

The Four Horsemen of the *Apocalypse*

BY WILLIAM R. WHITE

*How did the world get
into this mess, and how
do we get out of it?*

When Tolstoy observed that “each unhappy family is unhappy in its own way,” he meant that numerous requirements must be met simultaneously to ensure happiness. The failure to meet even one of them deals a fatal blow. Sadly, the world today suffers from fatal flaws, not just in one, but in all four of the major systems needed to ensure a happy and sustainable future for humanity: our economic system, our political system, our environmental system, and now, finally, our public health system. For those with a taste for Biblical allusions, we have been visited by the prophet Ezekiel’s Four Horsemen of the Apocalypse—famine, war, death by beasts and, finally, plague. How did we get into this unsustainable state of affairs, and how can we get out of it?

These four systems are all interdependent and each has changed for the worse in recent years. Our economic and environmental systems have been gravely weakened by a sharp rise in the stock of debt and greenhouse gases respectively. At the same time, the stability of the political system has been weakened by rising economic inequality and the popular sentiment that the economically powerful are using the political system to pursue their own objectives. In effect, as the underlying problems affecting the economic and environmental systems have worsened, the capacity of the political system to provide solutions has also weakened. Where we are is not a good place to be.

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The Four Horsemen, from *The Apocalypse* by Albrecht Dürer.

The fourth horseman, the Covid-19 pandemic, could easily trigger instability in each of the other three systems already weakened by preconditions. Echoing Tolstoy's observation, it will not be sufficient to cure any one of these conditions. We must cure them all. The challenge we face is existential and demands a "total reset" rather than incrementally "building back better."

The task is made all the harder by recognizing that cures for any one of these four problems might well increase instability in other systems. Tradeoffs between objectives will be essential, and they will not be easy to make given limitations in our knowledge and shortcomings in our political processes. Moreover, choices will be further complicated by the need to make tradeoffs over time, since policy measures often have different effects in the short run and the longer run.

This latter consideration is of particular importance. The first human imperative is always survival. Unfortunately, this

implies a bias to near-term solutions without adequate consideration of their longer-term implications. Indeed, this human bias largely accounts for our current problems. We need to give more emphasis to the longer-run effects of existing policies (like monetary stimulus) and begin rectifying prob-

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lems (like the environment) that have been too long ignored. All of the four systems referred to above are "complex, adaptive systems" that have non-linear properties including "tipping points." As a result, stability today cannot simply be extrapolated into a prediction of stability tomorrow. This conclusion applies even more to systems of systems. We must act now on all four fronts.

Dealing with the pandemic, which could easily trigger other problems, is the first requirement. On the one hand, prolonged social distancing might lead to an equally prolonged recession. Given that global debt ratios are at record levels, this might trigger a debt/deflation process similar to that described by economist Irving Fisher in the early 1930s. On the other hand, a massive government and central bank response to economic weakness might eventually kindle an inflationary upsurge that could easily get out of hand. Either way, political instability and environmental neglect might then follow.

So social distancing might lead to a dangerous cascade of economic consequences. Moreover, there are other associated costs that are becoming increasingly evident. The social costs (family violence, suicides, and so forth), health costs (missed diagnoses, treatments, and vaccinations), distributional costs (the poor and women suffer most) and political costs (isolation breeds mistrust) of social distancing are already large and are rising over time. Such considerations argue in favor of a careful easing of restrictions, and a quick return to normalcy, provided that the hospital system can cope throughout. Evidently, increased efforts to protect the vulnerable, particularly the elderly in nursing homes, would be required during this process.

Any easing of social restrictions will likely involve more Covid-19 cases in the immediate future. However, and this is a crucial point, not necessarily more cases over time. Absent a vaccine, standard epidemiological theory says that the number of infections will inevitably rise until "herd immunity" is reached. If true, and it is contested, this implies that the primary benefit of social distancing is restricted to "flattening the curve" of infections to a level that the health care system can cope with. Given the overall

costs of social distancing measures, it also implies that money spent on improving health care and on reducing the costs of social distancing (such as test and track) would have an extremely high rate of return.

Dealing with the debt overhang problem also involves tradeoffs. In the past, economic downturns have been met with fiscal easing and, overwhelmingly in recent years, by monetary easing. Unfortunately, this has led to sharply higher ratios (to GDP) of both public debt and private debt in many countries that now threaten future growth in a vari-

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ety of ways. Macroeconomic support for the economy during the pandemic has eased current problems but has again aggravated future problems. We must find a way to get off this unsustainable path.

