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President of the Global Development Network, Professor at the *École nationale des ponts et chaussées*

Jean-Claude Trichet, Vice Chairman of the Académie des sciences morales et politiques, former Chairman of the European Central Bank, Honorary Governor of the Bank of France

I turn to Pierre Jacquet, President of the Global Development Network. Are you still in New Delhi, Pierre?

Pierre Jacquet

No, I am now working from Paris, but still with GDN.

Jean-Claude Trichet

You are still in the Global Development Network, and you are also a Professor at the ponts et chaussées. You have the floor.

Pierre Jacquet

Thank you very much. I tend to agree with all the analyses of risks that have been made so far around the table. To be provocative, I would maybe question whether we are focusing on the right risks but before turning to that, let me start with inflation. I am not critical of what the central banks have been doing, I think they have acted quite wisely and shown a quite laudable restraint. The difficulty is that we have not really seen real wage inflation so far, we do not have any wage-price spiral. There has been a very strong increase in the prices of food and energy in Europe, so there is a risk of an inflationary spiral, but it is so far only a risk that, given their reactions, I think that we can be quite confident that central banks will be able to manage that risk. However, monetary policy is not the ideal instrument for that, we have a supply shock, and we are reacting to that by restricting demand, which can be quite costly for the economy. We need to keep in mind that we are in a bind there. If we want to avoid inflation, we are using an instrument that is not exactly the one we should have in our toolbox to address the supply shock issue. My unease is compounded by the fact that I have not heard any convincing argument about the costs of inflation. We all know there are costs, but it is hard to find a very convincing analysis of these costs. For me, the costs of inflation are concentrated on the poorest segment of the population, which is certainly a big concern. However, beyond that, are these costs high enough to forget about all other risks that are there?

This is what leads me to question the risks we have been focusing on: for me, the major risks today are not financial, they are political, they are in the fabric of society, in the demand from various groups, not only the populists, to question what the economy is about. An increasing

number of people think that the economy is about enriching the rich; I put it bluntly just to be provocative. For me, it has become quite urgent to address that concern, so again, I am not at all saying we should accept inflation; no, I very much agree with what has been done on that front. But when we reflect on the future and share our concerns, the main concern for me is not inflation, because it is under control right now. It may remain a risk so we should pay attention to it, but we talk about it too much. For me, the main concern is in the fabric of our societies, and I would just like to put that on the table for our discussion.

The second and last point I want to make is about the current crises. I would agree that we are facing a very extreme moment of convergence of several unique crises, but I would like to point out that capitalism is about crises and there are two dimensions to them, one positive and one negative. The positive one is that they help us to find the actual value of things over time: we have bubbles in the stock market and when they explode, the true value is revealed. That is fine because the only way to reveal the value is to have overinvestment in a stock and then discover that it will not be the activity of the future and therefore the price collapses. Unfortunately, this often comes with a speculative component that derails and leads to broad exposure beyond private risk. What I would like to emphasize is that speculative crises are not new. What is new, in each crises, is that it has specific short-term causes that will differ from the previous one. What strikes me is the continuity of the profound reasons for crises, which are very basic: they result from periods of overinvestment followed by periods of excessive disillusion. Kindleberger and Minsky, notably, wrote on it in the 20th century. But even in the 19th, Clément Juglar wrote extraordinary passages in his famous 1862 study of business cycles on this characteristic of human behavior. While it always makes sense to analyze the proximate causes of any crisis, the succession of speculative crisis will continue as long as we are unable to deal with that constant in human behavior.

The current situation brings back the debate about the respective roles of markets and governments. I like a lot what was said by earlier speakers about regulation and the loop between regulation and innovation. We regulate, which creates an incentive to innovate and get around the regulations and then regulations become obsolete, and ineffective, we have a crisis, we need to re-regulate and it goes on. It means that maybe when we think about regulation, we should try to think more the dynamic evolution of regulations in the face of ongoing risks. We tend to think about regulation in more discrete ways, and to believe that any new regulation has addressed the flaws of the previous ones: yes, but not emerging new risks.

As a believer in markets, I strongly believe we need governments to help them work properly and right now we have a problem of regulation and valuation. Part of the social risk I mentioned is due to the poor valuation of labor and I think that the pandemic revealed that a number of low-paid jobs have a social value that is way higher than the wages. That is something that is starting to be mentioned in the debate, not only by populists, and for me, these flaws in valuation are a source of concern that should rank higher than current inflation. Let us not forget the deeper risks that are there, which are in the social realm.

**Jean-Claude Trichet**

Thank you very much indeed. You were very provocative I have to say and that will certainly trigger a number of questions and I reserve the right to comment but not now. Thank you very much, Pierre.