



Nobel Perspectives: On a post COVID-19 world

Jean Tirole

As part of the UBS Nobel Perspectives program, our webinar series allows you to ask your questions directly to Nobel Laureates in Economic Sciences.

UBS Nobel Perspectives addresses the questions shaping our world, cutting through the noise, and holding the largest content library of Nobel Laureate interviews.

Jean Tirole won the Nobel prize in 2014 for his analysis of market common good and regulation. Jean Tirole's research and regulation theories have changed how market regulation is applied to industries far and wide and broadened the scope of what competition can look like. The Nobel Laureate is also a best-selling author and distinguished professor. He joined Massimiliano Castelli, Global Head of Strategy, Global Sovereign Markets at UBS Asset Management, in a webinar on 30th September to discuss the implications of the COVID-19 pandemic on topics including technology, globalization and sustainability.

Key webinar takeaways

- Health crises will occur more and more often and we need to be more prepared for them
- To improve the sustainability of our world, we must invest long term and the finance sector can play an important role in facilitating this process
- To monitor global monopolistic industries, competition authorities need to coordinate globally and independently of political power
- A trend towards deglobalization has developed during the pandemic
- There are several benefits to globalization: consumers are not captive to domestic monopolies, have greater choice and lower prices but losers must be protected

The world in the grasp of COVID-19

More than six months have passed since the beginning of the crisis: what are the main implications of the crisis on the global economy?

To begin with, the lack of preparation was striking as there was no real plan in place. On a domestic level, we saw a lack of supplies as well as a delay in implementing contact tracing. Similarly, on an international level there was limited planning with countries failing to share information and rushing to preempt masks and a vaccine.

This health crisis is not a rare event, we will also be faced with a growing resistance to antibiotics, biological warfare and the permafrost melting, which will release unknown bacteria and viruses. We will undoubtedly see more health crises in the future, and we need to prepare for them much better next time.

From a macro perspective, the fiscal response was adequate but huge debt is now piling up which must be repaid eventually. A few other areas we will need to address are lost education and increased inequality in society.

One of the implications of COVID-19 has been an acceleration in digitalization and technology. The big tech companies are perceived as the winners and this is also reflected in their stock prices. Are the big tech firms monopolistic in nature and what type of regulation would you advocate to ensure continuing innovation and competition?

Economists are in general concerned about monopolies pushing prices high for consumers, failing to innovate as well as dirty tricks to prevent entry into their market. US tech companies' market cap now exceeds that of all European firms, and they are still growing. They interact with the consumer online with no physical presence, which provides a competitive advantage in this environment to the detriment of bricks and mortar shops.

A solution to a monopolistic industry is the breaking up of these companies into smaller operations through the identification of competitive bottlenecks - the segments which facilitate competition. This is not easy as technology changes all the time. I am in favor of competition policy but its slow to implement: it can take up to 5-7 years to settle a case. Competition authorities must try to preserve the ability of new entrants to enter the market and prevent dominant platforms from imposing exclusivity rights for sellers, as such exclusivity might lead to tipping in favor of the bigger platform. The best scenario might be a combination of competition policy with light regulation, that collects information about the largest tech firms, and is able to restrain them.

Do takeovers and acquisitions of smaller tech companies kill competition?

Two exit mechanisms exist for a startup: an IPO or an acquisition by a bigger company. It is very difficult for competition authorities to prove a reduction in competition has occurred due to a merger or takeover, particularly for newer companies such as tech startups where there is little data available on the company and very few consumers exist or before any sales have even taken place. It is a challenge for competition authorities to prove that the merger is anti-competitive. The burden of proof in the current legal framework doesn't facilitate this type of investigation. Larger corporations may actually acquire early startup companies for that very reason.

How can a global competitive regulation framework work, given the global nature of these large tech companies?

Basically, for it to work, global cooperation is preferable to local regulation because it may be costly for companies to tailor their technology to different markets. Regulators should be independent from political power for it to work and allow for an even playing field. Moreover, competition authorities need to work together to exchange best practices and share industry knowledge to have optimal coordination between countries.

The key themes of the century

The health emergency measures introduced to stop contagion caused a severe global recession. The Global Financial Crisis (GFC) had a negative impact on globalization and the pandemic is likely to have a similar effect and will in many ways serve as a catalyst for trends that were already well underway. What is your view on this topic?

"There are several benefits to globalization: consumers are not captive to domestic monopolies, have greater choice and lower prices."

Jean Tirole

Looking at supply assurance and the need for a good level of inventory and diversified supply chains, in my view the governments should secure the conditions for a proper supply of essential goods and services (unusual health problems, defense, basic food supply) and the private sector can manage the rest. In relation to COVID-19, masks and a vaccine will in part come from abroad, so even essential supplies will involve some share of international trade.

