

## PIERRE JACQUET

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Now, Pierre, as a development economist maybe you could try to summarize where we are going, from what we have experienced this year and the last one. What structural trends do you see? Again, you head up a network of economists globally, so you have a global view, can you share that with us?

### **Pierre Jacquet**

Thank you, Lionel and let me also start by thanking Thierry and the WPC team for having me here and also organizing this miracle. It is also for me the first time I have taken part in an in-person meeting in the last two years, so it is quite moving.

Lionel, you asked me to reflect on the structural implications of Covid-19 and I would like to make five points. First, I think the pandemic has exposed a growing social unease towards complexity and uncertainty. By that I mean, from the reaction we observed from our publics, people don't know how to behave under uncertainty and want to know what will happen, so that we are always in a sort of illusion of determinism. Even more, they expect governments to solve that uncertainty for them and if the governments say something and then change their minds in the light of new information in the space of a week or two, then they are strongly criticized for their inability to take decisions that conform with the evolution. Therefore, one loses one major aspect of policy which is precisely to manage uncertainty and react to shocks. This is not what the public expects. I think this tension is at the core of some of the political difficulties we observed during the crisis. I am reminded of a book called *Stumbling on Happiness*, written several years ago by Harvard psychologist Daniel Gilbert, in which he related happiness to the lack of uncertainty about the future. I think that the pandemic has been a powerful illustration of how uncertainty creates unhappiness. Yet, the pandemic is one of these unexpected unknown shocks and there will likely be more of them. We need to teach our publics that uncertainty is a part of life, and they need to learn how to think about and manage risk.

The second point I would like to mention is that we have had very encouraging policy and technology reactions. The reason we are here is precisely because in the face of this terrible pandemic there were policy and technical solutions to help manage the shocks. And, instead of looking at these reactions with satisfaction, we now focus on the problems created by these solutions, forgetting that any solution to ongoing challenges do not create a perfect world and replace existing problems by new problems. We are now talking about inflation and public

debt, both in developed countries and in developing ones, where the external dimension of debt is the bigger issue. Well, this may be a point of attention, but I do prefer debt to death, so I believe governments were right to do what they did. It was an appropriate policy decision in the face of pre-existing rules that in principle would have prevented us from doing so, especially in Europe. That decision now leads us to lament about the problems it created. We constantly have to deal with problems we have created, so instead of lamenting, let us deal with the current debt and inflation problem.

Starting with inflation, I completely agree with my neighbor about that. We just do not know if it will be transitory or permanent. We can monitor it in-depth and there are indicators to do so, and the most relevant ones may be what is called “trimmed inflation”, where you take extreme price movements out of the figure. This is because we know that these extreme price movements are related to a surge of growth after a big decline during the pandemic and to supply barriers and constraints that may be transitory. If we look at trimmed inflation, we get a picture that is not that worrying. It requires monitoring and we can accommodate some more inflation. There is nothing in economics that tells us that 2% is better than 3%; what the economics teaches us is that if one goes from 2% to 3% and then from 3% to 4% and from 4% to 6%, then one may have an inflation spiral that can be difficult to tame and is problematic. However, the level of inflation itself is not the problem. I believe the issue requires attention, central banks are monitoring it on a daily basis, and a number of people taking part in the debate also contribute to that monitoring. To summarize, I would not present inflation as our major problem today. There are more pressing issues related to inequalities and to the transition to a greener economy.

Debt is a different subject because debt mixes moral arguments with economic arguments. Increases in debt generally lead to reactions from a moral standpoint: debt is bad. Before turning to the recent and sharp increase in public debt ratios, let me mention two related constants about debt that I think we should be conscious of: one is the moral dominance of appreciations about it; and the second is the ongoing inequity between debtors and creditors. Debtors are always wrong because they took debt, and when there are debt problems, they are expected to bear the brunt. But for debt to exist, there needs to be creditors. When there is excess debt, why should it be the fault of the debtor, and not also the responsibility of creditors who lent too much?

