS SPEND AWAY?"
(Project Syndicate, Aug 3, 2020)

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With sovereign-bond markets still showing little concern for the massive levels of borrowing and spending across advanced economies, it is tempting to think that there is effectively no limit to further stimulus. But we owe it to future generations to recognize how spending today could affect investment tomorrow.

CHICAGO – Advanced economies have already spent enormous amounts providing pandemic relief to households and small- and medium-size businesses. The International Monetary Fund's June outlook estimates that, including fiscal measures and credit guarantees, spending reached approximately 20 percentage points of GDP. In the United States, Congress is considering new spending ranging from 5% of GDP (Republicans) to 15% (Democrats). And still more government spending, and thus borrowing, will be needed by the time the pandemic is behind us.

Economists have argued that current low interest rates mean that sovereign debt remains sustainable at much higher levels than in the past. They are right, provided that nominal GDP growth returns to a reasonable level, interest rates stay low, and future governments limit their spending. Even if the first two assumptions hold true, the third behooves us to assess the quality of current spending.

In normal times, responsible governments aim for a balance over the course of the business cycle, repaying in upturns what they borrow in downturns, with the cohorts that benefit during the first phase repaying during the second. There is, however, no chance that the massive debts accumulated during the current crisis will be repaid soon. Even with higher taxes on the rich – a policy that will meet with intense opposition and arguments against growth-stifling austerity – a large share of the accumulated debt will be passed on to future generations.

In the past, such debt was easier to repay. Because strong growth meant that each successive generation was richer, past debts shrank relative to incomes. Yet today, societal aging, low public investment, and tepid productivity growth all militate against our children being much richer than we are.

After all, we are already bequeathing to them two enormous challenges: looking after us when our entitlements run out of funding, and addressing climate change, which we have done almost nothing to combat. Worse, having limited our investments in their health and education, we have left much of the next generation underequipped to lead productive lives.

By further limiting the next generation's ability to make public investments, the debt that we pass on will likely weigh down future incomes. And if we deplete overall borrowing capacity now, future generations will be unable to spend as needed if they encounter another "once-in-a-century" catastrophe like the two we have experienced in the last 12 years. Intergenerational fairness should be as important as intra-societal fairness for those alive today.

In practical terms, this means that the notion that anyone should be made whole because the pandemic "wasn't their fault" immediately becomes untenable. While many countries do compensate uninsured homeowners hit by a localized flood or an earthquake, people in unaffected parts of the country pay willingly (through higher taxes) because they know that they would receive the same treatment. With a shock as large as the pandemic, this calculus no longer works; the burden inevitably must fall on future generations, who obviously bear no responsibility for the pandemic or the response to it.

Therefore, we must target our spending carefully. As the pandemic and its consequences persist, we must shift to protecting workers, not every job. All laid-off workers should, of course, be provided a decent level of public assistance, certainly until overall employment starts to recover. It is morally right for a rich society to provide a safety net for all, and it is in everyone's interest that workers and their children retain – or even enhance – their capabilities during the pandemic.

Having done that, authorities should be more discriminating in the firms they support, allowing the market to do most of their job. For example, in normally flourishing neighbourhoods, small businesses start up and shut down all the time. While failure is painful for the proprietor, there is little permanent damage to the economy. If there is sufficient demand for flowers when the economy recovers, a new florist can start up at the site of the old one. Consequently, it is not cost-effective for the authorities to freeze the old florist in place by paying her landlord, her bank, and her workers indefinitely.

Similarly, authorities should not offer grants or subsidized loans so that distressed large businesses like airlines and hotel chains can retain their employees. These businesses will keep excess employees only as long as they get the subsidies. It will be far cheaper for the government to support laid-off workers through unemployment insurance than to pay employers to retain them indefinitely when their work has clearly disappeared.

Large corporations that need money to stay afloat can borrow from markets, made buoyant by central banks. If they are so indebted that no one will lend to them, they can restructure their debts in bankruptcy and get a fresh start.

