



GETTING MONETARY POLICY BACK ON TRACK

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Introductory Remarks to the Conference

Condoleezza Rice

For thirteen years, the Hoover Institution's Monetary Policy Conference has impacted economic policy worldwide. It is fitting that this book, *Getting Monetary Policy Back on Track*, brings together academic talent to analyze the problems and develop a monetary policy strategy, because we are clearly in need of one.

Do we even know what track we're trying to get back on?

I was a young Soviet specialist with President George H. W. Bush when the Soviet Union collapsed and the Cold War ended. I was a national security advisor on September 11. Yet, I've never seen a more chaotic international environment than the one we are dealing with now.

There are multiple sources and reasons for this sense of chaos in the international system, and the tectonic plates are indeed shifting. There is the reemergence of great-power conflict. We haven't seen this in a major way since the end of World War II. Great-power conflict is different from other kinds of conflict, because while it involves a lot of military power, it brings with it a lot of economic power and the desire to reshape the international system, not just participate in it.

We had the conflict with the Soviet Union, but we forget that the Soviet Union was completely isolated from the international economy. It was a military giant, but it was also an economic and technological midget. In fact, no more than 1% of Soviet GDP was ever accounted for in international trade, and that 1% was almost completely due to commodities trading.

I call this a different kind of conflict than what we are seeing today. Now, the fundamental factors in the international system are a war in Europe and a no-longer-rising but risen China.

We are seeing technology have an extraordinary impact across the world. People are increasingly talking about the implications of generative AI, whether we know what we're talking about or not. The fact is that even AI leaders talk about the transformational nature of these frontier technologies. I was at a conference not too long ago where AI leaders were asking, "Are we moving too fast? Should we pause?"

I asked, "Why would you do that?"

The answer was a bit frightening—that the scale and power of these machines may be something we cannot control. I had thought that was only in *The Terminator* and science fiction. The AI leaders asked: "Will these technologies—quantum and AI and synthetic biology—be weapons of war?" I had to say, "Sadly, there has never been a major technology that did not become a weapon of war." Technology can have enormously great effects, but I wonder if the hazard of our penchant as humans for technology is that we are very good with knowledge but not with wisdom.

There's also the question of what is happening in global energy markets. Not only are countries trying to make a transition to a less carbon-dominated economy, but they are doing so at a time when energy security is a resurgent issue. This goes back to what we are learning in Europe—the European countries, particularly Germany, who have made themselves dependent on Russian energy find that's not a good place to be when President Putin's manipulation has made that energy supply unreliable.

There will be a major restructuring of energy markets. As an oil company director in the 1990s, I learned that the Russians have oil fields that are remote, old, and in need of Western technology. One of the results of the Ukraine war has been that the major producers of oil and gas with this technology—Exxon, BP, and

others—have pulled out of Russia. I think there will be a decline in the Russian energy supply and its quality.

These factors of chaos—the rise of great powers, the advancement of technology, the changes in energy supply, and the expectations among populations of what their governments can and cannot do are raising questions: What is happening in the international global order? What is happening to the order we tend to take for granted?

After World War II, we created an order based on the view that the international economy should not be a zero-sum but a positive-sum game. Countries could build their way out of poverty by adhering to what became known as the Washington Consensus: having stable currencies through the International Monetary Fund, and free trade, initially through the General Agreement on Tariffs and Trade and later the World Trade Organization.

What's happening to the international order? I'll start with China and questions about its role in the international order. For years, we had an integrationist narrative about China—the idea to bring China into the international system rather than isolate 1.4 billion people who are creative and innovative. We made a bet that bringing them into the international order is better than keeping them out. For years, we tried to do just that.

I hesitate as a political scientist to blame things on one person, but in this case, I will say that there has been a dramatic change under Xi Jinping from his predecessors, Jiang Zemin and Hu Jintao. For one thing, China seems ready to assert itself as a great power. That means when Xi Jinping gives a speech saying that China is going to surpass the United States in frontier technologies like AI and quantum, people listen. It's not surprising that the global community reacts to the suggestion that China will use these technologies to fuel its own power and push countries like the United States out of international leadership. Therefore, we see the enactment of measures, including sanctions and restrictions on capital flows to

Beijing and back, that can be artificial barriers to commerce based on a broad definition of national security. This is different from the international order we thought we were building.

On globalization, we largely took for granted that it was a good thing. We need to recognize that globalization, for all of its benefits, did leave some people behind. For unemployed coal miners in West Virginia and steelworkers in Britain, populists' claim that globalization only benefited the elite resonated. To a certain extent, they weren't completely wrong. I often relate that in my classes at Stanford, where I teach at the Graduate School of Business, I will have a student with the following profile: born in Brazil, went to school at Oxford, first job was in Shanghai, now in business school at Stanford, and their next job will be in Dubai. But that is not the path for many people. Most people never live more than twenty-five miles from where they were born, and somehow, we've not been able to ensure they have the skills they need to have good prospects in a globalized economy. Their aspirations and prospects are different from someone who can easily move around the international system.

We're dealing with many moving parts in the international system, including inflation and the great spending sprees of governments in reaction to the COVID-19 pandemic, particularly in the United States. This is an important time to try to find what the track should be for monetary policy strategy, as we have the entire system moving around us.

As these changes are happening, we also see our international institutions, such as the Bretton Woods Institutions (the International Monetary Fund and the World Bank), sidelined in the face of significant challenges. This is in contrast to the period after September 11, when, within days of the attacks, we had a Security Council resolution that allowed us to track terrorist financing across borders. We had the Proliferation Security Initiative, in which ninety countries agreed to stop the shipment of suspicious cargo.

We harmonized travel restrictions extremely quickly. If you travel to Mexico City, Dallas, New York, or Paris, you will have the same experience at the airport—metal detectors and restrictions on carrying more than three ounces of liquid. Even with the Global Financial Crisis of 2008 to 2009, I'll never forget the G20 coming to the White House that November to lay out some principles, among them that nobody would try to take advantage of that moment.

The response of the international system to this latest set of problems has been very different than in September 2001 and November 2008. If you look today at what happened during COVID-19, the response was very different. During COVID-19, for each nation it was *my* vaccines, *my* border restrictions, *my* travel restrictions, and *my* citizens. Indeed, it's been the revenge of the sovereign state.

We will have to contemplate over the next few years how we build or rebuild a sense of a common project for the international order—to find a world that is more peaceful but also one that is more prosperous—based on coordination, collaboration, and the sense that we're all in it together.