



GETTING
GLOBAL
MONETARY
POLICY
ON TRACK

EDITED BY

Michael D. Bordo, John H. Cochrane,
and John B. Taylor

WELCOMING REMARKS

Condoleezza Rice

Welcome to Hoover, to Stanford, and to another Monetary Policy Conference. This annual event is the brainchild of John Taylor, who conceived it more than a decade ago, and in time it has only grown in importance and in representation by the number of you here, who are some of the world's most prominent experts. When I first agreed to open the conference, I thought the title was "Getting the World Back on Track," and I thought, well, they're going to need more than one conference to do that. But even getting a global monetary policy back on track, or anything about the international economy back on track, has to start with the fact that we are in a significant global crisis. And that, in geopolitical terms, is a crisis unlike any that we've seen since the end of World War II.

We have to remember that a lot of what we take for granted in the international system, and a lot of what we take for granted in the international economy, is now under question. It's under attack. And there are three vectors that are coming together to make this a very difficult and challenging set of circumstances globally.

The first is that we are seeing the emergence of great-power conflict for the first time since the end of World War II. Now, why do I say that? The Cold War was a great bipolar conflict between the Soviet Union and the United States, with many associated conflicts. But it's been a very long time since we've had great powers who had territorial aims—old-fashioned nineteenth-century, twentieth-century territorial aims. And, of course, it takes place in two great theaters.

The first is Europe, with Vladimir Putin's decision that he needs to reestablish the Russian Empire. This is not about the reestablishment of the Soviet Union. When asked who his advisors were, Vladimir Putin said Ivan IV (Ivan Grozny, who is Ivan the Terrible), Alexander II, and Peter the Great. Putin had told me some time ago that Russia had only been great when it had been ruled by great men like Peter the Great and Alexander II. Lenin and Stalin are not his lodestars; it is the Russian Empire. And that, of course, has territorial consequences, which we see playing out in Ukraine. For anyone who thinks that this is only about Ukraine, remember that the Russian Empire, at its height, had essentially no borders in Europe. So what would it take to reconstitute the Russian Empire in his mind? We don't want to test that proposition.

The second territorial claim is in Asia, where Xi Jinping is determined to restore China to its borders before colonial collapse. This first involves Hong Kong, which has huge implications for the international economy. Hong Kong was always thought of as a kind of oasis in which the presence of the rule of law could be expected by the international community. However, in many ways, Hong Kong is now just another province of China. And then, of course, Xi's claims implicate Taiwan. In the mind of Xi Jinping, China's restoration cannot be complete without the resolution of the cross-strait problem.

These territorial issues bring with them new kinds of military challenges—not just deterrence, which is still a very important part of it, but the actual warfighting potential that could break out in Asia as it has already broken out in Europe. Regarding Europe, I was using a metaphor with one of my classes a couple of months ago, and I said the reason Europe has reacted so strongly to the Ukrainian crisis—and Europe is really to be congratulated on how well it has held together about this Ukrainian crisis—is that for Europeans, it's like the negative of an old photograph. Then, I realized my students had absolutely no idea what I was talking about, referring to a negative

of a photograph. But I was describing how you can vaguely see the outlines of a familiar image. I think that is the case for Europe. And in Asia, you are seeing, in places from the Philippines to Vietnam to Japan to South Korea, concerns about assertiveness on China's part in terms of territorial ambitions. So, that great-power conflict overarches all of this.

But there are a couple of other important vectors here. There is the vector of technology. We are looking at transformative technologies that have the potential to change the way that we live, to put before us ethical dilemmas that are unheard of and are, in fact, unprecedented. Those technologies—AI, synthetic biology, what we can do in space—have, of course, the possibility of making life considerably better, for healthcare, for education, for business practices. But they also bring with them the possibility that has happened throughout human history: that transformative technologies almost always end up on the battlefield. Therefore, we need to think about the implications of these transformative technologies in coordination with the great-power conflicts that we are seeing.

I want you to do a thought experiment: What if the nuclear race had been won by Nazi Germany and the Soviet Union at the end of World War II, not the United States? We would have lived in a very different world. And that is the technology race that we face today.

Now, I would be remiss if I didn't mention one power that is not a great power but a troublesome regional power: Iran. Much of what we have come to expect in the American global security commons and in the international economy has had to do with a Middle East that was always troubled but in which its sea-lanes could be defended, a Middle East in which the United States had a web of alliances that could, in a sense, ever since the Suez Crisis, be a presence to keep the region somewhat stable. Enter Iran, a regional power with ambitions to expel the United States from the Middle East and to do so while overturning governments friendly to the United States and its allies.

