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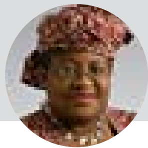
THE WORLD MUST AVOID ANOTHER FOOD CRISIS
(Project Syndicate – Mar 23, 2022)



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It is becoming clear that the Ukraine war's economic and humanitarian repercussions – especially rising food prices – will be felt far beyond Europe. The international community must act now to prevent some of the world's poorest and most vulnerable people from becoming collateral damage.

GENEVA – The war in Ukraine is causing immense, heart-wrenching human suffering. At the World Trade Organization, an institution based on the rule of law and established to help forge peace, we find the violence abhorrent to our fundamental principles. We echo United Nations Secretary-General António Guterres's call for the bloodshed to stop, and we wish for a prompt and peaceful resolution of the conflict.

But even as we remain transfixed by the shocking and tragic images of Ukrainian cities under attack, and even as we commit to doing all we can individually and collectively to help Ukraine's people, it is also becoming clear that the war's economic and humanitarian repercussions will be felt far beyond Europe. We have a responsibility to mitigate these consequences proactively as well.

Even prior to the war, rising food and energy prices were straining household and government budgets in many smaller and poorer countries whose economies had also been among the slowest to recover from the COVID-19 pandemic. New price spikes triggered by the conflict in Eastern Europe now threaten to cause poverty and food insecurity to rise. In these circumstances, the role of the WTO and trade in general, particularly for countries that are net food importers, is of paramount importance in preventing hunger.

While Ukraine and Russia together account for a modest 2.2% of global goods trade, according to WTO estimates, this figure understates their significance in grain and energy markets, and as suppliers of fertilizer, minerals, and other inputs critical for a wide range of downstream production activities. In 2020, for example, the two countries supplied 24% of globally traded wheat, and 73% of sunflower oil.

Imports of such commodities are essential for basic food security in the many countries that lack the water, soil, and weather conditions to grow all the food they need. Over the past 30 years, Ukraine and Russia have become key sources of grain for countries including Mongolia, Sri Lanka, Lebanon, Egypt, Malawi, Namibia, and Tanzania. The World Food Programme, the UN agency that provides food aid to people affected by conflict and disasters in more than 80 countries, typically procures more than half of its wheat from Ukraine.

War-induced blockages of Ukrainian ports and the international sanctions imposed on Russia have sharply reduced the available global volume of wheat. Fears that Ukrainian farmers will be prevented from growing this year's spring crop have compounded supply concerns, causing the price of wheat futures to rise 40% and reach record highs in the first week of March.

Surging energy and food prices have begun to elicit familiar policy responses, with several governments restricting exports of grains and other key foodstuffs in an effort to maintain domestic supplies and limit price increases. The rising number of complaints to the WTO from exporters in several member countries and jurisdictions underscores the extent of the problem. Such export controls can trigger a spiral of price increases and new restrictions. The World Bank estimates that 40% of the increase in global wheat prices during the last food-price crisis in 2010-11 resulted from governments' attempts to insulate domestic markets.

But the world can mitigate these risks. Experience shows that international cooperation can help manage the knock-on effects of surging food prices. For a decade, sharing information about food supplies and stockpiles through the Agricultural Market Information System has enabled leading exporters and importers to prevent panics and keep markets functioning smoothly.

With the global trading system already struggling to cope with high transport costs and congested ports, closer coordination could help stabilize international markets for food, energy, and commodities, and minimize additional disruptions to supply chains. Importantly, the WTO's monitoring and transparency function can help

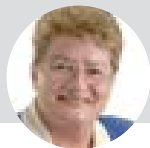
ensure that food and agriculture supply chains that are not directly affected by sanctions remain open and operate efficiently.

Better visibility regarding market disruption would also enable the international community to identify and mobilize financial and other assistance for poor countries badly affected by rising food prices. This is particularly urgent because, even before the Ukraine war, the post-pandemic economic recovery had been leaving much of the world behind. Growth in the poorest countries was furthest behind the pre-2020 trend, reflecting their weak fiscal capacity and inequitable access to COVID-19 vaccines.

As the world watches Ukraine's unfolding tragedy, we must all urgently focus on how to support the Ukrainian people. And it is natural and appropriate that governments will concentrate on the disruption to their own economies. But we must also act now to ensure that some of the world's poorest and most vulnerable people – far away from the conflict and absent from the headlines – do not become collateral damage.

HOW TO USE ECONOMIC SANCTIONS WISELY

(Project Syndicate – Mar 24, 2022)



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Given the horrors of Russia's invasion of Ukraine, the public's support for sanctions has been strong. But, before tightening sanctions further or imposing them indefinitely, Western powers should consider the broader risks to the global economy and the international trade and financial system.

WASHINGTON, D.C. – To help Ukraine while avoiding a nuclear confrontation between NATO and Russia, the United States and its allies have attacked the Russian economy with trade and financial sanctions on a previously unimaginable scale. But is it the right scale, and are these the right sanctions?

