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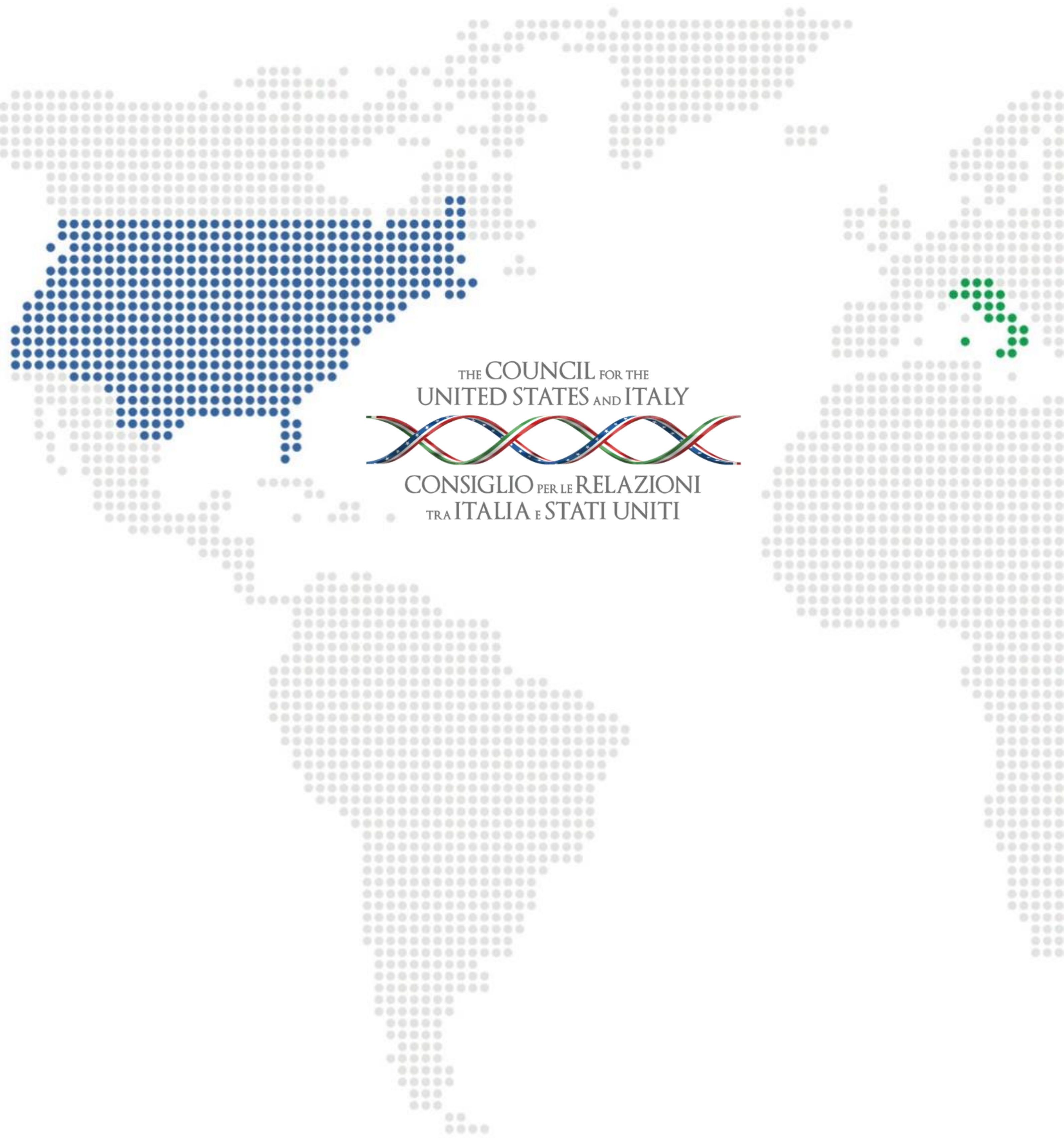

THE COUNCIL FOR THE UNITED STATES AND ITALY

CONSIGLIO PER LE RELAZIONI TRA ITALIA E STATI UNITI

Lately at Project Syndicate: **Robert J. Shiller** demystifies the US stock market's strong performance during the pandemic, **Richard N. Haass** considers what it will take to minimize the damage wrought by the pandemic, particularly for the most vulnerable. Please find below the complete version.

Furthermore Dani Rodrik censures Western critics of China's industrial policies and Joseph S. Nye, Jr., says that, if Joe Biden wins the November election, he should replace, not revive, the liberal international order. All the commentaries are available for Members of the Council for the United States and Italy on Project Syndicate.

"UNDERSTANDING THE PANDEMIC STOCK MARKET"
(Project Syndicate, July 7, 2020)

***Robert J. Shiller**, a 2013 Nobel laureate in economics, is Professor of Economics at Yale University and the co-creator of the Case-Shiller Index of US house prices.*

The worse economic fundamentals and forecasts become, the more mysterious stock-market outcomes in the US appear. At a time when genuine news suggests that equity prices should be tanking, not hitting record highs, explanations based on crowd psychology, the virality of ideas, and the dynamics of narrative epidemics can shed some light.

