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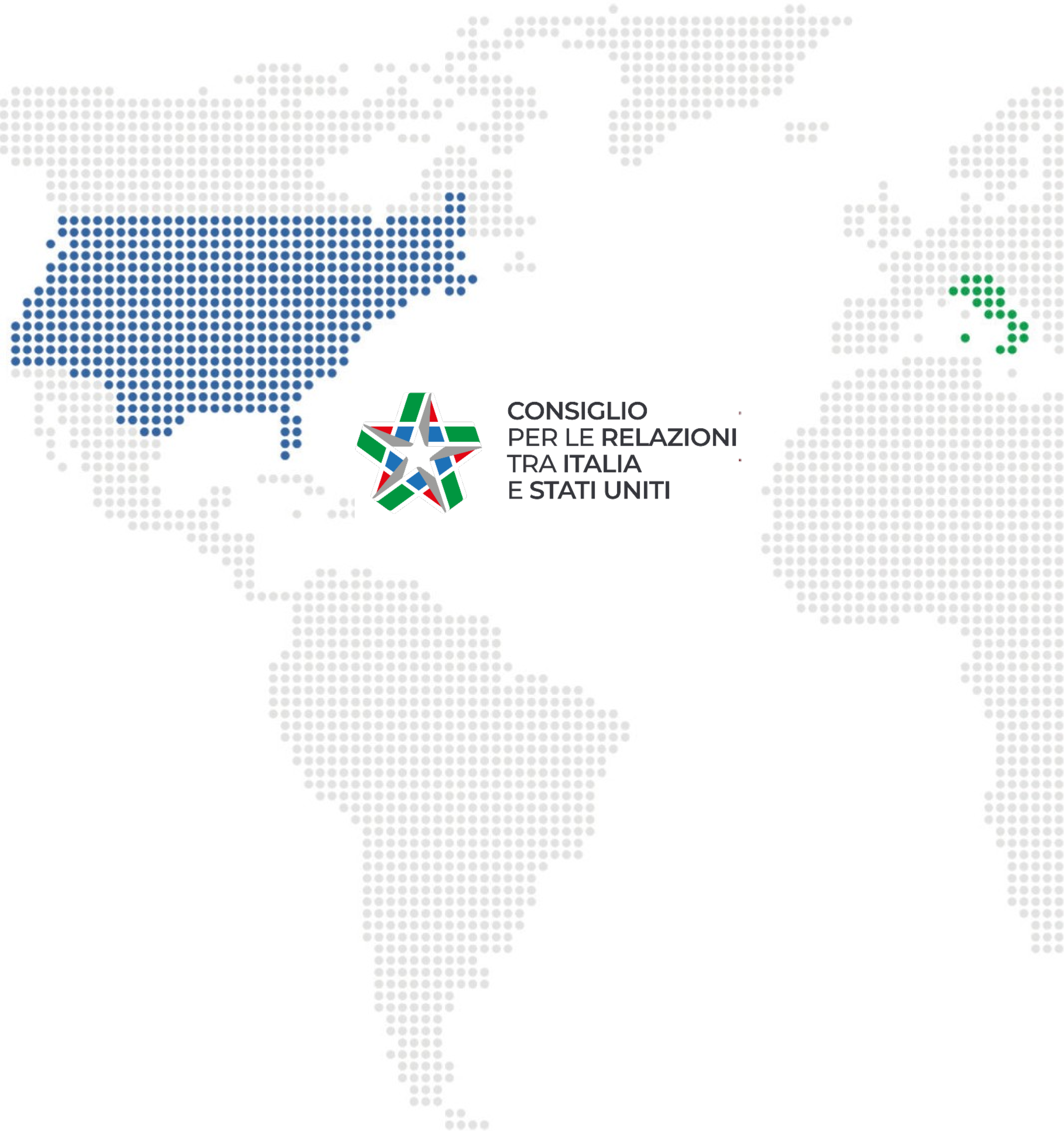

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"European and African Leaders Call for a New Deal for Africa"

(Project Syndicate – May 27, 2021)

   

Emmanuel Macron is President of France.
Paul Kagame is President of Rwanda.
Cyril Ramaphosa is President of South Africa.
Macky Sall is President of Senegal.

In one year, the pandemic has halted a quarter-century of steady economic growth in Africa, disrupted value chains, and caused an unprecedented increase in inequality and poverty. As a result, the entire world is at risk, because the global economy could lose one of its future drivers of growth.

