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MINT CURATOR

America's interest rate must not work against the world's interest

A clear squeeze of other economies and dubious gains for the US should make the Fed rethink its tightening of monetary policy



DEEPAK NAYYAR
is emeritus professor of economics, Jawaharlal Nehru University.

Last month, this column had argued that monetary policy in the US, which has raised interest rates sharply over six months, is not likely to curb inflation but is surely risking a recession. Since then, consumer price inflation has persisted at 8.2% in end-September 2022, while the US Fed has announced a further hike of 0.75% last week, raising the benchmark rate to 3.75-4% in early-November 2022, on track for the projected 4.5% by end-2022. Two obvious questions arise. How long does the Fed think it will take to slow inflation down? How much can the Fed raise interest rates for consumer price inflation to reach the targeted level of 2% per annum? There is a less obvious question that is just as important, perhaps more worrisome. What does this mean in terms of unintended consequences for the world economy?

The US, which is home to 4% of the world population but accounts for 22% of world GDP, is the world's largest economy. However, its influence on the world economy, through global trade, investment and finance, is disproportionately large. The essential underlying reason is that the US dollar is the only national currency that is the equivalent of international money, as a unit of account, medium of exchange and a store of value. Estimates suggest that more than 50% of international transactions and international debt are denominated in US dollars, while the proportion of world trade conducted in US dollars is even higher.

Thus, a stronger dollar is the immediate outcome of higher interest rates in the US, which attract finance capital from everywhere, while risk averse investors are induced to move capital out of elsewhere. In a world of uncertainty, the dollar is perceived as secure and stable, so that the worse things get, the more people buy dollars. During January-September 2022, the US dollar appreciated by almost 18% vis-a-vis six major currencies to reach its highest parity in decades. The turbulence in world financial markets, the worst since 2008, is also an immediate consequence of higher interest rates in the US, as share prices have tumbled and bond portfolios have taken a beating, while banks and pension funds, which lapped up risky investments when interest rates were near-zero, are suddenly most vulnerable. Yet, the unintended consequences of the Fed's tightening monetary stance have been far more devastating for the world outside the US, not only for emerging or developing economies, but also for industrialized economies.

In the past, industrialized countries have coped with the strength of the dollar. This time around, however, much greater stress is discernible. During January-September 2022, the US dollar has appreciated sharply, for example, by as much as 20%-30% against the euro, British pound, Japanese yen, and Korean won. Inflation has surged to double-digit levels in the EU and Britain. Their



central banks have not been able to keep pace with the Fed on interest rates, because their economies, already in an economic slowdown with high unemployment levels, do not have the strength or resilience. And, as bond yields surge, the EU's most indebted economies—Greece, Ireland, Italy, Portugal and Spain—appear almost as fragile as they did in their sovereign debt crises circa 2009-2010.

For emerging economies in Asia and Latin America, the immediate consequence has been large outflows of portfolio investment, driven by higher interest rates in the US and concerns about exchange rate risk in host countries. This has mounted pressure on their currencies. But the US dollar has appreciated significantly less than among industrialized countries, in the range 5%-15%, essentially because central banks (for example, in Brazil, China, India, Indonesia, Mexico, Singapore and Thailand) have intervened in financial markets to support their currencies, and have also raised their benchmark interest rates. The latter is bound to stifle investment and dampen consumption, leading to a contraction in aggregate demand, causing a downturn and risking a recession.

For other countries in the developing world, the situation is distinctly worse. Their currencies have depreciated far more. Commodity prices have

dropped, squeezing export earnings. But the costs of essential imports, not only wheat, crude oil and fertilizers (where prices are already high because of the Russia-Ukraine war), but also consumer necessities such as bread, sugar, coffee or medicines, have risen sharply. For countries borrowing abroad, which also ran up further debts to cope with the pandemic, the domestic resource cost of servicing their debt denominated in dollars has risen steeply.

The poorest countries are clearly the most vulnerable.

QUICK READ

A stronger dollar caused by the Fed's tightening may cheapen US imports and thus its inflation but at the cost of other economies which face a double whammy of rising costs and slowing growth.

The US central bank is keen to tame inflation but should weigh the relative inefficacy of rate hikes under today's conditions against the adverse effects of its actions across the globe.

appreciation of the dollar, which makes imports of consumer goods cheaper for the US, might end up moderating its consumer price inflation. In effect, it is exporting inflation, mitigating some of its own, while accentuating it around the world. This benefit is illusory. The US cannot be an island of prosperity in an integrated world economy if the world outside slips into recession.