NEW HAVEN – The performance of stock markets, especially in the United States, during the coronavirus pandemic seems to defy logic. With cratering demand dragging down investment and employment, what could possibly be keeping share prices afloat?

The more economic fundamentals and market outcomes diverge, the deeper the mystery becomes, until one considers possible explanations based on crowd psychology, the virality of ideas, and the dynamics of narrative epidemics. After all, stock-market movements are driven largely by investors' assessments of other investors' evolving reaction to the news, rather than the news itself.

That is because most people have no way to evaluate the significance of economic or scientific news. Especially when mistrust of news media is high, they tend to rely on how people they know respond to news. This process of evaluation takes time, which is why stock markets do not respond to news suddenly and completely, as conventional theory would suggest. The news starts a new trend in markets, but it is sufficiently ambiguous that most smart money has difficulty profiting from it.

Of course, it is hard to know what drives the stock market, but we can at least conjecture ex post, based on available information.

There are three separate phases of the puzzle in the US: the 3% rise in the S&P 500 from the beginning of the coronavirus crisis, on January 30, to February 19; the 34% drop from that date until March 23; and the 42% upswing from March 23 to the present. Each of these phases reveals a puzzling association with the news, as the lagged market reaction is filtered through investor reactions and stories.

The first phase started when the World Health Organization declared the new coronavirus "a public health emergency of international concern" on January 30. Over the next 20 days, the S&P 500 rose by 3%, hitting an all-time record high on February 19. Why would investors give shares their highest valuation ever right after the announcement of a possible global tragedy? Interest rates did not fall over this period. Why didn't the stock market "predict" the coming recession by declining before the downturn started?

One conjecture is that a pandemic wasn't a familiar event, and most investors in early February just weren't convinced that other investors and consumers paid any attention to such things, until they saw a bigger reaction to the news and in market prices. Their lack of past experience since the 1918-20 influenza pandemic meant that there was no statistical analysis of such events' market impact. The beginnings of lockdowns in late January in China received scant attention in the world press. The disease caused by the new coronavirus didn't even have a name until February 11, when the WHO christened it COVID-19.

In the weeks before February 19, public attention to longstanding problems such as global warming, secular stagnation, or debt overhangs were fading. President Donald Trump's impeachment trial, which ended February 5, still dominated talk in the US, and many politicians apparently still found it counterproductive to raise alarms about a hypothetical new enormous tragedy looming.

The second phase began when the S&P 500 plummeted 34% from February 19 to March 23, a drop akin to the 1929 stock market crash. Yet, as of February 19, there had been only a handful of reported COVID-19 deaths outside of China. What changed investors' thinking over that interval was not just one narrative, but a constellation of related narratives.

Some of the new news was nonsense. On February 17, a run on toilet paper in Hong Kong was mentioned for the first time, and became a highly contagious story as a sort of joke. Of course, the news about the spread of the disease was becoming more international. The WHO dubbed it a pandemic on March 11. Internet searches for "pandemic" peaked in the week of March 8-14, and searches for "coronavirus" peaked in the week of March 15-21.

It appears that in this second phase, people were trying to learn the basics about this strange event. Most people couldn't get a handle on it immediately, let alone imagine that others who might influence market prices were doing so.

As the stock-market downturn proceeded, vivid stories appeared of hardship and business disruption caused by the lockdown. For example, some people in locked-down China reportedly were reduced to searching for minnows and ragworms to eat. In Italy, there were stories of medical workers in overwhelmed hospitals being forced to choose which patients would receive treatment. Narratives about the Great Depression of the 1930s flourished.

The beginning of the third phase, when the S&P 500 market began its 40% rise, was marked by some genuine news about both fiscal and monetary policy. On March 23, after interest rates had already been cut to virtually zero, the US Federal Reserve announced an aggressive program to establish innovative credit facilities. Four days later, Trump signed the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, promising aggressive fiscal stimulus.

Both of these measures, and similar actions in other countries, were described as resembling the actions taken to counter the 2008-09 Great Recession, which was followed by a gradual but ultimately huge increase in stock prices. The S&P 500 increased fivefold from its bottom on March 09, 2009, to February 19, 2020. Most people have no idea what's in the Fed plan or the CARES Act, but investors did know of one recent example when such measures apparently worked.

Stories of smaller but still significant stock-market collapses and strong recoveries, a couple of them from 2018, were widely recalled. Talk of regrets about not buying at the bottom then, or in 2009, may have left the impression that the market had fallen enough in 2020. At that point, FOMO (fear of missing out) took hold, reinforcing investors' belief that it was safe to go back in.In all three phases of the COVID-19 stock market, the effects of genuine news are apparent. But price movements are not necessarily a prompt, logical response to it. In fact, they rarely are.