PARIS – The COVID-19 pandemic has taught us that we can no longer treat seemingly faraway crises as distant problems. What happens anywhere can affect people everywhere. That is why addressing the impact and legacy of the pandemic in Africa is so important.

Although Africa has suffered fewer COVID-19 cases and deaths than other areas of the world, the pandemic's impact on the continent could be more sustained, deep-rooted, and destabilizing for the entire planet. In one year, the pandemic has halted a quarter-century of steady economic growth, disrupted value chains, and caused an unprecedented increase in inequality and poverty.

But it is not only Africa that is at risk of losing its opportunity to emerge fully from COVID-19. The global economy could lose one of its future drivers of growth.

Africa has everything required to overcome the pandemic crisis and lead the world toward a new cycle of sustainable growth: enterprising and innovative young people, natural resources which can supply a local industrial base, and a highly ambitious continental integration project. But Africa does not have the instruments to recover from a crisis as huge as it was unexpected.

While the International Monetary Fund estimates that African countries will need $285 billion in additional financing by 2025, there is no recovery plan or mechanism in place to secure these resources. While other regions are now seeing signs of rapid economic recovery, Africa's inability to combat the pandemic with the same leverages could fuel an economic and social crisis that denies its young people the opportunities they need and deserve.

International solidarity began yielding results soon after the pandemic began. Debt-service payments for the poorest countries were suspended under the G20, and exceptional financial assistance from the IMF, the World Bank, and other donors, including Europe, was made available.

But the institutions that have underpinned international solidarity for decades are now reaching their limits. They have been weakened in the short term by huge inequalities in vaccine access. They are weakened, too, by major economic divergences, which no emergency measure seems capable of stopping.

That is why a new framework, an ambitious and bold New Deal, is needed. And the first test of this initiative must be access to COVID-19 vaccines. Through COVAX, the vaccine pillar of the international community's Access to COVID-19 Tools (ACT) Accelerator, and the African Vaccine Acquisition Task Team, hundreds of millions of doses will be delivered to Africa in the months ahead. Pre-ordered doses of vaccines are being shared via multilateral channels, with protection of health-care workers the top priority.

But it is not sufficient. Vaccination is the world's most important economic policy at this moment: its benefits are measured in trillions, its cost in billions. It is the highest-yielding investment in the short term. We must therefore mobilize innovative financial instruments to increase funding for the ACT Accelerator, in order to reach Africa's vaccination coverage target, set at 60-70% by the Africa Centres for Disease Control and Prevention. We call on the IMF to recognize the use of special drawing rights (SDRs, the Fund's unit of account) to finance this effort.

Moreover, as the Rome Declaration of the Global Health Summit held on May 21 affirms, the key to combating future pandemics is transferring not only licenses but also expertise to developing country vaccine producers. Pending the conclusion of an agreement on intellectual property currently under negotiation at the World Trade

Organization, Africa must be able to produce vaccines using messenger RNA (mRNA) technology and break a deal, within the WTO, on the Trade-Related Aspects of Intellectual Property Rights (TRIPS) regime. With the impetus of the Paris summit for African, European, and financial leaders, held on May 18, such production partnerships will be financed and move ahead in the coming months.

The second component of a New Deal for Africa is large-scale investment in health, education, and the fight against climate change. We must allow Africa to ring-fence this spending from outlays for security and infrastructure investment, preventing the continent from falling into a new cycle of excessive debt. In the short term, despite certain African countries' spectacular success at tapping international capital markets, private creditors will not provide the necessary financial resources.

Africa needs a positive confidence shock. The Paris summit has enabled us to consolidate an agreement on a new $650 billion allocation of SDRs, $33 billion of which will go to African countries. Now we want to go even further with two voluntary commitments.

First, we need a commitment by other countries to mobilize part of their SDR allocations for Africa. As a first step, this re-channeling of resources would enable an initial threshold of $100 billion to be freed up for Africa (and vulnerable countries elsewhere).

Second, African institutions must be involved in the use of these SDRs to support the continent's recovery and progress toward achieving the 2030 Sustainable Development Goals. This, in turn, may pave the way for an overhaul of our international financial architecture that gives greater weight to African institutions.

We call on all members of the international community to make this double commitment.

Finally, we must focus on Africa's main asset: its entrepreneurial dynamism. The continent's very small, small, and medium-size enterprises are the lifeline to the future for African women and young people, but the private sector is hostage to informality and under-financing. This is why we must focus on improving African entrepreneurs' access to financing by targeting their projects' most crucial phases, particularly start-up.