Trade sanctions are prohibitions on exports, imports, or other international transactions – including airline landing rights, asset sales, shipping rights, and port privileges – with a targeted country. Blockades are a well-known wartime sanction, but countries employ sanctions in peacetime as well. The idea is to coerce the targeted country to alter its behavior, by preventing it from enjoying the benefits of exchange with the rest of the world.

The use of sanctions intensified after World War I, when governments, led by US President Woodrow Wilson's administration, agreed to address international disputes through economic measures instead of military action. This preference for sanctions over violent conflict resumed after World War II and has become more entrenched ever since. By 2020, the US had imposed sanctions on more than 10,000 entities – ten times as many as in 2000 – many of them connected to North Korea, Cuba, and Iran. These measures have largely come in the form of prohibitions (or limitations) on trade with the target country.

Sanctions differ from tariffs. Whereas tariffs are usually intended to influence output and employment in the country that imposes them, sanctions' primary purpose is to change another country's behavior through the coercive power of economic hardship.

Historically, sanctions have had only limited success, and their effectiveness has varied widely depending on underlying conditions. When other countries refrain from participating in sanctions, the target country can evade a sanctions regime by doing business with, or arranging transshipment through, the holdouts. Until 1991, the Soviet Union regularly played this role by continuing to trade with United Nations-sanctioned countries. Moreover, new smuggling methods and other means of sanctions evasion have emerged over time, making enforcement a constant challenge. The longer sanctions are in place, the more ways businesses and others will find to evade them.

The situation changed in the 1990s, when the UN Security Council started endorsing sweeping sanctions against specific countries. In 1990, it imposed a financial and trade embargo on Iraq in response to its invasion of Kuwait. US sanctions barred American companies from all transactions with entities in Iraq, and additional "secondary sanctions" targeted any activity with companies continuing to do business with Iraq, as well as goods

or services with components made in Iraq. Such primary and secondary sanctions can be highly costly for targeted countries, but they have not persuaded governments in Cuba, Venezuela, or North Korea to change their ways.

When Russia invaded Ukraine in late February, US President Joe Biden's administration announced harsh sanctions on trade with Russia, along with unprecedented financial prohibitions, and most other countries took similar measures. For example, Russian banks have been excluded from the SWIFT financial messaging system for international payments. As a result, Russians cannot use their reserves, receive payments for most exports, or pay for their imports in anything other than rubles or through another payments system.

The effects of these sanctions have been sweeping. Although China has been building its own Cross-Border Interbank Payment System (CIPS), SWIFT still handles the vast bulk of international payments today. Amiyatosh Purnanandam of the University of Michigan has described the barring of Russian banks as "a nonviolent nuclear attack on Russia's economic system." In response, Russia has been seeking other channels to receive and make payments. For example, Russia has been pressuring India for a rupees-for-rubles arrangement under which it can export oil in exchange for other goods.

But the true extent of the damage to the Russian economy will depend in large part on the European Union, Russia's largest trading partner. If Europeans stopped importing oil and gas from Russia, the harm to Russia's economy would be rapid and severe. The problem, of course, is that an energy boycott would entail extreme hardship for Europe as well. Although the US and other countries could help soften the blow, they probably could not make up for the reduction in supply. Moreover, a significant reduction in Russian oil and gas exports to the EU would result in sudden dramatic increases in hydrocarbon prices globally, hitting all energy-importing countries.

While the horrors of the Russian invasion have induced strong public support for sanctions, the question is how long the sanctions can usefully stay in place. The longer they are in place, the greater the risks to the international financial system. As Russia seeks alternative trading and financing patterns, and as other countries start to worry more about their own exposure to potential US sanctions, the SWIFT system will be undercut. If the sanctions regime is relatively short-lived, the hit to SWIFT could be contained. But if China accelerates its CIPS development, the longer-term consequences for the international financial system would be more significant.

Countries that support an open international trade and payments system should recognize these longer-term risks and take whatever measures they can to limit the duration of and fallout from financial sanctions. They can start by supporting the multilateral cooperation and coordination needed to ensure that the sanctions against Russia succeed. But they should also make a firm commitment to increase the supply of oil and gas to EU countries in the meantime, and to remove the sanctions when hostilities end.

FIGHT INFLATION WITH SUPPLY-SIDE LABOR REFORM

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Given that a sh ortage of workers is a major source of today's surging inflation in the United States, policymakers should be devising a strategy to increase the active labor force. The right approach would both draw in older and younger non-workers and attack the epidemic of occupational licensing and credentialism.

SAN DIEGO – In the past few years, a million retired Americans have picked up a pickleball racket. We would have less inflation if they had picked up a hammer, wrench, or pencil instead. "Help Wanted" signs are everywhere, from coffee shops to pharmaceutical plants. Advanced economies could ease one major source of inflation by inducing more people to join the workforce, especially those at the two ends of the labor barbell: older people and young people.

