Transcript

The Impact of US Policy on the Global Economy

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Remarks have been edited for clarity.

Lara Merling, Introductory Remarks

My name is Lara Merling and I'm with the Boston University Global Development Policy Center and it's my pleasure to welcome you today to this event about the impact of US policy on the global economy. Thanks for those joining us in person and online. And as you know, COVID-19 and Russia's war in Ukraine have caused a shock for the global economy. But the policy response of the United States and other wealthy countries have compounded the impact of that shock. With a global outlook that continues to look grim, with lower growth for developing countries and the risk of erasing a lot of progress made on poverty and eradicating hunger. We're here to talk today about how the US is impacting this development and some of the ideas of what can be done to reverse this trend. US policies matter because the US dollar is at the center of the global financial system and the US [holds a lot of power] in international financial institutions. And against this backdrop, I'm happy now to say that our panelists will discuss this more and that the panel was organized by the Center for Economic and Policy Research, Arab Watch Coalition, the Boston University Global Development Policy Center, Bretton Woods Project, Initiative for Policy Dialogue, Institute for Policy Studies' Global Economy Program - it's a long list - and MADRE. And all of us also want to thank Chuy Garcia, Representative Garcia, for being the [honorary] host of this event and now with this it's my pleasure to introduce Victoria Guida, who is going to moderate this panel.

Victoria Guida, Moderator

Thank you so much Lara. And she laid it out pretty well. I mean, here in the US, we're focused particularly on inflation and the Federal Reserve has been fighting inflation. But it's easy to forget that all of those types of policies that we use to fight our crises here, those ripple out and affect the rest of the world. And so we have a great panel here today to talk about this. To my left is Jomo who is an Emeritus professor at the University of Malaya. To my right is Mark Weisbrot who is Co-director and Co-founder of the Center for Economic and Policy Research. And then joining us remotely, we have Jayati Ghosh who is professor

at the University of Massachusetts Amherst. So, thank you all so much for joining us and without further ado, I'd love to turn it over first to Jomo.

Jomo Kwame Sundaram

Thank you very much to the organizers and to Victoria for that kind introduction. It's a pleasure to be here, although the subject I'm going to try to address is not exactly something very pleasant. We have a situation where we are sleepwalking into a very, very dangerous [situation]. Everybody agrees there has been a very serious [economic] decline, arguably for a decade and a half. The 2008 global financial crisis led to the 'Great Recession'. We have seen tepid, slow economic growth [in most of the world] since then. The policies of 'quantitative easing' perhaps eased some problems, especially for large corporations [deemed good credit risks]. Hence, the interest rate hikes of the last one year have been quite contractionary, meaning economic recovery has been adversely affected. Very importantly, governments have been spending and doing much less to help the situation while investment rates are down all over the world. Meanwhile, global warming [has been accelerating,] adversely affecting countries, especially in the tropical zone, [hurting] agricultural production, incomes and consumer prices.

A new development to consider is the [much greater] use of economic sanctions as an instrument of economic warfare. [This] has become increasingly normalized in the last year for reasons we are all familiar with. And these sanctions do not simply affect trade very directly, but also, for example, global finance in very important ways. Thus, supply disruptions have [recently] become quite common[, and not just due to the pandemic]. We [know] how climate change has affected [the] supply of agricultural [and] other products. We've also seen how the COVID-19 pandemic disrupted [supplies] internationally -- production as well as trade. And as Lara mentioned at the outset, this has adversely affected world economic output. Now, we also see, more recently, how [war] has affected us, not just in conflict zones, but more globally, especially with the invasion of Ukraine a year ago. Now, all these supply disruptions have had very important consequences. And in addition, we have seen some very important developments in the world of finance, which have [transformed] economic institutions [for the worse]. One example is [increased] indexed commodity fund speculation. Commodity market speculation, when first introduced decades ago, was intended to smoothen prices in agricultural and other commodity markets. Now, [considered together,] they have the opposite effect, because [aggregated commodity indices have been] developed, as parts of algorithms which work in ways so as to [inadvertently] accentuate [price volatility].

