Reimagining the *global economy:*

Building back better in a post-COVID-19 world

Global Economy and Development
at BROOKINGS

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Preface

The COVID-19 global pandemic has produced a human and economic crisis unlike any in recent memory. The global economy is experiencing its deepest recession since World War II, disrupting economic activity, travel, supply chains, and more. Governments have responded with lockdown measures and stimulus plans, but the extent of these actions has been unequal across countries. Within countries, the most vulnerable populations have been disproportionately affected, both in regard to job loss and the spread of the virus.

The implications of the crisis going forward are vast. Notwithstanding the recent announcement of vaccines, much is unknown about how the pandemic will spread in the short term and beyond, as well as what will be its lasting effects. What is clear, however, is that the time is ripe for change and policy reform. The hope is that decisionmakers can rise to the challenge in the medium term to tackle the COVID-19 virus and related challenges that the pandemic has exacerbated—be it the climate crisis, rising inequality, job insecurity, or international cooperation.

In this collection of 12 essays, leading scholars affiliated with the Global Economy and Development program at Brookings present new ideas that are forward-looking, policy-focused, and that will guide policies and shape debates in a post-COVID-19 world.

Some have questioned whether the pandemic has put attaining the already ambitious **17 Sustainable Development Goals (SDGs)** out of reach, and whether they should be scaled back and deprioritized. In Essay 1, authors argue that the SDGs remain as relevant as ever and that the goals can in fact provide a handrail for recovery policy. Recent examples from governments and the private sector show a momentum towards incorporating the world's economic, social, and environmental targets into recovery. The pandemic has revealed the importance of good leadership at the local level. In Essay 2, the authors explore the role that **global cities** can have in driving a sustainable recovery.

Given the global nature of the pandemic, there have been calls for greater international cooperation. The author in Essay 3 examines the state of **multilateralism** and presents lessons of caution as its future is reimagined. Central to global cooperation is the shared recognition of the **climate agenda**. In Essay 4, the author explores how international action can pursue a recovery that produces sustainable, inclusive, and resilient growth. The pandemic has also exposed the weaknesses in the international financial systems and the need to improve the financial safety net for emerging and developing countries. In Essay 5, the authors make the case for an **international monetary and financial system** that is fit for purpose to help countries better withstand shocks like a global pandemic.

The pandemic's impact on the global economy and the future of trade has been significant. **International trade** has slowed, and existing trade challenges, including automation, new data flows, and the rise of protectionism, could accelerate post-COVID. In Essay 6, the author discusses these challenges, the future of global supply chains, and the implications for international trade. Another trend that the pandemic could further accelerate is the fall in global **productivity**, which has been slowing since the global financial crisis. Evidence from other recent pandemics such as SARS and Ebola show their negative impact on investment growth and productivity. In Essay 7, the authors argue that policy approaches to boost productivity must be country-specific and well-targeted.

Throughout the world, the health and economic costs of the pandemic have been felt harder by less well-off populations. On the jobs front, the pandemic is affecting **labor markets** differently across and within advanced and developing countries as low-wage, high-contact jobs are disproportionally affected. In Essay 8, the authors explore the future of work and policies for formalizing and broadening labor protections to bolster resiliency. Essay 9 presents evidence as to why inequality is rising, including technology, globalization, and weakening redistribution policies in many countries. To tackle inequality, the author discusses policies to better harness technology for fostering inclusive economic growth. Yet another component disproportionately affecting the poor is **human well-being and mental health**, with evidence suggesting higher emotional costs for the poor during the pandemic. In Essay 10, the author offers a look into well-being measurement and strategies to combat the effects of the lockdowns. Ultimately, the pandemic has shown that economic growth alone is not enough to sustain societies.

From strict lockdowns to ensuring sufficient supplies of personal protective equipment to sending students home from school, governments around the world have enacted varying measures to respond to the virus. In Essay 11, the authors examine how governments in emerging markets have managed the crisis so far, as they design **governance** strategies that both reduce the spread of infection and avoid prohibiting economic activity. COVID-19 disrupted **education systems** everywhere and has accelerated education inequality as seen through what service governments could provide: At one point during the pandemic, one in four low-income countries was able to provide remote education, while nine in 10 high-income countries were able to. In Essay 12, the authors present an aspirational vision for transforming education systems to better serve all children.

While the uncertainty around the pandemic and its effect loom large and create a challenging policy environment, together, the ideas in these essays offer a way forward for decisionmakers to reimagine the global economy and build back better from COVID-19.

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1 Sustainable Development Goals: How can they be a handrail for recovery?

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The issue

COVID-19 has triggered an onslaught of bad news for global sustainable development. The deepest global recession in memory (-5.4 percent GDP per capita decline)[1] and the broadest since the 1870s (more than 90 percent of all countries in recession)[2] could imply an estimated 140 million more people will live in extreme poverty[3] and potentially 130 million people or more into acute food insecurity.[4] Broader societal disruptions have been similarly staggering: as many as 1.2 million additional children dying in six months due to health care disruptions,[5] 810 million children still out of school as of September,[6] and 400 million jobs lost.[7] These are just some of the human consequences registered amid collapses in cross-border tourism (-65 percent decline during the first half of 2020),[8] trade (around -15 percent during the first half of 2020),[9] remittances (roughly -7 percent this year),[10] and foreign investment into developing countries (as much as -45 percent).[11]

Making matters worse, despite the inherent need for global cooperation to defeat a pandemic, COVID-19 seems to have reinforced nationalism rather than internationalism. The potential withdrawal by the United States from international institutions and agreements have made headlines. Less publicized is the fact that while advanced economies will likely spend $11 trillion on their domestic responses to the crisis, the appeal to raise 0.3 percent of that amount, $35 billion, to make COVID-19 vaccines, diagnostics, and treatments available to all countries has struggled to raise a small fraction of the amount required.

Against this troubling backdrop, some analysts have started to wonder whether the Sustainable Development Goals (SDGs), the world's agreed economic, social, and environmental targets for 2030, remain relevant or not.

The ideas

The case to scale back SDG ambitions garnered increased attention following a July 2020 article in Nature[12] and a follow-up editorial.[13] The gist is that COVID-19 has made the already-challenging path to SDG success so difficult that a major prioritization and more "attainable" level of ambition is required. The argument suggests that goals and targets should be screened according to three points: (1) is this a priority, post-COVID-19; (2) is it about development not growth; and (3) is its pathway resilient to global disruptions?

Counterarguments have been made, including by us, underscoring the importance of the SDGs as a "North Star" to guide a path out of the crisis.[14] Leaders of the Sustainable Development Solutions Network have stressed that goals remain technically and financially achievable, even if current policies are falling short, and that the goals can be used to motivate "truth to power" in pointing out where changes are needed.[15]

The extent of the crisis doesn't change the underlying urgency of ending extreme poverty, halting climate change, protecting the oceans, or building inclusive societies. Quite the opposite, the world needs a common scorecard to ensure mottos like "great reset" or "build back better" have objective standards for assessing progress. The SDGs are the guiding framework that all 193 U.N. member states already agreed on in 2015, and that a wide and growing network of business, scientific, and local governments across the globe have already begun to align around. Moreover, investments towards the SDGs can serve as both a means and an end towards a post-COVID recovery. As U.N. Secretary-General António Guterres noted, "Had we been further advanced in meeting the Sustainable Development Goals and the Paris Agreement on Climate Change, we could better face this challenge."[16]

Table 1.1

Attitudes towards COVID-19 impact on the SDGs

Room/SDG	Q1	Q2	Q3	Q4	Q5	Q6
1	7.6	6.7	5.7	5.7	6.2	7.8
2	8.2	6.2	6.8	4.8	6.1	7.5
3	7.9	7.0	8.3	6.5	7.1	7.0
4	6.9	7.1	6.2	4.3	6.1	7.0
5	8.5	6.7	6.4	6.0	6.8	6.6
6	8.3	6.2	6.4	6.0	6.7	6.4
7	8.1	6.0	6.8	5.3	6.6	5.3
8	7.8	6.8	7.5	6.9	7.6	6.2
9	7.6	6.1	8.8	3.8	5.0	7.3
10	8.2	6.3	8.5	6.0	6.5	7.2
11	8.2	6.3	8.5	6.0	6.5	7.2
12	7.8	6.6	5.6	4.9	7.0	6.4
13	7.4	6.2	5.3	5.9	5.9	7.6
14	8.3	7.6	3.9	5.5	6.9	8.0
15	8.5	7.3	5.6	5.8	5.6	6.8
16	7.6	6.2	7.0	6.3	6.5	7.5
17	8.2	6.7	6.3	6.5	7.3	6.3
Average	**7.9**	**6.7**	**6.5**	**5.7**	**6.5**	**6.9**

Source: Survey taken of participants in the Brookings-Rockefeller Foundation "17 Rooms" dialogue.

Note: Results show the average response for each SDG-focused Room.

Q1 Do you consider COVID-19 and related 2020 crises to have made the SDGs less important or more important as a global policy priority?
(1 = Much less important, 9 = Much more important)

Q2 Before this year's crises took shape, how ambitious did you consider your (Room's) SDG targets to be?
(1 = Not ambitious at all, 9 = Extremely ambitious)

Q3 Do you perceive COVID-19 and related 2020 crises to have shifted attention toward or away from your Room's substantive priorities?
(1 = Big drop in attention, 9 = Big increase in attention)

Q4 Next year, in 2021, what is the likelihood of global progress on your Room's overarching SDG priorities?
(1 = No progress likely, 9 = Huge progress likely)

Q5 Over the coming decade, by 2030, what is the likelihood of global progress on your Room's overarching SDG priorities?
(1 = No progress likely, 9 = SDG likely to be achieved successfully)

Q6 Post-2020, how much of a change in approach will COVID-19 and associated crises require to drive action on your Room's SDG?
(1 = Stay the course; no change required, 9 = Radical change required)

As a starting principle, any SDG-oriented strategy needs to recognize the diverse ways in which COVID-19 has affected different constituencies' outlooks. Table 1.1 summarizes the results of a poll of more than 150 influencers and opinion-leaders taken in the lead-up to the annual September summit of the 17 Rooms initiative convened by Brookings and The Rockefeller Foundation. Participants were organized by 17 different working group "Rooms," each focused on a topic within one of the corresponding SDGs. So in Table 1.1, the first row provides the average answers given by Room 1 members, who were focused on extreme poverty. The bottom row shows how Room 17, focused on universities as hubs of societal partnership, answered the same questions, and so on.

Looking across the table, one of the first things to note is the common view, under Question 1, that this year's crises made the SDGs even *more* important. There is surely sampling bias in the context of the SDG-focused 17 Rooms initiative, but it is still striking the extent to which COVID-19 only seems to have heightened perceptions of relevance of the SDGs. Under Question 2, respondents by and large already felt their respective SDG targets were moderately ambitious prior to COVID-19. There were broad differences, however, under Question 3, on how the crisis had shifted attention. Members of Room 3 on health, Room 10 on inequality, and Room 11 on cities felt the crisis had generated a big increase in attention to their priorities, while several environment-focused groups—Room 12 on responsible consumption and production, Room 13 on climate change, Room 15 on life on land, and especially Room 14 on oceans—were less sanguine, as was Room 1 on extreme poverty.

Importantly, under Question 4, increased attention did not necessarily imply increased optimism for progress next year. Some groups registered pessimistic outlooks, especially on inequality (Room 10), education (Room 4), and hunger and food systems (Room 1). Under Question 5, most Rooms were slightly more optimistic about progress by 2030, but no room was fully confident their SDG objectives were likely to be attained. Members of Room 9, focused on digital infrastructure, had the most positive outlook. Under Question 6, all Rooms seemed to agree that COVID-19 required new approaches in order to generate meaningful progress.

Our key takeaway from this small sample is that the SDGs remain as relevant as ever. But there is no single answer to how all the different SDG priorities should best be approached in 2021 and beyond. Given the practical interconnections among the goals, with success in one often dependent on success in the other, whole-of-society approaches still need to tackle all of the goals together.

The world needs a common scorecard to ensure mottos like "great reset" or "build back better" have objective standards for assessing progress.

The way forward

There is some momentum towards implementing the SDGs as part of the recovery policy landscape. The Canadian and Jamaican prime ministers have been co-chairing a major U.N. effort to link COVID-19 financing challenges to the SDGs. European Commission President Ursula von der Leyen has made sustainability the core of the Recovery Plan for Europe, inspired, in her words, by the SDGs.[17] The United Kingdom, chair of the G-7 and host of the COP26 meeting on climate change in Glasgow next year, has committed to a strong focus on sustainability. Public development banks have also agreed to align their $2.3 trillion in annual financing with the SDGs and the Paris Agreement.[18]

The private sector is showing greater SDG alignment too. In September, the "big 4" accounting firms and the World Economic Forum announced a new set of common and SDG-linked corporate metrics.[19] A number of other groups—the Carbon Disclosure Project, the Climate Disclosure Standards Board, the Global Reporting Initiative, the International Integrated Reporting Council, and the Sustainable Accounting Standards Board—also agreed to work together to align their standards and frameworks. Such alignment on metrics will, in theory, permit investors to allocate capital towards companies that contribute more to societal well-being. Coupled with growing evidence that better ESG performance is linked to stronger financial returns in the long-term, a major reallocation of private capital towards more environmentally sustainable and socially inclusive companies could be in the offing.

These examples point to new global drivers of sustainable development. The SDGs are a universal framework, applicable within and across all countries. And because advanced economies have so much more financial firepower being devoted to COVID-19 mitigation and recovery, they also have the opportunity to accelerate global gains. In addition to taking the lead to ensure adequacy of resources to fight the pandemic everywhere, the largest and fastest-growing economies can be drivers in better management of the global commons—climate, oceans, and biodiversity—on which all life depends. Advanced economies also have disproportionate power to change the rules of the global economy in ways that promote equity and sustainability. For example, the OECD/G20 Inclusive Framework is showing signs of progress on fair taxation of multinationals—a proposal that, if accepted, would transfer far more money to developing countries than all foreign aid combined, even if not always to the countries that need the resources most.[20] This and other tax fairness measures could substantially raise developing country revenues.

COVID-19 has underscored the great challenge embedded in achieving the SDGs. But it has also demonstrated that the SDGs are not "nice to have" goals; they are "need to have" milestones for the resilient global economy that must be built. Great feats tend to be anchored in corresponding heights of ambition.

As always, history provides lessons for the future. Eighty years ago, amid authoritarian onslaught and one of Britain's darkest hours, Winston Churchill famously galvanized a nation's courage—not with a squidgy call to "reconsider what is achievable"—but with a crisp pledge to "never surrender." Today, in the face of crisis, is not a moment to reconsider the SDGs. This is a moment for absolute clarity in continuing to fight for what the world needs.

> *In addition to taking the lead to ensure adequacy of resources to fight the pandemic everywhere, the largest and fastest-growing economies can be drivers in better management of the global commons—climate, oceans, and biodiversity—on which all life depends.*

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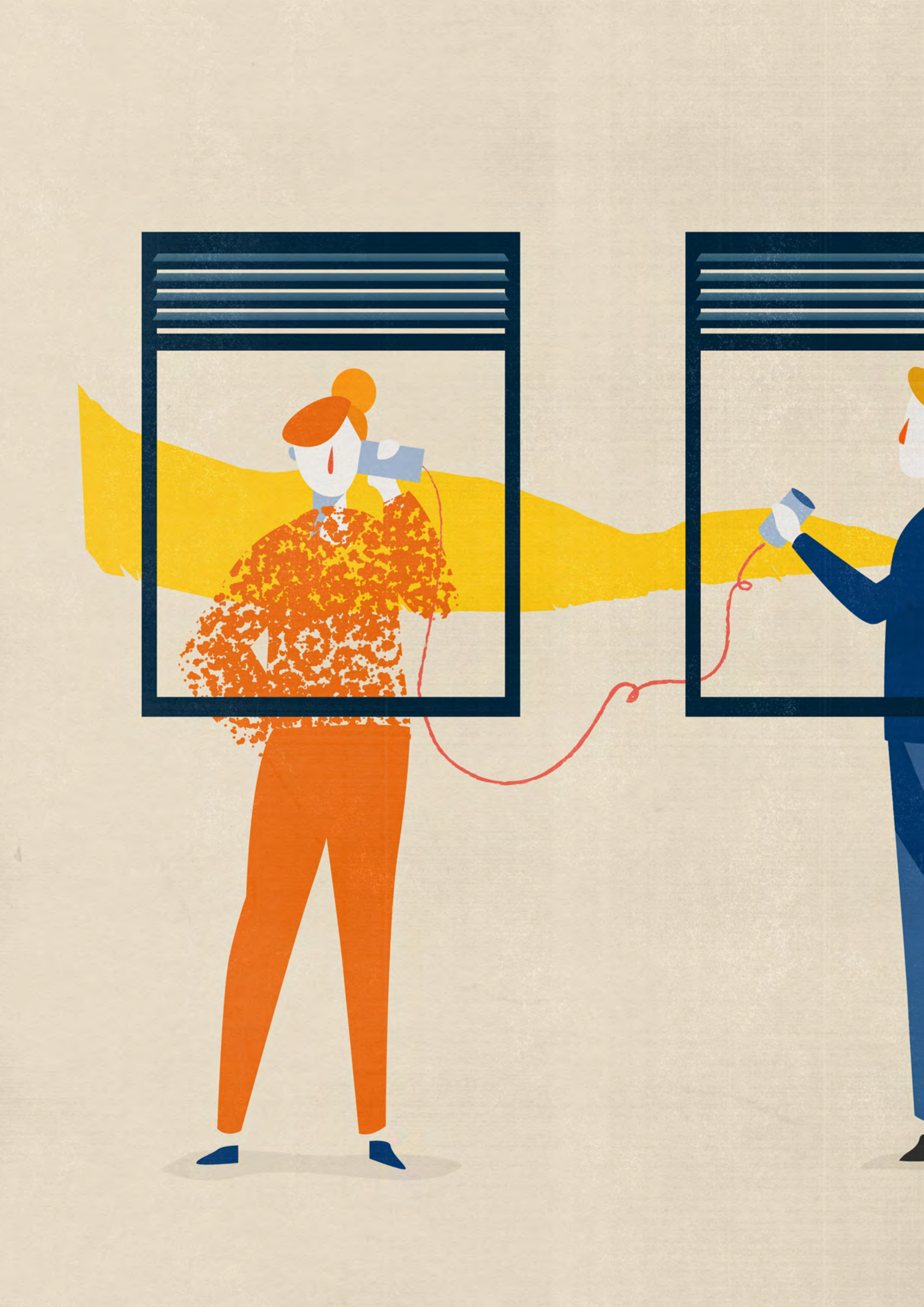

2 Leadership at the local level: How can cities drive a sustainable recovery?

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The issue

The COVID-19 pandemic has struck at the heart of cities, with an estimated 90 percent of confirmed cases worldwide reported in urban areas.[1] High rates of density, cultural and social gatherings, public transportation, the intermingling of diverse business and creative networks—many of the traits that define the uniqueness of cities are vulnerabilities when it comes to controlling transmission.

