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A Tale of Two Realities (Javier Solana – 20/04/2018)

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The opening line of Charles Dickens's A Tale of Two Cities retains its universality to this day. "It was the best of times, it was the worst of times," Dickens writes, "it was the age of wisdom, it was the age of foolishness, … it was the spring of hope, it was the winter of despair."

Dickens's classic novel, set in London and Paris during the French Revolution, decries both the social injustices of the despotic ancien régime and the excesses of the French revolutionaries. When asked his opinion of the French Revolution almost two centuries later, former Chinese Premier Zhou Enlai reportedly answered that it was "too early to say." That quip – though possibly the result of a misunderstanding – perfectly captures Dickens's own ambivalence about the period of which he wrote.

The Enlightenment ideals that inspired the French to rise up against Louis XVI also drove the American Revolution. And both were set against the backdrop of another sea change: the onset of industrialization. The combination of more liberal political regimes and transformational scientific advances inaugurated the most prosperous period in the history of humankind.

The late British economist Angus Maddison once estimated that whereas global per capita GDP did not even double between 1 AD and 1820, it increased more than tenfold between 1820 and 2008. And this spectacular growth has been accompanied by equally extraordinary improvements in a wide range of socioeconomic indicators. Global average life expectancy, for example, has risen from 31 to almost 73 years in just two centuries.

Two centuries ago, the science and medical communities had not yet accepted the germ theory of disease, and the smell of beef was commonly thought to cause obesity. Today, such beliefs seem grotesque, owing to rapid progress in our scientific understanding. Not only can we now read the human genome; we are also learning how to edit and write it.

For Harvard psychology professor Steven Pinker, such achievements are signs that "the Enlightenment is working." Moreover, Pinker argues that more moral progress has been achieved in the last few centuries than most macroeconomic measurements can reflect. For example, he points to the expansion – both geographic and substantive – of protections for individual and collective rights, as well as an overall reduction in violence.

The sheer magnitude of the Enlightenment's achievements tends to be undervalued, because we are prone to remembering and normalizing catastrophes rather than quotidian improvements. But while this bias is detrimental to decision-making, so, too, is excessive complacency. After all, there are plenty of reasons – many of which are secondary effects of the Enlightenment – for people to feel uneasy about the future.

In his 2013 book, The Great Escape, Nobel laureate economist Angus Deaton shows how progress in reducing aggregate privation, famine, and premature death over the past 250 years has left many social groups behind. While inequality at the global level has recently been mitigated by the economic rise of countries like China, numerous studies find that inequality within countries has been increasing. In countries such as the United States, broad segments of the population lack access to adequate medical treatments, and even democracy seems to be eroding.1

Today's conventional wisdom links the emergence of populist movements around the world, including the election of President Donald Trump in the US, to the people who have missed out on the benefits of globalization. Yet many of Trump's policies – not least slashing taxes for the rich – are intended to perpetuate the privileges of the economic elite. Trump has done very little to address the fears of those who feel left behind, but he is attempting a classic bait-and-switch to disguise this fact. Accordingly, he singles out China as the source of Americans' economic woes.

The result of Trump's "America First" approach and fear mongering about all things foreign has been to undermine global cooperation. Nationalism, one of the potentially harmful legacies of the late-eighteenth-century social revolutions, has made a comeback on the heels of rising nativist and xenophobic fears.

Likewise, the Enlightenment's scientific and technological legacy has not been wholly positive. The theories of Albert Einstein and the discovery of fission in 1938 made nuclear power possible, but also led to the bombings of Hiroshima and Nagasaki, and to the disasters at Chernobyl and Fukushima. Similarly, technological progress has left critical national infrastructure potentially vulnerable to cyberattacks. And, as the 2008 crisis revealed, financial engineering carries many risks of its own.

All of these dangers are accompanied by what is perhaps the greatest threat humanity has ever faced: climate change. The peculiarity of this threat lies in the fact that it has not manifested in the form of a single, sudden shock. Rather, it is a cumulative phenomenon, which we might still be able to mitigate. Just as technological advances got us into this predicament, so might they rescue us from it. After all, technological innovation, along with an international effort to adopt the 1987 Montreal Protocol, is how the world put a stop to the erosion of the ozone layer.