The war in Ukraine has affected not only Ukrainian supplies, but also from Russia and Belarus[, both major fertilizer producers. Hence,] exports of wheat as well as fuel and fertilizers have been adversely affected in important ways because [these countries account for] significant [shares] of world output. Fuel, food, [and] fertilizer supplies have been cut, resulting in higher prices. This has affected prices more generally, and con[tributed to] inflation, starting around energy and food, [both now] so fundamental to human life. So, it has a general ripple effect. In addition, we have seen how austerity has been imposed [through] various policies all over the world via fiscal austerity, mainly [resulting in] government spending cuts. [Such] austerity adversely affects [governments'] ability to deal with [the] many problems societies face. For example, the efforts to address global warming [has been] weakened so much that the English magazine, the Economist, has [urged the world to] abandon the 1.5-degree Celsius ceiling for [global]

temperature increase. We have also seen the major floods which have taken place in Pakistan. [Major] floods[, initially described as “a once in a century event”, first] happened less than a decade ago! A very short century indeed, not even a decade! We're seeing [climate] phenomena [impacting] the intensity of hurricanes, floods, greatly increasing consequent devastation.

So, we are seeing a situation where the welfare of billions of people [has been] very badly hit, and food insecurity [has] heightened tremendously all over the world. But prices have risen again, with a big bump in prices in the first half of last year. We have also seen reduction in humanitarian assistance offered by rich countries as they spend far, far more on military spending. Germany, for example, has tripled its military spending within the last year. Japan has done so over the last six or seven years since Abe Shinzo became Prime Minister of Japan the second time. And so, countries which were discouraged, because of their Second World War [roles,] from military spending, have become far more significant. Government military spending going up has meant even less money[, with] budgetary constraints, on other things more likely to improve human welfare.

This situation is very dangerous. In Europe, for example, there has been a return to coal, and some of that coal, especially in the former Eastern Europe, is not even what former President Trump [celebrated] as clean coal. It has sulfides and sulfates, and affects people's lives in many important ways. Those of you who are older might remember the terms ‘acid rain’ or ‘yellow rain’. These were terms which emerged in the 1980s referring to sulfide and sulfate [emissions from] burning coal.

Now, yet another problem which we need to appreciate is the effect of the interest rate hikes which have slowed the world economy in important ways. [Dr. Weisbrot reminded me earlier that the announcement for this meeting cited the World Bank. Even the World Bank, which has never been very critical of the Fed, has expressed great concern about the world economy slowing. Different parts of the International Monetary Fund are saying different things, but [many there share this concern of an] imminent downturn. There is some medium-term [hope this will change,] but there are few grounds for this optimism. Nobody tells us why this situation might reverse itself, so we are in a very dangerous situation. Interest rate hikes are slowing the world economy, because when the US Fed raises interest rates, everybody else is obliged to raise interest rates. Otherwise, there is going to be a massive outflow of capital [from others to the US] which has already [started].

It's especially serious from so-called emerging markets and [other] developing countries, but it's also happening in Europe and Japan. Japan, interestingly, is the only major economy in the world which has refused to raise interest rates, so far at least. And so, we have a situation where supply disruptions -- since the [2008] global financial crisis, COVID-19, [and] more recent economic sanctions [have been driving] what people refer to as cost-push inflation, largely related to supply side disruptions. In this situation, inflation is not contributing to a wage price spiral [where higher prices lead to greater wage demands]. But what we have seen, and CEPR, [especially] Dr Weisbrot, has stressed over the last half year, since the middle of 2022, there continue to be [higher] prices, but no acceleration in inflation. Those [familiar with] conventional textbook economics would remember the concern of most economists is with accelerating inflation. But you don't have accelerating inflation in the US today, or for that matter in most of the world.

So, the measures being imposed now have significantly slowed down the world economy. Remember that the 2% inflation target, which many central banks in the world have embraced, is completely arbitrary. It comes from New Zealand: in 1989, its finance minister fancied ‘2 by 92’, [meaning ‘2% inflation by 1992’,] would make a great slogan. Shortly thereafter, this 2% [inflation] target was embraced by central banks of much more significant economies. [No serious] economist will provide [analytical or empirical] reasons to commit the world to 2%, [but that is] the situation in much of the world. Most countries in the world have [constrained themselves from] making economic policy to get out of this kind of situation. So, [while] there may be a few self-correcting mechanisms available at the national level, there is little to ensure that such situations [will] self-correct.

I'm not suggesting a US conspiracy, but [several of its policies, economic and military-strategic, are now combining for a ‘perfect storm’.] Trade liberalization has been reversed since the turn of the century[, especially after the 2008 global financial crisis]. Investments abroad are being restricted by ‘friend-shoring’ and other [such] policies. Technology wars are being waged, particularly against China, but also others. You have interest rate hikes, you have federal fiscal deficits being tightened[, cutting needed government spending as expenditure is diverted for war, etc.]. Geopolitics[, including the new Cold War using sanctions as weapons, is] worsening the situation. Meanwhile, developing countries have especially limited policy and fiscal space. The result is that we may be sleep walking towards prolonged stagnation.

