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The Post-Inflation Economy That Could Be

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CHICAGO – Economic commentaries nowadays are typically about inflation or recession, so let's instead consider the growth prospects once central banks get those challenges under control. As matters stand, there appear to be worrisome headwinds to growth. As most advanced-economy populations age, their labor-force growth is slowing, so there will need to be greater productivity per worker to compensate. But with investment in physical capital muted, labor productivity is unlikely to grow rapidly without significant innovation, either in work processes or products. While it initially appeared that increased telecommuting during the pandemic would enhance productivity (by saving time and avoiding the duplication of capital at home and in the office), many firms are rediscovering the value of having workers in the office at least for some of the time.

Another headwind comes from poorer countries, where lower-middle-class households have suffered tremendously through the pandemic and now from food- and fuel-price inflation. Many children have missed more than two years of school and are likely to drop out, permanently impairing their earning potential and the skill-base of the labor force more broadly. Meanwhile, deglobalization – through reshoring, near-shoring, and friend-shoring – threatens to make it even more difficult for them to get good jobs. In the longer run, the weakness of demand in these countries will spill over to the developed world.

If the world does not find new sources of growth, it will fall back into the pre-pandemic malaise of secular stagnation. But this time, the situation could be worse, because most countries will have limited fiscal capacity to stimulate the economy, and because interest rates will not fall back quickly to their pre-pandemic lows.

Fortunately, there are tailwinds that could be unleashed. While trade in goods seems to have reached its limits before the pandemic, trade in services still has not. If countries can agree to remove various unnecessary barriers, new communications technologies would allow many services to be offered at a distance.

If a consultant working from home in Chicago can cater to a client in Austin, Texas, so can a consultant from Bangkok, Thailand. Yes, consultants in other countries might need to have front offices in the United States to assure quality or redress complaints. But the overall volume of work that could be undertaken by global consulting companies would grow substantially, and at a significantly lower cost, if their services could be offered across borders.
Similarly, telemedicine has become increasingly feasible not just in psychotherapy and radiology but also in routine medical diagnoses (sometimes aided by local equipment or a nurse practitioner). Again, global organizations (for example, a global Cleveland Clinic) could help reduce informational and reputational barriers, allowing for a general practitioner in India to

conduct routine medical exams for patients in Detroit – referring them out to specialists in Detroit when needed.

The biggest barriers to such trade in services are not technological but artificial. Understandably, the authorities in advanced economies do not allow general practitioners in India to offer medical services without proper certification. But the problem is that most countries' certification procedures are unnecessarily cumbersome. What if the world could agree on a common certification process for the work done by general practitioners? A country with unusual ailments could tack on an addendum to the exam for those who want to practice there, but only if absolutely necessary.

A second problem is that national health-insurance schemes typically do not pay for services from outside the country. But if the certification challenge has been met, there is no good reason why they shouldn't, given the cost savings that would result.

A third barrier is data and privacy. No patient will be willing to share personal details or test results if she cannot be sure that the data will be kept confidential and safe from misuse. In an era of geopolitical tension and economic blackmail, meeting those conditions requires not just a commitment from the service provider but also assurances from the provider's government that it will not violate patient privacy. Democracies that can enact strong privacy laws (including limits on how much data their own government can see) will be better positioned to capitalize on this trade than autocracies, where there are few checks on government.

Imagine how much faster and more affordable it would be for a US citizen to reach a doctor if routine matters were outsourced. Developed countries would obviously benefit, but so would developing economies, because the incomes that their doctors generate would be used to employ more workers locally. Moreover, these doctors would be less likely to emigrate, and they could use the same telemedicine technologies to provide services in remote parts of their own countries. At the same time, specialists in advanced economies would be able to offer more of their services to patients in developing countries without them having to travel to New York or London, as they currently do.

But aren't service providers in rich countries likely to resist removing barriers that, together with the difficulty of competing at a distance, have ensured them high wages? Probably, but there will still be significant domestic demand for their non-routine services. Also, if barriers are lowered elsewhere, they will be able to serve much larger markets with specialized high value-added services. For this reason, an agreement on reducing barriers to trade in services among a broad set of countries will have a greater chance of success than bilateral agreements.

Moreover, many others in advanced economies, including manufacturing workers who have borne the brunt of global competition, will benefit from cheaper basic services. As economic inequality both within and across countries decreases, global demand should also strengthen.

Another potential tailwind for growth lies in "green" investments. Though Russia's war in Ukraine has complicated the clean-energy transition for Europe, much of the world's emissions-heavy capital still needs to be replaced, and those investments could help jump-start the global economy.
To aid the transition, each country will need to establish sensible incentives for businesses and consumers, such as investment credits, emission regulations, cap-and-trade systems, or carbon taxes. Governments also will need to agree on a system for allocating responsibility to high-emitting countries (which are typically rich and less vulnerable to climate change), so that they can help finance the energy transition in low-emitting countries (which are typically poorer and more vulnerable).

The post-pandemic, post-inflation economic outlook is not all doom and gloom. But much work needs to be done to dismantle artificial barriers and leverage existing technologies.

RAGHURAM G. RAJAN

Raghuram G. Rajan, former governor of the Reserve Bank of India, is Professor of Finance at the University of Chicago Booth School of Business and the author, most recently, of *The Third Pillar: How Markets and the State Leave the Community Behind* (Penguin, 2020).

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