

Development Under Adversity: The Global Challenge

Joseph Stiglitz

Palestine Economic Policy Research Institute

November 17 2021

Three major challenges and changes

- Changes in the global economic landscape
- Changes in geopolitics
- Changes in ideologies and thinking

I. Four key changes in economic structure

- The move from manufacturing to a service sector economy
- Robotization and other advances in technology
- The Green transition
- The move away from globalization

Some implications for developing countries

1. Manufacturing export-led growth model won't play the role that it did for East Asia

Global employment in manufacturing declining

Advantages of cheap labor decreasing

Will need to look for other models

Won't be as simple

Some implications for resource-dependent developing countries

- High likelihood that demand for fossil fuels will decline enormously and with that, so will prices
 - Obvious implication of net carbon neutrality
 - But also: huge R & D for renewables will make fossil fuels less competitive
- Critical for Middle East and other oil/gas dependent countries to create alternative model
 - Some are beginning—but will it happen fasten enough
 - In ways that generate not only foreign exchange, but jobs
 - If that doesn't happen, what will be the political consequences

Critical role of education

- One big advantage of new technologies is that location matters less
- To keep competitive, rapid changes in technology require high level of adaptability—requiring in turn an educated labor force

The move away from globalization

- Evident in “Trumpism”
- But note: Biden Administration has not reversed many policies
 - Still no WTO appellate judges
 - Trump tariffs are still largely in place
 - No discussion of new trade agreements
 - No discussion of globalization
- Covid-19 and climate change have highlighted role of global cooperation
 - But world showed ugly side—vaccine nationalism
 - But still opposition to vaccine IPR waiver, lack of supply of vaccines to developing countries
 - Lack of resilience of global supply chains causing a rethinking of globalization

Mixed consequences

- More scope for countries to pursue their own policies
- Less focus on global economic agenda may mean less assistance, even less interest in other countries
 - Budget constraints will restrain assistance
 - China has shown itself to be a “harsh” lender
 - Russia appears more interested in disruption than in promoting development
 - Fear of migration pressures likely to be stronger motivator than “ideological” or “power” battles

II. The new geopolitics

- Likely to be dominated by new “cold war” between US and China
 - With other countries caught in crosshairs
 - And Russia playing a generally disruptive role
- Multiple ingredients
 - Rational different under Biden than Trump
 - But practice may not be that different
 - Tariffs still in place
 - Restrictions on investments
 - Broader hostility
 - Security/cyber security
 - Regional conflicts
 - Democracy/human rights

Economic competition

- China is now, in PPP, the largest country in the world
 - In some technologies, strong competitor
 - Can organize many things far more effectively than US (like infrastructure)
 - Covid-19 showed some advantages of “surveillance” society—able to keep disease under control
- But unlikely to be real source of technological competition
- Different framework than Trump—not “zero-sum reasoning,” less “China took advantage of us”
 - Recognizes need for cooperation in global warming, health
 - Pushed US to become less dependent on China, less enthusiastic about globalization
 - Pushed US to adopt industrial policies—major change in ideology

III. Battle over ideas

- Within “West” and between “Democracies” and “authoritarian regimes”
- In some ways more nuanced and complicated than battles of the previous two centuries, in some ways less nuanced
- Mix of economic issues (self-interest) with “cultural issues”
- Free market ideology discredited even before it became fashionable under Reagan and Thatcher
 - Markets on their own are neither stable nor efficient
 - Shown by what 2008 crisis

End of neoliberalism

- Growth was lower, fruits of growth went to those at the top
 - Economies marked by increasing inequality
 - Economies marked by increasing market power, exploitation
 - Market destroying environment—climate change
- “Invisible hand is invisible because it’s not there”
- Need a better balance between market, state, and civil society
 - With a richer ecology of institutional arrangements
- We turn to government in time of crisis
- We rely on government for public investment and regulation
- But government often “fails” —need good institutions and strong democracies

Responses to Covid-19 illustrates successes and failures

- Triumph of science—discovering vaccine in record time
- Triumph of economic organization—combination of government and market—producing and delivering billions of doses
- Triumph of economic theory and policy—government intervention prevented misery and economic disaster
- Failure to produce enough doses to protect the world
 - If world can't get cooperation on something of such vital self-interest for all, where consequences are immediate, how can we expect to get cooperation on more difficult issues
- Inability of emerging markets and developing countries to take adequate actions to protect their economy
 - But some progress -- \$650 issuance of SDR's
- Inability to deal with looming debt problem

Creating 21st century progressive and pragmatic economy

- Less confident today that we know the “right” answers
 - Discovering that American institutions are more fragile, more flawed than we had realized
 - Recognizing the importance of norms of behavior
 - Recognizing the multiple ways that society creates an uneven playing field
- In large and complicated society, we will have to rely on decentralization, on markets
 - But they will have to be well-regulated
 - And there is need for competition—including from public entities (the public option)
 - Markets are not an end in themselves, but a means to an end
- A more inclusive, equitable, dynamic and sustainable society