Mayors and local leaders form the front lines of COVID-19 response, protecting and restoring public health and economic security. In the first months of the crisis, they took decisive measures to develop safety protocols, supply medical requirements, and ensure health services, often stepping into a leadership void left by national governments. Globally, city-to-city cooperation and networks of cities provided a source of collaborative leadership, mutual support, and exchange of knowledge as the traditional multilateral system struggled to coordinate collective action.[2]

The crisis exposed deep underlying inequalities. Some growing cities with a prevalence of slums and informal settlements experienced rapid transmission; one study estimated that more than half of Mumbai slum dwellers contracted COVID-19.[3] In high-income countries such as the U.S., frontline workers working in sectors essential to the health and continuity of the society earn lower wages[4] and are more likely to be people of color, while data shows that Black people are dying at twice the rate of white people and represent more than four times more hospitalizations.[5] They are also disproportionally impacted by the economic consequences of the crisis.[6]

The ideas

PROTECTING PUBLIC HEALTH NOW—AND ADVANCING A GREEN AND JUST RECOVERY

As the pandemic persists, city leaders are dual-tracking. They must continue to prioritize immediate measures to ensure public health and safety—from social distancing policies, to mechanisms for opening schools and other public institutions, to readying communication and pipelines for the dissemination of a forthcoming vaccine. Cities are innovating to "stop the bleeding," finding ways to provide immediate support to the most vulnerable such as Bogota's cash transfer initiative[7] and Milan's Mutual Aid Fund,[8] partnerships that match city funds with private and other public sources.

At the same time, mayors sense an urgent need to address the existential crisis by committing to transformational recovery. They envision a rebuilt economy and society that will result in more inclusive, equitable, and sustainable cities. That starts with a focus on equity and reaching the most vulnerable first; at the same time, they see an imperative to accelerate action on climate change, and recognize a need to invest in infrastructure that support a green COVID-19 recovery. During the pandemic, Boston Mayor Marty Walsh pledged to make the city carbon-neutral by 2050.[9] Cities such as Paris, Berlin, and Buenos Aires have accelerated the development of biking and pedestrian infrastructure in their city.

This demand by local leaders is reflected in multiple agendas and pledges created through global city-led networks since the start of the pandemic. Common themes of equity and sustainability run throughout the "Decalogue for the COVID-19 Aftermath"[10] of the United Cities and Local Governments (UCLG); the "C40 Mayors Agenda for a Green and Just Recovery"[11] of C40 Cities; the "Cities for a Resilient Recovery"[12] coalition; and the Communiqué put forward by the Urban 20 (U20),[13] with financing issues taken up by its "Special Working Group on Covid-19 and Future External Shocks."

This collective political commitment by mayors may be starting to influence the global agenda. In his remarks on the release of a U.N. report on the urban characteristics of COVID-19, Secretary-General

António Guterres recognized the importance of rebuilding in a way that results in more resilient, inclusive, and sustainable cities.[14] Mayors and city networks have worked hard to position themselves as central to a successful and transformational recovery.

FACING CHALLENGES TO THEIR VISION

Yet mayors and city leaders face constraints that hinder their ability to act as the nexus of progress towards a green and just recovery. They quickly run into barriers regarding jurisdictional authorities. They are rarely involved in the design of fiscal stimulus and relief packages, and many are facing intense political pressure from their national governments and leaders. In the U.S., the Justice Department labeled several cities led by Democratic mayors as "anarchist jurisdictions." Mayors across the globe are even experiencing threats to their personal safety.[15]

Faced with strong resource limits even before the pandemic began, cities have suffered massive losses in revenue, with many receiving significantly lower tax revenues and fees related to utilities and permitting amid the crisis. In the U.S. alone, cities face a potential budget shortfall of $360 billion over 2020-2022.[16] Cities in the global south face additional constraints to action, including the size of the informal sector (80 percent of the urban economy in Africa).[17] Before Mayor Aki-Sawyerr's move to overhaul property taxes, the city council in Freetown received about 70 percent of its budget from foreign donors prior to the COVID-19 pandemic.[18]

> *Mayors and local governments are pursuing new models of governance and citizen engagement that enable them to tackle structural challenges as they reopen the economy and city life.*

EXPANDING GOVERNANCE TO MAINTAIN POLITICAL MOMENTUM

To maximize their influence and leadership nationally and globally, while maintaining political momentum at the local level, mayors and local leaders are innovating with governance and flexing their collective economic assets. This begins by leveraging the trust and legitimacy conferred by their constituents, which is often higher than state and national authorities. Polls consistently show that local government is more trusted than the federal or national government, with the largest gaps occurring in the U.S. (20 points), Japan (15 points), and France (11 points).[19]

To make the most of this confidence, mayors and local governments are pursuing new models of governance and citizen engagement that enable them to tackle structural challenges as they reopen the economy and city life. They are rethinking decisionmaking and policymaking models. Recognizing that their equity and sustainability objectives will require sustained political will, they are developing ways to create and manage alliances across the city ecosystem, to enable buy-in and investments from the private sector and promote meaningful engagement from residents and neighborhoods.

For example, the One-City governance model of Bristol is bringing together a wide range of local leaders on thematic boards that are shaping the city's recovery policy. Cities are also experimenting with tools to involve citizens and the general public in decisionmaking. Mannheim undertook surveys and focus groups to develop its city strategy and priorities; New York City has "Sector Advisory Councils" comprised of representatives of civil society and the public and private sectors, to provide guidance on the city's reopening and response to the COVID-19 crisis.

INFLUENCING INTERNATIONAL POLICYMAKING AND DECISIONS

A growing movement of cities worldwide are localizing the Sustainable Development Goals (SDGs) framework to improve their policymaking and, in the post-COVID recovery, mainstream the principles of equity and sustainability into decisionmaking. Increasingly cities across the world are voluntarily reporting their local progress on the SDGs through Voluntary Local Reviews (VLRs). This movement takes its inspiration from Voluntary National Reviews (VNRs), which countries use to report on progress at the U.N. as part of the official follow-up on the SDGs.

As cities promote a green and just recovery, the SDGs are increasingly gaining attention from municipalities as a useful common language to connect diverse efforts around common goals and indicators. Cities are completing VLRS to provide accountability and transparency to the public. Given the promotion of the SDGs by Secretary-General Guterres as the framework for "building back better," their adoption at the local level can give mayors and cities a foothold in the policymaking discourse of global recovery.

The way forward

Seeking new financial arrangements. Even the largest and most economically powerful global cities enjoy limited economic independence from provincial and national governments. The public trust they have built and the support they are eliciting from multiple stakeholders and sectoral leaders provide a measure of political credibility for these mayors and local government officials to advocate for transformational recovery—yet the means to pay for it is not entirely under their control.

To build credibility for their agenda, cities are taking steps to collectively flex their own combined resources and assets. The mayors of 12 major cities have recently committed to divest their city's assets from fossil fuel companies and increase their financial investments in climate solutions that promote decent jobs.[20]

The U20, a network of cities that seek to influence the G-20, announced plans to launch a "Global Urban Resilience Fund." It is to be a fund created by cities, for cities, to enable direct international financing to municipalities (financing through multilateral development banks such as the World Bank Group must have the approval of the national government before flowing to local governments).

The success of cities to achieve a green and just recovery will depend upon financing from other levels of government as well as private sources. These efforts signal that mayors are willing to put their own skin in the game as they seek to influence public and private markets. No longer is it unusual for cities to band together and advocate with a collective political voice, but the extent to which they are successful in affecting global decisions remains limited. Collective actions such as these may give cities and their leaders the best chance to bend global policy decisions on the COVID-19 recovery towards their priorities—and achieve accelerated progress on sustainable development.

To build credibility for their agenda, cities are taking steps to collectively flex their own combined resources and assets.

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3 Multilateralism: What policy options to strengthen international cooperation?

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The issue

In the era of COVID-19, we've all heard statements about how "the virus respects no borders" and "we are all in this together". True enough, all countries and peoples have been affected in terms of the medical and economic toll. Such references to the global nature of the crisis are usually followed by calls to strengthen international cooperation. The sheer scale of the current catastrophe and the threat of other catastrophic risks—such as the effects of climate change or epidemiologists' predictions of an even worse pandemic—lend credence to internationalist calls. But given the recent record of weakened multilateralism and growing great power rivalry, is it possible to imagine a post-COVID future of strengthened multilateral cooperation?[1]

The question of "Why cooperate?"[2] is often answered by pointing to two concrete benefits of international cooperation: 1) the gains of minimizing the negative (or maximizing the positive) spillover effects the actions of some countries have on others, and 2) the gains from the provision of global public goods. The pragmatic "utilitarian" or "realist" rationale focuses on the benefits of cooperative solutions to specific coordination problems.[3] While this essay's topic is global multilateralism, the principles of utilitarian cooperation also apply to sub-global contexts.

Many appeals to international cooperation in addition include references to certain values, such as the intrinsic equal value of human life: Ethical considerations are added to self-interest as a rationale for cooperation. A recent example is the COVID-19 Vaccine Global Access (COVAX) proposal, which argues *both*: That every country can benefit from an equitable global vaccine deployment to help protect from "imported" outbreaks, *and* that there is a "moral imperative of ensuring that people are not cut off from lifesaving drugs."[4]

How best to imagine a global system of cooperation for the future that is grounded both in a purely utilitarian dimension (managing spillovers and providing global public goods) *and* in an idealistic dimension that builds on shared values and ethical goals?[5]

> *While there may be a great diversity in the specific constitutional arrangements characterizing a democracy, liberal democratic values reflect universal human aspirations and are relevant to a discussion of international cooperation.*

The ideas

Utilitarian cooperation can and has been achieved among countries with differing histories, political regimes, and cultures. The pandemic has exposed weaknesses of cooperation in the health domain, but many other domains are facing serious problems because developments in geopolitics and technology have changed the way cooperation can work. The response demanded by the pandemic and ensuing economic contraction has enhanced the role of the nation-state. Coupled with the resulting desire for protection from dependence on others (especially in global supply chains), this is likely to lead to some deglobalization; some see this retreat as potentially strong and lasting.[6]

But such a retreat from a relatively laissez-faire globalization could actually increase the benefits from cooperation. Compared to a world of limited state intervention, a world of more active industrial policies, however much these may be justified from the perspective of a particular country, increases the likelihood of *retaliatory cycles* if there are significant spillover effects, with everyone ending up worse off in the process. Before the pandemic hit, most countries already practiced some form of industrial policy. The post-pandemic situation is likely to be one of a more activist state everywhere. This tendency is reinforced by new technologies characterized by inherently anticompetitive economies of scale and hub-and-spoke type networks, where controlling the "hubs" confers much power. Moreover, these technologies lend themselves to "weaponization", further increasing the incentives for states to intervene in domains such as cyberspace, data management and artificial intelligence.[7] This is not an argument against industrial policies to accelerate innovation or channel it to the creation of good jobs, but an argument in favor of rules to minimize negative spillovers and reduce the danger of "technological wars."[8]

The rules to reduce negative (or increase positive) spillover effects can themselves be understood as public goods, merging the two rationales for utilitarian multilateral cooperation. One difference that remains is that agreement on rules per se does not require any material resources (although their implementation and monitoring will require some) while the provision of a global public good such as climate change mitigation will typically require substantial resources and agreement on burden sharing. Pandemic prevention (including prevention of bio-error or bio-terror) and limiting climate change are usually mentioned as two important global public goods.[9] Rules to prevent nuclear proliferation and usage, including due to the miscalculation of an opponent's intentions, remain of the same order of importance, to which we will have to add rules in the domain of cyberwarfare, biotechnology and artificial intelligence.[10] All these global public goods have in common that their provision can be justified by the well-understood self-interest of nation-states. Cooperation in many domains has been possible between countries with very different types of governments, ranging from liberal democracies to authoritarian regimes of various persuasions.

While self-interest drives much of multilateral cooperation, the vision of a desirable world order that one finds in the Charter of the United Nations, as well as more recently in the adoption of the Millennium Development Goals (now Sustainable Development Goals, or SDGs) and in the Paris Agreement on climate change, also contain strong appeals to common *values*.[11] The 17 SDGs, for example, such as SDG 1 on ending poverty and SDG 2 on ending hunger, reflect ethical imperatives that the signatories agreed on. A values-driven legitimation of cooperation, besides having its own intrinsic ethical justification, also helps make utilitarian rules easier to achieve. An agreement is often harder to reach without some "sacrifice" consented thanks to ethical considerations. If all behavior were to be governed only by pure material cost-benefit analyses, compromises would be very difficult to arrive at. With analogy to national communities, "a sense of civics is part of the cement that holds a community together."[12] An ethos of global community and global civics can complement the utilitarian dimension to make international agreements easier to achieve and more stable.

The way forward

Can a values-based cooperation complement the already challenging global public goods provision in the future? Is a post-COVID strengthening of global civics too much to expect? Ongoing support for the SDGs (and the associated targets and indicators), as well as climate activism, allows some hope. While enlightened self-interest is embedded in the SDGs, there is also a strong global civics component that explains the momentum achieved by the 2030 Agenda. The same is true of the growing support for climate change mitigation and adaptation. In both cases, visible support from civil society can make it easier for government negotiators to reach agreements. Moreover, agreements with altruistic concessions have more support when there is burden-sharing, a major point for multilateralism. In a recent survey in the U.S., a majority of respondents favored increasing foreign aid by $101 billion a year to help achieve some of the SDGs provided other donor countries made similar efforts.[13]

What has allowed a values-based *universal* adoption of the SDGs has been what one could call their "non-political" nature. The SDGs omit fundamental features of liberal democracy such as freedom of expression and free competitive elections. But while they do not refer to freedom from *political constraints*, they do reflect values of "enabling freedoms"—giving people the ability to achieve economic and social goals. Isiah Berlin's distinction between negative and positive liberty is relevant here; as he argued, too often liberals refer only to the former.[14] As Berlin also argued, neither concept should be taken to extremes.[15] Notwithstanding the SDGs mostly aspirational nature and the additional difficulties COVID-19 has created for their achievement, the universal adoption of the 2030 Agenda and support for the positive liberties it includes has been a substantial step forward for international cooperation.

Should our vision of a desirable international system stop there and give up on liberal democratic values as universally compelling? Are liberal values a reflection of western culture only and no longer relevant in a world where the traditional "West" will no longer be dominant? Has the COVID-19 crisis illustrated the benefits of a controlling state where the individual has much less freedom than in a liberal democracy? This essay stands by the belief that while there may be a great diversity in the specific constitutional arrangements characterizing a democracy, liberal democratic values reflect universal human aspirations and are relevant to a discussion of international cooperation.[16]

One can imagine a dual approach that focuses on global public goods and the positive freedoms embodied in the SDGs on the one hand, and on liberal democratic values on the other. But how to implement such an approach?

Creating a club of democratic countries had been the objective of the "Community of Democracies" conceived by Madeleine Albright and Bronislaw Geremek, personalities with impeccable liberal democratic credentials.[17] The organization, however, now has Hungary, whose prime minister derides liberal democracy, on its Governing Council.[18] This telling example underlines the difficulty of building a "circle of democracies". Membership criteria may initially be agreed on by a small group of founding countries and could be inspired by the EU's Copenhagen Criteria.[19] But their interpretation would always be subject to intense political pressures and overriding foreign policy considerations. Moreover, as the experience of the EU itself demonstrates—again with Hungary as the most obvious example—not only governments but regimes change, and credibility requires the ability and resolve to suspend or expel noncompliant members.

In imagining multilateralism for the future, these lessons should induce caution. Coalitions of like-minded countries of various types will certainly always exist and be useful to solve particular problems But the universal U.N. membership and its adoption of the SDGs is uniquely valuable in allowing countries with different political regimes to cooperate, provide global public goods and achieve important economic and social goals on which they can all agree. Such cooperation, say on climate, will involve regimes far from liberal democracy, but may be unavoidable if the goal is to be reached.