The goal of the Paris summit was to gain agreement on four goals: universal access to COVID-19 vaccines, including via production in Africa; strengthening pan-African institutions' positions and roles within a new international financial architecture; relaunching public and private investment; and supporting large-scale financing of the African private sector. Our task in the months ahead will be to advance these goals in international fora and as part of France's upcoming six-month term as president of the Council of the European Union.

This commentary is also signed by António Costa, Prime Minister of Portugal; Pedro Sánchez Pérez-Castejón, Prime Minister of Spain; Alexander De Croo, Prime Minister of Belgium; Charles Michel, President of the European Council; Ursula von der Leyen, President of the European Commission; Mohammed bin Salman, Crown Prince of Saudi Arabia; Mohammed bin Zayed, Crown Prince of the Emirate of Abu Dhabi; Félix Antoine Tshisekedi Tshilombo, President of the Democratic Republic of the Congo and Chair of the African Union; Faure Gnassingbé, President of Togo; Alassane Ouattara, President of Ivory Coast; Abdel Fattah el-Sisi, President of Egypt; Filipe Nyusi, President of Mozambique; Muhammadu Buhari, President of Nigeria; Roch Marc Christian Kaboré, President of Burkina Faso; Azali Assoumani, President of the Comoros; Nana Akufo-Addo, President of Ghana; João Lourenço, President of Angola; Sahle-Work Zewde, President of Ethiopia; Mohamed Ould el Ghazouani, President of Mauritania; Kaïs Saïed, President of Tunisia; Bah N'Daw, Former President of Mali; Mohamed Bazoum, President of Niger; Albert Pahimi Padacke, Prime Minister of Chad; Abdalla Hamdok, Prime Minister of Sudan; Denis Sassou Nguesso, President of the Republic of the Congo; Patrice Talon, President of Benin; Paul Biya, President of Cameroon; and Moussa Faki, Chair of the African Union Commission.

"LEADERS AND LAGGARDS IN THE POST-PANDEMIC RECOVERY"
(Project Syndicate – May 24, 2021)

Nouriel Roubini, Chairman of Roubini Macro Associates, is a former senior economist for international affairs in the White House's Council of Economic Advisers during the Clinton Administration. He has worked for the International Monetary Fund, the US Federal Reserve, and the World Bank, and was Professor of Economics at New York University's Stern School of Business. His website is NourielRoubini.com, and he is the host of NourielToday.com.

While some major economies are recovering fast from the pandemic-induced recession, others are languishing, and still others remain in a state of acute crisis. The extent to which these global inequalities persist will depend on a range of factors, and will have profound implications for social, political, and geopolitical stability.

NEW YORK – After the most severe global recession in decades, private and official forecasters are increasingly optimistic that world output will recover strongly this year and thereafter. But the coming expansion will be unevenly distributed, both across and within economies. Whether the recovery is V-shaped (a strong return to above-potential growth), U-shaped (a more anaemic version of the V), or W-shaped (a double-dip recession) will depend on several factors across different economies and regions.

With the coronavirus still running rampant in many countries, one key question is whether the emergence of virulent new strains will trigger repeated stop-and-go cycles, as we've seen in some cases where economies re-opened too soon. One particularly ominous possibility is that more vaccine-resistant variants appear, heightening the urgency of vaccination efforts that have so far been too slow in many regions.

Beyond the virus, there are a number of related economic risks to consider. A recovery that is slow or insufficiently robust could result in permanent scarring if too many firms go bust and labor markets start exhibiting hysteresis (when long-term unemployment renders workers unemployable owing to an erosion of skills). Another question is how much deleveraging there will be among highly indebted firms (small and large) and households, and whether this effect will be fully offset by the release of pent-up demand as consumers spend down pandemic-era savings.

Another area of concern is socio-political: will rising inequality become an even more salient source of instability and depressed aggregate demand? Much will depend on the scale, scope, and inclusiveness of policies to support the income and spending of those left behind. Likewise, it remains to be seen if the macro-policy stimulus (monetary, credit, and fiscal) implemented so far will be sufficient, insufficient, or actually excessive, leading to sharply rising inflation and inflation expectations in some cases.

