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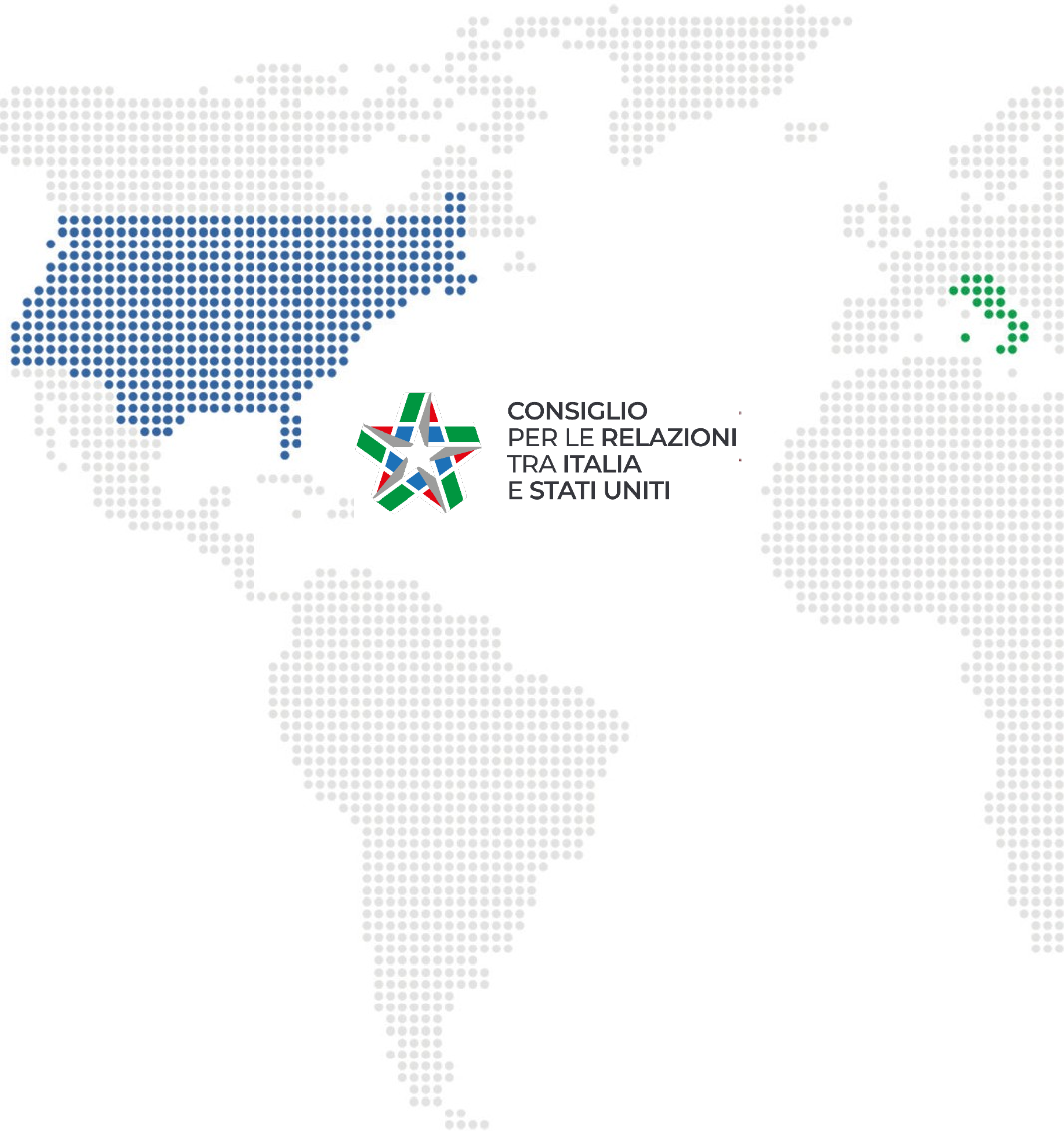

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"THE CASE FOR A QUADRIPOLAR WORLD"
(Project Syndicate - December 3, 2020)

Daron Acemoglu, Professor of Economics at MIT, is co-author (with James A. Robinson) of Why Nations Fail: The Origins of Power, Prosperity and Poverty and The Narrow Corridor: States, Societies, and the Fate of Liberty.

According to the conventional wisdom, the twenty-first century will be characterized by the global shift from American hegemony to Sino-American rivalry. But a bipolar international order is neither inevitable nor desirable, and we should start imagining and working toward alternative arrangements.

CAMBRIDGE – Having diminished America's global role while refusing to accept China's growing clout, Donald Trump's presidency represents the last gasp of a unipolar epoch. But while many assume that the unipolar post-Cold War world is giving way to a bipolar international order dominated by the United States and China, that outcome is neither inevitable nor desirable. Instead, there is every reason to hope for, and work toward, a world in which Europe and the emerging economies play a more assertive role.