This need not be incompatible with a belief in the universal validity of liberal democratic values and should not stop civil society from lending support to these values around the globe. Institutionalizing an elusive circle of democratic *countries* is unlikely to be of much help. Instead, a growing *community of people and civil society organizations* promoting liberal and democratic values and cooperating across borders and continents will be more effective in the years ahead.

> *The response demanded by the pandemic and ensuing economic contraction has enhanced the role of the nation-state.*

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4 Rebooting the climate agenda: What should the priorities be?

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The issue

The climate crisis had been deepening even before the COVID-19 pandemic, affecting everyone, everywhere—but especially the poorest and most vulnerable people. The world is "off-track" on both climate mitigation and adaptation, and will need to reset the emissions' trajectory very quickly if it is to meet the collective target s of global net zero emissions by 2050 and to maintain hope that global warming can be kept at around the 1.5-degree increase. The time the world has to address the climate crisis and to adapt to its impact is shrinking, while the costs of climate change are mounting along with the risks associated with inaction.[1] We are also seeing an alarming rise in the loss of biodiversity and the degradation of ecosystems. Strong climate action offers the prospect of a better and more sustainable future—one that escapes a 20th century growth model based on fossil fuel dependence and the degradation of natural capital and ecosystem services, and that can deliver a net zero carbon economy by 2050. A major boost in investment is needed in order to achieve this and to meet the climate goals set by the Paris Agreement—to accelerate the replacement of aging and polluting capital, respond to infrastructure deficits and structural change in emerging markets and developing countries, and adapt to the already evident impacts of climate change.

The world needs to simultaneously tackle the COVID-19 and climate crises. The world has been transformed by the COVID-19 crisis, with deeper and broader impacts than any crisis since World War II. There has been tragic loss of life and huge social costs. The economic impacts have also been severe with a major threat of global depression. The economic impacts are particularly severe in emerging and developing countries (capital flight, drastically reduced remittances, falling commodity prices). The pandemic has highlighted that the old normal was deeply fragile and dangerous, including in the probability of pandemics. The damages due to climate change and biodiversity loss could be even bigger and more lasting than those we are experiencing from COVID-19. Decisions made now are crucial in shaping the future of people and the planet: we must not go back to the old normal.[2] The imperative now in recovery is to "build back better" on a path of sustainable, inclusive, and resilient growth.

> *In shaping a better recovery, there is a tremendous opportunity to harness advances in technology and private sector dynamism and innovation.*

The ideas

Governments need to design and implement comprehensive stimulus packages to promote a strong recovery and "build back better" in a way that tackles underlying weaknesses in the global economy, sets a course for the next decade and fosters the long-term transformation to a new form of growth and development. This is the big challenge of our time. In shaping a better recovery, there is a tremendous opportunity to harness advances in technology and private sector dynamism and innovation. A sustainable recovery can improve productivity, new forms of employment and support the transition to a zero-carbon and climate-resilient economy. It can boost employment in areas that need it most; helping to avoid extended and severe unemployment, which can destabilize politics and society. And it can generate strong multipliers for economic recovery and growth and can be accompanied by powerful co-benefits including reduced congestion and pollution. This imperative has been recognized by the Coalition of Finance Ministers for Climate Action. Their recent paper sets out how finance ministers have a unique opportunity to design and implement comprehensive stimulus packages that can drive a strong recovery and build a better future.[3]

Exceptionally low prices for fossil fuels in the aftermath of the pandemic offer a propitious opportunity to accelerate carbon pricing and the elimination fossil fuel subsidies. Carbon pricing, including subsidy reform, can be a critical component in a package of climate policies needed to restore growth and decarbonize the economic system. Together they can tilt incentives to support green recovery strategies and investments and can generate valuable revenues for investments and the just transition. Carbon pricing programs globally generated more than $45 billion in government revenues in 2019, with the potential to unlock further revenues through smart fiscal reform.[4] There may also be opportunities for governments to phase out harmful fossil fuel consumption subsidies, which are a huge burden to taxpayers. Globally, the estimated value of fossil fuel consumption subsidies amounted to more than $317 billion in 2019, and even more are provided through subsidies or tax breaks to fossil fuel exploration, development, or production.[5]

Concerted action and cooperation will be needed to tackle the debt and financing constraints faced by developing countries, to enable them to overcome the immediate crisis and embark on sustained recovery and transformation.[6] Advanced economies have announced more than $11 trillion in fiscal support to respond to COVID-19 and recover from it, but emerging markets and developing countries face an extremely challenging context, with limited access to financing and with many likely to face debt difficulties and heightened vulnerabilities.[7] A recent ILO report assesses that the estimated fiscal stimulus gap is around $982 billion in low-income and lower-middle-income countries ($45 billion and $937 billion, respectively).[8] It will be vital for them therefore to mobilize all pools of finance and utilize them more effectively. In particular, exceptional financing from the IFIs will be of critical importance. While the International Monetary Fund (IMF) and the multilateral development banks (MDBs) have provided historically unprecedented support to emerging markets and developing countries to respond to the medical emergency and alleviate the immediate social and economic impacts, much larger and sustained support will be needed to enable these countries to embark on a green, inclusive and resilient recovery and sustained transformation to meet the development and climate goals.

The way forward

Four pillars of international action can help build the necessary momentum on this agenda:

Secure commitment to a global target of net zero by 2050 that can raise climate ambition and provide a benchmark for climate action. A growing number of major emitters have now committed to the net zero target including the European Union, U.K., and most recently China (to net zero by 2060), Japan, and Korea. More than 120 countries have joined the Climate Ambition Alliance—together 992 businesses, 449 cities, 21 regions, 505 universities and 38 of the biggest investors—creating the largest ever alliance committed to achieving net zero carbon emissions or "carbon neutrality" by 2050 at the latest.[9]

Making a green and sustainable recovery the centerpiece of global cooperation. Collaboration across governments (including through the G-7 and the G-20) and between the public and private sectors, including a coherent sense of purpose, is essential and will come from a shared recognition that a sustainable recovery is a strong recovery.

Building on the leadership coming from the private sector. Despite the impact of COVID-19, corporate momentum on climate action continues to build through 2020. There have been new 2020 announcements by Amazon, BP, Microsoft, Reliance, and Google among others.[10] In addition, there are growing commitments from financial institutions to take portfolios to net zero with dates and milestones.[11] Finally, there is growing evidence of the link between responsibility and good risk-returns.[12]

Unleashing the potential of the development finance institutions. Development banks including the multilateral development banks are uniquely positioned to support transformational change. They can help countries tackle policy and institutional impediments to unlock sustainable investments, and play a critical role in reducing, sharing, and managing risk to foster private sector investment. The International Finance Development Club will be convening the first global summit of all public development banks across the world, providing a good opportunity to build collective ambition and cooperative action.[13] Greater ambition on the part of the MDBs will also require greater ambition on the part of their shareholders.

> *The damages due to climate change and biodiversity loss could be even bigger and more lasting than those we are experiencing from COVID-19.*

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5

The international monetary and financial system: How to fit it for purpose?

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The issue

The COVID-19 pandemic, and the carnage it has wrought on the world economy, has highlighted the need for a better global financial safety net that provides more protection for emerging market and developing economies (EMDEs). These countries, which face significant economic pressures even in normal times, have little room to maneuver when faced with such devastating global shocks. Given their rising importance in the world economy, helping these countries better withstand such shocks ought to be in the interest of even the advanced economies.

At the onset of the pandemic, EMDEs faced sudden stops of capital inflows and downward pressures on their exchange rates. Even for those countries with relatively sound macroeconomic fundamentals, financing conditions tightened as spreads on their sovereign bonds widened, in sharp contrast to the decline in government bond yields in advanced economies. Now many EMDEs, notably larger countries, are facing resurgent capital inflows due to the global low interest rate environment and the weakening of the dollar. While this provides temporary relief, such cycles of capital flow stalls and surges complicate macroeconomic management in these countries.

EMDEs will remain subject to capital flow and exchange rate volatility as major advanced economies rely on monetary policy measures, both conventional and unconventional, for economic support and the spillover effects of these policies cause whiplash effects. Reliance on dollar funding remains a source of vulnerability for many EMDEs, with the Fed's actions and the dollar's trajectory, in particular, affecting them considerably as a result.

Several EMDEs with high levels of external debt and balance of payments vulnerabilities have faced downgrades of their sovereign debt and lost access to global financial markets precisely at their time of greatest need to fight the pandemic and shore up their economies. Lowincome countries face even greater challenges. Their economies and export markets have collapsed, leaving many of them with crushing burdens of debt repayment. Sovereign debt levels were already high in many low-income countries and the pandemic is likely to make the situation worse as these countries have few other sources of domestic or foreign revenue to turn to.

Even before COVID-19, the global financial architecture was due for reforms to keep up with the evolving dynamics of the global economy, but the pandemic has highlighted the extent of these weaknesses, underscoring the need for reforms. It will take some bold actions on the part of the international community to make the global financial system better fit for purpose in the post-COVID world.

Sovereign debt levels were already high in many low-income countries and the pandemic is likely to make the situation worse as these countries have few other sources of domestic or foreign revenue to turn to.

The ideas

RECAPITALIZE THE IMF

A post-COVID-19 global financial system should incorporate a mechanism to systematically bolster the International Monetary Fund's (IMF) lending capacity to a level commensurate with the increase in complexity of the financial system and the size of the global economy. The IMF is the most important institution in the global financial system to provide safety nets to countries in global financial crises, but its limited resources have constrained its ability to respond to the record number of requests for assistance.[1] Cumulatively, the institution's available resources amount to around $1 trillion, only 1.1 percent of global GDP. While this amount might be sufficient to provide financing for a few country crises, it is insufficient to manage systemic crises such as COVID-19 and, as global GDP continues to rise, these resources as a share of GDP will decline. An additional risk to the IMF's resources and a major source of uncertainty for potential borrowers is the overreliance on non-quota resources for funding, namely the New Arrangements to Borrow (NAB) and bilateral borrowing agreements, which are temporary and are at the discretion of donor countries. These facilities are set to expire soon and, unless renewed, the IMF's resources will decline to about $450 billion. The reliance on non-quota resources is inconsistent with the IMF's basic principle that quota subscriptions should be the main source of resources.

SYSTEMATICALLY DEPLOY SDRS

The IMF's ability to create new Special Drawing Rights (SDRs) is another tool in the global financial system's arsenal that should be systematically deployed as needed to complement the existing lending facilities.[2] The IMF has deployed this tool only four times in its history, most recently during the 2008-09 global financial crisis (GFC) in response to a call by the G-20. Its activation requires a super majority of 85 percent, which is significantly more than the combined voting share of all EMDEs. A proposal for issuing new SDRs as the pandemic spread through the world ran aground on account of the lack of super-majority support that was necessary.

Besides new SDRs, there may be previously created SDRs that have not been used by the beneficiary countries. To the extent that the pool of unused SDRs is sufficiently large, a reallocation from better resourced countries with access to alternative forms of funding to more needy countries could be helpful as well. The reallocation of the existing SDRs is largely voluntary, which limits the IMF's ability to use this tool effectively. As such, the deployment of SDRs depends entirely on the will of the majority shareholders in the case of new SDRs or the will of holders of allocated and unused SDRs.

A mechanism that empowers the IMF to reallocate SDRs to where they are most needed will be an improvement.

ESTABLISH SWAP LINES ACCESSIBLE TO A BROADER RANGE OF COUNTRIES

A third reform would be to establish a framework to systematically expand access to temporary foreign exchange liquidity to a wide range of countries. The bilateral swap arrangements, which have become a common tool among central banks of advanced economies during global shocks since the GFC, are not available to most EMDEs to alleviate their foreign exchange liquidity shortages. During the COVID-19 pandemic, the swap lines offered by the Federal Reserve have helped provide dollar liquidity to global financial markets. However, most of these swap lines are with the central banks of other advanced economies. At the height of the pandemic, the Fed did offer dollar funding lines to more countries, collateralized by their central banks' holdings of U.S. Treasury securities. But such ad hoc measures fall short of a more structured approach. Institutionalized mechanisms for emergency liquidity assistance would be more effective and would also reduce the incentive for EMDEs to undertake self-insurance through reserve accumulation, which is inefficient at both the national and global levels.

IMPROVE DEBT RESTRUCTURING MECHANISMS

In the absence of a sufficiently strong global safety net, the G-20 announced a debt standstill initiative (DSSI), calling on all creditors to grant delays in debt repayments for the least developed countries through the end of 2020. Full implementation of the DSSI is projected to mobilize $12 billion for the eligible countries. To date, at only $4 billion, the outcome has fallen significantly short. Among the key obstacles are the legitimate concerns from eligible countries that participation might trigger a sovereign downgrade and undo hard-fought-for efforts to gain access to international capital markets.

Beyond the DSSI, several countries will emerge from the pandemic with unsustainable debt levels. Even such cases where debt restructurings are inevitable pose challenges for a financial system that is not well designed to address this issue. One reason is the evolution of the landscape for sovereign debt, notably the higher share of private sector creditor for several low-income countries, and a creditor base that is more diffuse with the emergence of bilateral official creditors including China. While the plurality of creditors brings several benefits, it makes it difficult to achieve the level of consensus required for debt restructuring.

The way forward

The governance of the major international financial institutions is in need of a revamp. The divergence between the realities of the advanced economies, who are the dominant shareholders, and those of EMDEs, who are the main clients, has become too wide. An increase in resources and a concomitant reform of the quota allocation mechanism are imperative to allow the IMF to fulfill its mission of safeguarding the global financial system. Strong support from the IMF's shareholders will also be important to institutionalize swap lines offered by the G-3 central banks (Fed, ECB, and Bank of Japan) and to broaden their access to more countries. The IMF could help unlock such swap lines for a broad group of countries by providing guarantees that mitigate counterparty risks.

The following ambitious, yet reasonable, changes to the quota calculations would be an important step in reforming the IMF's governance structure, which remains dominated by the advanced economies[3]:

- *Adding population as another variable in the quota formula, with a modest weight.*
- *Considering intra-eurozone trade or perhaps intra-EU trade as internal, as the eurozone has a single currency and central bank; the EU has, in addition, a single market.*

Finally, there is currently no well-functioning mechanism in the financial system for an orderly restructuring of EMDEs' external debt. Establishing one should be a key priority to help better manage the anticipated increase in the number of countries in debt distress over the coming years. Restructuring debt for a larger number of countries will otherwise prove difficult, in light of substantially altered economic circumstances and the creditor landscape, especially when multiple private creditors are involved. While collective action clauses (CACs) were enhanced in 2014 and proved helpful in some sovereign debt restructurings, there remains a sizeable stock of sovereign bonds without the clauses. The time might be ripe to consider other creative mechanisms such as well-capitalized and creditworthy Special Purpose Vehicles, perhaps funded by SDRs, to help restructure private sector debt.

The COVID-19 has highlighted fractures in the international financial system, especially weaknesses in the safety net for EMDEs.

World leaders should chart a new course of action to improve the functioning of the international monetary and financial system and to better prepare it to cope with future crises. This requires not just a commitment of more resources but also political will on the part of the major economic powers. The legitimacy of the international financial institutions and the global governance system is at stake.

> *World leaders should chart a new course of action to improve the functioning of the international monetary and financial system and to better prepare it to cope with future crises.*

Endnotes

1. Admittedly, the multi-faceted nature of COVID required, appropriately, support from various financial institutions to cushion the shock and to prepare the ground for a durable economic recovery.

2. Kevin P. Gallagher, Jose Antonio Ocampo, and Ulrich Volz, "IMF Special Drawing Rights: A key tool for attacking a COVID-19," Brookings Institution, March 26, 2020, **https://www.brookings.edu/blog/future-development/2020/03/26/imf-special-drawing-rights-a-key-tool-for-attacking-a-covid-19-financial-fallout-in-developing-countries/**

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6 The future of global supply chains: What are the implications for international trade?

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The issue

The COVID-19 pandemic and associated global recession have had a devastating effect on international trade. In the second quarter of 2020, global trade was down 18.5 percent, a far sharper drop than was seen for GDP.[1] Much of the economic activity that continues in a pandemic—health services, housing services, utilities—is not traded internationally, while the widely traded goods such as cars, electronics, and tourism are cut back as people face an uncertain future. The COVID-19 pandemic comes on top of other issues that were already affecting trade, notably Industry 4.0—the current trend of automation and data exchange in manufacturing technologies, including cyber-physical systems, the internet of things, cloud computing, and smart factories. In the years before the pandemic, merchandise trade was increasing less rapidly than world GDP, breaking a long-standing pattern, though trade in services was rising more rapidly. The declining importance of merchandise trade probably reflected both Industry 4.0 as well as the U.S.-China trade war.

The main question addressed in this essay is, what is the likely evolution of supply chains and international trade in the medium to long run after the COVID-19 pandemic? In other words, once the global economy recovers from the cyclical downturn, are there likely to be permanent changes in global trade? Will these create a more difficult environment for development? What policies at the national and international level can mitigate effects that harm development? These are naturally highly speculative questions, but by thinking of them now, we can potentially mitigate the worst long-run effects of this crisis on development.

