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Economic Resilience, Globalization and Market Governance: Facing the Covid-19 Test

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The Covid-19 epidemic struck the world with exceptional speed, severity and breadth. Globalization contributed to the rapid spread of this modern-day plague to all corners of the world and international market mechanisms on which we have relied over the past three decades to promote economic growth and welfare and on the flexibility of which we counted to weather exceptional and unexpected events failed to deliver the hoped-for relief in a timely fashion, thereby slowing down many governments in their desperate attempt to fight the spread of the virus. The lack of anticipation of the possible occurrence of such an event combined with the breakdown of market mechanisms for the most essential products needed to fight the disease left the governments of many countries unsure of how to react and, often, constrained their ability to make strategic choices. The humanitarian goal of saving as many lives as possible came, in some countries, at the cost of confining the entire population, considered the only option available given the circumstances. The economic cost of such a solution which standstilled the economies of these countries and disrupted global value chains is likely to be followed by several years of economic depression that will dwarf the cost of the 2008 financial and economic crisis.

The dramatic events of the first quarter of 2020 lead us to reconsider some of the implicit assumptions underlying the design of our economic systems and to think about some of the dilemmas and trade-offs that we have faced during this stressful period. The lessons learned could help us better anticipate or deal with future Black Swans.

Science and Politics

March 24, 2020 was a day of panic in the US because for the second time Doctor Anthony Fauci (the director of the US National Institute of Allergy and Infectious Diseases) was not alongside President Trump during the president's daily press conference. In France, we are told that all decisions of the President or the Prime Minister are taken after consulting a Scientific Council in charge of advising the government on the Covid-19 epidemic or are justified by the positions taken by this Scientific Council. Democratically elected politicians are considered to have a mandate from the people; scientists are considered legitimate authorities because they know more than the average citizen. Yet, it is clear that in a period of crisis the public puts more trust in scientists than in politicians to advise on the appropriate course of action to fight an epidemic. However, this raises many questions about the respective roles of scientists and politicians in public policy decision making in times of crisis. Can scientists raise issues on their own initiative to influence political decisions? Or should their role be limited to answering questions raised by political leaders? Do we expect that political leaders will always follow the advice of scientists and if not how will we be made aware of differences in their views? This issue has been raised in France by the Government's decision to allow the administration of hydro-chloroquine (not yet scientifically tested for use against Covid-19) for patients in very grave

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states. The decision was taken by the Government after seeking the advice of the scientists. We know that the scientific community has been very critical of the Professor in Marseilles who first suggested that hydro-chloroquine could be a useful medicine for Covid-19 patients. Apparently the preliminary research did not meet the scientific criteria for a complete clinical test. The question then is how did the Scientific Council come to suggest or support the political decision? Did the Scientific Council act in support of the government or did it fulfill its scientific role?

There are related questions about the responsibility of doctors in the development and containment of the epidemic. Their work and their devotion to helping the population overcome this disease are admirable and doctors are paying a heavy tribute. They are our heroes, they have our respect and our admiration. But one thing that is very unsettling is the fact that specialists of virology are divided on the correct way to proceed. There are clearly very different views on the best strategy to fight a pandemic of this nature (confine the whole population? test every one to try to identify all the individuals at risk?), different ideas about the usefulness of masks, different ideas about what how medicines untested for Covid-19 should be used, different ideas about whether China did the right thing or not etc... So the disagreements among doctors are not limited to secondary issues. Even if it comes as no surprise that doctors can disagree, the question then is what is the legitimacy of an advisory body made up of doctors who disagree (the doctor who has been advocating the use of hydro-chloroquine and was a member of the Scientific Council to the Government has just announced that he will not participate any longer in the Scientific Council's work)?

Human rights and the response to the health crisis

Non democratic countries (such as China, Vietnam) where individual freedom is limited seem to be better able to take adequate measures (for example confinement in China or targeted action in Vietnam) to limit the spread of the virus than elsewhere. In some western countries (US, GB, France etc...) there seems to have been, at the very beginning at least, more hesitation about confinement measures (or less drastic confinement measures) and therefore a greater tendency for the virus to spread.

