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WEBINAR

REIMAGINING THE GLOBAL ECONOMY: BUILDING BACK BETTER IN A POST-COVID-19 WORLD

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Introduction:

BRAHIMA S. COULIBALY
Vice President and Director, Global Economy & Development
The Brookings Institution

Panel:

DAVID DOLLAR, Moderator
Senior Fellow, John L. Thornton China Center
The Brookings Institution

MARCELA ESCOBARI
Senior Fellow, Center for Sustainable Development
The Brookings Institution

ESWAR PRASAD
Senior Fellow, Global Economy & Development
The Brookings Institution

ZIA QURESHI
Visiting Fellow, Global Economy & Development
The Brookings Institution

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P R O C E E D I N G S

MR. COULIBALY: Good morning, everyone. I'm Brahima Coulibaly, vice president of the Global Economy and Development Program at Brookings. It is my pleasure to welcome you to the launch of this important report on "Reimagining the global economy: Building back better in a post-COVID-19 world."

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. The implications of the crisis, going forward, are vast. Much is unknown about when the pandemic will dissipate, although the recent announcements of vaccine gives us reason for optimism. What is clear, however, is that the time is right for change and policy reform.

The report we are launching today is a collection of 12 essays produced by scholars affiliated with the Global Program. They'll present new ideas that are forward looking, and policy focused, that will guide policies and shift debates in the post-COVID world. The first essay discusses how to leverage SDGs as a handrail for recovery policy. In essay two, we offer or discuss the role of local leadership in global cities, in driving a sustainable recovery.

The global response to the pandemic has exposed a deficiency in global multilateral systems. The offer in essay three suggests a path forward for a better multilateral system and how its future can be reimagined. The fourth essay suggests some solutions to leverage the current recovery to accelerate progress on the global climate agenda. The pandemic has also highlighted a need to strengthen the global financial system yet for emerging markets in developing countries. This issue is taken up in essay five, where the offers make the case for an international monetary system, that is better fit for purpose.

The pandemic also destructed global supply chains and trade, and there is uncertainty about what the future of supply chain and trade will look like. The essay, essay six, in essay six, the authors provide some answers and policy recommendations. Another trend that the pandemic would accelerate is the fall in global productivity. In essay seven, the authors argue for more country-specific and well-targeted approaches to rekindle global productivity.

Throughout the world, the health and the economic costs of the pandemic have been felt harder by the vulnerable populations. On the jobs front, the pandemic is affecting labor markets differently across countries and within countries. In essay eight, the authors explore the future of work and policies for formalizing and broadening labor protections. Even before COVID, the global income inequalities were already elevated, and given the disproportionate effect of the pandemic on vulnerable populations, essay nine presents some solutions to tackle global inequality more forcefully, and in essay 10, the authors address the often-understated impact of COVID the human well-being and mental health and recommend some strategies to cope with the effect of a pandemic on well-being.

In essay 11, the authors draw the lessons from the management of the crisis and suggest governance strategies that both reduce the spread of infection and avoid prohibiting economic activity. We know the pandemic has destructed education systems everywhere and has exacerbated unequal access to quality education. For example, the media report nine out of 10 high-income countries were able to provide remote education, compared with only four out of 10 for low-income countries. In this final essay, 12, the authors present aspirational vision for transforming education systems to better serve our children.

The wieldy uncertainty around the pandemic and its effect loom large and create a challenging policy environment. Together, these ideas in the essays offer a way forward for decision makers to reimagine the global economy. I encourage you to read it. It should be on the Brookings website, and there is also a link to it on the announcement page of this event.

I will now turn it over to my colleague and host for the event, David Dollar. David is senior fellow in the John Thornton China Center and the host of the Brookings trade podcast, Dollar and Sense. So, over to you, David.

MR. DOLLAR: Thank you very much, Coul. It's a great pleasure to moderate this panel with three senior fellows from the Brookings Institution, Marcela Escobari, Eswar Prasad, and Zia Qureshi. I'm not going to spend a lot of time on their bios because they're available online.

They've each contributed a chapter to this new report on "Reimagining the global economy:

Building back better in a post-COVID-19 world," and their expertise will be obvious, from their discussion of each of their chapters. So, I'd rather just jump right in. We're going to cover both macro and micro issues. So, I'm going to start with you, Eswar, because you're writing on the more macro side, about the international monetary and financial system.

Let me say the basic game plan is let's have a first round, where each of our panelists describes, in some sense, what the problem is in their issue area, what's the preexisting condition, and then we'll have a second round, where you can focus more on solutions and reforms, going forward. So, Eswar, what's wrong with the international monetary and financial system?