In some situations, however, firms may be unable to deal with market forces unaided. In economically disadvantaged communities, where a few small hard-to-restart businesses are vital to community life, support is desirable for both economic and social reasons. Similarly, while markets treat large firms reasonably, mid-size firms may find it harder to get funding even when viable. If an economically viable firm, employing 100 workers, closes because it has had no revenue over much of the year, its specialized workers will be dispersed, its equipment will be sold in liquidation, and the norms and routines that enable it to function will be lost forever. Even if its exit leaves a big economic hole, a start-up would not easily step in and fill it.

But here, too, public support should not be a free lunch. Wherever possible, the government should ensure that existing capital, whether from bondholders or stockholders, absorbs a fair share of the losses before government support kicks in and the burden passes to future generations.

Finally, wherever possible, we should boost investment in the young as partial compensation for the debts we are leaving them. For example, we must spend to reopen public schools safely, and ensure the necessary facilities for students whose only option is distance learning.

Government spending is necessary today. But just because sovereign-debt markets have not yet reacted adversely to extremely high levels of borrowing and spending, we must not – for our children's sake – throw caution to the wind.

"REVISITING THE WHITE SWANS OF 2020"
(Project Syndicate, July 29, 2020)

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At the start of the year, when COVID-19 was barely on anyone's radar outside of China, the global economy was entering a fraught phase, facing a range of potentially devastating tail risks. And though the pandemic has since turned the world on its head, all of these threats remain – and some have become more salient.

NEW YORK – In February, I warned that any number of foreseeable crises – "white swans" – could trigger a massive global disturbance this year. I noted that:

"… the US and Iran have already had a military confrontation that will likely soon escalate; China is in the grip of a viral outbreak that could become a global pandemic; cyberwarfare is ongoing; major holders of US Treasuries are pursuing diversification strategies; the Democratic presidential primary is exposing rifts in the opposition to Trump and already casting doubt on vote-counting processes; rivalries between the US and four revisionist powers are escalating; and the real-world costs of climate change and other environmental trends are mounting."

Since February, the COVID-19 outbreak in China did indeed explode into a pandemic, vindicating those of us who warned early on that the coronavirus would have severe consequences for the global economy. Owing to massive stimulus policies, the Greater Recession of 2020 has not become a Greater Depression. But the global economy remains fragile, and even if a V-shaped recovery from highly depressed output and demand were to occur, it might last for only a quarter or two, given the low level of economic activity.

Alternatively, with so much uncertainty, risk aversion and deleveraging on the part of corporations, households, and even entire countries could result in a more anemic U-shaped recovery over time. But if the recent surge of COVID-19 cases in the United States and other countries is not controlled, and if a second wave occurs this fall and winter before a safe and effective vaccine is discovered, the economy would likely experience a W-shaped double-dip recession. And with such deep fragilities in the global economy, one cannot rule out an L-shaped Greater Depression by the middle of the decade.

Moreover, as I predicted in February, the rivalry between the US and four revisionist powers – China, Russia, Iran, and North Korea – has accelerated in the run-up to November's US presidential election. There is growing concern that these countries are using cyber warfare to interfere with the election and deepen America's partisan divisions. A close outcome will almost certainly lead to accusations (by either side) of "election-rigging," and potentially to civil disorder.

The COVID-19 crisis has also severely exacerbated the Sino-American cold war regarding trade, technology, data, investment, and currency matters. Geopolitical tensions are escalating dangerously in Hong Kong, Taiwan, and the East and South China Seas. Even if neither China nor the US wants a military confrontation, increased brinkmanship could lead to a military accident that spins out of control. My warning in February that the Sino-American cold war could turn hot has become more salient since then.

In the Middle East, I expected that Iran would escalate tensions with the US and its allies – especially Israel and Saudi Arabia. But, given Trump's increasingly evident weakness in the polls, the Iranians have evidently opted for a policy of relative restraint, in the hope that a victory for Joe Biden will lead the US to rejoin the 2015 nuclear deal and loosen US sanctions. But, sensing that its strategic window is closing, Israel has reportedly been launching covert attacks on a range of Iranian military and nuclear targets (presumably with the Trump administration's tacit support). As a result, talk of Middle East-related "October surprise" is increasing.