Fortunately, scientific rationality is capable of creating tools to remedy its own excesses. Unfortunately, however, the state of political leadership today may mean that these tools remain unused. The world is in desperate need of leaders who are willing to maximize the benefits of science and technology through collective management and international cooperation. Without such leadership, what is quantifiably the best of times could very well become the worst.

Fonte: SOLANA, Xavier. A Tale of Two Realities.
Disponível em: <https://www.project-syndicate.org/commentary/technological-and-political-progress-and-peril-by-javier-solana-2018-04> Acesso em 26 de Abril de 2018.

America’s Weak Case Against China (Stephen Roach – 24/04/2018)

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On the surface, United States Trade Representative Robert Lighthizer appears to have made an ironclad case against China in the so-called Section 301 report issued on March 22. Laid out in a detailed 182-page document (which, with 1,139 footnotes and five appendices, would make any legal team blush with pride), the USTR’s indictment of China on charges of unfair trading practices regarding technology transfer, intellectual property, and innovation seems both urgent and compelling. It has quickly been accepted as foundational evidence in support of the tariffs and other punitive trade measures that President Donald Trump’s administration has initiated against China in recent months. It is powerful ammunition in a potential trade war.

But don’t be fooled. The report is wide of the mark in several key areas. First, it accuses China of “forced technology transfer,” arguing that US companies must turn over the blueprints of proprietary technologies and operating systems in order to do business in China. This transfer is alleged to take place within the structure of joint-venture arrangements – partnerships with domestic counterparts which China and other countries have long established as models for the growth and expansion of new businesses. Currently, there are more than 8,000 JVs operating in China, compared to a total of over 110,000 JVs and strategic alliances that have been set up around the world since 1990.

Significantly, US and other multinational corporations willingly enter into these legally-negotiated arrangements for commercially sound reasons – not only to establish a toehold in China’s rapidly growing domestic markets, but also as a means to improve operating efficiency with a low-cost offshore Chinese platform. Portraying US companies as innocent victims of Chinese pressure is certainly at odds with my own experience as an active participant in Morgan Stanley’s joint venture with the China Construction Bank (and a few small minority investors) to establish China International Capital Corporation in 1995.

Yes, as we joined with our partners in creating China’s first investment bank, we shared our business practices, proprietary products, and distribution systems. Yet, contrary to the assertions of the USTR, we were hardly forced into these arrangements. We had our own commercial objectives and wanted to build a world-class financial services firm in China. By the time we sold our stake in 2010 – at a rather attractive return to Morgan Stanley shareholders, I might add – CICC was well on its way to attaining those goals.

The second area where the USTR's Section 301 report is problematic is its portrayal of China's focus on outward investment – its "going out" strategy – as a unique state-directed plan aimed at gobbling up newly emerging US companies and their proprietary technologies. In fact, the report devotes more than twice as many pages to charges concerning China's supposed external technology theft via such acquisitions – which are framed as a blatant grab for America's most precious assets – as it does to internal transfers through JVs and alleged unfair licensing practices.

As such, the Made in China 2025 campaign is presented as prima facie evidence of a devious socialist plot to attain global dominance in the great industries of the future: autonomous vehicles, high-speed rail, advanced information technologies and machine tools, exotic new materials, biopharma and sophisticated medical products, as well as new power sources and advanced agricultural equipment.

Never mind that industrial policies are a time-tested strategy for developing countries seeking to avoid the dreaded middle-income trap by shifting from imported to indigenous innovation. China is accused by the USTR of sponsoring a unique strain of state-directed, heavily subsidized industrial policy unfairly aimed at snatching competitive supremacy from free and open market-based systems like the US, which are supposedly playing by different rules.

Yet even developed countries have relied on industrial policy to achieve national economic and competitive objectives. It was central to Japan's so-called planned rational development state, which underpinned its rapid growth in the 1970s and the 1980s. The Ministry of International Trade and Industry perfected the art of state-subsidized credit allocation and tariffs to protect Japan's sunrise industries, an effort that was matched by Germany's equally impressive Wirtschaftswunder, augmented by strong support for the Mittelstand of small and medium-size enterprises.