The first priority must be to restructure existing debt. The bias should be to maintaining viable businesses as going concerns while shutting down “zombies.” To do this in an orderly way will require strengthening legal and administrative procedures in many countries. Quickly restructuring sovereign debts, especially the debts of very poor countries, will be particularly challenging. Going forward, structural measures are also required to increase our potential for growth and the related capacity to service debt in the future. Higher investment levels, not least in green infrastructure, must be encouraged through regulatory and fiscal measures, with financing increasingly provided through equity rather than renewed borrowing.

The next priority must be to carefully edge monetary policy back towards “normality.” Given its encouragement of higher debt levels, and its contribution to both financial instability and resource misallocations, monetary policy is currently doing more harm than good. Prior debt restructuring would reduce the likelihood of a market “temper tantrum” accompanying this process.

Against this restrictive backdrop, maintaining or even expanding fiscal deficits seems the least bad option. Evidently, this has the unwelcome effect of increasing sovereign debt levels, but the worst side effects of this can be mitigated in various ways. Low rates of interest should be locked in by long duration borrowing. Commitments to activating longer-term debt targets, once recovery has taken hold, should be strengthened. Finally, clarification is

needed as to how new kinds of taxes and expenditure reviews might contribute to achieving this goal.

Dealing with the problem of political instability requires tackling the root problem of rising inequality in many countries, not only of incomes but of wealth. First, it must be accepted that “trickle down” economics has not worked. Second, the better off must accept the lesson of history; rising inequality poses an eventual threat to the rich as well as the poor. Similarly, the burden of debt restructuring will have to fall more heavily on the wealthier portions of society.

Governments will have to focus more on inclusiveness in formulating their policies. Benefits provided to ordinary workers must rise, while the current benefits provided to the better off must fall if sovereign debt problems are not to worsen. Perceived “unfairness” in the tax system, especially with respect to tax expenditures (deductions and hidden subsidies) and international tax sharing, has become a potent source of instability. The trend to growing corporate concentration must also be reversed, as well as the sense that corporate lobbying is buying inordinate political influence. To further support inclusiveness, corporations should review their compensation packages as well as take practical steps to rebalance towards the interests of stakeholders as well as shareholders.

The most existential problem is environmental degradation. While these problems are by no means limited to global warming, there are growing concerns that global temperature increases might be at some kind of irreversible tipping point. To get to zero greenhouse gas emissions by 2050, sharp increases in carbon taxes will be needed in all large countries along with reduced subsidies for using fossil fuels. At the same time, government expenditures will have to rise for new energy infrastructure, research and development, and adaptation to climate change. Climate change

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mitigation will also “strand” many private sector assets, leading to losses within the financial system and potentially to significant spillover effects on public expenditures.

The net effect of all these measures might actually be to reduce government deficits, which would be welcome. Nevertheless, the need for tradeoffs remains. Higher energy

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taxes and reduced energy subsidies seem likely to aggravate political instability, as already seen in France, Chile, and many other countries. An answer suggested by many is to remit a substantial part of the revenues back to taxpayers in a sharply progressive fashion. However, this again reduces one systemic problem at the expense of increasing another.

What policymakers should do, in order to deal with all Four Horsemen simultaneously, constitutes a tremendous analytical challenge. Accepting that the world is a complex, adaptive place immediately leads to the conclusion that we need a “paradigm shift” in how we think about policymaking. Unfortunately, as Thomas Kuhn and Daniel Kahneman have argued at length, such shifts in thinking are not easy to achieve.

Moreover, even when we have agreed what should be done, actually making it happen is likely to prove even more difficult. First, policymakers must overcome the tendency to say that “spend and print” is an easy and sustainable solution to all our problems. In fact, the refusal

to accept solutions that are unpalatable could easily result in truly disastrous outcomes. Second, unpalatable solutions will be resisted by those most affected, and potentially even by the public that will stand to gain the most in the long run. Politicians looking for re-election will find it difficult to provide leadership in such cases. Finally, many of these systemic problems have an international dimension that will require international cooperation to find solutions.

Given all these impediments to effective action, it is hard to resist the conclusion that we might need institutional change as well. One possibility is that we need stronger supranational organizations to provide guidance or vision about what needs to be done. Climate change and pandemics are obviously global issues. Similarly, we might need stronger subnational efforts to actually get things done. All politics is local. However, achieving such changes will require that sovereign states cede some of their existing powers. As with the other challenges noted above, acceptance of the need for fundamental change must come first if the existential threat posed by the Four Horsemen is to be overcome. ◆