I also raised concerns that the Trump administration might use sanctions to seize and freeze China's, Russia's, and other rivals' US Treasury holdings, prompting a sell-off of Treasuries as these countries shift to a geopolitically safer asset like gold. This fear, together with the risk that large monetized fiscal deficits will stoke inflation, has since caused a spike in gold prices, which have risen by 23% this year, and by more than 50% since late 2018. The US is indeed weaponizing the greenback, which has recently weakened as US rivals and allies alike seek to diversify away from dollar-denominated assets.

Environmental concerns are also mounting. In East Africa, desertification has created ideal conditions for biblical-scale locust swarms that are destroying crops and livelihoods. Recent research suggests that crop failures due to rising temperatures and desertification will drive hundreds of millions of people from hot tropical zones toward the US, Europe, and other temperate regions in the coming decades. And other recent studies warn that climate "tipping points" such as the collapse of major ice sheets in Antarctica or Greenland could lead to a sudden catastrophic sea-level rise.

The links between climate change and pandemics are also becoming clearer. As humans increasingly encroach on wildlife habitats, they are coming into more frequent contact with bats and other zoonotic disease vectors. And there is growing concern that as the Siberian permafrost melts, long-frozen deadly viruses will resurface and quickly spread around the world like COVID-19 did.

Why are financial markets blissfully ignoring these risks? After falling by 30-40% at the beginning of the pandemic, many equity markets have recovered most of their losses, owing to the massive fiscal-policy response and hopes for an imminent COVID-19 vaccine. The V-shaped recovery in markets indicates that investors are anticipating a V-shaped recovery in the economy.

The problem is that what was true in February remains true today: the economy could still quickly be derailed by another economic, financial, geopolitical, or public-health tail risk, many of which have persisted and, in some cases, grown more acute during the current crisis. Markets are not very good at pricing political and geopolitical – let alone environmental – tail risks, because their probability is difficult to assess. But, given the developments of the last few months, we should not be surprised if one or more white swans emerge to shake the global economy again before the year is out.

"HOW TO PREVENT THE LOOMING SOVEREIGN-DEBT CRISIS"
(Project Syndicate, July 31, 2020)

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From Latin America's lost decade in the 1980s to the more recent Greek crisis, there are plenty of painful reminders of what happens when countries cannot service their debts. A global debt crisis today would likely push millions of people into unemployment and fuel instability and violence around the world.

NEW YORK – While the COVID-19 pandemic rages, more than 100 low- and middle-income countries will still have to pay a combined $130 billion in debt service this year – around half of which is owed to private creditors. With much economic activity suspended and fiscal revenues in free fall, many countries will be forced to default. Others will cobble together scarce resources to pay creditors, cutting back on much-needed health and social expenditures. Still others will resort to additional borrowing, kicking the proverbial can down the road, seemingly easier now because of the flood of liquidity from central banks around the world.

From Latin America's lost decade in the 1980s to the more recent Greek crisis, there are plenty of painful reminders of what happens when countries cannot service their debts. A global debt crisis today will push millions of people into unemployment and fuel instability and violence around the world. Many will seek jobs abroad, potentially overwhelming border-control and immigration systems in Europe and North America. Another costly migration crisis will divert attention away from the urgent need to address climate change. Such humanitarian emergencies are becoming the new norm.

This nightmare scenario is avoidable if we act now. The origins of today's looming debt crisis are easy to understand. Owing to quantitative easing, the public debt (mostly sovereign bonds) of low- and middle-income countries has more than tripled since the 2008 global financial crisis. Sovereign bonds are riskier than "official" debt from multilateral institutions and developed-country aid agencies because creditors can dump them on a whim, triggering a sharp currency depreciation and other far-reaching economic disruptions.

Back in June 2013, we worried that "shortsighted financial markets, working with shortsighted governments," were "laying the groundwork for the world's next debt crisis." Now, the day of reckoning has come. This past March, the United Nations called for debt relief for the world's least-developed countries. Several G20 countries and the International Monetary Fund have suspended debt service for the year, and have called upon private creditors to follow suit.

Unsurprisingly, these calls have fallen on deaf ears. The newly formed Africa Private Creditor Working Group, for example, has already rejected the idea of modest but broad-based debt relief for poor countries. As a result, much, if not most, of the benefits of debt relief from official creditors will accrue to the private creditors who are unwilling to provide any debt relief.