And, of course, it was US President Dwight Eisenhower who in 1961 drew attention to America's powerful military-industrial complex as the linchpin of state-sponsored, taxpayer-funded innovation in the US. NASA-related spinoffs, the Internet, GPS, breakthroughs in semiconductors, nuclear power, imaging technology, pharmaceutical innovations, and more: all are important and highly visible manifestations of industrial policy the American way. The US simply does it though its federal defense budget – where outlays of close to $700 billion this year are more than the combined total earmarked for defense in China, Russia, the United Kingdom, India, France, Japan, Saudi Arabia, and Germany.

Yes, the USTR is entirely correct in underscoring the role that innovation plays in shaping any country's future. But to claim that China alone relies on industrial policy as a means toward this end is the height of hypocrisy.

Cyber-espionage is the third leg of the stool in the USTR's case against China. In this area, there can be no mistaking the evidence underscoring the role played by China's People's Liberation Army as a major actor in cyber intrusions directed at US commercial interests. These problems were, in fact, so serious that President Barack Obama presented top-secret evidence of state-sponsored computer hacking to President Xi in September 2015. Since then, most reports point to a reduction in Chinese incursions.

Unfortunately, the evidence cited in the USTR report in support of cyber-related trade violations largely predates that confrontation.

In short, the USTR's seemingly impressive Section 301 report is a biased political document that has further inflamed anti-China sentiment in the US. As a result, Chinese-sponsored intellectual property theft is now taken as a given by an America that increasingly sees itself as a victim. Yes, like the rest of us, the Chinese are tough competitors, and they don't always play by the rules. For that, they need to be held accountable. But the case made by the USTR is an embarrassing symptom of a scapegoat mentality that has turned America into a nation of whiners.

Fonte: ROACH, Stephen. America's Weak Case Against China
Disponível em: <https://www.project-syndicate.org/commentary/ustr-section-301-report-biased-by-stephen-s--roach-2018-04/english> Acesso em 26 de Abril de 2018.

The Next Step for Chinese Economic Policy (Martin Feldstein – 23/04/2018)

Martin Feldstein, Professor of Economics at Harvard University and President Emeritus of the National Bureau of Economic Research, chaired President Ronald Reagan's Council of Economic Advisers from 1982 to 1984. In 2006, he was appointed to President Bush's Foreign Intelligence Advisory Board, and, in 2009, was appointed to President Obama's Economic Recovery Advisory Board. Currently, he is on the board of directors of the Council on Foreign Relations, the Trilateral Commission, and the Group of 30, a non-profit, international body that seeks greater understanding of global economic issues.

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I am a great admirer of China and its ability to adjust its economic policies to maintain rapid growth. But now that it has risen to the top of the global economy, it must adopt the necessary reforms to become fully compliant with the international rules that it accepted upon joining the World Trade Organization in 2001.

When I first went to China in 1982, it was a very poor country governed by a thoroughly communist regime. Agriculture was completely collectivized. Because peasants had lost the right to farm their own land, agricultural output was extremely low. Beyond agriculture, individual ownership of the means of production was outlawed. A Chinese family could own a sewing machine for its own use, but it could not own two sewing machines or hire a neighbor to help produce garments.2

Under the leadership of Deng Xiaoping, this began to change. Plots of land were returned to their previous owners, who were allowed to keep any output exceeding the government's mandatory quota. As a result, agricultural output soared, and farmers produced a range of additional crops, like flowers and vegetables, to sell directly to the public. Restrictions on ownership of productive assets and on hiring workers were gradually relaxed, such that the private sector now accounts for the majority of economic activity in China.

The result was an explosion of economic growth and a rapid increase in living standards. Since 1982, China's real (inflation-adjusted) GDP has grown at an average annual rate of more than 7%. Per capita real GDP is now 18 times higher, with some 800 million people having been lifted out of poverty since the start of Deng's reforms. Although overall per capita output in China is still only a quarter of the US level, the standard of living in China's major cities is impressively high. To see the gleaming skyscrapers and array of shops serving affluent young people is to appreciate the change that has occurred in just a few decades.

Deng once declared, "To get rich is glorious." China's people have responded. Private entities flourish, and a very active stock market allows widespread share ownership. China apparently has more self-made billionaires than the United States.