Remember the last time this happened, in the 1980s, Latin America lost over a decade, [while] Africa lost a quarter of a century. The consequences this time are likely to be even more devastating because the debt is huge, much, much bigger. A lot of it is private debt, and this is going to be very problematic. Unfortunately, we do not have any significant institutional mechanisms at the world level trying to address these problems. So, I do hope that people become much more aware and conscious of this danger, and we can work together to address it. This [cannot be a viable] basis for continued US hegemony and the [‘soft power crucial to it]. In the first Cold War, General George Marshall’s Plan made it possible for [US allies to recover strongly from the devastation of the Second World War]. [Without] that kind of cooperation, [US hegemony is doomed].

Moderator

Thank you so much.

Jayati Ghosh

Hi, everyone. Sorry I couldn't be with you in person, but I'm happy to be joining you virtually anyway. And we're actually going to take up on where Jomo has stopped, because I think he's laid out the situation very clearly, even though it's a stark and depressing scenario. Jomo talked about, if you like, the sins of commission of the US in the global economy. I'm going to talk about the sins of omission, the things that it could be doing quite easily to resolve some of the challenges that he's outlined and which it is not. And we can talk about why it's not doing that, but I think it's important to remember that none of these things is that difficult to do. So, what are the things it's not doing? Well, first of all, all of the responses that have come to the challenges that are outlined whether it is the capital flows out of developing countries, emerging markets and so-called frontier markets back to the US. Whether it's the inadequacy of vaccines

that has allowed the pandemic to be so prolonged in different countries. Whether it is the unequal fiscal responses. All of these things are things that have met with an extremely slow, sluggish, really inadequate, and sometimes even wrong response on the part of G7 in particular. And of course, the US is a very critical part of G7. The Europeans have a lot to blame for as well. But the US, possibly in terms of its external policies, has shown that it's not just that the domestic policy is navel gazing, sure. And it's not looking at the impact on the rest of the world, but even the things that it could do very, very easily, it's either blocking or just simply not doing. Okay, so let's take the issue of sovereign debt concerns. We now have the IMF saying at least 58 countries, and possibly another 20, are facing severe debt stress on the likelihood of default. In other words, these are countries that are going to be unable to meet their debt commitments even after they have done everything possible to keep those debts going to the point where their health spending, education spending, any kind of recovery measures after the pandemic social protection. All of these things are being cut so that they can pay this debt and they're still going to be unable to meet these commitments because of that combination, if you like that sort of tsunami of different adverse forces that they're facing. The trouble is that the debt rescheduling or the debt relief mechanisms are so slow and so unwieldy that they have effectively not worked at all. And [the] G-20 has a lot to answer for in this, but so does the IMF. And who controls the IMF effectively? It's US. And Europe. Let's not waste too much time about it. And if the US decided to really actively push for debt relief, it could do so. What's particularly significant is that around 40% of the debt held in most of these crisis-ridden countries, in some countries as much as 60% of the debt is held by private creditors, bondholders in particular. And these bonds, it's crazy. It's really very, very hard to get everyone on board. It's almost impossible. You get holdouts and you get all kinds of legal mess. But it can be done. If there are regulatory changes and you need them in just two locations, you need them in the City of London and you need them in New York, because that's where 90% of sovereign debt contracts are created and held.

So, if you could bring in regulatory changes that force all the creditors to be on the table together, which is done in the US for internal debt, they have different chapter nine, chapter ten, chapter eleven bankruptcy clauses for internal debt. You don't have anything for the sovereign debt, but you could bring in regulatory changes that force all the creditors to get [to]the table together and accept haircuts when they're necessary. So something that could be done, it's not even being talked about in the US. I know Mark is going to talk about really low hanging fruit that is available in terms of the IMF issuing new liquidity in the form of SDRs, so I'm not going to go there. But another part of the IMF's continuing actions is that even during the Pandemic, even during the downswings, it has continued to require fiscal austerity on the countries that are going to it for loans. And that's really awful because they say oh, we're trying to protect the social sectors, we're trying to make sure that the poor are not affected, and obviously that doesn't work. As we speak in Pakistan, the IMF is requiring Pakistan to raise electricity tariffs for farmers and for ordinary people. That's going to cause a lot of poor households to spend half of their current incomes on electricity, on power. It's obviously unfeasible and it's obviously deeply destructive. But you have an IMF that is doing these things.