> *China's exports to the U.S. have gone down, but China's exports to those other developing countries have gone up.*

The ideas

I divide the potential long-run effects on trade into three categories: (1) changes in the structure of demand; (2) acceleration of Industry 4.0; and (3) protectionism dressed up as national security. As the virus is brought under control globally, especially if there is a reliable and widely available vaccine, life should return towards "normal." But it is likely to be a new normal. The specifics will be hard to predict but there are likely to be some permanent changes in the structure of demand. People in advanced economies may do more work from home permanently, reducing demand for cars and gasoline. We may have less demand for office and retail space. Those changes would tend to put downward pressure on commodity prices and trade volumes. Three industries with extensive value chains involving developing countries are autos, electronics, and clothing.[2] I would expect more demand for electronics and less for autos and clothing in a post-pandemic world. But the general point is that there could be large shifts in these industries that affect development opportunities. In terms of services, international tourism may not fully recover to its previous level; this has been an important export for many developing countries. On the other hand, demand for healthcare, childcare, and elderly care is likely to rise; these are all immigrant-intensive industries in advanced economies so demand for migrant workers may well increase.

The pandemic will probably accelerate the spread of Industry 4.0. The idea that everything was going to be done by robots was never realistic, as there are many activities where it is not cost effective to deploy an expensive robot. Garment sewing is still done primarily by people, in the developing world, as are many fine tasks in the electronics and auto value chains. But the pandemic has to change the cost calculation at least to some extent. Imagine an activity where it is slightly less expensive to hire workers in the developing world compared to deploying a robot in an advanced economy. Now firms are aware of potential disruption from pandemics and/or trade blockages. With that risk factored in, the robot may now be the cost-effective choice. Industry 4.0 is not suddenly eliminating manufacturing opportunities in developing countries, but it has to be constraining them, and more so after COVID-19 than before.

Probably the biggest risk for trading opportunities in the developing world is growing protectionism in more advanced economies, often dressed up as national security protection. The U.S. introduced serious protection before the pandemic, most of it aimed at China. Heading into the recession, the U.S. was taxing about half of imports from China at a 25 percent rate. In the short run, this actually created new opportunities for other developing countries. A certain amount of final assembly in garments, footwear, and electronics shifted to countries such as Vietnam, Indonesia, and Mexico. These tend to be the most labor-intensive tasks, and higher wages in China were already driving this production abroad even before the trade war started. What we can observe in the data is that China's exports to the U.S. have gone down, but China's exports to those other developing countries have gone up. ASEAN has now moved into first place as China's biggest trade partner while the U.S. has dropped to #3 (with the EU at #2).[3] China has moved into the middle of many value chains, producing machinery and medium-tech components, which are then exported to the countries doing final assembly.

The danger now is that the U.S. will expand its protectionism, since the tariffs aimed at China have not met any of its objectives. The U.S. trade deficit continues to rise, which is to be expected because it is not directly affected by tariffs but rather is the difference between investment and saving. Overall U.S. saving has gone down because of the huge fiscal deficit, the correct policy in this crisis economy but one that tends to increase the trade deficit. There has also been no re-shoring so far of manufacturing back to the U.S., and China's share of world exports continues to rise. A recent survey of American manufacturers in China found that virtually none are considering relocating back to the U.S., while about one-seventh are considering shifting some production to low-wage countries as described in the previous paragraph.[4] These trade war issues now collide with considerations raised by the pandemic. In the U.S. and other advanced economies, it became an issue that much protective gear and pharmaceuticals are coming from China (and India to a lesser extent). So, there is talk now of using government procurement to force production of these items at home. There is also a risk of rising protectionism in China. Facing the risk of an increasingly closed global trading system, China has announced a policy of "dual circulation." What exactly this entails is not clear; it may simply reflect a recognition that exports cannot play the same role as in the past and that China needs to bolster household income and consumption, which would be a healthy development that creates new trading opportunities for China's partners. But it also may presage a more protectionist policy in which China tries to eliminate imported inputs in its value chains. If both the U.S. and China turn inward, that will create a very poor environment for development. Worst case would be a division of the world into an American sphere and a Chinese sphere with developing countries forced to choose, something that they do not want to have to do.

The way forward

The best hope for addressing all of these risks is new trade agreements that maintain an open trading system. There are some positive developments here. China has reached an agreement with ASEAN plus Australia, Japan, New Zealand, and South Korea on a Regional Comprehensive Economic Program. This is not a particularly deep agreement, but it should allow duty-free movement of parts and components, making Asia-Pacific supply chains more predictable and resilient. The Trans-Pacific Partnership (TPP) has also gone ahead and is setting new standards for cross-border data flows, investment, intellectual property rights (IPR) protection, and subsidies. The African Continental Free Trade Area will link 1.3 billion people in 55 countries. Tariffs are not particularly high in Africa so most of the benefit comes from cutting red tape and simplifying customs procedures.[5]

While these various regional agreements are better than nothing, they risk dividing the world up into different clubs with different rules. Also, the U.S. is not participating in any of them. The ideal in the long run should be an updated WTO agreement that deals with the new issues of cross-border data flows, services, IPR protection, and state enterprises. Intermediate steps could include the U.S. and China (and others) joining TPP or simply a comprehensive trade agreement between China and the United States. This will be politically difficult for any U.S. administration, but it is good policy, nevertheless. In the short run it also would help to resist the worst protectionist ideas arising from national security concerns. Countries such as the U.S. need to do a better job of preparing for the next pandemic (and other global shocks). But the solution is not to produce everything at home. This will prove to be very costly and will deprive developing countries of production and trading opportunities. For many products such as protective gear, simple medical equipment, and pharmaceuticals, the cost-effective policy will be to have adequate stockpiles. This provides insurance if there is a crisis and problems with global supply chains. Domestic production of these items can be developed quickly if needed; this would be more economic than requiring domestic production in perpetuity, which will be an expensive proposition. This is true for the U.S. and even more important for smaller economies.

The danger of rising protectionism also extends to immigration. As noted, there will be rising demand for migrant labor in the U.S. and other advanced economies as populations age and demand more of various services. Welcoming more immigrants could be win-win and in part substitute for the potential decline in goods trade. Remittances sent back to families are crucial for many developing countries. But it would take more openness than we currently observe in the U.S., Europe, and Japan to realize these win-win outcomes.

Endnotes

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4. "AmCham Shanghai Releases 2020 China Business Report," AmCham Shanghai, September 9, 2020, **www.amcham-shanghai.org/en/article/amcham-shanghai-releases-2020-china-business-report**
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7 The global productivity slump: What policies to rekindle?

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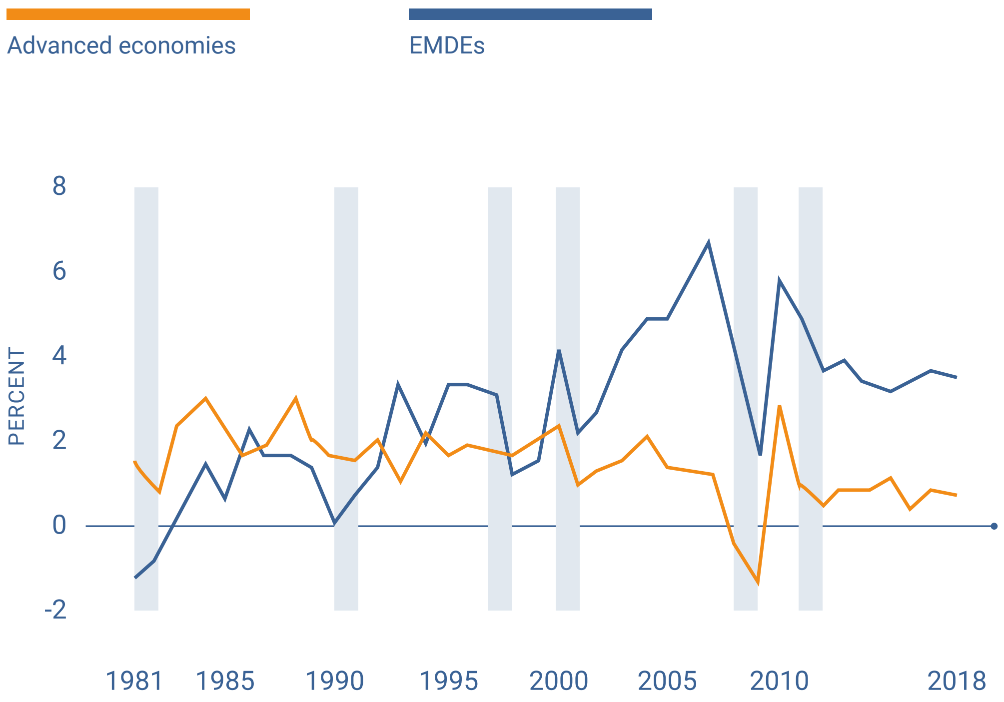
> *In addition to promoting better standards of living, productivity growth is key to reducing poverty.*

Growth of labor productivity—output per worker—is the single most important source of lasting per capita income growth. Unfortunately, even before the onset of the COVID-19 pandemic, productivity growth had been slowing around the world (Figure 7.1).[1] In advanced economies, the slowdown continues a trend that has been underway since the late 1990s. In the aftermath of the 2007-2009 global financial crisis, emerging market and developing economies (EMDEs) have experienced the steepest, longest, and most synchronized fall-off in productivity growth in decades. The COVID-19 pandemic could further reduce productivity growth and compound the adverse consequences stemming from the protracted slowdown in productivity. A proactive and comprehensive policy approach is needed to improve prospects for productivity and overcome the challenges associated with COVID-19.

Figure 7.1

Productivity growth



Source: Dieppe (2020).

Note: Productivity is defined as output per worker in U.S dollars (at 2010 prices and exchange rates). Sample of 29 advanced economies and 74 emerging market and developing economies (EMDEs).
Shaded areas indicate global recessions and slowdowns (1982, 1991, 1998, 2001, 2009, 2012).

The COVID-19 pandemic could further reduce productivity growth and compound the adverse consequences stemming from the protracted slowdown in productivity.

The issue

The global slowdown of productivity growth over the last decade raises questions about its causes. The weakness in productivity growth in advanced economies has been attributed to multiple factors: diminishing returns from technological progress leaving only innovations with marginal productivity gains; a delay between development of new digital technologies and their incorporation into production processes; and a broad-based weakness in investment driven by lack of demand.

Many of the factors that supported productivity during previous decades have faded in recent years, particularly in EMDEs. Investment growth has been slower since the global financial crisis due to a wide range of reasons: heightened policy uncertainty, lower growth in the advanced economies, adverse terms-of-trade shocks for commodity exporters, slowing foreign direct investment for commodity importers, and growing debt burdens.

Some structural drivers of productivity growth have also lost momentum. Educational attainment has stabilized in many countries. The speed of expansion into more diverse and complex forms of production has slowed as the growth of global value chains has stalled. The leveling-off of urbanization has also played a significant role.

The pace of improvements in the quality of institutions has declined too: according to survey measures, there has been only limited improvement since the 1990s in perceptions of government effectiveness, the control of corruption, the rule of law, and political stability. At the sectoral level, productivity gains due to the reallocation of resources from less productive sectors to more productive ones, such as the shift from employment in lower-value manufacturing to services, eventually ran their course. Natural disasters have become more common taking a toll on investment.

The ideas

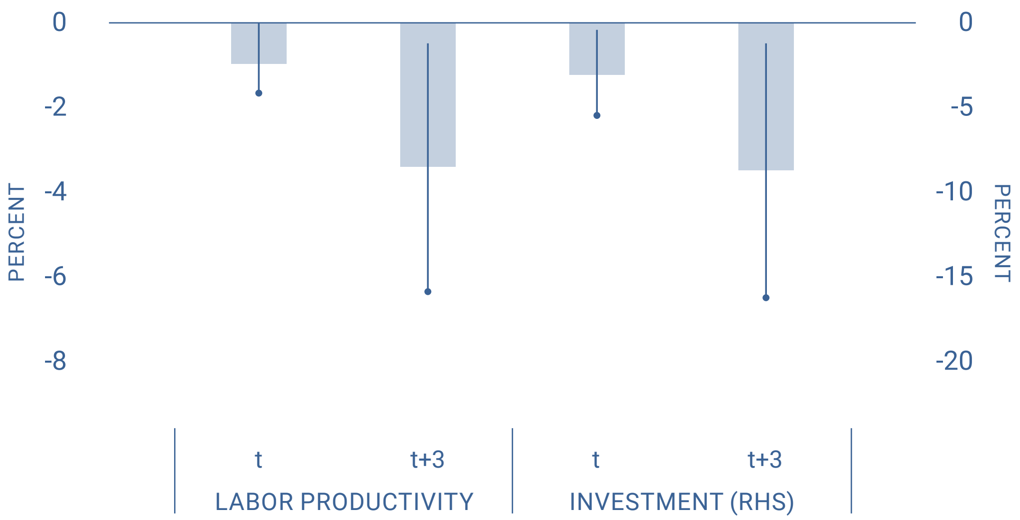
MOSTLY A DARKER PICTURE FOR PRODUCTIVITY

The COVID-19 pandemic has led to the deepest global recession since World War II. The 2020 global recession coincides with a decline in per capita income in about 90 percent of countries, the highest fraction in recorded economic history.[2] This will likely have a negative impact on productivity through multiple channels, including weaker investment and trade, erosion of human capital, and persistent unemployment.

Beyond its short-term impact on output, the pandemic is expected to compound the slowdown of productivity growth as did previous health crises. For example, epidemics, such as SARS, MERS, Ebola, and Zika, left lasting scars on labor productivity in affected EMDEs because of their significant adverse impact on investment growth (Figure 7.2). Prior to the COVID-19 pandemic, many countries faced elevated levels of debt. Corporate balance sheets may eventually buckle because of COVID-19-induced recessions, straining bank balance sheets to an extent that could trigger financial crises. This would lead to obsolescence of capital as well as larger losses of employment.

Figure 7.2

Impact of epidemics on productivity and investment



Source: Dieppe (2020).

Note: Bars show the estimated impacts of the four most severe biological epidemics on labor productivity and investment levels relative to non-affected EMDEs. The four epidemics considered are SARS (2002-03), MERS (2012), Ebola (2014-15), Zika (2015-16). Swine flu (2009), which coincided with the 2008-09 global financial crisis, is excluded to limit possible confounding effects. The sample includes 116 economies: 30 advanced economies and 86 EMDEs.

BUT THERE COULD BE SOME OPPORTUNITIES

Major economic disruptions such as those caused by the pandemic have the potential to lead to productivity-enhancing opportunities fostered by our search for solutions to the disruptions it brought about. Significant gaps remain between highly productive firms at the technological frontier, which are often large firms, and other less productive firms, particularly in EMDEs. This is indicative of misallocation of labor or rigidities in the generation, transfer, and acquisition of technology across firms. Technological changes sparked by the pandemic could translate into structural changes that may improve productivity within certain sectors. A sustained shift toward teleworking, the incorporation of digital technologies in manufacturing, finance, and education or the onshoring of production, with greater capital intensity, of certain essential products, could be direct outcomes of the COVID-19 recession, with important consequences for productivity and welfare.

Investment in digital skills and technology would likely increase, which could partially offset the negative impact of school closures. Supply chains could be restructured in ways that help increase their diversity and improve resilience. This could promote trade, foreign direct investment, and knowledge transfer for economies not well integrated into global value chains.

SIGNIFICANT CONSEQUENCES FOR DEVELOPMENT

In addition to promoting better standards of living, productivity growth is key to reducing poverty. EMDEs with the fastest labor productivity growth between 1980 and 2015 were able to reduce their extreme poverty rates by an average of more than 1 percentage point per year. Over the same period, poverty rates rose in countries with lower productivity growth.

The post-crisis productivity growth slowdown, magnified by the shock of COVID-19, may impede progress toward development goals. Since the global financial crisis, the pace of EMDEs' convergence to advanced-economy productivity levels has slowed. At recent productivity growth rates, it would take more than a century to halve the productivity gap between EMDEs and advanced economies. If the pandemic increases the pace of automation and leads to shorter supply chains, the manufacturing and export-led approach to increasing productivity growth taken by EMDEs that converged rapidly to productivity levels in advanced economies prior to the global financial crisis may move further out of reach.

The way forward

There is no silver bullet to rekindle productivity growth. Instead, EMDEs need to urgently put in place the necessary preconditions to seize the potential opportunities offered by the disruptions caused by the COVID-19 pandemic. This means they need to implement policies that would promote sustained productivity growth.

Policymakers will need to facilitate investment in physical and human capital. Resources will need to be reallocated toward more productive sectors and enterprises, including through strengthening competition. Firms' capabilities to adopt new technologies and to innovate will need to be reinvigorated, as well as ensuring that workers possess appropriate skills to transition to new sectors. Given the disruption to schooling and the labor market due to COVID-19, fostering investment in digital technology could help build skills by expanding access to quality online schooling and training as well as improving labor market flexibility. Better-targeted social safety nets could also prevent the school dropouts that are associated with long-term income losses.

A stable macroeconomic environment and a growth-friendly institutional environment will increase the effectiveness of these policy measures. Streamlined government regulations and robust bankruptcy procedures that ensure prompt and efficient resolution of failing firms could also facilitate labor reallocation from low-productivity firms and sectors to higher-productivity ones. Lowering registration costs and removing barriers to enter the formal sector would help address the challenges of informality that could, over time, shrink the large part of the economy that is particularly vulnerable to disruptions.

Rapid technological changes triggered by the pandemic may result in large productivity gains. Even so, policymakers must ensure that any gains in these areas are broadly distributed and that any technology-related labor market shifts are managed with training and social protection. Similarly, government investment in widespread internet access could broaden the availability of quality online schooling and training. A better-educated workforce is one that is less likely to be replaced by automation.