On the more specific issue of public debt, one way to look at it is to replace it in the context of the savings/investment balance and of inequality. Debt is financed by selling debt titles to savers who buy them. What would these savers, generally rich people, do if there were no public debt instruments to invest in? In the current context, they would invest even more in more speculative titles, including real estate, and this creates problems of potential speculative bubbles and price increases that make access to housing more difficult. Public debt can therefore be seen as a way to solve or at least address the situation of excess saving we are in, by mobilizing and redirecting these savings towards expenses that should be economically and socially more useful and productive. There are structural reasons for excess savings. One is demography, another one is inequality. With inequality, there is a bigger gap between rich and poor people and rich people tend to save more, which leads to excess savings. In an environment where productive private investment opportunities are lacking, or where investors are not aware of them, need to discover them, or find that the

existing one do not produce the expected return that they want, these excess savings feed speculation. Public debt is one way to redirect these excess savings from speculation to spending that can make sense. Therefore, the big issue about debt is not its level, it is the quality of public spending.

That leads me to the third point. The problem is that we do not really know how to properly assess the quality of public spending, it is a judgmental question, and given the difficulty, we try to substitute judgment with quantitative rules. What Covid-19 has shown (but it was already apparent well before the pandemic) is that these quantitative rules do not work because they are not adapted to crisis situations. In a way, we need to find something better than arbitrary criteria to monitor debt, that again, mean nothing from an economic point of view. They are a sort of management reaction: to avoid making mistakes, let us put a ceiling on debt. This is not well suited to a situation of recurring shocks. We need a better approach to manage public debt, and if it has to be governed by rules, then let us think harder about the kind of rules that might be useful to help us manage these ongoing problems more successfully and that would make more economic sense. Again, the real issue is the nature of public spending. Besides, the actual level of the public debt – basically 18 months of GDP in a country like France – is not really a source of worry.

Fourth, I think that Covid-19 has exposed a problem with our collective values in market economies. Lionel, you mentioned something that struck me as very important. You said that in times of war and of crisis like this one, we rediscover that whom you called ordinary people do play a big role in society. Yes, indeed, but this big role is not correctly recognized by current market values as reflected in the respective wages. This is one aspect of the crisis of capitalism. The other dimensions of course relate to the environment, biodiversity, and climate. These are not well-recognized by the market system. I tend to insist on values more than on government responsibilities, because I believe that what governments can do at any point in time reflects the underlying system of values and is constrained by it: for government policies to help, we need collective values to evolve. There are encouraging signs that it may have started to happen, notably thanks to the mobilization of youth. Such a transformation, however, will only take place over the long term, which makes it even more necessary that it is sustained.

Finally, I would like to comment on the debate globalization vs. deglobalization. Many reacted to the pandemic by portraying it as, partly, a negative consequence of globalization, since it fosters cross-country transmission. And yet, the global response to the pandemic, through scientific research and the faster-than-expected introduction of effective vaccines, comes out as one of globalization's invaluable benefits. We should not underestimate the virtue of scientific and technical cooperation across countries and that cooperation continued throughout the pandemic. We have with Covid-19 an example of what Masood Ahmed described in the first session of the WPC, this tension between very powerful forces of globalization – and indeed, the digital economy is one of them and global public good is another very powerful globalization necessity – and mainly politically driven attempts at deglobalization. We cannot solve these questions through narrow national perspectives, as we need a global response to climate change, protecting biodiversity, security issues and to the movement of persons, which is indeed the weak frontier of this open economic world we want to create. I believe globalization is here to stay, and the debate is more on how to



manage it. This is a deeply political challenge, which involves what used to be called “high politics”, on which the post-War institutional system was agreed on and shaped. High politics requires shared global values, and the ones that underpinned the global post-WWII order, do not provide any cement any longer. There are many reasons from that, from technology to the end of the Cold War to the problems created by China’s emergence to name but a few. More than a crisis of globalization, I believe we have a crisis in the governance of globalization. An important aspect of it is in fact domestically anchored, and related to the decline in the perceived legitimacy of liberal democracy as an organizing principle. This is worrying because the need to find ways or a path towards a higher political debate about shared values in the world to anchor the future governance of globalization, also requires to find shared values within countries and this seems to have become a political issue in many industrial societies.

Those are some of the structural trends, some of which produced by Covid, other revealed by Covid and some pre-existing it. I think that they will characterize certainly many of the political debates to come in the future. Braudel was quoted this morning mentioning that capitalism needed a patron. I do think personally that economics needs politics and that without a political framework, markets do not function properly nor effectively, and I believe in the virtues of markets as coordinating mechanisms. For me, the opposition between markets and politics is wrongheaded.

Thank you.

**Lionel Zinsou**

Thank you very much, Pierre, for such a clear summary.