In other words, the overall tenor of IMF programming is still deeply regressive, deeply unfortunate, and does not help countries to grow out of their crisis. It actually pushes them further into it. Once again. The US playing such a critical role in the IMF board of Directors and having effective veto power on so many actions could actually make the IMF change that position and could actually move to a different type of

approach towards resolving these crises. But it's not happening. The climate challenge, I think Jomo already mentioned this. You know there is so much that could be done in terms of resources available for dealing with the climate crisis. We're always told we need 2 trillion, 5 trillion, the numbers expand indefinitely and yet somehow because there's such large numbers, everyone says oh, it can't be done, nobody can pay for this and we'd have to wait for the private sector to come up. And, of course, the private sector won't invest because the market incentives are all heavily oriented towards brown investments. Leading the package, the US, which the IMF estimates is giving 700 billion in direct and indirect subsidies to fossil fuels. The global total is nearly 6 trillion in fossil fuel subsidies, direct and indirect.

Which obviously means that the market incentives are completely skewed away from green investments. But also, simple regulatory changes could force private investors to come more to the plate in terms of green investment and away from fossil fuels. But in addition, if you actually use the SDRs that are already available, not just issuing more, which is obviously the best thing to do. But in addition, 650,000,000,000 SDRs were issued in 2021. The countries that don't need them got the most. 60% of them went to the rich countries, G7 and so on. They're sitting as empty balances and the fiscal cost of using them is tiny. 0.8% I believe is the current interest rate on these. If you actually transform these into dollars, why are you not simply recycling these into funds that will actually fund major green energy projects across the world? It's so obvious, it's so blatant and it's so crazy that it's not happening and there's no demand. Again, it seems within the US to make this happen because it doesn't seem to concern even the population. There really has to be a much wider outcry to force governments to do these things. Loss and damage adaptation effort -- there is no global fund that is dealing with this. The process of setting it up is so slow that it's ridiculous. The IMF sets up a Resilience and Sustainability [Trust],which has a lot of problems in the way it's designed, but it's received $40 billion [in pledges] so far. That's all when the US share of the SDRs that were created, which is never going to use, was more than 200 billion. Why is this just being wasted? Why so many wasted opportunities? What I'm really saying is that there are so many errors of omission as well, which suggest a deep lack of responsibility for the rest of the world. And also, of course, the very major errors of commission that have been done that Jomo has highlighted very clearly, which really mean that you don't care about doing things differently, even when it's available, when it can be done. And that has huge consequences for the rest of the world. And those consequences can be extremely damaging, not just to economies and livelihoods, but to the social and political fabric. We don't know how things will play out, but it's a very uncertain time and all these things will then come back to bite the US economy as well. So in fact, finally, enlightened self-interest should be demanding a much greater recognition of the things it can do but is not doing and the things it is doing which are deeply harmful for the rest of the world. Thanks. Let me stop here.

Moderator

Last, but certainly not least, we have Mark.

Mark Weisbrot

I just want to thank everybody for coming here, and thanks to the panel. I'll try to keep my remarks brief as well. I think we spend a lot of time on Congress and this is what I'm going to focus on, and it's because

this is the least unaccountable part of our government. And some of you may have experience with that. If you get a good bunch of people in your district and meet with your member of Congress, you can very often change their vote and their policy and what they do. And this happened in 2021, and I'll talk about that in a minute.

I just want to follow up on one thing that Jomo mentioned about inflation, because that's where Congress can actually influence the Fed as well, and it has in the past -- in the 1990s, for example. Jomo pointed out that there's no accelerating inflation, there's no self-reinforcing mechanism like a wage-price spiral or expectations accelerating inflation. You don't have that. And in fact, the inflation that you see every day, that is reported most in the media and that almost everybody sees, the six and a half percent, is really kind of an artifact. It's not telling you what's going on now with the CPI – because that's a year, that's December over December. And if you look at the last six months, inflation has been running at an annualized rate of 1.9%. It's actually below the Fed's target. Every economist knows that. But very few people I have talked to in the halls of this Congress are really aware of that at this moment. And that's really too bad, because that's six months – that's not like one-month data. Inflation has dropped enormously in the United States, and it's below target, and we should be thinking like that. Also because it affects the whole world. So that's just basic arithmetic.