Keeping all of these uncertainties in mind, the recovery currently looks like it will be stronger in the United States, China, and the Asian emerging markets that are part of Chinese global supply chains. In the US, a decline in new infections, high vaccination rates, increased consumer and business confidence, and the far-reaching effects of fiscal and monetary expansion will drive a robust recovery this year.

Here, the main risk is overheating. The recent increase in inflation could turn out to be more persistent than the US Federal Reserve expected, and today's frothy financial markets could undergo a correction, thereby weakening confidence.

In China and the economies closely linked to it, the recovery owes much of its strength to the authorities' success in containing the virus early, and to the effects of macro stimulus, all of which allowed for a rapid re-opening and restoration of business confidence. But high levels of debt and leverage in some parts of the Chinese private and public sectors will pose risks as China tries to maintain stronger growth while reining in excessive credit. More broadly, the prospect of an escalating rivalry – a colder war – between the US and China will threaten Chinese and global growth, particularly if it leads to a fuller economic decoupling and renewed protectionism.

Europe is worse off, having suffered a double-dip recession in the last quarter of 2020 and the first quarter of 2021, owing to a new wave of infections and lockdowns. Its recovery will remain weak through the second quarter, but growth could accelerate in the second half of the year if vaccination rates continue to rise and macro policy remains accommodative. But phasing out furlough schemes and various credit guarantees too early could cause more permanent scarring and hysteresis.

Moreover, without long-needed structural reforms, parts of the eurozone will continue to register low potential growth and high public debt ratios. As long as the European Central Bank keeps buying assets, sovereign spreads (namely, the difference between German and Italian bond yields) may remain low. But monetary support eventually will need to be phased out, and deficits will need to be reduced. And the specter of populist Euroskeptic parties looking to exploit the crisis will constantly loom.

Japan, too, has had a much slower restart. Following a lockdown to control a new wave of infections, it experienced negative growth in the first quarter of this year and is now struggling to keep the summer Olympic Games in Tokyo on track. Japan, too, is in desperate need of structural reforms to increase potential growth and allow for an eventual fiscal consolidation. And its massive public debt may eventually become unsustainable, notwithstanding persistent monetization by the Bank of Japan.

Finally, the outlook is more fragile for many emerging and developing economies, where high population density, weaker health-care systems, and lower vaccination rates will continue to allow the virus to spread. In many of these countries, business and consumer sentiment is depressed; incomes from tourism and remittances have dried up; debt ratios are already high and possibly unsustainable; and financial conditions are tight, owing to higher borrowing costs and weaker currencies. Moreover, there is only limited space for policy easing, and in some cases policy credibility could be undermined by populist politics.

Among the more troubled economies to watch are India, Russia, Turkey, Brazil, South Africa, many parts of Sub-Saharan Africa, and the more fragile, oil-importing parts of the Middle East. Many countries are experiencing a depression, not a recession. More than 200 million people are at risk of falling back into extreme poverty. Compounding these inequities, the countries that are most vulnerable to hunger and disease also tend to face the greatest threat from climate change, and thus will remain potential sources of instability.

While overall confidence is recovering, some financial markets are irrationally exuberant, and there is much underlying risk and uncertainty. The COVID-19 crisis likely will lead to an increase in inequality within and across countries. The more that vulnerable cohorts are left behind, the greater the risk of social, political, and geopolitical instability in the future.

"The Ghost of Arthur Burns"
(Project Syndicate – May 25, 2021)

Stephen S. Roach, a faculty member at Yale University and former chairman of Morgan Stanley Asia, is the author of Unbalanced: The Codependency of America and China.

The US Federal Reserve is insisting that recent increases in the price of food, construction materials, used cars, personal health products, gasoline, and appliances reflect transitory factors that will quickly fade with post-pandemic normalization. But what if they are a harbinger, not a "noisy" deviation?

NEW HAVEN – Memories can be tricky. I have long been haunted by the inflation of the 1970s. Fifty years ago, when I had just started my career as a professional economist at the Federal Reserve, I was witness to the birth of the Great Inflation as a Fed insider. That left me with the recurring nightmares of a financial post-traumatic stress disorder. The bad dreams are back.

They center on the Fed's legendary chairman at the time, Arthur F. Burns, who brought a unique perspective to the US central bank as an expert on the business cycle. In 1946, he co-authored the definitive treatise on the seemingly rhythmic ups and downs of the US economy back to the mid-nineteenth century. Working for him was intimidating, especially for someone in my position. I had been tasked with formal weekly briefings on the very subjects Burns knew best. He used that knowledge to poke holes in staff presentations. I found quickly that you couldn't tell him anything.