The upshot is that taxpayers in creditor countries will once again end up bailing out excessive risk taking and imprudent lending by private actors. The only way to avoid this is to have a comprehensive debt standstill that includes private creditors. But without strong action from the countries in which debt contracts are written, private creditors are unlikely to accept such an arrangement. These governments therefore must invoke the doctrines of necessity and force majeure to enforce comprehensive standstills on debt service.

But standstills will not solve the systemic problem of excessive indebtedness. For that, we urgently need deep debt restructuring. History shows that for many countries, a restructuring that is too little, too late merely sets the stage for another crisis. And Argentina's long struggle to restructure its debt in the face of recalcitrant, shortsighted, hard-headed, and hard-hearted private creditors has shown that collective-action clauses designed to facilitate restructuring are not as effective as had been hoped.

More often than not, an inadequate restructuring is followed by another restructuring within five years, with enormous suffering on the part of those in the debtor country. Even creditors lose, over the long run.

Fortunately, there is an underused alternative: voluntary sovereign-debt buybacks. Debt buybacks are widespread in the corporate world, and have proved effective both in Latin America in the 1990s and, more recently, in the Greek context. And they have the advantage of avoiding the harsh terms that typically come with debt swaps.

A buyback program's principal objective would be to reduce debt burdens by securing significant discounts (haircuts) on the face value of sovereign bonds, and by minimizing exposure to risky private creditors. But a buyback program could also be designed to advance health and climate goals, by requiring that the beneficiaries spend the money that otherwise would have gone to debt service on creating public goods.

As we explain in a recent paper published by the Center for Economic Policy Research, a multilateral buyback facility could be managed by the IMF, which can use already available resources, its New Arrangements to Borrow function, and supplemental funds from a global consortium of countries and multilateral institutions. Countries that do not need their full allocation of Special Drawing Rights, the IMF's unit of account, could donate or lend them to the new facility. A new issuance of SDRs, for which there is a clear need, could provide still additional resources. To ensure the maximum debt reduction for a given expenditure, the IMF could conduct an auction, announcing that it will buy back only a limited amount of bonds.

In the long term, a predictable, rules-based debt-restructuring mechanism, modeled after the United States' municipal bankruptcy legislation ("Chapter 9") is needed. That would be in keeping with the recommendations of the post-2008 UN Commission of Experts on Reforms of the International Monetary and Financial System.

The usual objection to such proposals is that they would destroy the international capital market. But experience shows otherwise. One can't squeeze water from a stone. There will be restructuring – the only question is whether it will be orderly. Our proposals would aid in achieving this objective, and thus strengthen capital markets.

Ultimately, though, our concern should not be with the health of capital markets, but with the welfare of people in developing and emerging-market countries. There is an urgent need for debt relief now, in the midst of the pandemic. It has to be comprehensive – including private creditors – and more than just a stay of debt. We have the tools to do it. We only need the political will.

The views expressed here are the authors' own and do not reflect the views of the United Nations or its member states.

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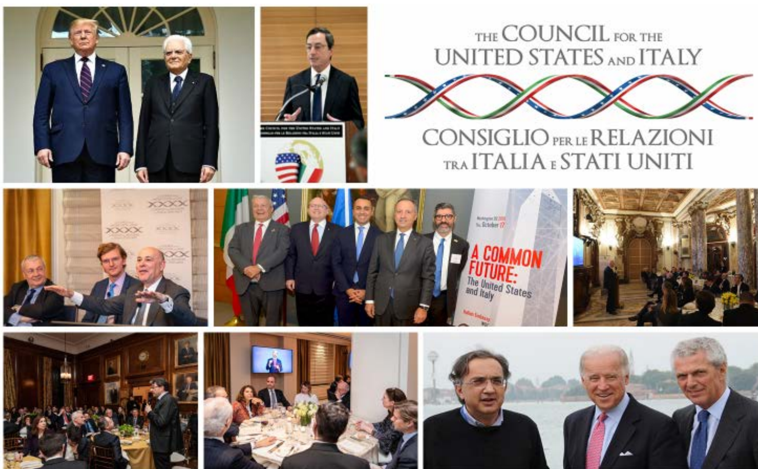

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