MR. PRASAD: Thank you, David, and to pick up from the expression you used, I think the COVID pandemic and its fallout have really exacerbated some preexisting conditions in many emerging market and developing economies. Some of these economies were already reeling under fairly heavy burdens of external debt, and many of them were experiencing growth slowdowns, in part, related to domestic problems, and, in addition, weak growth in the rest of the world, especially in China, and then the pandemic hit, and it has made things much worse for many emerging market economies, which have seen losses of their major export markets, much more difficult financing conditions, making it harder for them to rollover their debt, and a much deeper economic malaise than even felt in some of the advanced economies because these economies are relatively poor and have very little room for maneuver.

Now, in the last couple of months, of course, there have been some signs of optimism. China, in particular, does seem to have righted itself. It's not quite firing on cylinders, but on most cylinders, and, in fact, it is quite remarkable that China might be the only major economy in the world that registers positive growth for the whole year. There are some countries, like Japan, and of course the U.S., that suggest that things are turning around, but given of depths of the fallen economic activity after the second quarter, and even into the third quarter, in some countries, it's really only China that seems to have gotten back to where things were pre-pandemic.

One issue relative to, say, the 2008-2009 global financial crisis, when, again, China was a key contributor to the global economic recovery, is that this time China's recovering in a slightly different way. In the aftermath of the 2008-2009 global financial crisis, China had a surge of credit financed investment that boosted its economic growth, but also pulled along much of the rest of the world. China had a much greater demand for commodities, started sucking in imports from the rest of the world. So, this helped a lot of other countries.

Right now, and this may be good for medium-term growth in China, China is growing not just because of investment, but also because retail sales and private consumption, more broadly, have picked up, as well. In addition, China's continued to be an export machine, largely because, even though China is more of a service sector economy than it used to be, it still relies, to a great deal, on manufacturing and Chinese exports, seem to be what the rest of the world wants, as well. So, China can't quite be relied upon to pull the rest of the world along quite as it did. So, countries are going to have to rely on their own devices.

Now, many emerging market economies have undertaken, just like the advanced economies, fairly aggressive macro-economic stimulus measures. They want to take in significant amounts of fiscal stimulus, that is more government spending. In addition, some emerging markets, central banks, have actually started undertaking unconventional monetary policy measures, such as the quantitative easing measures, buying government bonds directly, that many advanced economies, central banks, have been using as part of their playbook for a long time. This is all good, in terms of supporting short-term growth.

Unfortunately, life is not quite fair. What the advanced economies can get away with, it's much harder for the emerging market economies to get away with for as long. So far, global financial markets seem to have been relatively sanguine about emerging markets issuing more debt, undertaking unconventional monetary policy operations, but this could turn around quite quickly. So, I think it'll be essential for emerging markets to undertake not just these macro-economic stimulus measures, but also show what they're going to do for secure medium-term growth.

The other group that is in even deeper trouble is low-income economies, that are heavily reliant on external debt. For these countries, no matter how much they can do domestically, on their domestic resources, are, quite frankly, rather limited. They will also need external assistance, and as Dr. Brahima Coulibaly and I point out in our piece, there is going to have to be a much greater response from the international community, the multilateral financial institutions, but also many of the bilateral creditors, in order to prop up these economies. One might argue that these economies that are relatively, perhaps less important, in terms of global GDP, but, ultimately, we are all in this together, and as Dr. Coulibaly and I point out, that if the world community, in these perilous times, does not pay enough attention to helping these countries out, it could, ultimately, hurt the overall global economic recovery.

So, these are difficult times, David, and I think countries are doing all they can on their own, but I think a coordinated response and a broader international community response is really going to be necessary to pull the world out of where it is right now.

MR. DOLLAR: Thank you, Eswar. I think one reason why economic development is so complicated is that you have to get these macro issues right, which you've just described, thank you, but then, also, there's a whole range of micro institutions and policies, that key -- are key, and it's hard to get both right, but we're going to turn, now, to Marcela, whose chapter is about dislocation of labor market. The pandemic has, obviously, had a very disruptive impact on labor markets, and we're going to hear from her about regional differences in how labor markets have been affected and how they've responded. So, Marcela, over to you.

MS. ESCOBARI: Okay, thank you, David, and thank you to Coul for organizing this effort. Let me add to the difficult news that were shared by Eswar, that, you know, the most dramatic impact of the crisis has been on the labor side, in part because it has hit an already unequal and precarious labor force.

You know, if we start here, in the U.S., even before the pandemic, we were looking at a shrinking middle class. You know, 44% of the workforce could be defined as low wage, making less than $16 an hour, and aside from a recent blip, we had seen wage stagnation at the low end of the labor market for, you know, close to the last half century, and these workers at the lowest quintile were churning, most frequently, through job to job, without seeing much wage gain.