Another aspect of this interface is the reticence expressed in a number of countries (based on an attachment to individual freedom and the respect of privacy) regarding the use of modern invasive technologies such as facial recognition or geolocation which could help public authorities to monitor the strict enforcement of the confinement order when a Government has acknowledged that a confinement order is not being well followed by the public. The degree of resistance to the use of such technologies to track potential victims of Covid-19 varies from one country to another. For example Slovakia (following in the steps of countries like Singapore, South Korea and Taiwan, where aggressive contact tracing has crucially contributed to limiting the spread of the virus) on March 25th 2020 passed a law which allows the government to use data from telecom companies to track the movements of people suffering from Covid-19 to ensure that they are abiding by quarantine rules. The adoption of this law was not easy but the Slovak Justice Minister insisted that in the face of this epidemic the right to privacy could not be absolute (see "Slovakia to track victims through telecoms data", Financial Times, March 26, 2020). But in Germany the government was less successful and forced to abandon its proposal to use "technical means" to identify who had been in contact with persons infected by the Covid-19. In France the government decided to use police patrols to monitor whether confinement measures were being followed by people found outside their homes. However, it seems obvious that the use of more advanced technology might have allowed us to save scarce human resources which could have been allocated to important alternative tasks such as the logistics of supplying hospitals and their security. This raises the question of how should we deal with the trade off between public health and the protection of human rights.

Scientific methodology and the precautionary principle

Third, there is a question about the respective merits of Scientific methodology and the precautionary principle to inform public policy making. This question is not new in Europe but the crisis offers a new illustration of the dilemma to be faced. When it comes to hydro-chloroquine, the scientific community insists that the correct clinical methodology has not been followed and that more testing is necessary. However, the question that can be asked is whether, in a crisis, we have the time to follow the correct methodology. What took place in Marseilles shows that the response of many citizens is, *I do not care if the correct scientific methodology has been followed, I want to be tested and to have this drug prescribed if I have the virus because there is no alternative medicine and I risk dying*. To a certain extent, governments (the French Government, President Trump) have felt an irrepressible urge to side with their citizens against scientists (hence the position of the French Government that this drug can be given to dying patients under some circumstances). The implicit questions then can be: Isn't the scientific (rational) approach a luxury that we cannot always afford? Isn't the precautionary principle (at least in some cases) a better alternative? Do we have a systematic method to propose for dealing with the dilemma?

Another aspect of this debate is the discussion about whether the French Government should have kept larger stocks of masks, respirators, medicines etc. In 2009 the French Government, worried about the development of the H1N1 virus bought massive quantities of vaccine to treat this disease and massive quantities of masks. H1N1 never became an epidemic in France and the government was rapidly accused of having wasted public money. After that, the government let France's stock of protective medical equipment diminish to such an extent that France is now unable to react when there is an epidemic. From a public policy standpoint, the question is : How should we deal with the risk of rare, but exceptionally destructive events (such as epidemics, major earthquakes, extreme weather events, nuclear accidents etc....)? To what extent should we provide for these risks (that have a small probability of occurring) when doing so will be costly but could save many lives? Or should we admit that we do not want to prepare for such events (both because of the cost involved and because of their unpredictability)? But in that case, what should we do to ensure that our economic systems remain flexible enough that they can react in a timely manner when such catastrophies do occur ?

The economic costs of public health strategies

Fourth, there is a question as to whether there can be a trade-off between public health strategy and economic strategy used to overcome the crisis and if there is such a trade-off what policy prescription should be followed. The idea that there may be a trade-off comes from the fact that confinement policies (designed to minimize the number of death from the Covid-19 and adopted in an number of countries) lessen the impact of the epidemic in terms of the number of people infected but decrease economic output, and therefore the severity of the economic crisis because citizens are prevented either from going to work or for continuing to work if their jobs are not suitable for working from home. The sectors economically most affected by the current confinement measures are service sectors such as air transport, hotel, restaurants, retail distribution, cinemas etc. because in those sectors working from home is for the most part impossible. Thus the more extensive and the longer the confinement, the more severe will be the adverse effects in those sectors and the larger will be the decrease of GDP. There are two alternative health strategies. One is to let the epidemic run its course, which would imply many more deaths but a much lower decrease in GDP as the people not infected and the people infected with only light symptoms (which represent the large majority of victims of Covid-19) would continue to work. The other is to test the population widely and confine only people infected by the virus. In this second case (which is reminiscent of the strategy adopted in

