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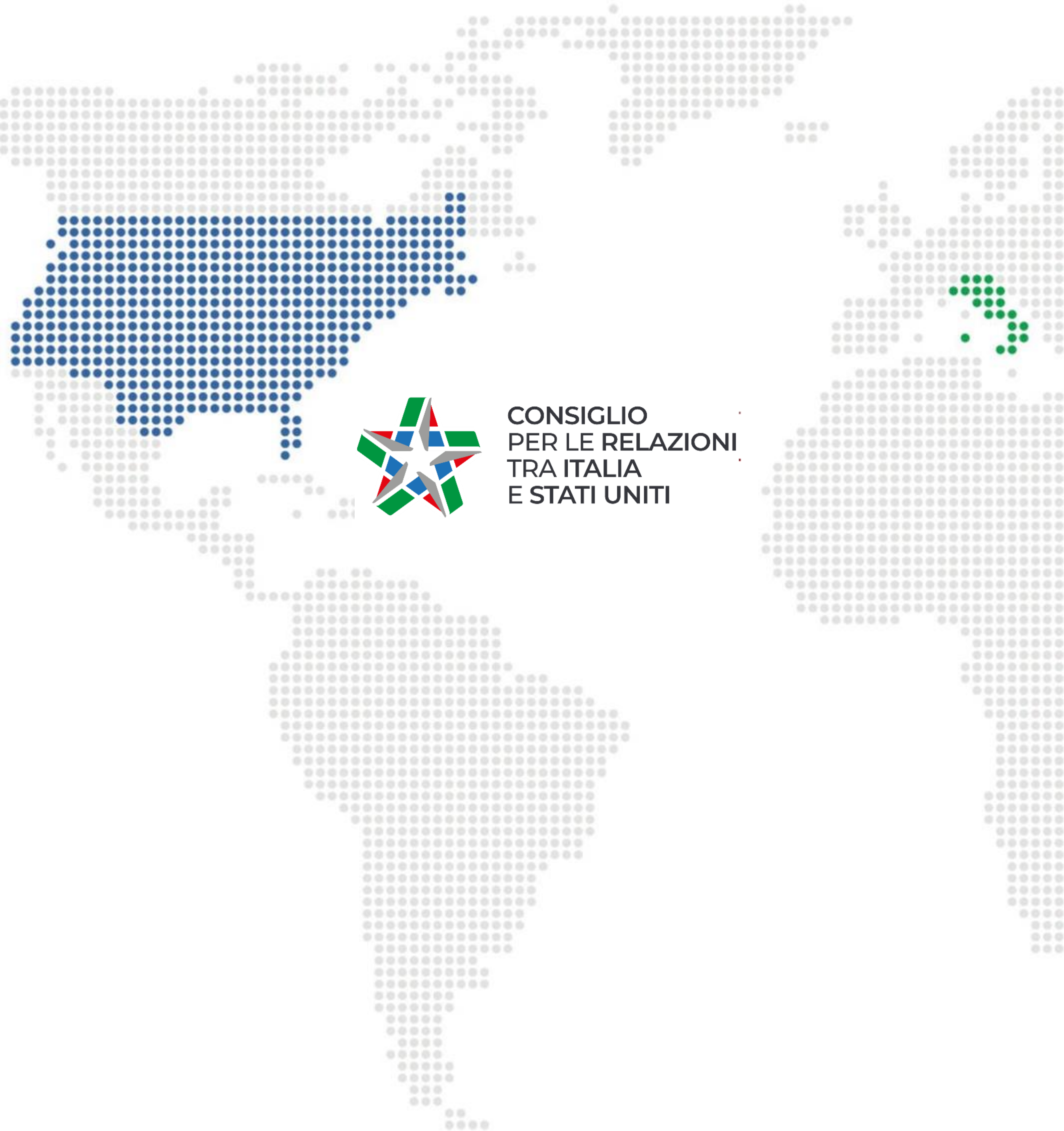

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"BEWARE ECONOMISTS BEARING POLICY PARADIGMS"

(Project Syndicate – May 11, 2020)

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US President Joe Biden's administration has embarked on a bold and long-overdue departure from the economic policy orthodoxy that has prevailed in the US and much of the West since the 1980s. But those who are seeking a new economic paradigm should be careful what they wish for.

CAMBRIDGE – Neoliberalism is dead. Or perhaps it remains very much alive. Pundits have been calling it both ways these days. But either way, it is hard to deny that something new is afoot in the world of economic policy.