So, we already had this polarized labor force with two tiers, right, a group in high paying, high skilled jobs, that has the security benefit and stability, and the second tier, who lack the social networks and resources and knowledge of how to move out of this, you know, low wage work. So, even when we were at 3% unemployment, we knew that any shock was likely to hit, you know, the second tier with increased severity. Now, we weren't expecting the size and the nature of the shock, which was a double whammy for vulnerable populations, right, because they're clustered in hospitality and face to face service industries.

So, for the U.S., you know, the hit has been regressive, right, and we've actually seen a reversal of the David Autor U curve. In the last nine months, we have seen a sharp contraction, over 8% of low wage work, and many of these jobs are disappearing as a share of the workforce, and the worry is that these workers will become, you know, permanently unemployed. So, with Eduardo Levy, we compared this dynamic to Latin America, and there, you know, everything is -- just looks worse.

You know, the effect has been even more regressive and that's for two main reasons. One is occupational composition, right, the most affected occupations, cleaning, hospitality, retail, are a greater part of the labor force, and, actually, we calculated that, if here, in the U.S., 11 million people have lost their jobs, if we had the occupational composition of Latin America, we'd have three million more unemployed. And the other reason is the high level of informality, which is over half of the workforce in the region, and this is actually quite perverse because informality tends to be a buffer in times of crisis, right, but social distancing and just the nature of this pandemic has meant that skilled workers, who are often protected by law in many of these countries, you know, could zoom away and work remotely, while the informal workers could not go to the street and, you know, hustle to make ends meet.

So, what do we think might be permanent in a post-COVID world, in terms of these changes? One, that compound this issue, all right, one is that companies have learned to operate with less workers, and something that they are unlikely to unlearn, and second is the adoption of technology, right, automation and digitization, which have accelerated. So, in the U.S., and here there's a difference, right, where people, like Darren (inaudible) had already argued that perhaps we were beyond the socially optimal level of automation, and we are likely to see an increase in this polarization, you know, some of those low skill workers, after a year of unemployment and after skills decay, may drop out, completely out of the workforce.

Now, Latin America has seen a delay in automating, probably a mix of, you know, cheap abundant unskilled labor and firms with maybe not having the same pressure to modernize, but now, you know, all companies have had to have a, you know, crash course in digital technology, and we've seen the adoption of online learning, downloads of telework apps, gig work platforms all have exploded. So, this shock will be abrupt, again, leaving those without the digital skills, you know, further behind, and, perhaps, you know, the skilled workers will now have access to maybe a more fluid international labor market.

So, inequality, which was always very high in Latin America, but had actually been doing relatively better in the last decade is prone to increase. So, this is what we suggest along everything else that is being tried on the macro side, you know, to look at labor market solutions because it is this persistent unemployment and the risk of bankruptcies that are likely to reset, you know, GDP projections and may cause Latin America another lost decade.

MR. DOLLAR: Thank you, Marcela. That's very interesting, in the way that some of the Latin American countries have the labor force concentrated in the sectors that have been most hit everywhere. That's quite revealing, and I link it back to the point Eswar made. You know, China still has this very large manufacturing sector. That's been less affected, and that may be one reason why China's been able to bounce back more quickly, compared to many other emerging markets.

Zia Qureshi, I liked -- what I took away from your chapter is that there was an inequality pandemic before there was a COVID pandemic. So, what's your analysis of the inequality pandemic, and how has it interacted with COVID? Over to you.

MR. QURESHI: Thank you, David. Rising inequality within countries is a, as we know, a major fault line of our time. Inequality was bad, before the COVID-19 pandemic, and the pandemic is making it worse. There was a recent analysis in the Washington Post, I think it had the following headline, "The COVID-19 Recession is the Most Unequal in Modern US History". The costs of the pandemic are being blown disproportionately by poorer segments of society. Their vulnerabilities make them more exposed to the health risks. They're experiencing a higher incidence of infection and sickness, and they're facing greater job losses and declines in well-being.

These effects are even more concentrated in economically disadvantaged minorities. So, there is a two-way relationship, or causation, or vicious circle, if you will, at work. On the one hand, the pandemic is exacerbated by the deprivations and vulnerabilities of those left behind by rising poverty, and on the other hand, the pandemic's fallout is pushing inequality higher. In addition to these direct immediate effects of the pandemic, the pandemic is reinforcing the longer-term inequality increasing dynamics associated with technological change.

It is causing, as Marcela said, it is causing the digital transformation of production, promise, and work to accelerate. While smaller firms struggle, large technologically advanced firms are further increasing market shares, fortifying the shift toward more monopolistic structures, less competitive markets, than we have seen in recent years, and increased automation and telework are further tilting labor markets against low-skilled, low wage workers. Industries with business models heavily reliant on human contact and a low-skilled workforce are hit especially hard. That is the case with many service industries.

