

# Consequences and Lessons of a Virus

**Thierry DE MONTBRIAL**

Dear friends,

As Europeans get ready for their summer holidays, the Covid-19 pandemic seems to be winding down, despite hotspots cropping up here and there. However, we are not safe from the next wave. After so many careless speeches, nobody dares to make any more precise forecasts. In any case, any confirmed lull fosters broader reflections both on the disaster's consequences and the dysfunctions that allowed it to happen.

Most commentators agree that the crisis has catalysed, if not revealed, pre-existing trends in every area. For example, some already troubled companies, such as in the retail sector, will go bankrupt faster. Everywhere, production chains will be both shorter and more diversified in order to mitigate political or other risks of disrupting supplies. Many activities will be brought back onshore. Likewise, there will be less just-in-time trade. In addition to health precautions, a slowdown in international or even national air traffic can also be expected due to the rise of videoconferencing, which countless companies mastered during the lockdown. In another vein, it can be expected that the international economy will become more politicised. In other words, the three-way correlation between geopolitics, geo-strategy and geo-economics will grow stronger. Increasingly, States will overtly protect companies they consider "strategic", or at least parts of their activities they deem critical. The right to competition will be unsettled. I am thinking, for example, of the likely subsidy race between Boeing and Airbus, with the rise of a Chinese aircraft manufacturer in the background. Direct investments and population movements will be increasingly controlled.

These few remarks obviously do not claim to be exhaustive. They merely illustrate a partial return to the international economy's pre-modern form, in which essentially goods are traded while the factors of production (capital and labour in the classic model) are not very mobile. Thus, the WTO is the World *Trade* Organization, and not for economic exchanges in general. In many countries, all these changes will lead to a

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swifter rise in transitional unemployment than had been expected before the pandemic.

Admittedly, the unprecedented opening of the floodgates of money worldwide has prevented the worst, i.e. a chain of bankruptcies of structurally viable businesses and ultimately the nightmare of the entire world economy collapsing like a house of cards—a bit like what happened to Russia in the 1990s, but on a global scale. One shudders to think what would have come next. Once again, the central banking community rose to the occasion. But even the best actions have a downside: in this case, the explosion of public debt. What is truly unprecedented is the fact that the phenomenon took place simultaneously worldwide, but also, and perhaps especially, that it occurred after an exceptionally long period of price stability. To me it looks as though this stability is due to increased competitive pressure, especially on wages in developed countries owing to the opening up of the huge labour pool in emerging ones. With even partial de-globalisation, real inflation or stagflation, whose dire consequences Europeans, at least in the Western part of the continent, have forgotten, could return to Western countries. At the same time, in the rest of the world, partly deprived of an outlet for its goods, social difficulties could also increase. Nothing is easier than building mathematical models on paper that create the illusion of perpetual debt sustainability, and my macroeconomist friends do not deprive themselves of doing just that. Still, one must not be naive enough to believe in them. The conclusion is that we need more innovative international economic cooperation.

This remark leads me back to the issue of global governance. It was already in tatters before the pandemic due to a widespread erosion of trust made worse by the reckless behaviour of many political leaders, starting with the head of the world's most powerful nation, who would normally be expected to set an example. The systematic recourse to insults or the blaming of scapegoats is undoubtedly part of the arsenal of populist leaders. It is also true that the rise of social media has normalised invective, fake news and the return to the law of the jungle, where Rousseau's noble savage would feel quite out of place. But if international relations became an all-out brawl where emotion crushed reason, when objectively international cooperation would seem more necessary than ever, the risk of a sort of third world war would become serious.

Instead of prompting the planet's main States to face up to their joint responsibilities, the pandemic has indirectly hastened the degradation of Sino-American relations and the weakening of multilateralism. The emergence of a phenomenon with the potential to spark a pandemic is a perfect illustration of the butterfly effect, when a tiny cause has huge consequences. Detecting such a phenomenon early, gathering and interpreting relevant data, providing access to and sharing such data, nationally and internationally planning the prevention of these types of risks (health risks in this case, but also financial and other risks), allocating the resulting responsibilities and determining who funds what and who has the right to control what are some of the inevitable issues facing an increasingly interdependent and complex world where butterfly effects are bound to proliferate. It is easy to accuse China, and there is indeed good reason to question that country's behaviour, or to rebuke the WHO, which has the drawbacks of many international organizations and whose language turns stiff and bureaucratic when it strays into uncharted waters. WHO has a normative function but no direct power over its member States (in particular, no right of direct access to their data) and no preventive structure enabling it to act in emergencies. Its Director-General has no more troops than the UN Secretary-General. Organizations are crucial for coherent international cooperation. However, their missions must be unambiguously defined and they must have the appropriate delegation of authority to carry them out. The most exemplary institution in this respect is the IMF. But it must be said that the planet's main powers currently have the narrowest conception of sovereignty. This does not bode well as risks multiply on the horizon.

Nevertheless, I would like to end on an upbeat note. Having been immersed in international life for a long time, I am less struck by the scale of the dramas of history than by their limitation. Since current events bring medical metaphors to mind, I will say that despite appearances, the immune system of international society is not working too badly. Overall, in the last three months, after a worrying start, the quality of Europe's response has, in my view, exceeded all expectations. As for the face-off between the United States and China, I am willing to bet that reason will prevail over impulsiveness. The hardest thing for those two powers to do will be to admit the absolute necessity, in the coming decades, of a minimum sharing of

sovereignty, without which multilateralism will increasingly be a dead letter. It is then that great wars would once again become possible.

It remains for me to wish you the best possible summer. See you at the end of August for my next letter.