New drugs for weight loss work but will insurers pick up bills?

Demand forecasts could run into doubts over their medical need



LISA JARVIS
is a Bloomberg Opinion columnist covering biotech, health care and the pharmaceutical industry.



Weight-loss shots can achieve blockbuster sales but remain controversial ISTOCKPHOTO

After decades of failure, weight loss drugs seem finally poised to become big pharma's newest blockbuster category. Bloomberg Intelligence sees the US obesity drug market alone as worth \$12 billion in 2028. Morgan Stanley Research recently forecast their global sales at \$54 billion by 2030. These new drugs offer more effective and sustained weight loss than any of the earlier pills. It's estimated that between 2013 and 2016, only 3% of those eligible for an obesity medication in the US were taking any. But those lofty sales goals will only be reached if the medical field overcomes structural barriers to their use.

These drugs are typically once-a-week injections which mimic gut hormones that regulate the sense of satiety. Data on Novo Nordisk's Wegovy, approved in June 2021, and Eli Lilly's Mounjaro, expected to be approved next year, suggest these drugs can help people shed, on average, as much as 15-20% of their body weight. We have only a snippet on Amgen's early-stage weight-loss drug, AMG 133, but it has generated interest from investors based on hopes that it could offer similar or potentially higher weight loss as Mounjaro with a once-a-month shot. Amgen said this week that people taking a high dose of the drug had lost on average about 14.5% of their body weight about three months into its phase I trial.

Results like those would make the new drugs 2-3 times more effective than older diet drugs, which had a litany of side effects ranging from the unpleasant (leaky stools) to downright dangerous (increased risk of heart attacks or cancer). People are eager to try new treatments. At an obesity conference last week, experts traded stories of long waits for appointments with weight-loss specialists. "Demand is overwhelming the workforce," says Robert Kushner, who specializes in obesity medicine at Northwestern Medicine.

Pharma companies are also struggling to keep up with demand. Lilly has had trouble keeping up its supply of Mounjaro, even though it's currently only approved for diabetes. When it gets an expected nod from the US Food and Drug Administration as an obesity treatment, at least one analyst believes it could swiftly become one of the best-selling drugs in pharma history. And although Novo Nordisk's Wegovy has been on the market for more than a year, it has been in a constant state of short supply.

Novo expects its supply constraints to ease by year-end, which could provide some answers to key questions. For one, the magnitude of demand could become clearer; currently, it's complicated by people turn-

ing to diabetes treatments as a substitute. Once supply is steady, it should be easier to gauge how long people are sticking with weekly shots, a factor that will affect just how big of a blockbuster drug they become.

But all this enthusiasm assumes the field will work out some fundamental challenges that could hold back widespread use of these weight-loss drugs.

One major problem? Primary care physicians have been reluctant to prescribe them. Doctors aren't typically trained to address obesity, and some still take the antiquated view that this disease is solely a lifestyle rather than a medical issue. Until that group gets more comfortable using these treatments, "I fear that all of these advances are going to remain on the shelf," says Kushner, who consults for Novo Nordisk and led a Phase 3 study of Wegovy.

Affordability is also a huge issue. Wegovy was launched with a monthly price of more than \$1,600, and insurance coverage has been spotty. A patchwork of laws dictate access to weight-loss drugs around the US, making them more accessible in some states than others. In Massachusetts, for example, private insurers will pay for obesity drugs, but getting Medicaid to cover these has remained difficult elsewhere. In Pennsylvania, a bill that would allow the treatments to be covered for state Medicaid recipients has inched closer to passing after languishing for years. And Medicare currently excludes coverage of obesity drugs completely.

Also worth considering: The story about the long-term safety of this new generation of drugs is still being written. Past experience in the weight-loss arena has shown that side effects can emerge after the drugs hit the market. That worry is compounded by the drugs being potentially used in situations where there's no evidence for their efficacy or safety—namely, in people who aren't considered medically obese, but would like help shedding pounds.

Elon Musk, for example, recently made headlines when he credited his fitness to fasting and Wegovy, though it's not clear he actually would qualify for the treatment.

Demand in the US for these treatments is indisputable. But meeting it, and thus hitting the high end of all those lofty sales forecasts, will require structural changes in how these drugs are prescribed and covered by insurance. ©BLOOMBERG

GUEST VIEW

We must break 'lock-ins' of water usage in agriculture

ANJALI NEELAKANTAN



leads research and development at the Centre for Social and Environmental Innovation at ATREE, Bengaluru.