In the long-term, many factors affect income distribution, as we know, but technological change has been a dominant factor between the rise in inequality observed in recent decades. Digital technologies have been transforming markets and the way we work and do business, but the benefits of this technological transformation have been shared highly unequally. Inequalities have increased, both between firms and between workers.

Firms, at the technological frontier, have broken away from the rest, requiring dominance in increasingly concentrated markets and capturing the lion's share of profits and economic grants, and increasing automation of lower to middle skill tasks has shifted labor demand toward higher level skills, hurting wages and jobs at the lower end of the skill spectrum, and globalization has reinforced these effects. So, with the new technologies, favoring capital, winner take all business outcomes, and higher level skills, what has happened is that the distribution of both capital and labor income has become more unequal, and income has shift from labor to capital.

And one last point, the redistributive role of the state has weakened at the same time. In OECD economies, taxes and transfers, typically, kept disposable income inequality one-fifth to one-quarter lower than market income inequality, but, in recent years, the role of fiscal redistribution, in offsetting the rise in market income inequality caused by technology driven market forces has shrunk because of reduced progressivity of personal income taxes, lower taxes on capital, and tighter spending on social programs.

MR. DOLLAR: Okay, thank you. So, let's now shift and try to focus on some potential solutions, and the theme of the report is to Build back better in a post-COVID-19 world. So, let's go in the same order. I'm going to start with Eswar. What are some practical reforms to the global financial system that would enable an adequate flow of capital to developing countries, and I think, within that, a particular problem, as you mentioned, some countries have really run into debt problems because of this COVID recession. What can we do to better address the debt problems of some of the poorest countries?

MR. PRASAD: So, as Coul and I point out in our paper, there are many initiatives that got underway in the aftermath of the global financial crisis of 2008-2009, but then they sort of petered out, but we think this is a really important time to bring them back on the table because it's clear that the global financial safety nets are not working very well for the emerging market economies, or, in particular, for the smaller, especially indebted, developing economies.

Now, one question is how one should go about the cooperative approach to these issues because, if you think about the genesis of some of these problems and how one should work on solving them, clearly, each country doing it by itself is not a good idea, and I would recommend to the audience a piece by a very distinguished colleague, Kemal Derviş, who talks about how to think about international cooperation and what the basic principles should be, and he points out that what is really necessary is the political will in each country to recognize that the interests at the country level are, in fact, aligned, rather than in conflict with global interest.

So, on the specifics of what could be done, Coul and I point out that the global multilateral institutions, certainly, need to be strengthened. If you look at the resources of institutions, like the IMF and the World Bank, especially relative to how much global GDP has grown over the last decade or so. They are not quite at the level that is necessary. So, given the issues we focus on in our report, we emphasize, in particular, the need to provide more resources to the IMF, not just through temporary facilities, but through an increase in quotas, that is the basic funding mechanism of the IMF, that would enable it to mount a more aggressive response, in terms of helping countries move their economies in the right direction and buffer those, in particular, at the bottom end of their income or economic distribution, in most of these countries, and as my colleagues, Marcela and Zia, have pointed out, these are the most vulnerable populations, and the poorer countries are, at one level, the most vulnerable ones. So, taking care of them is, really, in the interest of us all.

Well, if you take an institution like the IMF, while there is general agreement that it might need more resources, one of the problems that Coul and I point out is that the unwillingness of some major shareholders, especially the U.S. in this case, is to provide more resources because the mechanisms don't seem to be ideal for what the purpose is intended for. So, if the IMF, for instance, were to increase its allocation of special drawing rights, which is basically a liquidity mechanism that the IMF can pull out, when needed. Much of that money would, in fact, go to the countries that have higher quotas, that is the richer countries that need these resources more.

So, even within the existing framework of resources, one could think about ways to distribute them better, and this would have to go hand in hand with governance improvements in these institutions, which still tend to be dominated by the large advanced economies. So, there is a sense, among the emerging and developing countries, that these institutions have really been setup for and to take care of the interest of the advanced rather than the developing countries.

We also point out that, in addition to any efforts that the IMF might undertake to sort of catalyze private sector capital inflows into emerging markets, there is a group of countries that have, for all practical purposes, lost access to global capital markets, and these are the heavily indebted countries that certainly need some help, at this very difficult juncture, for the global economy. The G20 has put in place a moratorium on their debt payments, but, ultimately, given how large a hit this has been on these economies, there is going to have to be some more durable action taken, in terms of reducing the debt burden of these countries, and this has to happen both with the multilateral, as well as the bilateral creditor mechanisms. Countries like China, initially, seem somewhat reluctant to give much space to their creditors. They have come around to some extent, but I think a lot more needs to be done, both by the bilateral creditors, as well as the multilateral creditors, to ease this debt burden.