To be sure, as the world's most economically successful autocracy, China has already achieved significant geopolitical influence in Asia and beyond. During the two most recent global crises – the 2008 financial collapse and today's pandemic – the Communist Party of China quickly adjusted the country's political economy in response to changing circumstances, thereby solidifying its grip on power. Because countries that do not want to toe the US line now routinely turn to China for inspiration and, often, material support, what could be more natural than China emerging as one of the two poles of global power?

In fact, a bipolar world would be deeply unstable. Its emergence would heighten the risk of violent conflict (according to the logic of the Thucydides Trap), and its consolidation would make solutions to global problems wholly dependent on the national interests of the two reigning powers. Three of the biggest challenges facing humanity would either be ignored or made worse.

The first challenge is the concentrated power of Big Tech. While technology is often presented as a key front in the US-China conflict, there is considerable congruence between the two countries. Both are committed to the pursuit of algorithmic dominance over humans, whereby digital platforms and artificial intelligence (AI) are used as tools by the government and corporations for surveilling and controlling the citizenry.

There are differences, of course. Whereas the US government has adopted Big Tech's own vision and become subservient to the industry, Chinese tech giants remain at the mercy of the government and must abide by its agenda. For example, recent research shows how local governments' demand for surveillance technologies shapes Chinese AI creators' research and development. In any case, neither country is likely to strengthen privacy standards and other protections for ordinary people, much less redirect the trajectory of AI research so that its benefits are unambiguous and widely shared.

Likewise, advocacy for human rights and democracy would be a low priority in a bipolar world. With repression in China growing, the US may appear by comparison to remain an exemplar of these values. But America's principled commitment to democracy and human rights is thin and generally not taken seriously abroad. After all, the US has overthrown democratically elected but insufficiently friendly governments in Latin America, Asia, and Africa. And when it has supported democracy in places like Ukraine, it has generally had an ulterior motive, such as the desire to counter or weaken Russia.

The third big issue likely to receive short shrift in a Sino-American bipolar world is climate change. In recent years, China has appeared more supportive of international agreements aimed at reducing greenhouse-gas emissions than the US has. But the two superpowers are not just the world's two biggest emitters; they also are both beholden to energy-intensive economic models. China will remain dependent on manufacturing growth, while consumers and growth industries (like cloud computing) will sustain high demand for energy in the US. And one can expect that both sides' short-term interest in economic supremacy will trump everyone else's interest in a swift green transition.

All of these problems would be more likely to be addressed in a world with two additional poles, represented by the European Union and a consortium of emerging economies, perhaps within a new organization – an "E10" – comprising Mexico, Brazil, India, Indonesia, Malaysia, Turkey, South Africa, and others. Such a quadripolar world would be less conducive to a new cold war, and it would bring more diverse voices to global governance.

For its part, the EU has already emerged as a standard-bearer for privacy protection and regulation of Big Tech, and it is well positioned to push back against algorithmic automation. Even though it is US and Chinese companies that largely drive concerns about privacy, consumer manipulation, and labor-replacing AI, the European market is so large and important that it can tilt the playing field globally.

But a strategic pole that speaks for emerging economies may be even more consequential. If AI continues to displace humans in the workplace, emerging economies will be the biggest losers, because their comparative advantage is abundant human labor. With automation already cutting into the supply of jobs that had previously been offshored to these economies, it is critical that they have a voice in global debates that will determine how new technologies are designed and deployed.

Europe and the emerging world also can form a powerful constituency against fossil-fuel emissions. While the EU has become a world leader in decarbonization, emerging economies have an acute interest in climate action, because they will suffer disproportionately from global warming (despite having contributed the least to the problem).

To be sure, a quadripolar world would not be a panacea. With a wider array of voices and the possibility for more opportunistic coalitions, it would be much more difficult to manage than was the unipolar world of the recent past. With Brazil, Mexico, India, and Turkey all now led by authoritarians intent on silencing their opponents, independent media, and civil-society groups, Europe inevitably would find itself at odds with this bloc when it comes to human rights and democracy.

Yet, even here, a quadripolar world would offer more hope than the bipolar alternative. Bringing these countries to the international table might make them more willing to countenance opposition at home. Moreover, emerging economies can cooperate as a united front only if they abandon their most authoritarian, nationalistic, and destructive behavior. Ushering in a quadripolar world may thus yield unexpected dividends.

"HOW BIDEN CAN CREATE GOOD JOBS"
(Project Syndicate – December 8, 2020)

Dani Rodrik, Professor of International Political Economy at Harvard University's John F. Kennedy School of Government, is the author of Straight Talk on Trade: Ideas for a Sane World Economy.