A trend towards more protectionism and therefore deglobalization has developed during the COVID-19 crisis. If we travel less and work remotely, if we consume more locally grown products, then physical global trade will decrease; but we do not have to forego globalization at the same time. There are several advantages to globalization: consumers are not captive to domestic monopolies, have greater choice and lower prices. In the technology sector, artificial intelligence (AI) is coming and will be a huge shock to the labor market, causing rebellion. Such technological evolutions, which are by themselves desirable, may become real threats to democracies if they are poorly or not handled. We need to support the losers of globalization and technological change.

Milton Friedman – awarded the Nobel Prize in Economics in 1976 – had the view that the only social responsibility of business is to increase profits and this view dominated for decades. In the aftermath of the GFC, this view has increasingly been challenged and even more so since COVID-19 emerged. Do you think that Friedman’s view should be updated to reflect the changed structure of our economies?

Economic life was built on two pillars. The first is firms striving for long-term profits and the second is taxation of companies and consumers to correct for socially irresponsible behavior. There are many market failures to correct; market power, pollution, asymmetric information, inequality, procrastination and impulsiveness, and so on.

There are government failures as well as market failures, resulting in little to no action on climate change, inequality, a high public debt and unfunded pensions, and we all must react to their failures to address the challenges to a harmonious society and to the environment.

Corporations can act in three ways; they can take a long-term perspective on profits; practice philanthropy on behalf of their stakeholders; and practice philanthropy themselves (and therefore sacrifice profits).

We need to improve the transparency and the availability of green information around different consumer choices. For instance, the impact of buying an electric car on society depends on the origination of the electricity as some power is sourced from coal and some from nuclear stations.

There is growing evidence of the benefits of incorporating an Environmental, Social and Governance (ESG) approach to investments as shown by ESG indexes which tend to outperform traditional indexes. Do you share the view that COVID-19 has strengthened the trend towards a greener world? Can finance play a decisive role in the transition to the green economy?

First, financial institutions can help to exert pressure on governments to take more action for a greener world. Second, educating investors as to how green their investment really is would be helpful. Third, with impact at the forefront, they could help develop good criteria for green investment. What indeed matters is impact, not posture. Financial institutions as well as corporations and individuals all need to correct market and government failures.

“Investing is fundamentally based on two parameters; risk and return to generate risk-adjusted return options. In the future however, many now believe a third parameter of ‘impact’ will need integrating so investors can consider the impact of assets or economic activity on the world.”

Massimiliano Castelli



Audience Q&A

Globalization was associated with low Inflation but if we shift to deglobalization can we expect inflation to rise? When do you think inflation will eventually rise?

After the GFC inflation was surprisingly low despite the massive liquidity injection from central banks.

The high level of uncertainty that prevails in the economy now is again causing cautious behavior, consumers and banks are saving rather than spending and companies are not investing.

There is however still much liquidity in the market, that will be spent eventually so there will probably be inflation, especially in the scenario of the end of globalization in which prices will rise. But it is difficult to make a precise forecast as to when this might happen. Inflation expectations are currently mixed.

I am concerned about central bank independence. Freeing the Central Bank from politics is important. Central Banks so far have controlled inflation effectively and improved somewhat the regulation of banks. But, in reaction to limited action of political authorities during the financial and European crises, Central Banks have taken a fiscal role by buying bonds to help distressed countries and banks during the crises. In doing so, they have become a fiscal power to some extent, which can be a dangerous threat for their independence.

What is your view on getting industrial policy right?

My view is governments are responsible for correcting market failures, market power, and inequality but should not be a producer. They can use targeted policies to select companies or industries and encourage investing such as green innovation. But there are general principles that need to be followed to avoid that public funds be wasted. Some guidelines from my point of view include:

- Independent, talented experts select the projects
- Make sure that the funded projects involve talents that are going to make them happen
- Use competition-neutral approaches
- Evaluate regularly and terminate projects when they don't deliver
- Involve the private sector to avoid 'white elephants' (expensive projects difficult to maintain or dispose of)

Will COVID-19 trigger a global change in mindset to a more sustainable, less consumption-driven world?

After international war there is always more empathy. We might now be more willing to invest in the longer term, because previously we have always been too focused on the short term. The population is fragile: we simply need to consume less and invest more. It would be naive to believe we will solve climate change at no cost, fighting climate change is costly.

What is the role of economics in a post COVID-19 world?

In my view economics is more important than ever to help correct market failures and promote the common good. Nowadays, there is a lot of fake news, distorted facts and phony theories on pressing issues. The media industry has a responsible role to play.

Economists need to work together with experts across all social sciences, including historians, psychologists and sociologists. And, because experts in many fields are dismissed today, society must educate children at school about science.

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