countries like Korea²), there would both be fewer deaths than if nothing were done and more people working than if a strategy of general confinement of the population were followed. The strategy chosen in European countries may well worsen the economic crisis compared to that resulting from alternative strategies. From this standpoint we can expect that the economic cost of the pandemic will be much worse than the cost of the 2008 financial crisis for the simple reason that people, for the most part, kept working during the financial crisis. It is said by some that this strategy could impose a GDP loss on western economies of up to 15% of GDP in the short run and require many years of effort to try to get back to where these economies were before the epidemic. What the trade-off between health strategy and economic strategy actually is and how we should consider this trade-off when determining public policy raise both empirical questions (requiring assumptions about the severity of the economic crisis in different policy configurations, the speed of recovery, etc..) and ethical questions (such as whether, when it comes to health policy, one can or should put an economic value on lives). President Trump's call to reopen the US for business by Easter Sunday and argument that you cannot run a country by listening to doctors because the cure they would favor (confinement) could be worse than the disease was a particularly brutal way of raising the issue.

Globalization, global supply chains and national sovereignty

The benefits of economic globalization have been much discussed over the past twenty years. One view is that the decline in trade and foreign investment obstacles and the development of new communications technologies have allowed an international reallocation of resources through a restructuring of production processes which has benefited developed countries by allowing them to secure their consumption needs at a lower cost and allowed developing countries to benefit from economic opportunities thanks to the development of export-oriented activities. It is often pointed out that globalization has lifted hundreds of millions of people in developing countries out of poverty.

However, the Covid-19 crisis could strengthen the hand of those who, in developed countries, see economic globalization and trade and investment liberalization as unacceptable threats to the sovereignty of their Nation State. In the eyes of those skeptical of the benefits of globalization, there are several ways in which trade and investment liberalization limits the ability of Nation States to pursue independent domestic policies.

First, the granting of trade concessions necessary to guarantee an effective access to the domestic market of goods or service from foreign trading partners usually implies giving up trade protection tools which could have been used to alleviate in the case of domestic crises.

Second, liberal trade policies allow firms operating in very different domestic regulatory environments to compete on world markets. Regarding competition, firms coming from countries with the highest domestic standards in terms of human or social rights or property rights or environmental protection or food security etc.... may be at a disadvantage with regard to firms coming from countries with less exacting standards. Thus, to a certain extent, opening up to international trade constrains the ability of countries to freely make the domestic societal choices that they would like to make.

Third, the development of international trade, together with a number of recent technological developments in the communications and transportation sectors, has led to an internationalization of supply chains whereby domestic firms externalize a number of functions in countries where such

² Between the beginning of February 2020 and March 10, 2020, more than 200.000 people were tested in Korea in 600 testing centers and confinement was limited to infected people. As a comparison, during the same period there were 15.000 tests in France but starting on March 16, 2020 a general confinement of the population was implemented. During the month of February 2020 United States authorities tested 472 people.

functions can be fulfilled at a lower cost (such as accounting and finance in India and production in China, or more recently in Vietnam). But this internationalization of the value chain, often combined with just in time policies of keeping stocks at the lowest possible level in order to reduce costs, make firms very much dependent on the smooth functioning of the international value chain. Such smooth functioning can break down when an external shock affects the economy of any of the countries where firms contributing to the value chain are located. In a world characterized by economic globalization, disruptions due either to a natural catastrophe affecting another country or to a political decision by a foreign government can hinder the ability of firms to serve their domestic markets.

Thus, whether through trade concessions or through the risk of seeing their domestic firms displaced in international competition or through the unavoidable consequences of foreign disruptions, trading nations may seem to have given up the ability to protect their firms or their citizens.

It is the latter mechanism which has, so far, been a source of concern in western countries during the Covid-19 epidemic.

European and North American countries now depend to a large extent on foreign countries, such as China, for their supply of a number of essential medical products of which they did not have enough stocks to face the Covid-19 health crisis. This dependency became a major source of concern when some countries, such as China, where the sourcing firms are located were hit by the epidemic and decided to follow a strict confinement policy which halted their production. European and North American countries were then unable to restock masks, respirators or active ingredients used for testing and this limited their options to fight the virus.