Although the productivity growth slowdown is common to a large number of countries, the policy initiatives to boost productivity must be country-specific and well-targeted. Individual country characteristics and the interactions between policy measures need to be taken into account to achieve the best outcomes.

Endnotes

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8 Dislocation of labor markets: What policies to mitigate the shock?

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The issue

The COVID-19 pandemic hit the Americas harder than any other region, accounting for about 50 percent of all global cases—with the United States alone contributing more than 20 percent of the global total. Unsurprisingly then, the Americas suffered devastating economic effects, plunging instantly into recession. Less obvious is how preexisting regional differences within the Americas and their labor market structures—differences in inequality, informality, and technological adoption—may determine COVID-19's lasting impact: income divergence between regions and within them.

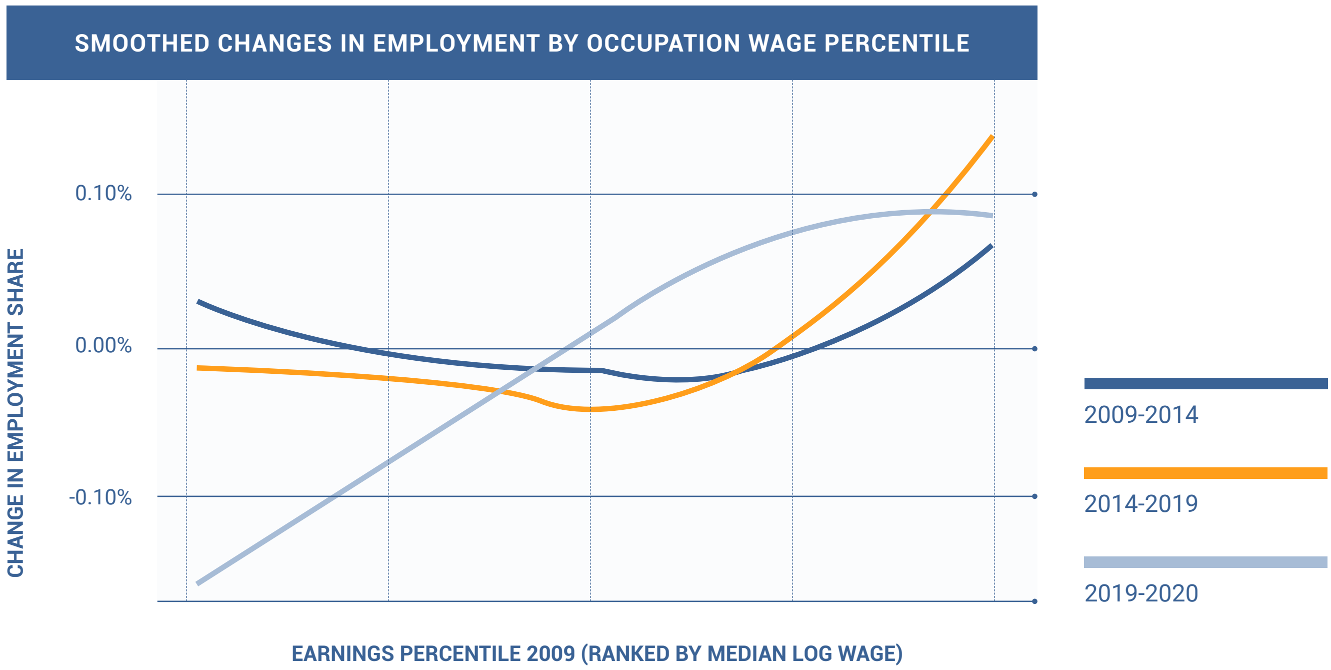
These labor dynamics and differences are critical to understanding the asymmetric consequences of COVID-19 on poverty, inequality, and well-being. Indeed, as we argue in this essay, unlike differences in the fiscal space, the nature of the labor market channel correlates closely with the degree of development of individual countries and is an essential, albeit often overlooked lens to characterize the differential impact of COVID across the globe. Below, we shed light on how COVID-19 is affecting labor markets in the Americas to highlight the contrast between developed and developing economies, and how this should translate into more calibrated policy responses to put people back to work, protect workers from further harm, and prepare for a post-pandemic future.

The ideas

From the 1980s through the early 2000s, labor markets in developed economies experienced the influence of two main global drivers of the new millennium: China's integration into global value chains and technological change. Globalization and, more recently, technological substitution, led to a decline in the demand for routine, middle-skill workers and labor market polarization,[1] as well as a growing share of (gig and freelance) independent work.

Over the years, however, trends shifted in favor of higher-wage occupations. Polarization (2009-2014 in Figure 8.1) gave way to growing job inequality (2014-2019). COVID-19 drastically altered this pattern. New data suggest a dramatic shift in U.S. employment trends, disproportionately disrupting low-wage occupations—as the inverted-U curve in Figure 8.1 illustrates. The shift reflects abrupt employment declines in low-wage, high-contact jobs (e.g., cleaning, hospitality, or health care activities) and the fact that many "remotable" jobs require skills or hardware that low-wage workers may not have.

Figure 8.1.
Recent US employment trends show low-wage workers hit hard



Source: Author's calculations using the CPS and ACS.

The COVID-19 shift seen in the U.S does not bode well for Latin America where, as in many developing economies over recent decades, the adoption of new technologies has been slower due in part to the relative abundance of unskilled labor, resulting in much less labor market polarization[2] and even declining inequality[3] (albeit from very high levels and for varied reasons). At the same time, Latin America's relatively unskilled labor force partly explains why the region has likely seen higher job losses from COVID-19 than the U.S. has.

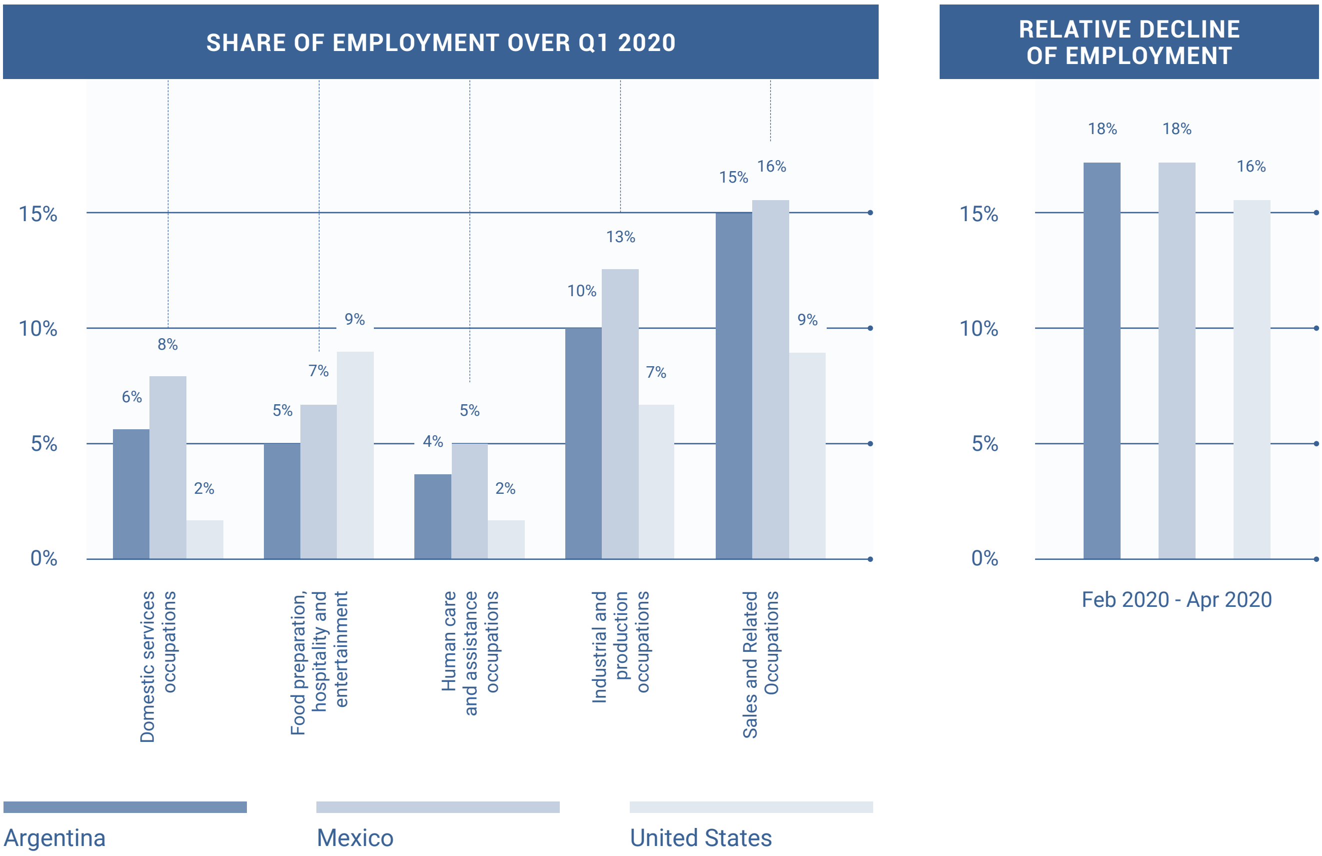
Compared to the U.S., employment in Latin American countries is more heavily concentrated in the high-contact, non-remotable occupations[4] hit hardest by COVID-19 (see Figure 8.2). Consider sales jobs for example. Between February and April, jobs in sales and related occupations contracted by 20 percent in the United States—but sales jobs represented only 9 percent of the U.S. labor market before the pandemic. In Argentina and Mexico, sales jobs represented approximately 15 percent of workers (not including a likely high number of informal workers).

The pattern is repeated across occupations. In the United States, the five hardest-hit represent 29 percent of the U.S. labor market; in Argentina and Mexico, these jobs represent 40 and 47 percent of formal employment, respectively. If the U.S. had the same occupational structure as Argentina or Mexico, U.S. job losses would have been approximately two percentage points higher, equivalent to 3 million additional workers (Figure 8.2b).

"The future of work calls for a new regime for non-salaried workers, halfway between the precarity of self-employment and the—often highly protected—salaried work, where benefits are portable and tied not to the job but to the hours worked.

Figure 8.2

Argentina and Mexico have more workers in the hardest-hit occupations



Source: Author's analysis of the CPS, Argentina's Permanent Household Survey (EPH) and Mexico's National Survey of Occupation and Employment (ENOE).

Note: The comparison of participation rates by occupation was accomplished by collapsing occupation-detailed employment data into 34 comparable occupational groups based on Argentina's National Occupation Classification. Figure 8.2b estimates the counterfactual employment changes in the US by applying the U.S.'s percentage change in occupational employment to Argentina's and Mexico's occupational structure.

Furthermore, the estimates given in Figure 8.2 should be taken as conservative because they do not account for a second, distinctive feature of the labor market channel in developing economies: the precariousness of their labor markets, which disproportionately exposes low-income workers to income shocks.

In the particular case of Latin America, about half of the workers are[5] informal wage-earners or self-employed without a college degree; in Bolivia, Nicaragua, Paraguay, and Perú, more than two-thirds of workers are informal. Consequently, many of these workers live beyond the reach of traditional government support programs (e.g., wage subsidies and furlough schemes.)

And while many Latin American countries offer generous labor protections to high-wage salaried workers (such as in Argentina,[6] where severance payments were doubled prior to the pandemic, before they were followed by outright layoff bans), most informal and independent workers lack labor protections altogether. As a result, Latin America's high-wage salaried workers may be more protected than U.S. workers, while low-wage Latin American workers face far greater risks.

Thus, while fiscal responses have been small in many Latin American countries (for instance, Mexico's response has amounted to 1.2 percent of GDP compared to 14 percent in the U.S.), simply increasing spending, without efforts at formalization, may prove inadequate. Even in countries with significant fiscal resources like Perú, high degrees of informality and self-employment limit governments' ability to reach workers.[7]

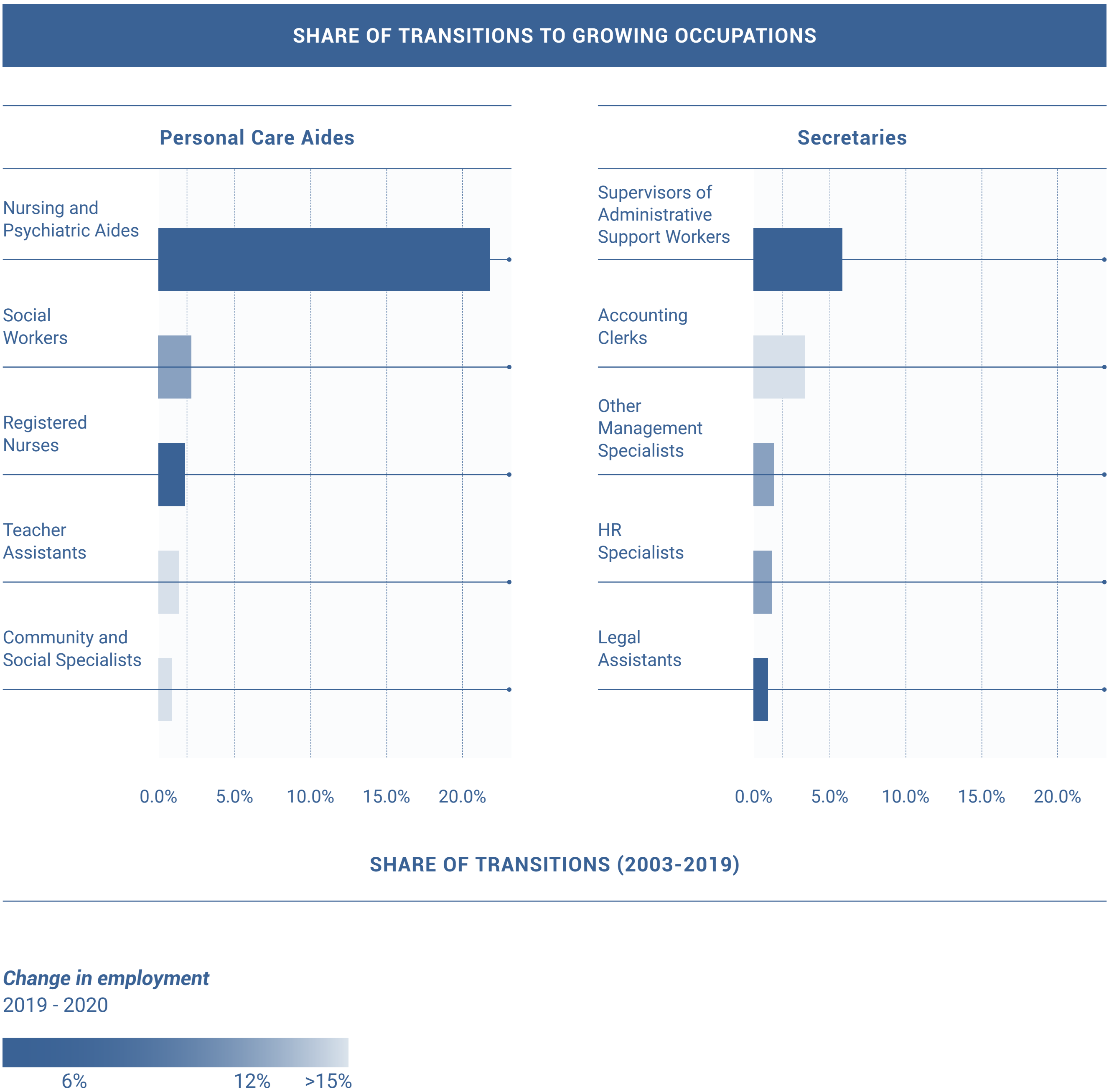
WORKER MOBILITY DURING AND AFTER THE PANDEMIC

To be sure, it is not all doom and gloom. Amid dramatic job losses throughout the Americas, some occupations are still growing and will likely see increased demand in the future. During and after the pandemic, active labor market policies[8] (such as wage subsidies and vocational training or adult education) will be critical to help workers navigate labor markets and transition through periods of unemployment. A network of the labor market built from historical data of U.S. workers' job-to-job transitions[9] can assist policymakers to go further by targeting these active labor market policies specifically to help workers transition from declining to growing occupations.

For example, as shown in Figure 8.3, Personal Care Aides, an occupation recently in decline, is nearby to Nursing and Psychiatric Aides, an occupation more resilient to the current economic climate. This proximity indicates that personal care aides, often with targeted training and support, may easily make the transition to nursing and psychiatric care. Similarly, a declining occupation like Secretary has promising transition prospects to growing occupations, such as Administrative Supervisors, Accounting Clerks, or HR Specialists.[10] Using Argentina's job-to-job transitions network shows that workers in Administrative and Management occupations are relatively more adaptable than others to transition into other occupations, while Transportation and Construction workers are among the groups with the lowest reallocation prospects. Similar analyses[11] using Argentina's job-to-job transitions network show that workers in Administrative and Management occupations are relatively more adaptable than others to transition into other occupations, while Transportation and Construction workers are among the groups with the lowest reallocation prospects.

Figure 8.3

Job transition data show viable opportunity for workers in hard-hit occupations.



Source: Author's analysis of the CPS.

Note: Historical job transition data show viable opportunity for workers in declining occupations to move into growing occupations, given the frequency with which those transitions occurred in the past.