So, there is a great deal that can be done, even at this time, when virtually every economy is in financial distress, to take care of those countries that really have no room for maneuver, if at all, and I think this is going to be important, in terms of showing that the world can act together, at a difficult time like this.

MR. DOLLAR: Thank you, Eswar. Marcela, for you, you've described some dislocations in the labor market. Are there practical institutional reforms or policy reforms? Are there things, that have actually worked in different countries, that could be tried? So, what are your recommendations?

MS. ESCOBARI: Thank you. Yeah, I mean, countries are struggling to respond, right? As Eswar mentioned, there is limited fiscal space and good will to lend a hand to developing countries. I mean, when the world gets hit by a tsunami, you know, there are few willing to look beyond their shores, and it's also become politically tricky, as, you know, nativist forces take hold. I mean, even here, in the U.S., the first version of our second stimulus package did not include any international funds, despite the obvious need for a global response to the pandemic.

So, many developing countries, you know, won't have the fiscal space that places, like the U.S., have, to use, you know, 13% of their GDP and borrow against their future, and even if they do have the -- these funds, sometimes, it is hard to reach the workers that need it the most, giving this high level of informality. So, yeah, we've looked at, you know, policy responses, that look at the labor market channel, which may help reach those that have been hit the hardest, who are not in formal jobs and able to be reached through subsidies to companies, and, sometimes, it's cheaper, right, and, here, active labor market policies, like targeted reskilling, vocational training, job banks, wage subsidies, and, here, you know, we think that that data can help.

We have, actually, looked at thousands -- hundreds of thousands of job to job transitions in the U.S., for the last 20 years, looking for pathways out of low wage work. In -- today, and if we look at the hardest hit occupations, you know, from waiters to teachers, they usually don't transition to the jobs that have been growing in recent months, like, you know, software engineers and other digital jobs. So, actually, when we looked at the absorption capacity of the growing jobs, here in the U.S., we are at the lowest point in 2020, since at least 2004.

So, it's important to kind of think of policies that help workers navigate this labor market and transition from shrinking to growing occupations, and that may not happen naturally, but are also realistic. So, you know, retail workers can move to stock clerks, health aides to nurses, and in Argentina, where Eduardo did a similar exercise, he found that secretaries can be easily redeployed, while construction workers may not, and, you know, I think that this level of specificity can actually help focus interventions into realistic paths forward, right, the expectation that everyone will become a software engineer might be not only a recipe for disappointment, but a misallocation of funds. So, both skilling and health folks' transition can be much more targeted.

Now, in places like Latin America, with such high levels of informality, you know, again, it's unlikely that the path forward and the long-term will be through a dramatic growth of formal work. So, training and certification schemes need to adapt to make independent workers and micro interpreters just more productive. You know, like someone who sells food in the street, you know, can get certified with the right sanitation standards to sell to supermarkets. Electricians can expand their network beyond, you know, their friends and family, by, you know, using online platforms. You know, training and support need to focus on this vast cadre of independent workers, which is not only huge in developing economies, but it's, you know, growing in this country.

And, lastly, I would say, thinking about the minimum protections in a different way, right, this duality between a few union salaried workers with excessive protections, and everyone else is kind of breaking at the seams, and it's calling for a regime, you know, of more affordable benefits tied to work versus job. So, you know, we're going to have to think more creatively, outside of the formal channels of employment, while, I think, broadening the safety net, and I think those kinds of policies might make a difference in a more, you know, inclusive recovery.

MR. DOLLAR: Zia, you gave us a powerful picture of how inequality was rising in many locations, pre-pandemic, and how the pandemic and the recession have made it worse. You know, are there practical measures, realistic measures, to address these long-term trends in inequality, and I'll throw in the question, is there a tradeoff between inequality and growth? Over to you.

You know, we may have just lost Zia, electronically. Zia, are you there? Well, we have to be practical, and so, hopefully, Zia will get back on in a few moments. We've, actually, got some interesting questions coming in from the audience, and we have time to look at some of those.

MR. QURESHI: (inaudible).

MR. DOLLAR: Oh, is he -- okay.

MR. QURESHI: Yeah, sorry about that.

MR. DOLLAR: Did you hear my question?

MR. QURESHI: Yes. Can you hear me?

MR. DOLLAR: Yes.