We are seeing the malign influence of Iran today in what we saw on October 7. It was an attack by Hamas on Israel. Still, Hamas could not have pulled off a sophisticated attack of that kind without Iranian training, weaponry, drones, and the like. And even if the Iranians did not give orders, did not say, “Go on October 7,” the Iranians benefit from these proxy wars. And keep an eye on their most dangerous proxy, Hezbollah, to the north, with 150,000 rockets pointed at Israel, just waiting to get in the fight at some point.

The current geopolitical situation and the rapid advancements of transformative technologies are challenging everything we know about the international system and the American global commons of the last seventy years. And it’s coming at a time when globalization itself is under challenge. Our decoupling with the Chinese economy with regard to technology is going to continue. It will continue because the Chinese have their own ideas about indigenous development and because the United States is now taking seriously the national security implications of supply chains dependent on China in everything from pharma to chips to rare earth minerals.

Now, that doesn’t mean that the international system won’t be able to access Chinese markets in certain areas. It doesn’t mean that there will be a complete decoupling. You might remember when the Houston Rockets’ general manager said something unfavorable about Hong Kong, and the Chinese government threatened to kick the NBA out. I talked to NBA commissioner Adam Silver about that and said, “Adam, they’re not going to kick you out because those young princelings will not watch the Kazakh national team play the Chinese national team. They want to see LeBron, and they want to see Steph.” And so, the decoupling will not be complete, but we are decoupling in these important areas of technology, communications, and energy.

So those vectors—great-power conflict that has a decidedly territorial lens this time around; transformative technologies and the race between authoritarians and democratic societies for who will

control that technological future; and this continuing breakdown of the integrationist narrative about China's role in the international system—will completely shift the character of the international system as we've known it.

Now, there is some good news in all of this, and that is that if we can get through this very dangerous period, the United States, Europe, Japan—the US alliance system, if you will, plus partner countries like India—have a future that is quite a bit brighter than the future of Russia, Iran, or, for that matter, China. You know the numbers about China: about 20% youth unemployment and a demographic inversion that has not been seen by demographers except in war. You know about an economy that can't grow because it turns out Xi Jinping is actually a Marxist. It turns out that when presented with the idea that you cannot have economic liberalization and political control, Xi agreed with this maxim. He chose political control. All to say, the Chinese economy is unlikely to reach the heights we once thought.

So, for a variety of reasons, this is a dangerous period. When I see Houthis disrupting international shipping, when I see Iranian proxies coordinating attacks around the world, when I see Russia trying to make headway in a Ukrainian war that they should never have launched, and when I see China with denial exercises around Taiwan, I know it's dangerous. But I don't know how long it will last.

This leaves us with a very difficult set of choices, and I would put them this way: Are we prepared for what was called at the outset of the Cold War another “long twilight struggle”? It took forty-plus years to defeat the Soviet Union, but defeat it we did. We did it on the basis of something George Kennan said in his famous Mr. X Telegram. He said, “We have to deny the Soviet Union the easy course of external expansion until it has to turn to deal with its own internal contradictions.” Think about that phrase when you think about Russia, China, and Iran. One day, they will have to deal with their own internal contradictions. The question is, can we hold

them at bay until then? Can we prevent them from doing too much damage until those internal contradictions come home to roost, as they did for the Soviet Union with its collapse in 1991?

It will take US defense preparedness. It will take allied defense preparedness. It will mean defense budgets that are both larger and more sustainable. In the United States, it would mean—as we have been working on here at Hoover—a defense budget on which you can actually count, which means that you can't just have continuing resolution after continuing resolution if you're going to have a stable defense posture. It means rebuilding an American defense industrial base that can no longer build ships and that was exposed for its weakness in the inability to supply even the most basic ammunition to Ukraine. And it will mean a tightening of relations with allies.

I want to close here on that point. I am encouraged to see the word “global” in the title of this conference because this requires particularly those countries that share values and, therefore, interests to come together in ways they have not since the dawn of the Cold War. But there is good evidence that is precisely what is happening on the defense side. Whether it is AUKUS [Australia, the United Kingdom, and the United States] or the Quad [Australia, India, Japan, and the United States] in Asia, or whether it is NATO, these alliances are critical to our global future.

When I was a young graduate student, you would never have said that Sweden and Finland would end up in NATO. You would not have said that when I was a young professor. You would not have said that two years ago. Something is happening out there as allies are beginning to see the dangerous world we face, and that they have real capacity to be a part of the response in that “long twilight struggle” to keep the bad guys at bay until they have to turn to deal with their own internal contradictions.