I want to talk about something else that Congress can do more directly, because Congress did this in 2021, and that is, it can give aid to the world. It doesn't cost the US government one dollar. Congress doesn't give the aid, but it decides it because, as Jayati mentioned, the US is the decider at the global financial institutions, including the IMF. It's the US Treasury Department that's right now holding this up because they have a veto at the IMF. And what they did in 2021, was the Treasury -- which can do this without Congress -- the Treasury approved $650 billion dollars worth of what are called Special Drawing Rights at the IMF. This is where people's eyes start to glaze over, because the IMF is not a bank, a central bank, and it doesn't have a currency, so it can't create money like our central bank does. And the European and Japanese central banks have actually created trillions of dollars worth of quantitative easing since the great recession. But the IMF could do something very similar, actually, because its credit is so good, because it has a trillion dollars of lending power, and nobody thinks they're ever going to renege on anything. And so, what they can do is they create their own internal asset called the Special Drawing Right, which is convertible under IMF rules to hard currency like dollars or euros or yen. And that works. And that worked in 2021. Over $200 billion worth of SDRs went to developing countries, not including China. And I'm only excluding China because they can't use these, because they have $3 trillion in reserves. And so they can't do what other countries can do, which is if they need hard currency, they can take those Special Drawing Rights, and they can go to the IMF and say, we need hard currency. And another country - not the US - will step forward (it could be the US sometimes, but it could be anybody), will step forward and exchange hard currency for SDRs. And the reason they'll exchange that is because anybody can hold this reserve asset at their central bank, and it's just like having US treasuries or gold – it's solid. And so that works. It really worked last year.

And I want to talk about the human cost involved because the economics is not enough. In 2021, 5 million children under age five died. And we know that there's a relationship between recessions in the world, in the developing world, and mortality. There's 5 billion people in the developing world, not including China.

And if mortality goes up by one out of a thousand, which is quite possible in the relationships that we see, that's 5 million people, and it's children that are hit the most. And you have 345 million people now that the World Food Program says are on the brink of starvation. That's up from 135 million before the pandemic. So, we're talking about a lot of lives. I would say that probably hundreds of thousands of lives were saved by what the Congress did last year by getting the SDR issuance. And just to show you how big it is, by the way, and Lara has pointed this out, how much it dwarfs all the other forms of proposed debt relief and everything else. But you could even compare it to all the development aid that the rich countries provide to the developing world in a year. And that money that went to developing countries last in 2021 because of, and I'm going to say this, because of what the US Congress and the US Treasury did was as big as all of the development aid that goes to developing countries from the high-income countries.

So that's huge and it has a huge impact. And here's the other good part of it -- there are no loans involved in this. So, they're not adding to the debt of developing countries, which, as Jayati mentioned, is already way too much. And it doesn't have, as was mentioned, conditions attached to it, which Jayati made a major point out of – the conditions attached to IMF lending are often quite counterproductive. And so that's why we're fighting for this again. And I actually think it's winnable. And I'll get to this.

Let me say just a little bit of how it helps and how it works. First of all, governments can convert SDRs to hard currency. And we have data now on the 104 countries who actually used their SDR for various purposes and there were some billions that were converted to hard currency and medicines were bought and other essential needs, and it was also used to pay off IMF debt. And so, we know that it really does help. But, it actually does something very powerful that you don't see, which is just by having reserves, countries avoid the kind of balance of payments crises that are devastating – you can get hyperinflation and all kinds of capital flight, which Jomo mentioned already, taking place. And so just getting those reserves for even the countries that don't use it, don't convert it to hard currency is really a powerful thing, a powerful boost to the world economy that is really getting hit hard. And I want to say also, when the last issuance came out in August of 2021, the world economy was growing at 6%. That's very good growth and that was the GDP growth for that year. It came in at 6% that year and now it's projected – the IMF just the other day – not even half that. And the World Bank said it will be even worse at] 1.7%, which is the worst year we've had in 30 years other than the Great Recession and the pandemic recession. So that's horrible. And I'm open to any reasons for the difference between those two projections. But the point is it's really bad either way. So the SDRs are much more needed now than they were, even in 2021.

One of the things that this does and one of the reasons we fought so hard is because the head of the IMF made a speech in March 2020 in which she said that the world is short of about two and a half trillion dollars in their basic financing needs – an IMF accounting term, which means what you need to avoid balance of payments or debt crises. Of course, we went immediately to Congress and thanks to Chuy Garcia and the many others who responded and passed $2.8 trillion. They did it twice. And that's why I have to say, Treasury agreed to the SDRS as they did in 2021. And we know that from various people who worked on this. But Treasury is blocking it now at the IMF. That's the problem. And I think that this is actually winnable again – it was Congress that did it and Congress can do it again. Congress has a lot of

influence over the Treasury through various ways and they can convince the Treasury, if they want to, to do this again because there's no downside risk.

Treasury hasn’t said one word about something bad that could happen from doing this the last time or doing this again. And there's really no economist on the record actually saying there's some downside risk to it. So again, it's zero cost to the US Government. It's zero debt, zero conditions attached and no downside risk. And so why won't they do it? Now, Jayati said something about enlightened self-interest and that's a big part of this too. First of all, we lost an estimated 2.2 million jobs during the pandemic recession not from what happened here in the US economy, but from the rest of the world. These were export-related jobs. So, these were jobs that the US lost because of economic downturns in the rest of the world. And that's a lot of jobs in the US economy. And so that's part of what we save when we help the rest of the world through this mechanism, again, at no cost to the US. So that's a really big thing that members of Congress can tell their constituents, and the constituents are telling them, fortunately, why this could help.