In France, for example, since the beginning of the Covid-19 epidemic, there has been an acute shortage of FFP2 masks which are supposed to protect the wearers both against the aerial transmission of the virus and against the possibility of inhaling the virus. It has been even difficult to provide enough surgical masks (which offer a lesser level of protection) for the health professionals dealing with patients infected by epidemic.

The reasons for this shortage of masks are twofold. First, in 2011 and 2012 the French authorities reversed the choice they had previously made to keep an important stock of masks on the basis of the idea that China, which produces about 70% of the world supply of masks, would be able to provide France with the necessary masks in case of an emergency. Second in late February, by the time it became clear that the epidemic was going to severely hit France and that France needed masks, the epidemic had hit China with full force and a large portion of the Chinese population had been confined. As a result, while the theoretical Chinese production capacity of masks was estimated to be about 20 million masks per day, China was only producing 15 million masks due to confinement measures when the Chinese domestic demand for masks had shot to between 50 and 60 million masks per day. Not only was China not in a position to export its masks to France but it had become a large importer of masks from Indonesia and Vietnam. When the French firms whose employees need to use protective FFP2 masks (such as construction companies and other industrial firms whose workers are exposed to dust and small particles) became aware of the impending difficulty to obtain such masks, they reacted by attempting to increase their own reserves of the most protective masks (FFP2). Then the lack of availability of masks in pharmacies created a panic which led the French President on March 3, 2020 to requisition all FFP2 masks available.

With slight variations, the same story occurred in other European countries such as Italy and Germany.

On the day when the French President requisitioned all available FFP2 masks in France, Germany banned the export of masks. Taiwan and India also took steps to stop exports of medical equipment.

The situation in the United States seems to have followed a similar path. In the early 2005 and 2006 the US Government advocated the stockpiling of protective gear in preparation for pandemic influenza and a strategic stockpile of 52 million surgical masks and 104 million N95 respirator masks was amassed. About 100 million of those masks were used in 2009 in the H1N1 pandemic and were never replaced in the stockpile. As the Covid-19 outbreak worsened in the US in the early days of March 2020 and as the demand for masks grew rapidly, the shortage of masks, particularly N95 masks, became a topic of controversy. The shortage was attributed to a combination of low strategic stocks, widespread buying of masks by anxious citizens and dwindling supply (either due to hoarding or to reduced production) from China ⁽³⁾. Interestingly, on March 17, 2020 when the Center for Disease Control published an updated set of recommendations for optimizing the use of protective gear by medical professionals and suggested that surgical masks were acceptable when examining or treating a Covid-19 patient (a suggestion aligned with advice provided by the World Health Organization), this suggestion was considered with great suspicion by some medical professionals and in particular by the American Nurses Association which argued that the C.D.C.'s new recommendations were based "solely on supply chain and manufacturing challenges", thus suggesting that national sovereignty in the health sector was compromised by the economic forces of the global market⁽⁴⁾.

Besides the fact that the spread of the Covid-19 epidemic may have further eroded the faith of some in the benefits of economic globalization (possibly unfairly because in most countries a better appraisal by national governments of the possible catastrophic risks which could disrupt the welfare of their citizens and the adoption of public precautionary measures against those risks could have significantly decreased the impact of the disruptions in markets for essential goods), it should be noted that the adoption of necessarily far reaching measures to alleviate the economic crisis which will follow the pandemic is also likely to lead to a retreat from the logic of globalization. Indeed, as seen previously, it is clear that national governments will need to inject massive amounts of money into their economies in the hope that firms will, with this financial help, survive long enough to weather the disruption caused by the epidemic, confinement measures and the subsequent economic depression.

For the reasons we have analyzed earlier the bailout of our economies will require financial measures many more times more important than those taken in the aftermath of the 2008 financial crisis. But one of the lessons we learned from that financial crisis is that when national governments use economic stimulus to shore up their economies following an exogenous shock, they should make sure that their stimulus does not end up shoring up other economies through a surge in imports. To ensure that there is no leakage they tend to resort to protectionist tools. As Simon Evenett and the Global Trade Alert have documented, a massive increase in protectionist measures followed the 2008 crisis. It is hard to believe that the same cause is not going to lead to the same effects, particularly in view of the importance of the financial commitments which have already been announced.