Long before the pandemic, the United States had been losing middle-class jobs, owing to automation, deindustrialization, global competition, and the advent of the "gig economy." Fortunately, if President-elect Joe Biden's administration heeds the evidence about what works, it can mitigate this trend and boost economic recovery.

CAMBRIDGE – The COVID-19 pandemic will leave the US economy with a deeply scarred labor market. More than 20 million jobs have been lost during the crisis, and only half have been regained. Not surprisingly, job losses have hit disadvantaged and less educated workers especially hard.

This aggravates a pre-existing trend. Long before the pandemic, the US labor market was becoming increasingly polarized. Good, middle-class jobs had been disappearing for decades, owing to automation, deindustrialization, global competition, and the advent of the "gig economy."

To restore the health of America's economy, society, and polity, President-elect Joe Biden's administration must answer a straightforward question: "Where will the good jobs come from?"

Good jobs require specific skills and can be created only by productive firms. Creating good jobs in ample quantities therefore requires addressing both the supply and the demand sides of the problem.

On the supply side, workers must be equipped with the hard and soft skills that productive firms require. On the demand side, there must be a large enough segment of smaller and medium-size firms that are both productive and able to expand employment.

The last few decades are proof that markets alone will not solve the problem. Governments at all levels must be actively involved. The good news is that we have accumulated considerable evidence about the type of programs that actually work.

On the skill-building front, so-called "sectoral training programs" have been especially successful. These programs go beyond traditional training: they are tightly coordinated with employers and provide skills customized to the needs of specific industries, such as health care or information technology. Workers enrolled in the programs receive a variety of "wrap-around" services, ranging from childcare to job placement, in addition to training and certification.

The best known of these programs is Project QUEST in San Antonio, Texas, which has been in operation since the 1990s. There are many others that operate on the same model, such as Per Scholas in the Bronx, New York, and JVS in Boston. Such sectoral training programs have been shown to increase disadvantaged workers' earnings by more than 20% on average at a relatively low cost.

Likewise, we have considerable experience on the demand side to guide us. Tax incentives and open-ended investment subsidies can attract firms to lagging regions, but they are not particularly effective. They are expensive and often waste public resources on projects that would have been realized anyway.

What works much better, as Tim Bartik of the Upjohn Institute has shown, is to provide customized business or infrastructure services – such as management and technology advice, a skilled workforce, or local land development – to local firms. Tailored to the needs of specific firms, assistance of this kind can help them become more productive and expand employment capacity by overcoming the particular constraints they face. These programs require building relationships between local firms and prospective investors who understand their needs, as well as a capacity to respond quickly and effectively.

So much for the good news. The bad news is that these successful worker and firm-centered initiatives currently operate at very small scale. Sectoral training programs are typically operated by community groups or non-governmental agencies, and limited funding, as well as a lack of interest from state and federal agencies, prevents them from being scaled up. As a result, the workers they serve number in the thousands instead of the millions that need to be reached.

Similarly, customized business service programs are severely underfunded. Bartik estimates that firms receive $47 billion annually in state and federal tax incentives for investment. By contrast, total annual spending on customized training and manufacturing extension services, which is far more effective in terms of job creation, amounts to only around $1 billion.

A second problem is that programs that are centered on workers and firms are often not well coordinated. Even though sectoral training programs are built around a "dual-customer" approach that serves employers as well as employees, their ability to influence firms' employment policies – including technology adoption and human-resources practices – remains limited. And firm-centered policies can overlook local employment needs if they focus too much on other objectives, such as innovation through new technologies and export competitiveness.

Effective programs to create good jobs are tailored to specific communities' needs and must be driven by local leadership. But the federal government can also play a major role. It can underwrite a massive boost in funding for such programs and encourage states and localities to engage in more experimentation along the lines of successful programs elsewhere. There is thus a huge opportunity here for the Biden administration.

Biden has promised to raise the federal minimum wage and to encourage greater unionization. Beyond these important measures, his plans rely heavily on tax incentives. Under his proposals, companies that increase employment in the United States would get tax credits, while those that invest abroad and boost imports would face tax penalties. He also intends to increase federal spending on goods made domestically and boost spending on government research and development.

These tax incentive, procurement, and innovation plans are expected to cost several hundred billion dollars. A significant increase in locally developed and managed programs to create good jobs would be a pittance in comparison. The Biden administration should go further, by building on such programs' demonstrated successes and making them the cornerstone of his strategy to rebuild America.

"The Infrastructure Spending Challenge"
(Project Syndicate – December 7, 2020)

KENNETH ROGOFF, Professor of Economics and Public Policy at Harvard University and recipient of the 2011 Deutsche Bank Prize in Financial Economics, was the chief economist of the International Monetary Fund from 2001 to 2003. He is co-author of This Time is Different: Eight Centuries of Financial Folly and author of The Curse of Cash.