And here's another interesting thing. Sometimes when Treasury does the wrong thing, it's because there's a powerful influence. It's called Wall Street. But this is not the case here. Wall Street wants this. We got the International Chamber of Commerce among our 100 plus organizations representing tens of millions of Americans that fought for this in the last two and a half years. And what is it? And you know, therefore and for obvious enlightened self-interest, they have tens of billions of dollars of sovereign debt that they are holding in the world. And when countries default, they lose money. So why don't they lobby for it too? I can only speculate and I try to avoid that, but I'm going to say I think it's because of what economists call misaligned incentives or the principal agent problem in this case as well. You've got people who are working for these big financial corporations, and they have other things they want from Treasury, And so, they're not going to get punished if this doesn't happen, even though it would bring their bosses a lot of money or save them money because of the fewer defaults on the sovereign debt. I only make that point for one reason, and that is that nobody's going to punish anyone in Washington for doing this. And so that's another reason why I think this is winnable if we work for it again. Thank you.

Moderator

Wow, we covered a lot of ground there. I am going to ask a question, but I do want to say that after we have that initial chat, I'm going to turn it over to the audience for questions. For people who are in the room, you can raise your hand. For people who are online, there's a Q and A box that you could submit questions that will also get to. But first, I did want to ask, I'll start with Jomo, but Mark and Jaya, you can step in too. I did want to ask about this notion of the Fed’s fight against inflation, and I was struck, as you all were talking about inflation and how the Fed’s interest rate hikes hurt the rest of the world. I think about Europe, for example, where over the last decade and a half, we've seen sort of the complexity of trying to set monetary policy for a lot of different countries. And so I'm curious how you think that the US should approach monetary policy in terms of taking into account not just the domestic effect, but sort of trying to balance all of the different global circumstances and places that might be hurt? Or is it just that you think that US monetary policy is also not the right stance for the US and so maybe the incentives are aligned, right?

Jomo Kwame Sundaram

Thank you, Victoria. I think there are at least two major issues involved here. [First, understandings] of what are acceptable and unacceptable [inflation rates] have changed radically, particularly since the 1990s. Former US Fed Vice Chair, Stan Fisher [and Rudi Dornbusch] at MIT, the chief economist of the World Bank, Michael Bruno, and [others considered low double digit inflation rates very acceptable]. Such rates, considered unacceptable today, were all deemed acceptable. This wasn't something plucked out of [thin] air. And this contrasts with the 2% [inflation target fetish] which policy makers have [embraced without evidence of its ostensible benefits, e.g., for growth]. It was just plucked out of thin air, as acknowledged by the man responsible, the head of the Reserve Bank of New Zealand then. Worse, the rest of the world is now pressured by financial markets to embrace this 2% target without any pretense of an analytical or empirical rationale. So, we are quixotically fighting windmills of the minds of the mighty.

After Volcker raised interest rates from 1979, [sending the US economy south, causing Carter to lose the election.] Reagan realized he was going to do badly in the midterms, if he did not reverse the Volcker interest rate hikes.

After the Cold War started, [US-enabled recovery and reconstruction was crucial for securing support for the US. That's exactly what General Marshall did as Secretary of State, with the Marshall Plan lifting up Europe. Other efforts, even land reforms, were important in the rest of the world[, especially Northeast Asia]. Now, perceptions of the US all over the world are more negative, as coercive, not supportive or cooperative. I don't think that's the way to use Dale Carnegie's advice on ‘winning friends’ and ’influencing people’.

Mark Weisbrot

Yeah, I think the interests are aligned too. It is a heavy lift to try and tell the Fed that they have to care about the rest of the world, but we won’t do that so much here but the fact is that it is the safe end. And as Jomo pointed out this 2% inflation target that the Fed has, I mean, we have no reason for that to be the target right now. Krugman, and you have other famous economists, saying that 3% is a reasonable target. So, that's part of the story and the other part of the story is the Fed has literally caused most of the recessions that have taken place since World War II in the United States by raising interest rates. So, all economists know that. You don’t want that and they really have made big mistakes, and it really does harm the rest of the world as well. That’s why we put that quote from the World Bank in there because as Jomo said, they don’t normally criticize US monetary policy but they did this time and yeah, there has to be pushback on the Fed here or we’ll get another recession, which a lot of economists are rejecting. That would be completely unnecessary like most of the others since World War II that were brought on by the Federal Reserve. I just would add one quote from Rudi Dornbusch, the famous macroeconomist, here. He said - he was writing when there were at that time eight expansions in the US since World War II. He said not one of them died a natural death. Every one was murdered by the Federal Reserve.