The need for industrial policy

Sixth, a concern related to the previously discussed question is the apparent inability of market oriented countries to pursue an effective industrial policy which is both pro-competitive and allows countries to keep fundamental strength in strategic industries and resources which can be called on (or quickly activated) in a time of crisis. The issue is not new and has been actively discussed in France and Germany over the past few years. But whereas the discussion was largely a discussion among economists and bureaucrats, the difficulties experienced by a number of countries (including France) to have an adequate supply of simple things such as masks or active ingredients for tests are seen by

³ See in particular Farhad Manjoo opinion "The US runs out of face masks", New York Times March 26 2020

⁴ Amelia Nierenberg, "Where Are All the Masks?", New York Times 22 March 2020

the general public to result from a failure to follow an effective industrial policy. Furthermore, at a time when we would very much want to see domestic firms which still have production facilities in our countries switch their production to products or services that are urgently needed to face the crisis (say, for example the production of respirators for emergency rooms in hospitals), in France there is no one in charge of planning, organizing, enforcing and supervising this move because France no longer has a ministry of industry. So what has been gained in efficiency by relying on markets to direct the economy has created a loss of ability to mount a coordinated response to an unanticipated economic disaster.

Privacy, digital technologies and public health

Seventh, there are interesting questions about Data and digital policy. As the Financial Times reported on March 24, 2020: *"The coronavirus crisis is forcing the EU to redraw its digital strategy."* The previous calls for EU data sovereignty show its limitations at a time when, to get the largest possible pooling of data necessary to anticipate the expected path of the epidemic and find a

It was only a month ago that it was reported that EU Internal Market Commissioner Breton was flirting with the idea of forcing European companies to store and retain at least some of their data in Europe and told lawmakers that data produced in Europe: "should be processed in Europe". We are clearly caught in a dilemma between the desire to protect our privacy and to prevent the GAFAM from becoming ever more economically dominant by feeding their artificial intelligence algorithms with our data and the fact that in the health sector as in other sectors, the best performances of the artificial intelligence algorithms that we count on to produce scientific advances, in particular in the health sector, depend on the quantity of data which can be gathered to train them.

What future for competition law and policy?

Eighth, there are a number of questions concerning if and how the role of competition law and competition policy should be redefined in a time of deep economic crisis. A discussion on the goals, achievements and failures of competition law enforcement and competition policy was begun a few years ago. But, in Europe, this discussion was largely focused, first, on questions related to the unfairness of international competition from countries, such as China, where government intervention allowed subsidized, state owned enterprises to gain a substantial advantage over their Western competitors by means considered to be both unfair and anticompetitive and, second, on the question of whether the European focus on the protection of competition in Europe (for example, through merger control) had impaired the development of national or European champions and accelerated the de-industrialization of Europe. In the US, there was also a concern with the unfairness of international competition among countries which had vastly different economic systems and a suspicion that the narrow focus of US antitrust authorities on the protection of consumer surplus in the short run coupled with a permissive attitude toward economic concentration and an excessive fear of type I errors (risk of misguided intervention by competition authorities leading, in fact, to a restriction in competition) had led to under-enforcement of antitrust laws, increased macro-economic concentration and profit margins and domination of the digital economy by the GAFAM.

The brutal economic crisis we are experiencing now requires different types of adjustments, depending on the time perspective we consider.

In the very short term, the main issue to be confronted is the brutal disruption in the value chain of a number of products, leading to shortages either because of insufficient level of production or because of difficulties in product distribution due to confinement measures. The issue for consumers is not, as it is in a normally functioning economy, to be able to choose the best price/quality ratio among

products offered by competing suppliers but simply to be able find the product (even if in smaller quantity than what would be desirable). In such circumstances, first, cooperation between suppliers (and/or government intervention) to identify both the needs and the existing stocks may be necessary to permit an adequate supply of essential goods and services. For example, as the US Federal Trade Commission and the US Department of Justice have suggested, health care facilities may need to coordinate providing resources and services, and other businesses may temporarily need to combine production, distribution, or service networks to facilitate production and distribution of COVID-19-related supplies. Second, consumers need to be protected against abuses resulting in price gouging of products in short supply. This requires two adjustments for competition authorities. First to take a more nuanced approach with respect to cooperation among competitors than the approach they have taken in the past, and, second to focus on exploitative abuses of market power rather than on exclusionary practices (the creation of barriers to entry) on which they have focused in the past.