The annual United Nations climate conference underway in Sharm el-Sheikh, Egypt, has entire days devoted to two crucial sectors that directly impact the lives of millions in India: agriculture and water. At a time of stagnant incomes and groundwater depletion, we must enable farmers to make choices that improve their earnings while helping them reduce their demand for water.

So-called 'lock-ins' are among the factors that prevent progress on this front. When prefixed with 'carbon', these refer to systems geared for the continuing intensive use of fossil fuels. Just as breaking carbon lock-ins is key to addressing climate change, there are lock-ins surrounding the use of water in agriculture that must be tackled.

India's current system is geared towards growing high water-using and energy-intensive crops. The Central Ground Water Board (CGWB) estimates that over 60% of irrigation in India is done through groundwater. As of 2015, there were about 20 million pump sets using energy in India, which means that the

agricultural sector accounts for about 20-22% of total electricity consumption.

Most of this is used to grow water-intensive crops like paddy; almost a quarter of India's net cultivable area is under rice cultivation. It is predominantly grown in the Punjab-Haryana belt, using groundwater irrigation. In the rich alluvial aquifers that underpin India's northern plains, water is dwindling and slow to replenish. It requires significant amounts of energy to pump because many farmers in these two states use deep bore-wells with greater pump capacities. When it is clearly bad for the sustainability of the environment, why do farmers continue cultivating paddy? The reason is simple: there is less risk associated with such crops, given their large-scale procurement by the government at minimum support prices (MSPs).

In such a scenario, farmers end up getting 'locked in' to keep growing crops that require a lot of water and energy. They see this not just as a way to maximize profit, but also as the best way to minimize risk. Studies have shown that farmers are most averse to price and production related risks.

When generations of farmers follow certain patterns of behaviour in terms of crop choices or cultivation practices, it is hard for them to break out of it. Lock-ins dictate how

farmers choose their crops, irrigate their fields and use energy. Specific ways of doing things are so hard-set that the actors involved often resist change. Moreover, amending one element in the system can yield little benefit because of connections with others.

There are many reasons for lock-ins that are carbon and water intensive. First, there is path dependency in agriculture. Physical infrastructure in terms of cold storage, granaries and markets have all been set up to support current crop choices. New crops would require new supply chains that may be expensive to set up. Second, conventional agricultural methods have developed over centuries based on specific skills and expertise. Shifting to new methods of farming would need additional investments in capacity. Third, consumption patterns are based on crops that are currently grown. For instance, rice and wheat continue to dominate Indian kitchens. These cultural preferences have developed over

decades. Adapting them will take time, even if there are nutritional benefits in switching to other foodgrains such as millets.

Finally, the Indian farm sector displays siloed ways of thinking and working. For instance, if we need to understand the impact of a specific intervention like solar irrigation on farmers, we need to assess changes in their energy consumption, their income and water use. This means that different government ministries and departments need to work in conjunction at the policy design stage to solve complex challenges that span sectors. Piecemeal approaches to break lock-ins have not worked.

To break the paddy-wheat cultivation pattern in Haryana, the state government introduced maize in its MSP system. For the first three years of its introduction, large tracts of land (almost 100,000 hectares) were converted for maize cultivation. The government procured this maize through Agricultural Produce Market Committees (APMCs) for the first three

years. However, since there was insufficient demand, distribution rates were poor. Eventually, farmers stopped growing maize since procurement did not match production. Clearly, the entire system has to be set up for change, from production to consumption.

There is also a positive example of a state government focused on creating an ecosystem for farms to transition to a low water-using crop like millet. The Odisha Millet Mission's case underlines the extent of changes necessary to make large sustainable transitions.

What the Odisha government did differently was that it not only offered an MSP for millets, it also ensured complete procurement of this crop and ensured its distribution. It encouraged consumption of millets at local levels by introducing millets as a part of the Public Distribution System (PDS), Integrated Child Development Scheme (ICDS) and even the Midday Meal Scheme at schools. This ensured that demand and supply matched.

No single solution can enable sustainable transitions in agriculture. We need a systemic approach that involves policy revisions, technologies, incentives and behavioural modifications. It is critical to move away from siloed ways of working to steer the country's agricultural sector towards a low-carbon and low water-using future.