Moderator

Jayati, do you want to add anything?

Jayati Ghosh

Yeah, I agree with both. In fact, if anything I'm even more extreme. It's not just stupidity, it's class war. That's what it is. There's a notion that first of all the current US inflation is not wage driven. It is, yes, supply shock driven in different ways and it is driven by financial speculation in commodities markets and profiteering of corporations. Instead of dealing with that you say we're going to use this heavy bludgeon to wipe out -- to make sure wage demands don't occur. In other words, you're basically linking, using this absolutely outmoded notion, that you have to increase the unemployment to reduce inflation. So, it's class war and there's absolutely no reason for it. And what is shocking is that those who are affected don't seem to realize that this is happening precisely for this reason, that this isn't something they should be actively opposing.

Moderator

Is there anybody here in the audience that wants to ask a question? We have about 15 minutes so we can take a few in the back. If you want you can come up here to ask your question or you can just to stand up.

Mark Weisbrot

So he's asking, Is it possible that interest rates were held too low and that's why they had to be raised?

Mark Weisbrot

That didn't happen like eight times. Okay. And I have to be more specific, the last three recessions were not caused by interest rates rising because of the Fed raising interest rates, because they had separate causes. Two were unprecedented: the largest asset bubbles in the history of the world burst. First the stock market bubble that burst in 2000, and then the housing market bubble which burst and caused the Great Recession. And that's actually something that is important to understand. It wasn't so much a financial crisis that caused the Great Recession - it wasn't caused by a financial crisis. It was really caused by the bursting of this giant asset bubble and the loss of demand from that --from people borrowing against their homes and spending; from construction; from all these parts of the economy that were affected by [the] bursting [of the] giant bubble. That's what caused it. So those two were caused by the asset bubbles bursting, and then the most recent recession was caused by the pandemic. But almost all of the other ones, really all of them, were caused by the Fed raising interest rates, just the way I described. And there isn't any story you can tell that they had to do it for some other reason.

Moderator

We have a couple of questions from online, but actually I think both are for Mark as well, because they're about SDRs. The first one is if we give SDRs to countries that are in debt to China, wouldn’t that help China and encourage Chinese lending? And the second one is, if it's Treasury's decision on SDRs, how would Congress help?

Mark Weisbrot

Okay, great questions. So, the SDRs are distributed to all countries in proportion -- there are quotas at the IMF, so the most go to the United States. But we can't really use them either. So, those 60% that go to the rich countries, it would be better if we changed that rule and didn't do that. But it doesn't really matter because they're not used. It's just an accounting entry on the books of the rich countries. And so there's

no harm in that. So, we really, I think, are properly focused on the ones that go to the developing countries who need them and can actually use them. Again, I didn't even bother to address the Republican arguments because I don't want to waste time. But that's really what they're doing. They're just my point to enemies of the United [States] who they hate and say, well, they're going to get it because everybody gets it. And actually, everybody doesn't and not everybody can use it. We showed this in a paper. Countries that are under US sanctions, for example, can't use their SDRs to get hard currency. What was the other part of the question?

Moderator

If it's Treasury's decision, how would Congress help?

Mark Weisbrot

Oh, yeah, Congress helped a lot. As I said, this is from people who were very close, very involved at the highest levels with what happened in 2021. And they said very clearly that it was the Congressional action that convinced Treasury to allocate what they can allocate without Congressional approval. And so how can Congress do this? They have many avenues of influence. One senator can hold up their nominations. I mean, that would be the tough option, but it wouldn't even get to that. I mean, if Congress makes it clear that this is something they want, why would Treasury lose something by opposing it? This costs nothing and there's no downside risk to it. So why wouldn't they do it? If Congress wants it, they [US Treasury] have to get along with Congress. They need things from Congress all the time, funding and other things. And not just for them, for the World Bank. Members of Congress have in the past held up World Bank funding when they wanted something from Treasury. I'm not advocating any particular strategy or anything. I'm just saying that if Congress tells Treasury, and they made it pretty clear they passed four times as much as treasury approved in 2021, they passed that twice in the, in the House. And you know, we almost got the Senate. I mean, it was pretty close there for a while. There was a Republican Senator who was willing to do it. I mean, our coalition that I described visited 25 Senate offices and the Republicans were mostly for it. It was after Trump left, actually, that the Republicans in the Congress decided, hey, we can try to weaponize this by running around screaming about all the countries we hate that are going to get this money. And of course, they don't inquire about it. They say money comes from us and we're giving it to everybody we hate. So, this is just a bullshit story, basically, that they were putting out there, but it really doesn't matter.