Competition authorities both in the context of the European Competition Network and outside the EU (for example, in Great Britain and in the United States) have already signaled their willingness to allow, at least temporarily, cooperation or coordination between competitors whenever such cooperation or coordination is necessary to avoid a shortage due to the Covid-19 crisis, or ensure security, of supply⁵). They have also signaled their intention to fight price gouging.

In the medium run, say over next two to three years, our economies will be depressed, with the risk of a large number of bankruptcy of firms either directly hit hard by the Covid-19 epidemic (in the service sector) or affected by the disruption of their supply chain, rising unemployment and dwindling demand.

As is widely known, competition is a virtuous economic mechanism when economies are at full employment of their resources because it allows them, in a static perspective, to grow through a more efficient use of scarce resources. But with the aftermath of the Covid-19 pandemic, in the medium run, we face the risk of an economic depression, and a high level of bankruptcies and unemployment for a number of years. In such an environment the important goals are to quickly stimulate economic growth, to engage in the kind of redistribution mechanisms which will alleviate the economic suffering of the poor and to ensure that the economic framework that we create will be more resilient in the future. It will thus be necessary to stimulate employment and to help firms in the sectors affected by the crisis, particularly SMEs but also a number of larger firms, from going bankrupt.

Massive amounts of state aid, tax deductions or deferments and subsidies of various kinds or even the nationalization of entire sectors will be necessary and the initial financial packages already put together by the governments of many countries in Europe and in the US.

In this context, it is clear that there is a possibility of conflict between the necessity to artificially keep a large number of firms going in the short run in order to kick start the economy in the medium run and to allow it to retain its footing in the long run and a policy of competition law enforcement which assumes explicitly or implicitly that the economy is already in a stable equilibrium with full or near full employment of the factors of production and that the most important problem is to ensure that the competitive process in the short run guides the allocation of resources to maximize consumer welfare.

⁵ See, for example, the CMA approach to business cooperation in response to COVID-19 Published 25 March 2020 or the “Joint statement” issued by the European Competition Network on the ‘application of competition law during the Corona crisis’, on 23 March 2020 which states that ‘necessary and temporary measures put in place in order to avoid a shortage of supply... are unlikely to be problematic, since they would either not amount to a restriction of competition under Article 101 TFEU... or generate efficiencies that would most likely outweigh any such restriction’.

The promotion of competition may not be as central an economic preoccupation in the near future as it was during the first two decades of the 21st century (although it would be useful to review the lessons of the period which followed the Great Depression) and to the extent that it is still useful we will have to think again about the trade offs between static efficiency, reallocation of resources through industrial policies, dynamic efficiencies and economic resilience.

At the very least, competition authorities will have to take a longer and more dynamic view of the process of competition than they have had until now and to adapt their reasoning with respect to state aids, crisis cartels or mergers to circumstances of disequilibrium caused by an exogenous shock on the economic system.

Finally, in a longer term perspective, the challenge raised by the Covid-19 crisis and the necessity to be better prepared to face future epidemics require a massive reallocation of resources toward the health sector. This is not the only notable reallocation of resources that must be implemented. We also must deal head on with climate change and redirect our resources toward clean energies. The development of the digital economy also requires a reallocation of resources to allow firms in traditional sectors to fully benefit from the new technologies at their disposal.

A number of economists have convincingly argued that market forces are by themselves insufficient to reallocate resources at the level and the speed required to face those challenges. This means that if competition remains necessary it is not sufficient to meet the challenges we face in the 21st century. Competition policy must be better integrated in a wider context of complementary economic policies.

Conclusion

Black Swan events and major humanitarian crises do occur and they can durably affect developed countries as well as developing countries. One of the policy questions we have to think about is if and what amount of our resources we want to devote to achieving more resilient and agile economic systems better able to withstand rare but potentially catastrophic events. There is no easy answer to this question because neither the probability of such events, nor, in some cases, their nature or their potential for destruction are known. Yet, as Jean Tirole argued recently (*Le Monde* March 25, 2020) and as the experience of the Covid-19 crisis has shown, the alternative is between making reasoned choices for the future which may allow us to maintain some degree of control even in dire situations or letting future events run their course, decide for us and possibly destroy us all. It is time to move to a longer term perspective and to better integrate risk factors in our economic analysis and policy decisions.