Yet Burns, who ruled the Fed with an iron fist, lacked an analytical framework to assess the interplay between the real economy and inflation, and how that relationship was connected to monetary policy. As a data junkie, he was prone to segment the problems he faced as a policymaker, especially the emergence of what would soon become the Great Inflation. Like business cycles, he believed price trends were heavily influenced by idiosyncratic, or exogenous, factors – "noise" that had nothing to do with monetary policy.

This was a blunder of epic proportions. When US oil prices quadrupled following the OPEC oil embargo in the aftermath of the 1973 Yom Kippur War, Burns argued that, since this had nothing to do with monetary policy, the Fed should exclude oil and energy-related products (such as home heating oil and electricity) from the consumer price index. The staff protested, arguing that it made no sense to ignore such important items, especially because they had a weight of over 11% in the CPI. Burns was adamant: If we on the staff wouldn't perform the calculation, he would have it done by "someone in New York" – an allusion to his prior affiliations at Columbia University and the National Bureau of Economic Research.

Then came surging food prices, which Burns surmised in 1973 were traceable to unusual weather – specifically, an El Niño event that had decimated Peruvian anchovies in 1972. He insisted that this was the source of rising fertilizer and feedstock prices, in turn driving up beef, poultry, and pork prices. Like good soldiers, we gulped and followed his order to take food – which had a weight of 25% – out of the CPI.

We didn't know it at the time, but we had just created the first version of what is now fondly known as the core inflation rate – that purified portion of the CPI that purportedly is free of the volatile "special factors" of food and energy, where gyrations were traceable to distant wars and weather. Burns was pleased. Monetary policy needed to focus on more stable underlying inflation trends, he argued, and we had provided him with the perfect tool to sharpen his focus.

It was a fair point – to a point; unfortunately, Burns didn't stop there. Over the next few years, he periodically uncovered similar idiosyncratic developments affecting the prices of mobile homes, used cars, children's toys, even women's jewelry (gold mania, he dubbed it); he also raised questions about homeownership costs, which accounted for another 16% of the CPI. Take them all out, he insisted!

By the time Burns was done, only about 35% of the CPI was left – and it was rising at a double-digit rate! Only at that point, in 1975, did Burns concede – far too late – that the United States had an inflation problem. The painful lesson: ignore so-called transitory factors at great peril.

Fast-forward to today. Evoking an eerie sense of déjà vu, the Fed is insisting that recent increases in the prices of food, construction materials, used cars, personal health products, gasoline, car rentals, and appliances reflect transitory factors that will quickly fade with post-pandemic normalization. Scattered labor shortages and surging home prices are supposedly also transitory. Sound familiar?

There are many more lessons from the 1970s that shed light on today's cavalier dismissal of inflation risk. When the Fed finally tried to tackle the Great Inflation, it fixated on unit labor costs – rising wages accompanied by sagging productivity. While there are always good reasons to worry about productivity, wages appear to be largely in check; unionized labor, which, in the 1970s had sparked a vicious wage-price spiral through cost-of-living indexation, has been neutralized by global competition. But that doesn't rule out a very different form of global cost-push inflation – namely, the confluence of supply-chain congestion (think semiconductors) and protectionist clamoring to reshore production.

But the biggest parallel may be another policy blunder. The Fed poured fuel on the Great Inflation by allowing real interest rates to plunge into negative territory in the 1970s. Today, the federal funds rate is currently more than 2.5 percentage points below the inflation rate. Now, add open-ended quantitative easing – some $120 billion per month injected into frothy financial markets – and the largest fiscal stimulus in post-World War II history. All of this is occurring precisely when a post-pandemic boom is absorbing slack capacity at an unprecedented rate. This policy gambit is in a league of its own.

For my money, today's Fed waxes far too confidently about well-anchored inflation expectations. It also preaches the new gospel of "average inflation targeting," convinced that it can condone above-target inflation for an unspecified period to compensate for years of coming in below target. My students would love to throw out their worst grade(s) as well!

No, this isn't the 1970s, but there are haunting similarities that bear watching. Timothy Leary, one of the more memorable gurus of the Age of Aquarius, purportedly said, "If you remember the 1960s, you weren't there." That doesn't apply to the 1970s. Sleepless nights and vivid flashbacks, complete with visions of a pipe-smoking Burns – it's almost like being there again, but without the great music.

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