US President Joe Biden has called for a vast expansion of government spending on social programs, infrastructure, and the transition to a green economy. He wants to use government procurement to rebuild domestic supply chains and bring manufacturing jobs back to the United States. His Treasury Secretary, Janet Yellen, is pushing for a globally coordinated increase in corporate taxes. Jerome Powell, Chair of the Federal Reserve, traditionally the most hawkish arm of government on price stability, is playing down inflation fears and lending his support to fiscal expansion.

All of these policy changes represent a sharp departure from the conventional wisdom in Washington. Do they also augur a new economic policy paradigm?

Economic policies in the US, and the West more broadly, have long been in need of overhaul. The ideas dominant since the 1980s – variously called the Washington Consensus, market fundamentalism, or neoliberalism – originally gained traction because of the perceived failures of Keynesianism and excessive government regulation. But they took on a life of their own and produced highly financialized, unequal, and unstable economies that were unequipped to cope with today's most significant challenges: climate change, social inclusion, and disruptive new technologies.

The needed paradigm change might usefully start with how we teach economics. Economists tend to be enamored of the power of markets to promote overall economic prosperity. Adam Smith's invisible hand – the idea that self-interested individuals seeking only their personal enrichment might produce collective prosperity instead of social chaos – is one of the crown jewels of the economics profession. It also remains deeply counterintuitive, which is perhaps why economists devote an inordinate amount of time proselytizing about the magic of markets.

But economics is not a paean to free markets. In fact, much of economics instruction focuses on how markets may produce too much inequality, and how they fail on their own terms of allocating resources efficiently. Perfectly competitive markets that harmoniously produce stable equilibria are only one possibility among many. The Smithian model is not the only one. Still, the knee-jerk reaction of many economists is to treat well-functioning, competitive markets as the relevant benchmark for any proposed departure from laissez-faire.

Fortunately, a new paradigm for teaching economics does exist. The CORE Project is an online teaching tool and free, open-access textbook. Two leading economists, Samuel Bowles of the Santa Fe Institute and Wendy Carlin of University College London, are the visionaries behind it. But a large group of economists worldwide has collaborated in its development. Already, it is in use in a majority of university economics departments in the United Kingdom.

A key advantage of the CORE approach is that it tackles issues like inequality and climate change head-on. But the pedagogically more interesting move is that it replaces the standard benchmarks of economics with alternative benchmarks that are more realistic and useful. For example, in contrast to conventional economics, CORE assumes that individuals are pro-social and myopic, rather than selfish and far-sighted. Competition is imperfect, with winner-take-all characteristics, rather than perfect. Power is ever-present in the form of principal-agent relationships in labor and credit markets, instead of being treated as either diffuse or exogenous.

Economic rents are ubiquitous and often required for well-functioning economies, not rare or the result of policy error.

Such a new paradigm for teaching and doing economics will produce better understanding of social outcomes. But we should recognize that it will not produce a new paradigm for economic policy. And that is as it should be.

All of our previous policy paradigms – whether mercantilist, classical liberal, Keynesian, social-democratic, ordoliberal, or neoliberal – had important blind spots because they were conceived as universal programs that could be applied everywhere and at all times. Inevitably, each paradigm's blind spots overshadowed the innovations it brought to how we think about economic governance. The result was overreach and pendular swings between excessive optimism and pessimism about government's role in the economy.

The right answer to any policy question in economics is, "It depends." We need economic analysis and evidence to fill out the details of what the desired outcome depends upon. The keywords of a truly useful economics are contingency, contextuality, and non-universality. Economics teaches us that there is a time for fiscal expansion and a time for fiscal retrenchment. There is a time when government should intervene in supply chains, and a time when it should leave markets to their own devices. Sometimes, taxes should be high; sometimes, they should be low. Trade should be freer in some areas, and regulated in others. Mapping the links between real-world circumstances and the desirability of different types of interventions is what good economics is about.

Our societies are confronted with vital challenges that require new economic approaches and significant policy experimentation. The Biden administration has launched a bold and long-overdue economic transformation. But those who are seeking a new economic paradigm should be careful what they wish for. Our goal should be not to create the next ossified orthodoxy, but to learn how to adapt our policies and institutions to changing exigencies.

"Forget the Vaccine Patent Waiver"

(Project Syndicate – May 13, 2021)

Pinelopi Koujianou Goldberg , a former World Bank Group chief economist and editor-in-chief of the American Economic Review, is Professor of Economics at Yale University.

While momentum builds behind a proposal to waive patents on COVID-19 vaccines, removing intellectual property protection would not accelerate the global immunization effort. The sooner the world recognizes that production capacity is not the problem, the better.