MR. QURESHI: Yeah, sorry about this. It just got disconnected. Yes, on inequality, the first priority, of course, is to contain the pandemic and address its immediate health and economic consequences that disproportionately hurt the less well-off, and countries, as others have noted, they have responded in varying degrees, by shoring up health systems, strengthening safety nets, and undertaking policies and programs to cushion the impact on jobs and economic activity, and more action along these lines is needed, such as another stimulus package in the U.S., and the more successful these actions are in protecting the vulnerable and supporting the economic recovery, the less will be the direct impact of the crisis in worsening existing inequality.

Beyond these actions is a longer-term agenda to address the underlying structural drivers of the secular rise in inequality. Policies to reduce inequality are often seen narrowly, in terms of redistribution, that is tax and transfer policy. This is, of course, an important element, especially given the, as I mentioned earlier, the erosion of the state's redistributive role. In particular, systems for taxing income and wealth should be bolstered in the light of the new distributional dynamics, but there is a much broader policy agenda of pre-distribution, that can make the growth process, itself, more inclusive, and a core part of this larger longer-term agenda is to better harness the potential of technological transformation, to broaden productive opportunities among smaller firms and wider segments of the labor force.

And there are five key areas of policy attention, that I will just briefly mention. First, competition policies should be revamped for the digital age, to ensure that markets continue to provide an open and level playing field for firms and check the growth of monopolistic structures. This includes a regulatory reform, stronger antitrust enforcement, and new issues revolving around data, which are the lifeblood of the digital economy, the digital platforms, and market domination by tech giants must be addressed.

Second, in an increasingly knowledge-driven economy, or the intangible economy, as it is sometimes called, the innovation ecosystem should be improved to promote wider diffusion of technologies embodying new knowledge, reform of patent systems, and more effective use of public RND investment can help, shall we say, democratize innovation systems, so that it serves broader economic and social goals, rather than the interest of narrow groups of investors.

And, third, the foundation of digital infrastructure and digital literacy must be strengthened to widen opportunities to widen an access to the new opportunities, and, fourth, and Marcela emphasized that, investment in education and training must be boosted with the increased emphasis on upskilling, reskilling, and lifelong learning, that respond to the shifts in demand for skills, and there are persistent inequalities in access to education and training, in all countries, even in advanced economies. They must be addressed.

And, lastly, the fifth point, the -- as we know, the pandemic has exposed weaknesses in social safety nets. So, social protection systems should be strengthened, indeed overhauled. Traditionally based on long-term employer-employee relationships, they should be adapted to the changing job market, which is characterized by more frequent job transitions and more diverse work arrangements, including an expanding gig economy.

I will conclude by saying that we know major economic reform is inevitably politically complex, and today’s elevated political divisiveness adds to these challenges, but one thing the reform should not be paralyzed by is continued trite debates about conflicts between growth and equality. Research has increasingly shown this to be a false dichotomy. The same factors that have been pushing inequality higher, such as weak technology diffusion among firms and widening skill gaps between workers, the same factors have been depressing aggregate productivity growth, and, in turn, economic growth. So, the growth agenda and the inclusion agenda are actually one and the same.

MR. DOLLAR: Thank you very much, Zia. That was very nicely put. We are getting some questions in from the audience, and they cover both the macro and the micro topics. The first one is for you, Eswar, from Pauline Muchina. You've touched on this a little bit, but I would like to hear you say more, and I'll put my own little spin on it. You know, her question is: will the global community support the issuance of Special Drawing Rights, new additional SDRs at the IMF? This will be critical in rebuilding the economies destroyed by COVID-19. Your paper has some ideas about not only supporting the issuance of SDR, but how we might change the allocation of SDR, to make it more practical, and my own spin on this, also, is you mentioned the opposition of the U.S. Would a new Biden Administration be more likely to support these kinds of changes at the IMF?

MR. PRASAD: Thank you, David. I suspect everybody on this call knows what an SDR is, but, just to be clear, the SDR is essentially an artificial reserve asset created by the IMF. Its value is based on a basket of currencies, the four major currencies in the world, plus the Chinese renminbi, which is rising up to become a more important international currency. So, the IMF can issue SDRs with the approval of a super majority of its members.

So, when an SDR allocation was proposed, while the pandemic was flaring up, there were two countries, the United States and India, that opposed an issuance of new SDRs, and the U.S. position was seen as emblematic of the U.S. opposition to doing anything multilateral under the Trump Administration, but there is some logic to it because SDRs are distributed to IMF members, based on their quotas, and as I eluded to earlier and David also indicated, most of the new SDRs will, therefore, go to the richer, bigger countries or the larger emerging market economies that don't really need them.

So, if the international committee -- community was really desirous of helping poorer countries, by giving them more liquidity, it could basically reassign the existing SDRs, and this goes to the broader point that, while one can think about SDR issuance, and so on, as providing more resources, ultimately, as Coul and I suggest in our paper, what is important is that the IMF have a greater base funding of resources, that it can draw upon to help these disadvantaged countries in their time of need.