Owing to the whirling printing press of central banks, excessive government spending, shipping disruptions,

and now Vladimir Putin, inflation has spiked to levels not seen since Rocky II (1979). But with a supply-side labor policy, we can help fill the record 11.3 million job vacancies in the United States, while the Federal Reserve and its counterparts elsewhere figure out how to drain their bloated balance sheet.

In the popular press, the US economy appears to be blessed with Energizer bunnies. Tom Brady breaks touchdown records at age 44, Clint Eastwood directs movies at 89, and William Shatner boldly goes into space at 90. Despite these stunning achievements, the proportion of retired people in the economy has jumped by one-third over the past 15 years.At the same time, more than 20 million prime-working-age (25-54) Americans effectively wake up each morning, smell the coffee, and then scroll through cat videos on TikTok until lunch. They tell US Bureau of Labor Statistics surveyors that they "do not want a job now." Sofa-dwelling gamers and crypto bros might help Xbox and Coinbase prosper, but a low labor-force participation rate is bad for the broader economy – and the country.

A smart supply-side labor strategy has three prongs. It should draw some of the "unworked" back into jobs by correcting public pension distortions, attacking the epidemic of occupational licensing and credentialism, and defending gig workers and the platform economy from heavy-handed regulation.

Seniors respond to tax incentives, just as they respond to early bird dinner specials. Unfortunately, Social Security penalizes retirees who return to work by cutting their monthly benefits. A 62-year-old recipient loses $2 of benefits for every $1 she earns over $19,560. The Urban Institute calculates that while a median-income 60-year-old faces an implicit tax on work of about 15%, the rate jumps to over 30% at age 66. So why bother working?

With America's declining birth rate, each retiree now leans on a mere 2.7 active workers, a dependency ratio that is expected to worsen to 2.3 active workers per retiree by 2035. Countries like France, Italy, and Japan face an even more dire calculus. To manage this imbalance, pension taxes for seniors should be eliminated when they reach a certain number of years in the workforce. After 45 years, for example, an individual would be "paid in full" and could continue to work without facing penalties or payroll taxes. Too many energetic seniors are moving to "active" communities too soon, indulging in rum punch when they might prefer punching a time card.

The government should also create better incentives for young people. In Italy, before COVID struck, nearly 30% of young people aged 20 to 34 were classified as NEET ("neither in education, employment, nor training"). The US labor-force participation rate has dropped 17% for 16-24-year-olds since 2000. In 2000, over half of teens worked during the summer; now, only about one-third do. Cooking hot dogs on the boardwalk may not do much for an academic resume, but it does build lifelong skills like self-discipline and time management. Moreover, according to a Northeastern University study, low-income high-schoolers who work are more likely to graduate.

With a smarter supply-side labor strategy, 16-24-year-olds who pay into government retirement plans would be credited at double the current payout rate when they retire. A 20-year-old who earns $15,000 in 2022 and pays about $1,200 in Social Security taxes would be credited at retirement as if she had earned $30,000.

Another major problem is that workers of all ages who want to enter new fields must navigate around government barricades, including pricey licensing requirements. Nearly one-quarter of EU and US jobs require a license, compared to under 5% in the 1950s. While licensing makes sense for surgeons and pilots, one can only wonder why the state of Arizona forces hair stylists to take 1,600 hours of classes. A Phoenix policeman spends 1,040 hours in training. Apparently, handling a blow-dryer is far more dangerous than handling a .40 caliber Glock.

This licensing epidemic has driven up costs for workers and consumers. In a world of gig work and online learning, even college-degree requirements seem old-fangled. According to the employment platform Indeed, 72% of employers think coding bootcamp grads "are just as prepared and likely to be high performers as candidates with computer science degrees." A senior executive at Google declared that college grades are "worthless as a criterion for hiring." No surprise then that IBM announced that half of its US jobs are now open to anyone with the right skills, and Ernst & Young (UK) flung open its doors to non-university grads. To excel at a tech job requires staying on top of the latest industry innovations – hardly a specialty of tenured professors lecturing from last year's notes. Governments can take the lead by hiring the best candidates, not necessarily those with gilded diplomas.

Finally, governments should stop undermining the gig economy. Gig workers perform an inflation-fighting service when they bring into use a spare apartment, a garaged car, or an idle dump truck sitting on the side of

a construction site. Re-classifying these workers as employees robs them of flexibility and pushes up prices. New York City capped the profits on food-delivery companies, which only hurts city-dwellers. Parliamentary committees in the European Union, Australia, and Canada also are taking aim at firms like Airbnb and DoorDash.

A smarter labor policy would create opportunities for those who want to work, while combating inflation and helping reopen some of the nearly one-third of small businesses that were shuttered by lockdowns. For healthy people, retirement and other noble endeavors like Xbox and pickleball can wait for another day.