Moderator

All right, any other questions in the room?

Audience member: You mentioned that the commodity index has become counterproductive, and Ms. Ghosh mentioned that one factor in that is speculators. If that's the case, I haven't heard any suggestion or proposal to reduce the influence of speculators on commodity units?

Jomo Kwame Sundaram

Yes, certainly. The question is whether or not speculation in commodity markets would smoothen[, i.e., reduce] price volatility.

Audience member: Just the opposite speculations would not produce.

Jomo Kwame Sundaram

Exactly. And this is due to a phenomenon which begins around the turn of the century where you have the development of algorithmic speculation [in composite indices for several commodities]. The structuring of those indices is such that they actually have the opposite effect of what was originally intended by enabling commodity futures speculation [as a means of ‘hedging' to reduce commodity price volatility].

Audience member: So, should we get rid of the index?

Jomo Kwame Sundaram

[You can buy futures and options for individual commodities on exchanges, or these indexed investment products.] Companies offer different types of indexed [products, presenting composite indexed investments as means of hedging your bets]. So you can go to company A, offering, say, a choice of 16 commodities structured in a particular way. The same company or another one might have, say, 24 commodities combined differently, and so on. But the combined effects of such algorithmic speculation of hedged composite products may serve to accentuate, rather than smoothen price volatility[, due to what is termed the ‘fallacy of composition’]

Moderator

I think he's trying to ask how you would reduce that problem.

Jayati Ghosh

Could I add something here?

Moderator

Absolutely.

Jayati Ghosh

Yeah sure yeah, I want to add to what Jomo just said, that in fact we should not be having these index funds. I think that's also what the question said, because we should not be allowing financial agents into commodity markets. There's really no reason to justify their presence. If futures commodity markets are supposed to be hedging, that is, to avoid, to let people manage risk and so on, then only those who have a direct interest in that commodity should be in that exchange. And that was what the original intention of the regulations that were put in the Dodd-Frank Law was. The thing is that basically the CFTC and other agents, even before Trump actually, managed to make those rules and regulations so loose that they allowed proxy investors in there. Which is why you have banks and financial institutions treating commodities as another asset class. That should not actually be allowed. It serves no purpose, it does nothing. It's a bit like share buyback. It's a thing that is out there and does harm and has vested interest supporting it, but it does no possible good in any rational sense to the economy or to the different players in it.

Moderator

Thanks so much. Are there other questions in the room?

Jayati Ghosh

There are some more questions online. I don't know if you've seen those, Victoria. We have one: I'm interested in if anyone can talk more about some of the positive outcomes of the last allocation, how they were used, impacts on human beings and development and how that will affect the US? Also, if this is cost free, what arguments will Congress face? Vis-a-vis Treasury?

Mark Weisbrot

Yeah, so the last part of what arguments will Congress make, well, I mentioned some of them, the Republicans say it’s going to our enemies. That's basically the argument. That's all you really see. And the first part of the question was what were the SDRs they used for. Some of it was used to import medicines. There was 16 billion that was exchanged for hard currency by 42 countries. There are 104 developing countries that use them. They can also use them and incorporate them into their budgets and use them for fiscal purposes, and that was done by 69 countries. And that was also tens of billions of dollars. And so yeah, I think all of these things had real tangible effects. And again, I have to emphasize that one of the biggest effects that you could estimate it, but isn't obviously visible, is just having those reserves and not having the capital flight, de-stabilizing of your economy and even recessions and balance of payments crises that you would have if you didn't have these extra reserves. When a country runs low on international reserves and the international financial system that we have, because it's a dollar-based system, where 59% of all the central bank reserves are dollars, when you run low on that, you run into trouble. This trouble can really get very bad. It's getting bad for a lot of countries as we speak. So that's a huge part of it, and it doesn't even require them using the SDRs for spending. It’s just having them on the books.

Moderator

Great. Well, I think we'll leave it there because we're about out of time. I was just writing down, I did hear quite a number of very specific proposals from the panel today for people to chew on things like provisions like what we have for bankruptcy, for foreign debt that forced all creditors to come together, more SDR issuance, more leeway for inflation, more restrictions on commodity speculation, more green incentives. So really substantive discussion today. Certainly, gave me a lot to think about. And thanks to all of you for coming. And thanks so much to our panel.

Jayati Ghosh

Thank you. Bye.