The way forward

The extent to which current trends will become permanent changes remains uncertain. Now that companies have learned to operate with fewer active workers, they are unlikely to unlearn. While some workers who were temporarily unemployed in the U.S. (similar to furloughed workers in European countries) are returning, there is an emerging undercurrent of permanent layoffs associated with the more persistent impact of social distancing that will shape the impact of COVID-19 in labor markets. The significance of these changes will likely vary across the world.

In developed economies, pandemic-induced automation and digitalization can be expected to create jobs in mostly high-skill occupations, whereas less travel and more remote work will likely dampen demand for less-skilled service work,[12] like hospitality, food, or janitorial services, and further suppress wages at lower-income levels even[13] as the pandemic wanes. (Hence, the calls for more labor-friendly R&D and the argument[14] that the tax system, by taxing labor heavily while subsidizing capital through tax breaks and other benefits, induces labor-replacing automation.)

In Latin America, by contrast, the COVID-19 shock is less likely to accelerate automation due to the same factors that made the region more vulnerable to COVID-related job losses in the first place: informality and abundance of unskilled labor, as well as rather flat education premiums, high costs of capital investment, and barriers to the diffusion of technology. Instead, the pandemic will likely depress wages and increase the number of low-skill workers looking for jobs, further reducing firm incentives to invest in automation.

THE POLICY IMPERATIVES

As mentioned, in the current dynamic context, a more informed and targeted training system is essential to mitigate the COVID shock on employment and labor income. More precisely, an effort to orient training towards occupations with high mobility and wage upside, based on the characteristics of displaced workers and on informed projections of the demand for specific skills. This requires the direct involvement of private employers both as sources of information and as providers of training, alongside education institutions—a three-way, state-labor-business collaboration, the norm in most other advanced economies.

But a standard vocational training program, even a granular, forward-looking one as we propose, may not be enough: it will need to adapt and expand to address the needs of independent workers—particularly in the developing world where they are a growing and relatively unskilled majority. To be sure, any training effort has to start from the premise that not all precarious workers will access formal jobs. There is simply not sufficient demand in the private sector for all of them. Instead, the training tool will need the flexibility to include occupations for freelancers and microentrepreneurs to improve their productivity and labor income.

Moreover, the future of work calls for a new regime for non-salaried workers,[15] halfway between the precarity of self-employment and the—often highly protected—salaried work, where benefits are portable and tied not to the job but to the hours worked. This transitional regime is essential in developing economies both to stabilize the labor income of the precarious labor force and to expedite labor inclusion, as the new regime may work as a bridge to job formalization in developing countries where economic volatility and large severance and litigation costs reduce the demand for formal workers.

Policymakers should act now. Formalizing, broadening labor protection with portable benefits, investing in lifelong workforce development programs, partnering with the private sector to orient smart active labor policies to the creation of jobs with genuine upside and productivity: this is the labor inclusion agenda opened by the pandemic. The labor market channel was a critical driver of the differential welfare impact of COVID around the globe; it should also be the door to rebuild a better, more inclusive economy.

Note: The authors thank Ian Seyal, Carlos Daboin, and Sebastian Strauss from the Workforce of the Future initiative for their contributions.

> *In the current dynamic context, a more informed and targeted training system is essential to mitigate the COVID shock on employment and labor income.*

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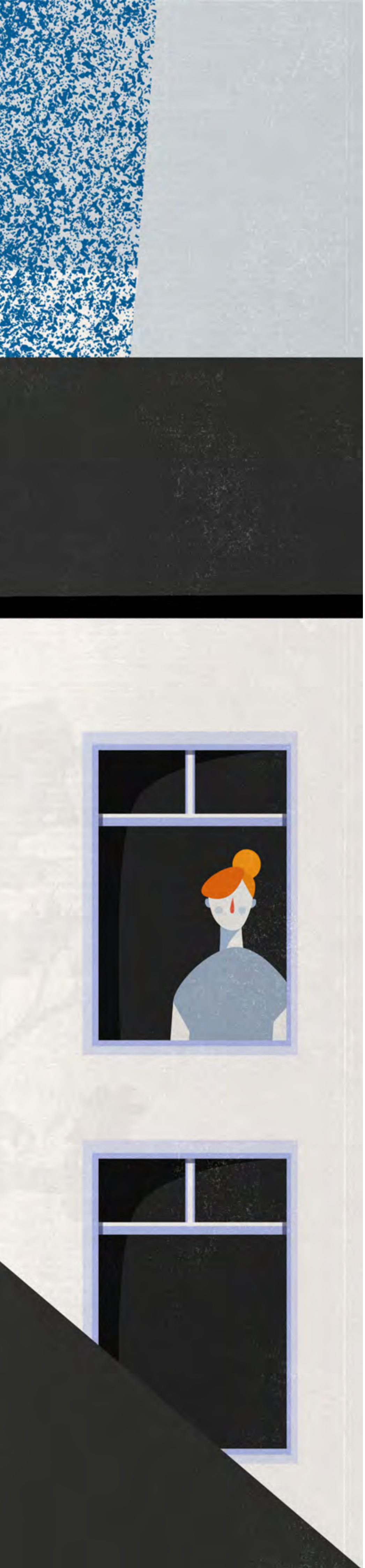

9

Tackling the inequality pandemic: Is there a cure?

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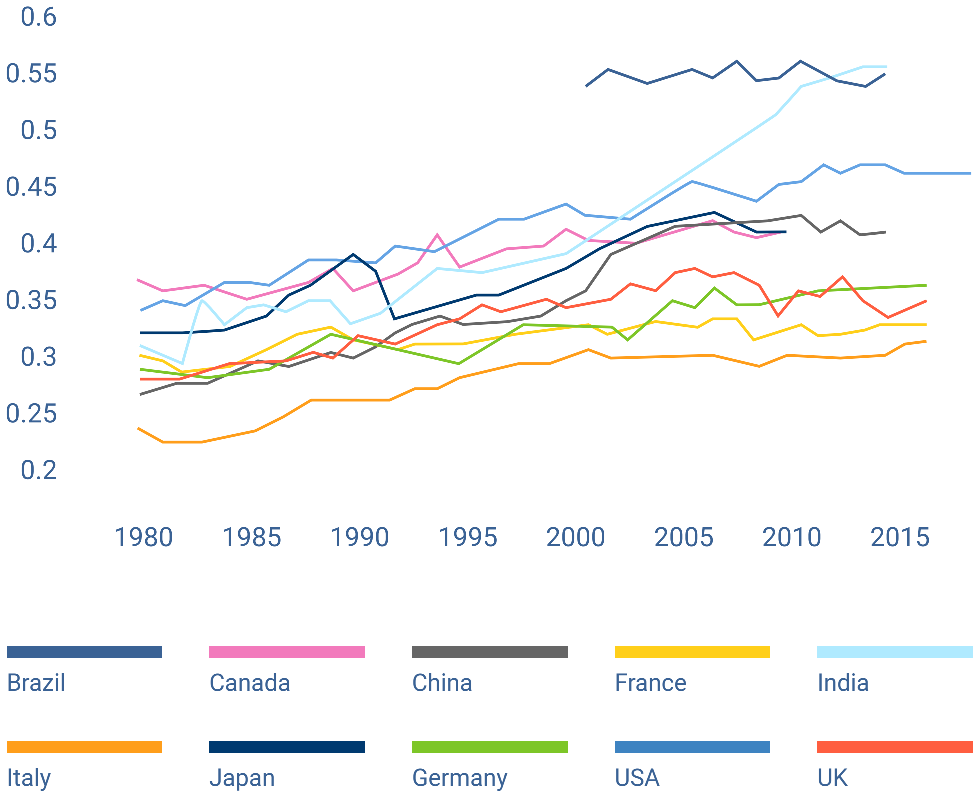
Inequality was bad and the COVID-19 pandemic is making it worse. The immediate priority is to protect the disadvantaged and the vulnerable from the health and economic impacts of the crisis. But policies must also address the deeper, structural drivers of the rise in inequality.

The issue

"The COVID-19 recession is the most unequal in modern U.S. history."[1] The pandemic has thrown into stark relief the high and rising economic inequality in the United States and elsewhere. The costs of the pandemic are being borne disproportionately by poorer segments of society. Low-income populations are more exposed to the health risks and more likely to experience job losses and declines in well-being. These effects are even more concentrated in economically disadvantaged minorities. The pandemic is not only exacerbated by the deprivations and vulnerabilities of those left behind by rising inequality but its fallout is pushing inequality higher.[2]

Income and wealth inequality has risen in practically all major advanced economies over the past two to three decades. It has risen particularly sharply in the United States. The increase in inequality has been especially marked at the top end of the income distribution (Figure 9.1). Those with middle-class incomes have been squeezed and the typical worker has seen largely stagnant real wages over long periods. Intergenerational economic mobility has declined. Income distribution trends are more mixed in emerging economies but many of them have also experienced rising inequality, including some major emerging economies such as China and India.

Figure 9.1
A pandemic of inequality
(Share of richest 10% in national income)



Source: World Inequality Database. The figure shows pre-tax national income shares for the world's 10 largest economies, including seven advanced economies (G-7) and three emerging economies.

Rising inequality is a major fault line of our time, with adverse economic, social, and political consequences. It has depressed economic growth by dampening aggregate demand and slowing productivity growth. It has stoked social discontent, political polarization, and populist nationalism. And as the pandemic has revealed, it has increased societal and economic fragility to shocks.

> *The pandemic is not only exacerbated by the deprivations and vulnerabilities of those left behind by rising inequality but its fallout is pushing inequality higher.*

The ideas

What does research say about why inequality is rising? Many factors affect income distribution but research has increasingly focused on technological change as a key driver of the rise in inequality observed in recent decades.[3] Digital technologies have been transforming markets and how we work and do business, and the latest advances in artificial intelligence are driving the digital revolution further. The benefits of this technological transformation have been shared highly unequally.

Inequalities have increased between firms and between workers. Firms at the technological frontier have broken away from the rest, acquiring dominance in increasingly concentrated markets and capturing the lion's share of profits. Increasing automation of low- to middle-skill tasks has shifted labor demand toward higher-level skills, hurting wages and jobs at the lower end of the skill spectrum. With the new technologies favoring capital, winner-take-all business outcomes, and higher-level skills, the distribution of both capital and labor income has become more unequal, and income has shifted from labor to capital.

The COVID-19 pandemic is reinforcing these inequality-increasing dynamics. It is causing the digital transformation of production, commerce, and work to accelerate.[4] While smaller firms struggle, large technologically advanced firms are further increasing market shares, fortifying the shift toward more oligopolistic, less competitive markets.[5] Increased automation and telework are further tilting labor markets against low-skilled, low-wage workers.[6] Industries with business models heavily reliant on human contact and low-skilled workforce are hit especially hard.

Globalization also has contributed to rising inequality within economies—although technological change has been the more dominant factor. But it has been a force for reduced inequality between economies. Expanding global supply chains have been a major spur to economic growth in emerging economies, enabling them to narrow the income gap with advanced economies. The pandemic could disrupt this economic convergence by stoking the backlash against globalization and provoking nationalist trade policy responses, including reshoring of production. This would add to the challenges emerging economies face as increasing automation necessitates search for new growth models less reliant on low skill, low-wage labor as the source of comparative advantage.

A weakening redistributive role of the state also has been a factor pushing inequality higher. As shifts in product and labor markets caused by technological change—and globalization—drove inequality of market incomes within economies higher, the role of the state in alleviating market-income inequality through taxes and transfers diminished. In OECD economies, taxes and transfers typically kept disposable-income inequality one-fifth to one-quarter lower than market-income inequality. In recent years, the role of fiscal redistribution in offsetting the rise in market-income inequality has shrunk because of reduced progressivity of personal income taxes, lower taxes on capital, and tighter spending on social programs.

> *A weakening redistributive role of the state also has been a factor pushing inequality higher.*

The way forward

Is rising inequality an inevitable consequence of today's technology-driven economic transformations—and globalization? The answer is no. Policies have been slow to respond to the challenges of change. With better, more responsive policies, more inclusive economic outcomes are possible.

The first order of business is to contain the pandemic and address its immediate health and economic consequences that disproportionately hurt the less well-off. Countries have responded in varying degrees by taking preventive measures against the pandemic, shoring up health systems, strengthening safety nets, and implementing policies to cushion the impact on jobs and economic activity. The more successful these actions are in protecting the vulnerable and supporting economic recovery, the less will be the direct impact of the crisis in worsening existing inequalities.

Beyond these immediate actions is a longer-term agenda to address the underlying drivers of the secular rise in inequality. Policies to reduce inequality are often seen narrowly in terms of redistribution—tax and transfer policies. This is of course an important element, especially given the erosion of the state's redistributive role. In particular, systems for taxing income and wealth should be bolstered in light of the new distributional dynamics. But there is a much broader policy agenda of "predistribution" that can make the growth process itself more inclusive.[7]

A core part of this broader agenda is to better harness the potential of technological transformation to foster more inclusive economic growth:

- As technology transforms the world of business, policies and institutions governing markets must keep pace. Competition policies should be revamped for the digital age to ensure that markets provide an open and level playing field for firms, keep competition strong, and check the growth of monopolistic structures. This includes regulatory reform and stronger antitrust enforcement. New issues revolving around data (the lifeblood of the new economy) and market concentration resulting from tech giants that resemble natural or quasi-natural monopolies must be addressed. New thinking is needed on ways to broaden capital ownership and reform corporate governance to reflect wider stakeholder interests.

- In an increasingly knowledge-driven economy, the innovation ecosystem should be improved to promote wider diffusion of technologies embodying new knowledge. Reform of patent regimes and more effective use of public investment and tax policies on research and development can help "democratize" the innovation system so that it serves broader economic and social goals rather than narrow interests of a small group of investors.[8] Biases in the tax system favoring capital relative to labor that create incentives toward "excessive automation"—that destroys jobs without enhancing productivity—should be corrected.[9]

The foundation of digital infrastructure and digital literacy must be strengthened to expand access to new opportunities. The digital divide remains wide between groups within economies, and is wider still between economies at different levels of development.

Investment in education and training must be boosted, with stronger programs for worker upskilling, reskilling, and lifelong learning that respond to shifts in the demand for skills. This will require innovation in the content, delivery, and financing of (re)training, including new models of public-private partnerships. Persistent inequalities in access to education and training must be addressed. While gaps in basic capabilities have narrowed, those in higher-level capabilities that will drive success in the 21st century have widened.[10]

Labor market policies should shift to a more forward-looking focus on improving workers' mobility, helping them to move to new and better jobs rather than seeking to protect existing jobs being rendered obsolete by changing technology. The pandemic has exposed weaknesses in social safety nets. Social protection systems should be strengthened, indeed overhauled. Traditionally based on formal long-term employer-employee relationships, they should be adapted to a job market with more frequent job transitions and more diverse work arrangements. Social contracts need to realign with the changing economy and the nature of work.

At the international level, not only must past gains in establishing a rules-based international trading system be shielded from the rise of protectionist sentiment, new disciplines need to be devised for the next phase of globalization led by digital flows to ensure open access and fair competition. International cooperation on tax matters becomes even more important in view of the new tax challenges of the digital economy.

Inevitably, major economic reform is politically complex. Today's elevated political divisiveness adds to the challenges. One thing reform should not be paralyzed by, however, is continued trite debates about conflicts between growth and equality. Research has increasingly shown this to be a false dichotomy. Crises can shift the political setting for reform. The fault lines exposed by the pandemic can be a catalyst for change.

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10

The human costs of the pandemic: Is it time to prioritize well-being?

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The issue

The high costs of COVID-19 are evident in lost jobs, dramatic falls in GDP growth, compromised schooling, shuttered restaurants, and much more. Some of these losses will be recovered over time, some will not. The human costs of the pandemic—above and beyond the gruesome death toll—are much more difficult to assess.

Our analyses suggest that the emotional costs of the pandemic are much higher for the poor and vulnerable than they are for the rich, heightening deep pre-existing inequities in well-being in the U.S and many other countries.[1] Before COVID-19, our data discovered remarkable progress paradoxes in rapidly growing middle-income countries.[2] In the late 1990s in China, life satisfaction fell more than 20 percent and mental health reports and suicides increased sharply at the height of their rapid growth, due to increases in inequality and uncertainty associated with change, as well as increasing gaps between the winners and losers in the process. In the past decade in India—in which both growth and poverty reduction have been exceptionally high—both life satisfaction and reported optimism fell over 10 percent, for similar reasons.

In the U.S., pre-COVID-19, when stock markets were booming and the official unemployment was at record lows, deaths of despair—due to opioids and suicides—took over 1 million lives in just over a decade. These were concentrated among less than college educated middle aged whites—a privileged group when manufacturing jobs were plentiful, but then experienced declines in income and social cohesion as those jobs disappeared.

Pockets of deep vulnerability—and ill-being—persisted and even deepened in the decade of steady growth following the financial crisis.

Since COVID-19, these trends and other pre-existing inequities have been exacerbated and are reflected in deep declines in reported well-being.[3] A survey in March highlights the differences in the costs to well-being across the rich and poor.[4] Low-income respondents significantly reported more negative emotions than did high income ones, including more worry, sadness, loneliness, and anger.

There were also significant increases in negative emotions relative to earlier years for all income groups. Our comparisons are imperfect, given that they are based on similar but not the same samples: the Gallup panel for March 2020 versus the 2017 Gallup daily poll, although for the same income groups. The differences are stark. The average in 2017 for reported stress and worry for the low-income respondents was greater than for high income ones (Figure 10.1). There is a clear increase in March 2020 for both groups (for example, 64 percent worry for low-income groups versus 41 percent in 2017).