So, the SDRs are, at some level, easier for the international community to agree upon because it's just creating money out of thin air, and that certainly helps, in terms of short-term liquidity provision, but, ultimately, the IMF's broader funding base is going to have to be increased, and it's not just the IMF, and the IMF has far more resources, right now, that it can deploy, than other institutions, like the World Bank, and so on, and one should think about this in a broader perspective about what role these international financial institutions could play, in terms of providing financial safety nets and, of course, the rich countries could also do their part, by providing currency swap lines, in order to provide dollar and other hard currency funding, which many countries with balance of payments needs are eager for.

One concern of the rich countries, of course, has been that providing this sort of safety net creates what the economists call the model hazard problem, that is that it loves emerging market countries, developing economies, to not run disciplined policies because they know that, when times are tough, they might get bailed out. I think at a time of tsunami, like this has, as Marcela referred to the pandemic, I think those considerations are less important, but in terms of thinking about a broader global financial safety net, certainly, I think everybody has a part to play, the richer countries, in terms of backing up a financial safety net, but also the emerging market counties, in terms of strengthening their macroeconomic policies, their institutions, and governance frameworks, so that they are less subject to some of the negative spillover effects, not just of pandemics, but of other typical currency and capital flow volatility that they are subjected to.

MR. DOLLAR: Thank you, Eswar. I've got a question here, that I think perhaps both Zia and Marcela would like to respond to, a very short, pointed question. How can the global economy mitigate disparity and wealth and income inequality, as opportunities decline for the average middle-class person? And we've talked about inequality and related issues, and I interpret this question to be specifically focused on this issue of the declining middle-class. So, what can we do to help the middle-class? And I'm thinking globally, not just advanced economies, like the U.S. Perhaps, Zia, you would want to go first, and then, Marcela, you may have something to add.

MR. QURESHI: I think the -- it's the same broad agenda that I outlined. I mean, on the one hand, I mean, you have the world of business and the world of work, product market and labor market. In the world of business, in product markets, there is need to broaden opportunities to bring more firms, entrepreneurs, smaller firms, and that would cover some part, the business part, of middle-class, more into the new economy, the digital economy, the innovation economy. So, there, the -- what I said regarding competition policies and technology policies, various programs to help businesses adapt to change, those are important.

Of course, the specific aspects vary from country to country, and then on the -- in the world of work, labor markets, the skill agenda, in terms of the adapting education and training to the changing demand for skills, especially scaling up the availability and quality of continuing education, that that agenda is relevant and important, and that needs to be supplemented with a reform on the social protection side. So, in the process of retraining workers, helping their transitions, workers or small entrepreneurs, their transition to new work, to new businesses, that there is a social protection system, that helps them in the transition, so. So, that is what I would point to.

And then, lastly, I mean, one thing we did not mention, I mean, the discussion about inequality was focused more on inequality within countries. Now, inequality between countries, as we know, has been declining, as emerging economies accelerated their growth, thanks to their increased engagement in global supply chain, etc. So, so, with the way technology is changing and the way it might be accelerated by the COVID-19 crisis, it poses issues for developing economies and their middle classes because the comparative advantage they had, based on the low skill, low wage workforce, that is being rapidly eroded.

So, they will need to look for new business models, which are less reliant on just low wage, low skills, as a source of comparative advantage, so. So, for developing countries, that would -- that's a big overarching challenge, which would involve, I mean, which affects a large part of the middle-class, how to renew these business models in light of the changing picture, as a result of technological change.

MR. DOLLAR: Marcela, would you like to add to that?

MS. ESCOBARI: I think, briefly, I would, you know, point to the five priorities that Zia mentioned. I think all of them are important, but to double down on this point that we know that there's not a dichotomy between growth and inequality, that we know that globalization, the integration of markets, you know, increased global supply chains, more fluid labor markets lead to growth and have already lifted millions of people out of poverty, right?

So, we need to continue to drive for a globalized world, but create the conditions and the regulations, so that opportunity can be better distributed, and one particular point I'd like to stress is the issue of technology, right, and its effects, which, like growth, is and can be a force for good, improve job quality, eliminate dangerous and mundane tasks, but also technology can be a displacement of labor. So, how do we put the right rules in place, so that it can actually augment labor and create more opportunities than destroyed?

And, again, the role of firms, right? At the end of the day, people learn by doing, they learn often inside companies, and the ability to bring workers with them in this accelerating technological change will be really important. I mean, in places, like Latin America and other developing countries, you know, we don't have workers, we have more people that work. So, there, the public sector, you know, needs to support these workers as they upgrade, make -- upgrade their skills, upgrade, you know, the -- make it more productive and provide the minimal protections.