"THE POLITICS OF A COVID-19 VACCINE"

(Project Syndicate, July 14, 2020)

Richard N. Haass, *President of the Council on Foreign Relations, previously served as Director of Policy Planning for the US State Department (2001-2003), and was President George W. Bush's special envoy to Northern Ireland and Coordinator for the Future of Afghanistan*

Even if one or more vaccines emerge that promise to make people less susceptible to COVID-19, the public-health problem will not be eliminated. But policymakers can avert some foreseeable problems by starting to address key questions about financing and distribution now.

NEW YORK – The global toll of the COVID-19 pandemic is enormous: more than a half-million lives lost, hundreds of millions out of work, and trillions of dollars of wealth destroyed. And the disease has by no means run its course; hundreds of thousands more could well die from it.

Not surprisingly, there is tremendous interest in the development of a vaccine, with more than a hundred efforts under way around the world. Several look promising, and one or more may bear fruit – possibly faster than the several years or longer it normally takes to bring a vaccine on line.

But even if one or more vaccines emerge that promise to make people less susceptible to COVID-19, the public-health problem will not be eliminated. As any medical expert will attest, vaccines are not panaceas. They are but one tool in the medical arsenal.

No vaccine can be expected to produce complete or lasting immunity in all who take it. Millions will refuse to get vaccinated. And there is the brute fact that there are nearly eight billion men, women, and children on the planet. Manufacturing eight billion doses (or multiples of that if more than one dose is needed) of one or more vaccines and distributing them around the globe could require years, not months.

These are all matters of science, manufacturing, and logistics. They are sure to be difficult. But the politics will be at least as challenging.

For starters, who will pay for any vaccine? Companies will expect to recoup their investment in research and development, along with the costs of production and distribution. That is already tens of billions of dollars (and possibly much more) – before the question of profit is even introduced. There is also the related question of how companies that develop a vaccine will be compensated if they are required to license the patents and know-how to producers elsewhere.

The toughest political question of all, though, is likely to concern access. Who should receive the initial doses of any vaccine? Who determines who is allowed into the queue and in what order? What special advantages accrue to the country where a vaccine is developed? To what extent will wealthier countries crowd out poorer ones? Will countries let geopolitics intrude, sharing the vaccine with friends and allies while forcing vulnerable populations in adversary countries to the back of the line?

At the national level, every government should start to think through how it will distribute those vaccines it produces or receives. One idea would be to administer it first to health-care workers, followed by police, firefighters, the military, teachers, and other essential workers. Governments must also consider what priority to give those at higher risk of developing serious complications from COVID-19, such as the elderly and those with preexisting conditions. Should a vaccine be free to some or all?

At the international level, the questions are even more complex. We need to make sure that production can be scaled rapidly, that rules are in place for availability, and that sufficient funds are pledged so that poorer countries are covered. Gavi, the Vaccine Alliance, the World Health Organization, several governments, and the Bill & Melinda Gates Foundation have formed the COVID-19 Vaccine Global Access (COVAX) Facility. Its creators propose that any effective vaccine that emerges be treated as a global public good, to be distributed equally around the world, regardless of where it was invented or of a country's ability to pay. The WHO has put forward a global allocation framework that seeks to ensure priority for the most vulnerable populations and health-care workers.

But such approaches may be unrealistic. It is not just that the COVAX effort lacks adequate funding, the participation of the United States and China, and clear authority. It is that all governments are sure to come under enormous pressure to take care of their own citizens first. Vaccine nationalism is almost certain to win out over vaccine multilateralism.

Recent history reinforces this skepticism. COVID-19 emerged in China and quickly became a worldwide problem. Responses, though, have been mostly along national lines. Some countries have fared relatively well, thanks to their existing public health systems and political leadership; with others, it has been just the opposite.

Continuing this national-level approach to a vaccine is a recipe for disaster. Only a handful of countries will be able to produce viable vaccines. The approach must be global. The reasons are not just ethical and humanitarian, but also economic and strategic, as global recovery requires collective improvement.

In Iraq, when military progress outpaced planning for the US-led war's aftermath, the result was chaos, or "catastrophic success." We cannot afford an analogous outcome here, with success in the laboratory outpacing planning for what comes next. Governments, companies, and nongovernmental organizations need to come together quickly, be it in the COVAX initiative, under the auspices of the United Nations or the G20, or somewhere else. Global governance comes in all shapes and sizes. What is essential is that it comes. The lives of millions, the economic welfare of billions, and social stability everywhere hang in the balance.

ABOUT THE COUNCIL FOR THE UNITED STATES AND ITALY

The Council for the United States and Italy is a private non-profit organization, founded in Venice in 1983 by Gianni Agnelli and David Rockefeller, who served as honorary presidents until 2003. Marco Tronchetti Provera followed them as Chairman, then Sergio Marchionne until 2018. Domenico Siniscalco is the current Chairman, Gianni Riotta Executive Vice Chairman. The Council for the United States and Italy promotes and creates economic relations between Italy and the United States, linking them to Europe, Asia and Africa through knowledge and free trade. Its members are leaders in the economy, industry, finance, technology, services, consulting, law and culture - a team in which economic growth is viewed as promoting humanity and wealth as a cultural value to be shared.