Macroeconomists broadly agree that productive infrastructure spending is welcome after a deep recession, especially when interest rates are at record lows. But in advanced economies, any new project typically requires navigating difficult right-of-way issues, environmental concerns, and objections from apprehensive citizens.

CAMBRIDGE – Encouraging news about more effective anti-viral treatments and promising vaccines is fueling cautious optimism that rich countries, at least, could tame the COVID-19 pandemic by the end of 2021. For now, though, as a brutal second wave cascades around the world, broad and robust relief remains essential. Governments should allow public debt to rise further to mitigate the catastrophe, even if there are longer-term costs. But where will new growth, already tepid in advanced economies before the pandemic, come from?

Macroeconomists of all stripes broadly agree that productive infrastructure spending is welcome after a deep recession. I have long shared that view, at least for genuinely productive projects. Yet, infrastructure spending in advanced economies has been declining intermittently for decades. (China, which is at a very different stage of development, is of course another story entirely.) The United States, for example, spent only 2.3% of GDP ($441 billion) on transportation and water infrastructure in 2017, a lower share than at any time since the mid-1950s.

Perhaps this reluctance to embrace infrastructure investment is about to fade. US President-elect Joe Biden has pledged to make it a priority, with a strong emphasis on sustainability and combating climate change. The European Union's proposed €1.8 trillion ($2.2 trillion) stimulus package – comprising the new €1.15 trillion seven-year budget and the €750 billion Next Generation EU recovery fund – has a major infrastructure component, particularly benefiting the economically weaker southern member states. And the United Kingdom's chancellor of the exchequer, Rishi Sunak, has set out an ambitious £100 billion ($133 billion) infrastructure initiative, including the establishment of a new national infrastructure bank.

Given many countries' decaying infrastructure and record-low borrowing costs, all this seems very promising. But, after the 2008 financial crisis, macroeconomists universally regarded the case for infrastructure spending as particularly compelling, too, and the experience then counsels caution about assuming a significant boost to long-term growth this time around. Microeconomists, who look at infrastructure costs and benefits on a project-by-project basis, have long been more circumspect.

For one thing, as the late economist and former US Federal Reserve Board governor Edward Gramlich noted a quarter-century ago, most developed countries have already built the high-return infrastructure projects, from interstate roads and bridges to sewer systems. Although I don't find this argument entirely convincing – there seems to be vast unrealized potential to improve the electricity grid, provide universal Internet access, decarbonize the economy, and bring education into the twenty-first century – macroeconomists should not be so quick to dismiss it.

Gramlich's argument has strong parallels to Robert J. Gordon's thesis that the burst of productive new ideas that spawned massive growth in the nineteenth and twentieth centuries has been running out of steam since the 1970s. Some leading macroeconomists, including the public-finance expert Valerie Ramey, think it is far from obvious that the US has a sub-optimal level of public capital.

True, the American Society of Civil Engineers in 2017 awarded US infrastructure an overall D+ grade. But to the extent that this unfavorable assessment reflects reality, it probably stems more from underinvestment in maintenance and repair – particularly of bridges – than from a failure to build, say, a high-speed rail link between Los Angeles and San Francisco. In fact, public-finance specialists largely agree that, in advanced economies, maintenance and repair offers the highest return from infrastructure investment. (This is far from the case in emerging-market economies, where a burgeoning middle class devotes a substantial share of its income to transportation.)

Even beyond technological feasibility and desirability, perhaps the biggest obstacle to improving infrastructure in advanced economies is that any new project typically requires navigating difficult right-of-way issues, environmental concerns, and objections from apprehensive citizens representing a variety of interests.

The "Big Dig" highway project in my hometown of Boston, Massachusetts was famously one of the most expensive infrastructure projects in US history. The scheme was originally projected to cost $2.6 billion, but the final tab swelled to more than $15 billion, by some estimates, over the 16 years of construction. This was less the result of corruption than of underestimating various interest groups' bargaining power. Police required substantial overtime payments, affected neighborhoods demanded soundproofing and side payments, and pressure to create jobs led to overstaffing.

The construction of New York City's Second Avenue Subway was a similar experience, albeit on a slightly smaller scale. In Germany, the new Berlin Brandenburg Airport recently opened nine years behind schedule and at three times the initial estimated cost.

All of these projects may still be good value, but the pattern of cost overruns they highlight should temper the view that any infrastructure project must be a winner in an era of very low rates. Moreover, an ill-considered infrastructure investment might create longer-term costs, from environmental damage to excessive maintenance requirements.

The case for increasing infrastructure spending in today's low-interest-rate environment is still compelling, but considerable technocratic expertise will be needed to help compare projects and give realistic cost assessments. Creating a UK-style national infrastructure bank (an idea former US President Barack Obama had proposed) is one sensible approach. Absent that, the recent burst in infrastructure enthusiasm is likely to be a missed opportunity.

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