Figure 10.1

Well-being across income groups

Source: Graham and Pinto (2020) calculations based on Gallup 2017 data; 2013-16 patterns are very similar.

There is evidence of spillover effects of COVID-19 among populations already vulnerable to deaths of despair. While most of these populations tend to be rural and less likely to have high COVID-19 incidence than metropolitan ones, the economic costs and uncertainty associated with the pandemic still affect them. Incidence in rural areas, meanwhile, has spiked significantly in the fall of 2020.

The National EMS Information System (NEMSIS) provides first responder data for 46 million respondents from 2017-2020.[5] In March-July of 2020 compared to the same period for 2019 and 2018, there was a sharp increase in calls activated by drug overdoses and deaths, mental and behavioral issues, and the need for naloxone, and in refusals to go to the hospitals by overdose victims.[6] While the NEMSIS data only covers a fraction of actual deaths, it is collected in real time, allowing us to follow changing trends. EMS calls for opioid-related activities, for example, increased from roughly 2,000 per week in February and March 2019 to almost 5,000 per week in the same time period for 2020. Calls for mental and behavioral problems increased from just under 35,000 per week in the same time period for 2019 to almost 45,000 per week in 2020.

Other kinds of EMS calls—such as for traffic and other accidents decreased in 2020—due to the lower volume of activity during lockdown, while cardiac arrest and respiratory problem calls increased. Suicide calls are only slightly higher than earlier years, but there are worrisome signs, such as sharp increases in gun sales (guns are responsible for most successful suicides). Before the crisis, a 2017 study estimated that a 1 percent increase in county level unemployment resulted in a 3 percent increase in drug related deaths.[7] While an employment shock of this magnitude makes it impossible to impose a similar projection, it is hard to imagine a positive scenario.

The impact of COVID-19 was similar across many rich countries. Yet the characteristics of vulnerable groups differ, and the trends were less likely to be associated with deaths of despair as they are in the U.S. In the U.K., for example, Asians, Muslims, and other minorities report disproportionately high levels of anxiety[8] compared to whites during COVID-19. The same study found that mental health and loneliness appear to have worsened, with these same minorities—and young adults and people with low incomes—disproportionately at risk. Those who are particularly vulnerable, due to losing a job, having difficulty accessing food, or unable to pay bills, not only have the worst *objective experiences*, but suffer additional negative effects on mental health due to high levels of worry. Poor mental health is negatively related to compliance with government guidelines during the pandemic.

The death toll in poor countries—and among the poor within them—is typically much higher than in rich countries. Yet we do not have recent data to assess COVID-19-related declines in well-being and mental health there. Given extensive poverty and greater difficulty associated with social distancing, it is difficult to imagine an absence of negative effects.

Anecdotal evidence for India, meanwhile, suggests increases in rural suicides. India instituted one of the world's strictest lockdowns amidst high rates of poverty. Perhaps because of that, it still had one of the worst results worldwide controlling the virus. Lockdowns resulted in millions of more Indians entering poverty and exacerbated one of the highest suicide rates in the world.[9] The additional numbers of suicides are estimated to be well into the thousands. Farmers, unable to take their products to market and to employ rural labor to field their crops during lockdown, were particularly vulnerable. A country with already low levels of well-being and high levels of vulnerability now displays the worst manifestations of the virus on public health and the economy, as on mental health.

> *The pandemic has highlighted how economic growth alone is not enough to sustain economies and societies.*

The ideas

Well-being measurement gives us a lens into the emotional and mental health costs associated with the pandemic and some strategies to resolve it. It allows us to assess how trends in life satisfaction, hope, anxiety, and depression compare for the same population groups pre- and post-COVID-19.

Well-being data reflect actual trends and can be predictive of future behaviors. We find that ill-being markers—such as despair and stress—are strongly associated with the probability of dying from deaths of despair (both for individuals and places).[10] The increases in despair preceded the increase in deaths by two decades, suggesting a possible predictive role.[11] We are now using the metrics as warning indicators of overdoses, suicides, and other despair related deaths.[12] As such, they provide us with a means to take societies' temperature during good times and bad, and certainly during this public health crisis.

A recent study of the well-being effects of lockdowns in Australia, New Zealand, and South Africa used Twitter data[13] to find that reported average daily happiness fell on average by 16 percent compared to the previous year. The daily happiness measure was strongly and negatively correlated with reported depression and anxiety. The drops were starkest in South Africa, which has much more poverty and implemented the most severe lockdown of the three, including a ban on sales of alcohol and outdoor exercise. While the average pre- to post-lockdown happiness drop was a full point on the 0-10 happiness scale in New Zealand and Australia, it was 1.5 points in South Africa, suggesting that the nature and details of lockdown policies also matter a great deal.

The U.K. government's efforts to combat loneliness, led by Lord Richard Layard, as well as the OECD guidelines on using well-being to inform recovery efforts, highlight the need to identify pre-existing vulnerabilities to target support, to emphasize new areas not previously on the governments' radar screen, such as isolation, and to work to build resilience within systems, such as supporting social capital and public trust. The 2010 Marmot Review has also been updated to include investing in early childhood development to combat the costs of not being in school, improving working conditions for front-line workers, supporting better job training efforts and a living wage, and re-thinking healthy and sustainable places for people to live and work, not least as the pandemic has changed the nature of work for so many. Well-being data show that autonomy and purpose at work matter more to workers' well-being and productivity, for example, than do salary increases, an insight which can inform future labor market policies.

The way forward

Despite these high levels of human suffering, there are also some surprisingly positive trends. Surveys find that, on average, humans are remarkably resilient and can face a wide range of challenges—from poverty to crime to health problems—and return to their initial high levels of well-being. As such, it is no surprise that in the countries for which we do have data, such as the U.S., the U.K., Ireland, and Sweden, average levels of well-being trended back upward to near pre-COVID-19 trends as soon as the lockdowns and the uncertainty surrounding them subsided.[14] Within the U.S., groups that are traditionally resilient in well-being terms, such as poor Blacks and Hispanics, display it during the pandemic. While these same groups are much more likely to contract and/or die from COVID-19,[15] they also report better mental health and more optimism for the future than whites during the pandemic. Low-income Blacks have higher levels of optimism than other low-income groups, and they also experienced less of a decline during COVID-19.

Still, the pandemic has highlighted how economic growth alone is not enough to sustain economies and societies. In the absence of a more comprehensive approach, which supports societies' health and well-being in addition to growth, we will remain very vulnerable to the next pandemic, as well as future waves of this one. It has also emphasized how infectious diseases cross borders within and across countries, and that ignoring the well-being of the poor and the vulnerable has broad costs within and beyond national borders. Well-being metrics give policymakers a tool to attach relative values to things like lost jobs, lack of health insurance, and insecurity. Many countries have adopted a well-being approach in their policies, most notably New Zealand, which is also one of the world's leaders in virtually eliminating COVID-19. And, as we have written earlier,[16] New Zealand also has exceptionally high levels of public trust compared to those countries that have fared poorly in controlling the pandemic—such as the U.S. and India.

Incorporating well-being into economic models and policy priorities would surely leave many other countries better prepared to handle crises in which the solutions hinge on public health systems and norms of public trust and cooperation.

> *Our analyses suggest that the emotional costs of the pandemic are much higher for the poor and vulnerable than they are for the rich, heightening deep pre-existing inequities in well-being in the U.S and many other countries.*

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11

The complexity of managing COVID-19: How important is good governance?

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The issue

The COVID-19 pandemic has exposed the inadequacy of public health systems worldwide, casting a shadow that we could not have imagined even a year ago. As the fog of confusion lifts and we begin to understand the rudiments of how the virus behaves, the end of the pandemic is nowhere in sight. The number of cases and the deaths continue to rise. The latter breached the 1 million mark a few weeks ago and it looks likely now that, in terms of severity, this pandemic will surpass the Asian Flu of 1957-58 and the Hong Kong Flu of 1968-69.

Moreover, a parallel problem may well exceed the direct death toll from the virus. We are referring to the growing economic crises globally, and the prospect that these may hit emerging economies especially hard.

The economic fall-out is not entirely the direct outcome of the COVID-19 pandemic but a result of how we have responded to it—what measures governments took and how ordinary people, workers, and firms reacted to the crisis. The government activism to contain the virus that we saw this time exceeds that in previous such crises, which may have dampened the spread of the COVID-19 but has extracted a toll from the economy.

This essay takes stock of the policies adopted by governments in emerging economies, and what effect these governance strategies may have had, and then speculates about what the future is likely to look like and what we may do here on.

> *Nations that build walls to keep out goods, people and talent will get out-competed by other nations in the product market.*

The ideas

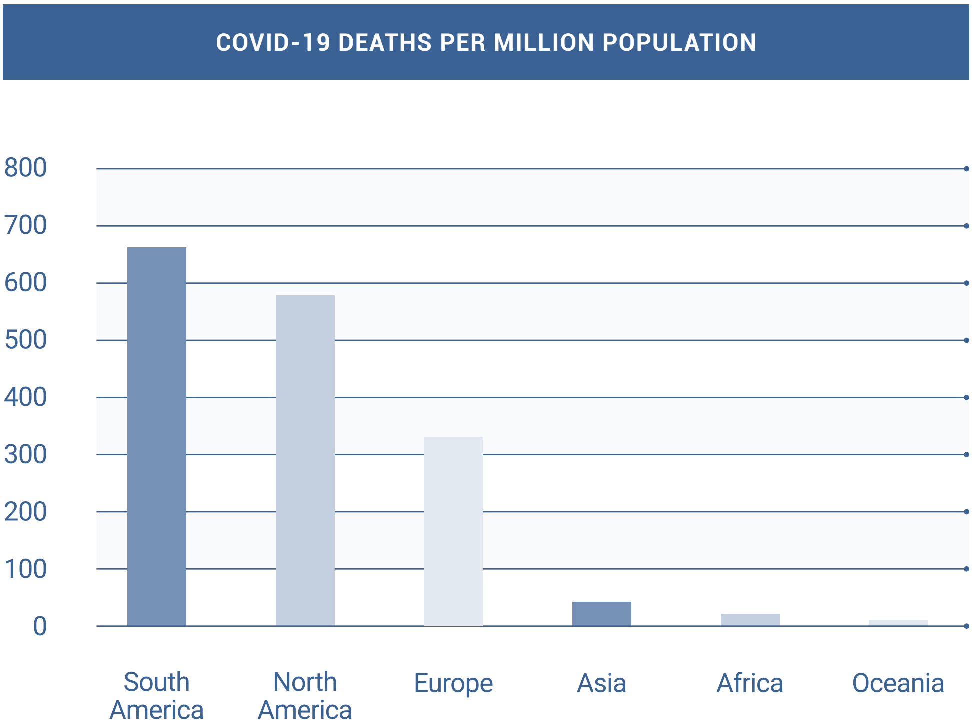
It is becoming clear that the scramble among several emerging economies to imitate and outdo European and North American countries was a mistake. We get a glimpse of this by considering two nations continents apart, the economies of which have been among the hardest hit in the world, namely, Peru and India. During the second quarter of 2020, Peru saw an annual growth of -30.2 percent and India -23.9 percent. From the global Q2 data that have emerged thus far, Peru and India are among the four slowest growing economies in the world. Along with U.K and Tunisia these are the only nations that lost more than 20 percent of their GDP.[1]

COVID-19-related mortality statistics, and, in particular, the Crude Mortality Rate (CMR), however imperfect, are the most telling indicator of the comparative scale of the pandemic in different countries. At first glance, from the end of October 2020, Peru, with 1039 COVID-19 deaths per million population looks bad by any standard and much worse than India with 88. Peru's CMR is currently among the highest reported globally.

However, both Peru and India need to be placed in regional perspective. For reasons that are likely to do with the history of past diseases, there are striking regional differences in the lethality of the virus (Figure 11.1). South America is worse hit than any other world region, and Asia and Africa seem to have got it relatively lightly, in contrast to Europe and America.

The stark regional difference cries out for more epidemiological analysis. But even as we await that, these are differences that cannot be ignored.

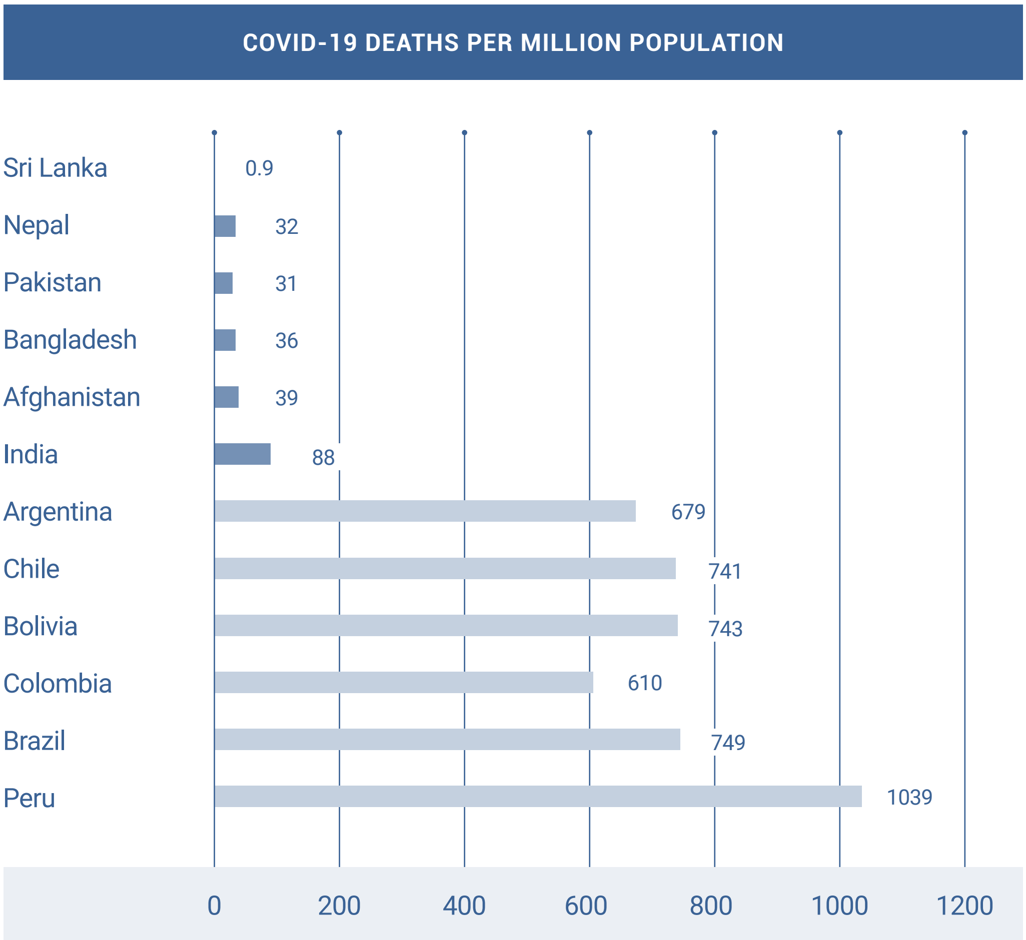
Figure 11.1
COVID-19 deaths by region



Source: Coronavirus Worldometer. Data accessed October 27, 2020

To understand the effect of policy interventions, it is therefore important to look at how these countries fare *within* their own regions, which have had similar histories of illnesses and viruses (Figure 11.2). Both Peru and India do much worse than the neighbors with whom they largely share their social, economic, ecological and demographic features. Peru's COVID-19 mortality rate per million population, or CMR, of 1039 is ahead of the second highest, Brazil at 749, and almost twice that of Argentina at 679.

Figure 11.2
COVID-19 deaths in South America and South Asia



Source: Coronavirus Worldometer. Data accessed October 30, 2020

Similarly, India at 88 compares well with Europe and the U.S., as does virtually all of Asia and Africa, but is doing much worse than its neighbors, with the second worst country in the region, Afghanistan, experiencing less than half the death rate of India.

The official Indian statement that up to 78,000 deaths[2] were averted by the lockdown has been criticized[3] for its assumptions. A more reasonable exercise is to estimate the excess deaths experienced by a country that breaks away from the pattern of its regional neighbors. So, for example, if India had experienced Afghanistan's COVID-19 mortality rate, it would by now have had 54,112 deaths. And if it had the rate reported by Bangladesh, it would have had 49,950 deaths from COVID-19 today. In other words, more than half its current toll of some 122,099 COVID-19 deaths would have been avoided if it had experienced the same virus hit as its neighbors.

What might explain this outlier experience of COVID-19 CMRs and economic downslide in India and Peru? If the regional background conditions are broadly similar, one is left to ask if it is in fact the policy response that differed markedly and might account for these relatively poor outcomes.

Peru and India have performed poorly in terms of GDP growth rate in Q2 2020 among the countries displayed in Table 2, and given that both these countries are often treated as case studies of strong governance, this draws attention to the fact that there may be a dissonance between strong governance and good governance.

The turnaround for India has been especially surprising, given that until a few years ago it was among the three fastest growing economies in the world. The slowdown began in 2016, though the sharp downturn, sharper than virtually all other countries, occurred after the lockdown.

On the COVID-19 policy front, both India and Peru have become known for what the Oxford University's COVID Policy Tracker[4] calls the "stringency" of the government's response to the epidemic. At 8 pm on March 24, 2020, the Indian government announced, with four hours' notice, a complete nationwide shutdown. Virtually all movement outside the perimeter of one's home was officially sought to be brought to a standstill. Naturally, as described in several papers, such as that of Ray and Subramanian,[5] this meant that most economic life also came to a sudden standstill, which in turn meant that hundreds of millions of workers in the informal, as well as more marginally formal sectors, lost their livelihoods.