NEW HAVEN – – The surge of COVID-19 cases and deaths in India shows that the pandemic is far from over. While most developing countries in Asia and Africa managed to keep their death tolls low over the past year, it is only a matter of time before the new, more contagious variants that have emerged in India and elsewhere spread to countries that seemed to have their infections under control. Absent a miracle – such as a mutation that renders the virus less lethal – only universal vaccination can end this cycle of misery.

With that goal in mind, a global movement has emerged to demand a World Trade Organization waiver of patent protections for COVID-19 vaccines (as well as treatments and diagnostics). But patent protections are not the primary cause of the vaccine-supply bottleneck. If anything, a waiver might divert scarce materials from vaccine production facilities that are already up and running, not to mention discourage investments in pharmaceuticals to ward off future pandemics.

Intellectual-property protection for pharmaceuticals has a long, uncomfortable history, especially in developing countries. When the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) was signed in 1995, an overwhelming majority of economists – including those strongly in favor of free trade – condemned it. They objected to an agreement that obliges all WTO member states to recognize and enforce patents in all fields of technology, including pharmaceuticals. While the case for general patent protection has a strong foundation in economic principles, there is no rationale for harmonizing patent protection across rich and poor countries.

As I argued in 2010, the pharmaceutical industry at the time was losing only a tiny sliver of its profits from patent infringements in developing countries. And worse, IP enforcement could result in lost or delayed access to life-saving medicines in countries that would no longer be able to produce or import generic versions of patented drugs.

Against this historical backdrop, the demand for a COVID-19 patent waiver is understandable. The problem is that the underlying issues have changed fundamentally. As a recent World Bank working paper by Ruchir Agarwal and Tristan Reed finds, "production capacity for vaccines does not appear to be the binding constraint" in global procurement.

After all, there are now at least ten COVID-19 vaccines with a demonstrated efficacy above 50% (the threshold set by the US Federal Drug Administration in its June 30, 2020, "guidance for industry"). Though efficacy varies across vaccines and variants tested, all of the vaccines being administered provide significant protection against hospitalization and death. Moreover, the ten companies producing them have production targets for 2021 that would be sufficient to vaccinate 93% of the world population.

What's the issue, then? According to Agarwal and Reed, it is that companies are reluctant to activate their existing production capacity without pre-purchase commitments. There is currently a large gap between the number of doses that could be produced and the number that have been pre-ordered. And, as one would expect, this gap is unevenly distributed. High-income countries have ordered more doses than they need and thus will end up with a surplus, whereas lower-income countries are far behind in pre-purchasing vaccines.

Under these circumstances, efforts to increase capacity by relaxing patent protections would do nothing to accelerate vaccinations in lower-income countries. A far more promising strategy is to help lower-income countries purchase vaccines, while channeling surplus doses from richer countries to wherever they are needed most.

To a large extent, this strategy is already being implemented, thanks to the efforts of the COVAX Advanced Market Commitment facility, together with concessional loans by multilateral institutions such as the World Bank, and regional initiatives such as the one being led by the African Union. Remarkably, Agarwal and Reed show that the COVAX AMC facility and the AU initiative already have ensured that most African countries have ordered enough vaccines to cover at least 50% of their populations.

Still, three critical challenges remain. First, closing the pre-purchase gap of 350 million vaccines will requires an additional $4 billion – a trivial cost relative to the potential benefit of achieving worldwide immunity. Providing this support, either through additional funding for the COVAX AMC facility or by sending surplus vaccines to developing countries as soon as possible, should not be too difficult or costly for high-income countries to manage.

Second, the World Bank needs to relax its conditions for extending loans for vaccine pre-purchases. Currently, such loans can be used only for vaccines approved by three stringent regulatory authorities (SRAs) in three different regions. Among these are Japan and certain Western countries, which naturally prioritize approval of vaccines intended for their own populations. They have little incentive to grant emergency-use authorization to alternative vaccines that have shown high efficacy in Phase 3 clinical trials, such as Bharat Biotech's Covaxin (India), and Gamaleya's Sputnik V (Russia), and Sinovac Biotech's CoronaVac (China). Extending the list of national regulators classified as SRAs would go a long way toward increasing lending for vaccine purchases.

Finally, existing vaccine manufacturers will be unable to meet their production targets if vaccine nationalism gives rise to export restrictions on critical inputs and raw materials. We saw such behavior early in the pandemic with respect to personal protective equipment, but the resulting export restrictions proved short-lived. One hopes the same will be true for vaccines. International cooperation and coordination will be crucial in the coming months.

There are many ways for advanced economies to assist poorer countries in vaccinating their populations as soon as possible. But relaxing patent protections – however appealing the idea may be in other contexts – is not one of them. The focus should be on providing additional funding and less restrictive lending for pre-ordering vaccines, and on funneling surpluses from high-income countries to the rest of the world.

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