MR. DOLLAR: I'd like to use the last broad question to give each of you an opportunity to make a short closing exclamation point. You can, perhaps, reiterate something you've said, or add something new. Frank Vogel gives us some very sobering data. A further 150 million people have been plunged into extreme poverty this year, and the number of people facing acute hunger has doubled to around 265 million, and many of the poorest are in countries with acute external debt problems and major domestic corruption challenges.

So, his question is how do you reimagine the world economy, that can explicitly provide some comfort to those in the greatest poverty today? So, let's use that as an opportunity for some closing comments. We'll go in the same original order, Eswar, and then Marcela, and then Zia. So, Eswar?

MR. PRASAD: So, I don't have any grand solutions, David, to these big problems. I would just emphasize a point that I think all three of us have been talking about, Marcela, Zia, and me, that, ultimately, we are all in this together, and I think thinking about where the economically disadvantaged are, within countries where the economically disadvantaged countries are, is going to be quite important, as we face this crisis and future crises, that will, no doubt, come along.

So, I think the onus is really on the international community, to find ways to set up institutional mechanisms, so that we can all pull together, at times like this. I think trying to create institutional mechanisms in the midst of crises doesn't work quite as well. As Marcela said, when the tsunami hits, everybody retreats to their own shores. So, I think this -- if anything good is to come out of this very difficult period, it needs to be a rethinking of the structure of international institutions and how well they are set up, in terms of promoting international cooperation, and especially providing a safety net, that the most economically disadvantaged do not fall through.

MR. DOLLAR: Thank you, Eswar. President-elect Biden has certainly indicated a return to a more multilateral approach, rejoining the World Health Organization, more support to international institutions. So, that's just one positive change, but, hopefully, we can get more countries buying into strengthening the international institutions, in the way that you've described. Marcela?

MS. ESCOBARI: You know, I'd -- I would only add that it is a time to think creatively and be bold, when we think about policies to support people who have been affected, because this is -- this trajectory has been long and has just worsened with this crisis, in terms of the polarization of the labor market and the opportunities to move up, for folks that get stuck at the bottom, and, you know, in a way, it -- I think Europe has shown a reasonable model.

We've all seen, both in the U.S. and in many developing countries, we don't have the tradition of working private sector and public sector. That muscle is quite atrophied, and that has shown a little bit, its colors, in the U.S., where, you know, a lot of this, this stimulus package, was not -- was spotty and scattered, and firms didn't know how to take advantage of some of what was available, and, again, it's not, you know, we're seeing that we're hitting the limits to the support available for workers. So, I think it is a time where the ability to trust each other, across sectors, and work together is needed, and, you know, more companies and more governments should look at different sectors, in thinking about solutions.

MR. DOLLAR: Yeah, somewhere in the report, there was some nice coverage of the success of public-private partnerships, in different areas, including, you know, real, you know, practically oriented retraining, big career education, these kind of things, and so, I think that is a powerful lesson about the importance of the public and the private sector working together on some of these issues, and you've got some nice success examples. Zia?

MR. QURESHI: Yeah, just briefly, Eswar talked about the need for better, stronger international cooperation. That is, of course, important, but a big part of the agenda is actually domestic, and, there, I think, the core of the forward agenda. Technology is a big story, and it's going to get bigger. So, the core of the forward agenda is how to better harness the potential of technological transformation, better than has been the case so far, by improving the enabling environment for firms and workers, so that they have better access to the new opportunities, and better capabilities to address the new challenges that come with technological change, both the opportunities and the challenges. I think that is the core part of the forward agenda, in terms of economic and social policies, and much of that is domestic policy agenda, of course, with the support from international cooperation, as needed. That, that is important.

MR. DOLLAR: Thank you. Zia and I worked together in the World Bank for a long time. So, just listening to you there, Zia, I remember, you know, visiting a firm in Thailand, many years ago, and the entrepreneur saying that globalization was like a speeding train, and if Thailand didn't build the platform, the train wouldn't stop there, and what he meant is exactly this domestic agenda that Zia was just talking about. You need infrastructure, educated workers, you need peace and security, you just need so many different ingredients to build that, that platform, and that's one of the things that makes development so complicated.

So, we're going to bring our panel to a close. I would encourage everyone to take a look at the whole collection of essays, called Reimagining the global economy: Building back better in a post-COVID-19 world. It's been a real pleasure for me to moderate this discussion among three Brookings colleagues, Eswar Prasad, Marcela Escobari, and Zia Qureshi, and this brings our panel to a close. Thank you very much.

MR. PRASAD: Thank you, David.

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