In addition, tens of millions of these workers, being migrant workers in places far-flung from their original homes, also lost their temporary homes and their savings with these lost livelihoods, so that the only safe space that beckoned them was their place of origin in small towns and villages often hundreds of miles away from their places of work.

After a few weeks of precarious living in their migrant destinations, they set off, on foot since trains and buses had been stopped, for these towns and villages, creating a "lockdown and scatter" that spread the virus from the city to the town and the town to the village. Indeed, "lockdown" is a bit of a misnomer for what happened in India, since over 20 million people did exactly the opposite of what one does in a lockdown. Thus India had a strange combination of lockdown some and scatter the rest, like in no other country. They spilled out and scattered in ways they would otherwise not do. It is not surprising that the infection, which was marginally present in rural areas (23 percent in April), now makes up some 54 percent of all cases in India.[6]

In Peru too, the lockdown was sudden, nationwide, long drawn out and stringent.[7] Jobs were lost, financial aid was difficult to disburse, migrant workers were forced to return home, and the virus has now spread to all parts of the country with death rates from it surpassing almost every other part of the world.

As an aside, to think about ways of implementing lockdowns that are less stringent and geographically as well as functionally less total, an example from yet another continent is instructive. Ethiopia, with a COVID-19 death rate of 13 per million population seems to have bettered the already relatively low African rate of 31 in Table 1.[8]

> *We hope that human beings will emerge from this crisis more aware of the problems of sustainability.*

The way forward

We next move from the immediate crisis to the medium term. Where is the world headed and how should we deal with the new world? Arguably, that two sectors that will emerge larger and stronger in the post-pandemic world are: digital technology and outsourcing, and healthcare and pharmaceuticals.

The last 9 months of the pandemic have been a huge training ground for people in the use of digital technology—Zoom, WebEx, digital finance, and many others. This learning-by-doing exercise is likely to give a big boost to outsourcing, which has the potential to help countries like India, the Philippines, and South Africa.

Globalization may see a short-run retreat but, we believe, it will come back with a vengeance. Nations that build walls to keep out goods, people and talent will get out-competed by other nations in the product market. This realization will make most countries reverse their knee-jerk anti-globalization; and the ones that do not will cease to be important global players. Either way, globalization will be back on track and with a much greater amount of outsourcing.

To return, more critically this time, to our earlier aside on Ethiopia, its historical and contemporary record on tampering with internet connectivity[9] in an attempt to muzzle inter-ethnic tensions and political dissent will not serve it well in such a post-pandemic scenario. This is a useful reminder for all emerging market economies.

We hope that human beings will emerge from this crisis more aware of the problems of sustainability. This could divert some demand from luxury goods to better health, and what is best described as "creative consumption": art, music, and culture.[10] The former will mean much larger healthcare and pharmaceutical sectors.

But to take advantage of these new opportunities, nations will need to navigate the current predicament so that they have a viable economy once the pandemic passes. Thus it is important to be able to control the pandemic while keeping the economy open. There is some emerging literature[11] on this, but much more is needed. This is a governance challenge of a kind rarely faced, because the pandemic has disrupted normal markets and there is need, at least in the short run, for governments to step in to fill the caveat.

Emerging economies will have to devise novel governance strategies for doing this double duty of tamping down on new infections without strident controls on economic behavior and without blindly imitating Europe and America.

Here is an example. One interesting opportunity amidst this chaos is to tap into the "resource" of those who have already had COVID-19 and are immune, even if only in the short-term—we still have no definitive evidence on the length of acquired immunity.

These people can be offered a high salary to work in sectors that require physical interaction with others. This will help keep supply chains unbroken. Normally, the market would have on its own caused such a salary increase but in this case, the main benefit of marshaling this labor force is on the aggregate economy and GDP and therefore is a classic case of positive externality, which the free market does not adequately reward. It is more a challenge of governance. As with most economic policy, this will need careful research and design before being implemented. We have to be aware that a policy like this will come with its risk of bribery and corruption. There is also the moral hazard challenge of poor people choosing to get COVID-19 in order to qualify for these special jobs. Safeguards will be needed against these risks.

But we believe that any government that succeeds in implementing an intelligently-designed intervention to draw on this huge, under-utilized resource can have a big, positive impact on the economy[12].

This is just one idea. We must innovate in different ways to survive the crisis and then have the ability to navigate the new world that will emerge, hopefully in the not too distant future.

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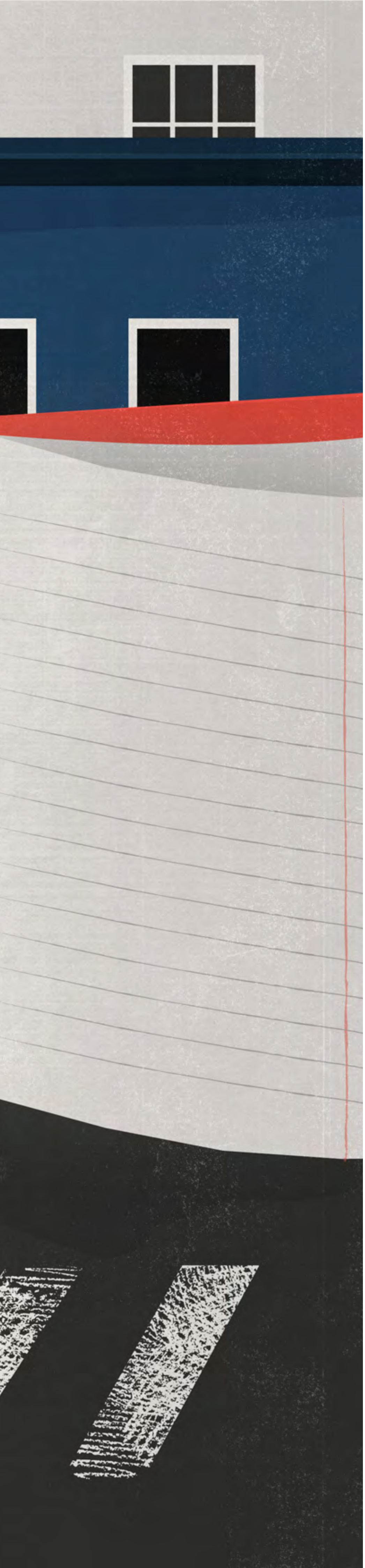
12. For helpful discussion concerning this idea, we are grateful to Turab Hussain, Daksh Walia and Mehr-un-Nisa, during a seminar of South Asian Economics Students' Meet (SAESM).


HOPE



12

Global education: How to transform school systems?

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Rebecca Winthrop
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The issue

Even before COVID-19 left as many as 1.5 billion students out of school in early 2020, there was a global consensus that education systems in too many countries were not delivering the quality education needed to ensure that all have the skills necessary to thrive.[1] It is the poorest children across the globe who carry the heaviest burden, with pre-pandemic analysis estimating that 90 percent of children in low-income countries, 50 percent of children in middle-income countries, and 30 percent of children in high-income countries fail to master the basic secondary-level skills needed to thrive in work and life.[2]

Analysis in mid-April 2020—in the early throes of the pandemic—found that less than 25 percent of low-income countries were providing any type of remote learning, while close to 90 percent of high-income countries were.[3] On top of cross-country differences in access to remote learning, within-country differences are also staggering. For example, during the COVID-19 school closures, 1 in 10 of the poorest children in the U.S. had little or no access to technology for learning. [4]

Yet, for a few young people in wealthy communities around the globe, schooling has never been better than during the pandemic. They are taught in their homes with a handful of their favorite friends by a teacher hired by their parents.[5] Some parents have connected via social media platforms to form learning pods that instruct only a few students at a time with agreed-upon teaching schedules and activities.

While the learning experiences for these particular children may be good in and of themselves, they represent a worrisome trend for the world: the massive acceleration of education inequality.[6]

The idea

The silver lining is that COVID-19 has resulted in public recognition of schools' essential caretaking role in society and parents' gratitude for teachers, their skills, and their invaluable role in student well-being.

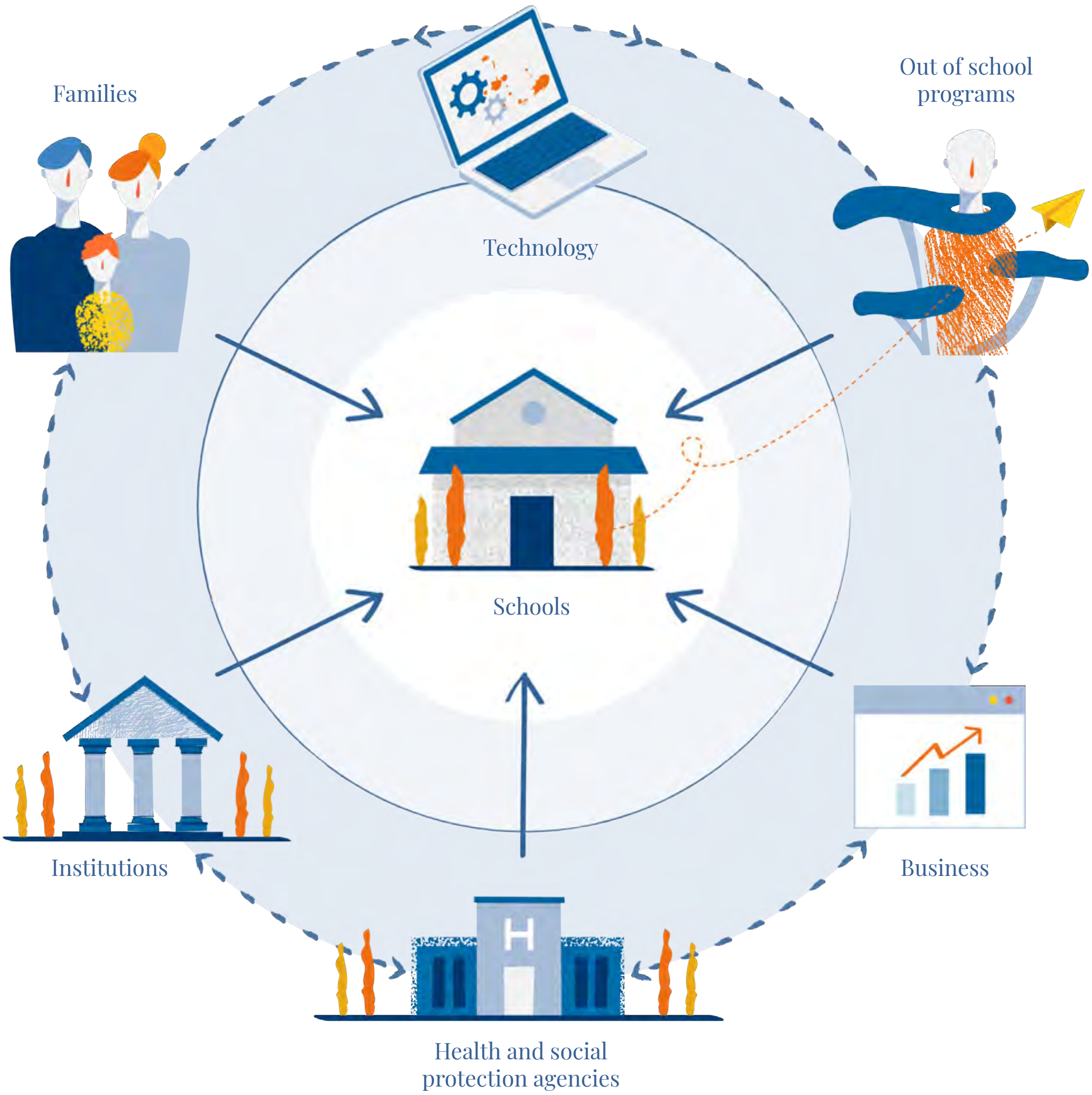
It is hard to imagine there will be another moment in history when the central role of schooling in the economic, social, and political prosperity and stability of nations is so obvious and well understood by the general population. The very fact that schools enable parents to work outside the home is hitting home to millions of families amid global school closures. Now is the time to chart a vision for how education can emerge stronger from this global crisis and help reduce education inequality.

Indeed, we believe that strong and inclusive public education systems are essential to the short- and long-term recovery of society and that there is an opportunity to leapfrog toward powered-up schools.

A powered-up school, one that well serves the educational needs of children and youth, is one that puts a strong public school at the center of the community and leverages the most effective partnerships to help learners grow and develop a broad range of competencies and skills. It would recognize and adapt to the learning that takes place beyond its walls, regularly assessing students' skills and tailoring learning opportunities to meet students at their skill level. New allies in children's learning would complement and assist teachers, and could support children's healthy mental and physical development. It quite literally would be the school at the center of the community that powers student learning and development using every path possible (Figure 12.1).

Figure 12.1

Powered-up schools



Source: Adapted from Office of Elementary and Secondary Education, https://oese.ed.gov/2015/11/communities-come-together-to-support-stem-education/

> *It is hard to imagine there will be another moment in history when the central role of schooling in the economic, social, and political prosperity and stability of nations is so obvious and well understood by the general population.*

While this vision is aspirational, it is by no means impractical. Schools at the center of a community ecosystem of learning and support are an idea whose time has come, and some of the emerging practices amid COVID-19, such as empowering parents to support their children's education, should be sustained after the pandemic subsides.

The way forward

To achieve this vision, we propose five actions to seize the moment and transform education systems (focusing on pre-primary through secondary school) to better serve all children and youth, especially the most disadvantaged.

1. *Leverage public schools and put them at the center of education systems given their essential role in equalizing opportunity across society*

By having the mandate to serve all children and youth regardless of background, public schools in many countries can bring together individuals from diverse backgrounds and needs, providing the social benefit of allowing individuals to grow up with a set of common values and knowledge that can make communities more cohesive and unified.[7]

Schools play a crucial role in fostering the skills individuals need to succeed in a rapidly changing labor market,[8] play a major role in equalizing opportunities for individuals of diverse backgrounds, and address a variety of social needs that serve communities, regions, and entire nations. While a few private schools can and do play these multiple roles, public education is the main conduit for doing so at scale and hence should be at the center of any effort to build back better.

2. *Focus on the instructional core, the heart of the teaching and learning process*

Using the instructional core—or focusing on the interactions among educators, learners, and educational materials to improve student learning[9]—can help identify what types of new strategies or innovations could become community-based supports in children's learning journey. Indeed, even after only a few months of experimentation around the globe on keeping learning going amid a pandemic, some clear strategies have the potential, if continued, to contribute to a powered-up school, and many of them involve engaging learners, educators, and parents in new ways using some form of technology.

3. *Deploy education technology to power up schools in a way that meets teaching and learning needs and prevent technology from becoming a costly distraction*

After COVID-19, one thing is certain: School systems that are best prepared to use education technology effectively will be best positioned to continue offering quality education in the face of school closures.

Other recent research[10] by one of us finds that technology can help improve learning by supporting the crucial interactions in the instructional core through the following ways: (1) scaling up quality instruction (by, for example, prerecorded lessons of high-quality teaching); (2) facilitating differentiated instruction (through, for example, computer-adaptive learning or live one-on-one tutoring); (3) expanding opportunities for student practice; and (4) increasing student engagement (through, for example, videos and games).

4. *Forge stronger, more trusting relationships between parents and teachers*

When a respectful relationship among parents, teachers, families, and schools happens, children learn and thrive. This occurs by inviting families to be allies in children's learning by using easy-to-understand information communicated through mechanisms that adapt to parents' schedules and that provide parents with an active but feasible role. The nature of the invitation and the relationship is what is so essential to bringing parents on board.

COVID-19 is an opportunity for parents and families to gain insight into the skill that is involved in teaching and for teachers and schools to realize what powerful allies parents can be. Parents around the world are not interested in becoming their child's teacher, but they are, based on several large-scale surveys,[11] asking to be engaged in a different, more active way in the future. One of the most important insights for supporting a powered-up school is challenging the mindset of those in the education sector who think that parents and families with the least opportunities are not capable or willing to help their children learn.

5. *Embrace the principles of improvement science required to evaluate, course correct, document, and scale new approaches that can help power up schools over time*

The speed and depth of change mean that it will be essential to take an iterative approach to learning what works, for whom, and under what enabling conditions. In other words, this is a moment to employ the principles of improvement science.[12] Traditional research methods will need to be complemented by real-time documentation, reflection, quick feedback loops, and course correction. Rapid sharing of early insights and testing of potential change ideas will need to come alongside the longer-term rigorous reviews.

Adapting the scaling strategy is especially challenging, requiring not only timely data, a thorough understanding of the context, and space for reflection, but also willingness and capacity to act on this learning and make changes accordingly.

Emerging from this global pandemic with a stronger public education system is an ambitious vision, and one that will require both financial and human resources. But such a vision is essential, and that amid the myriad of decisions education leaders are making every day, it can guide the future. With the dire consequences of the pandemic hitting the most vulnerable young people the hardest, it is tempting to revert to a global education narrative that privileges access to school above all else. This, however, would be a mistake. A powered-up public school in every community is what the world's children deserve, and indeed is possible if everyone can collectively work together to harness the opportunities presented by this crisis to truly leapfrog education forward.

Emerging from this global pandemic with a stronger public education system is an ambitious vision, and one that will require both financial and human resources.

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