The combination of private incentives and effective education is a key reason for China's rapid growth. China has an ancient tradition of promoting the brightest students based on extensive examinations. The officials who worked for the emperors were selected based on written exams of Confucian thought. Now literacy is universal and national examinations are used to decide who goes to the top universities. More than a million Chinese students have studied in the US, and several of the top government economic officials have done graduate work there.

In many ways, the Chinese economy now works like a large American multinational corporation. Broad strategy is set by management at the top: growth targets, the structural shift from heavy industry to consumption, the Belt and Road Initiative (which will guide exports and foreign aid), and so on. Individual managers are tried out in regional cities and promoted based on their success in achieving the goals set by national leaders.

The goals set by President Xi Jinping and the current government are to increase the sophistication of the economy and achieve a middle-class standard of living for the population. To succeed, China is investing large sums in research and technical education.

But in their eagerness to catch up to the West, China has also stolen technology from Western companies. Under President Barack Obama, the US accused China of engaging in cyber espionage against American firms and stealing their intellectual property. Presidents Xi and Obama subsequently signed a communiqué in 2013 renouncing such cyber theft.

But China continues to take technology from US companies. It does so by requiring foreign companies that want to do business in China to form joint ventures with Chinese firms, allowing the Chinese partners to obtain US firms' technology. And while the WTO prohibits member countries from conditioning market access on such mandatory technology transfers, the Chinese have responded that nothing is mandatory, because companies do not have to do business in China.

That is clearly disingenuous, and the announcement of large US tariffs on Chinese exports is intended to encourage China to comply with the WTO rule on technology transfer. The Chinese may be getting the message. In an important recent speech at this year's Boao Forum, Xi said that China will no longer require such joint ventures in the auto industry – an implicit admission that the requirement is a violation of the WTO rule.

It is time for China to extend this new policy and eliminate the joint-venture requirement completely. Although the US does not have such a requirement, it would be helpful for both countries to state openly that in the future no foreign company will be required to enter a joint venture or to transfer technology in other ways as a condition of doing business.

China can continue its rapid growth and technological development through its own efforts. Its current policy will only lead to a serious trade conflict.

Fonte: FELDSTEIN, Martin. The Next Step for Chinese Economic Policy. Disponível em: <https://www.project-syndicate.org/commentary/china-wto-mandatory-technology-transfer-by-martin-feldstein-2018-04> Acesso em 26 de Abril de 2018.

Macron's Vital Message (Ana Palaccio – 20/03/2018)

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When Emmanuel Macron was elected president of France last year, he was presented as a kind of European savior, a wunderkind who had burst onto the French political scene just in the nick of time. Now, many are asking, with a combination of schadenfreude and defeatism, whether Macron's star burned too bright – and is thus destined to burn out fast. But this focus on Macron's record so far threatens to overshadow his crucial message about the future of European democracy.

Macron won the French presidency not by appropriating veiled nationalist-populist messages, as Mark Rutte did to hold on to power in the Netherlands, but by championing a positive and robust pro-European platform. With his ambitious calls for European unity and dogged support of liberal democracy, Macron inspired hope that the wave of anti-European populism had crested, and that real progress was on the horizon.

But the last year has produced, at best, mixed results. Germany's federal election last September delivered a weak mandate for Chancellor Angela Merkel, and established the far-right Alternative für Deutschland as a real political force. This was followed in February by the ignominious resignation of European cheerleader Martin Schulz as leader of the Social Democrats.

In Italy's general election in March, the populist Five Star Movement and the far-right League party together won more than 50% of the vote. And, in Hungary earlier this month, Prime Minister Viktor Orbán, the poster child of illiberal democracy, secured a third term – and the chance to reshape the constitution – with a large majority. Clearly, Macron's victory did not mark the beginning of a new era of European politics so much as the beginning of yet another chapter in the ongoing struggle for the future of Europe.

Macron delivered this very message earlier this month while addressing the European Parliament in Strasbourg , where he declared that "European democracy is our best chance," and called for a "new European sovereignty" that would protect and provide for the European Union's citizens. He also addressed directly the issue of complacency: "I don't want to belong to a generation of sleepwalkers that has forgotten its own past. I want to belong to a generation that has decided forcefully to defend its democracy."

Macron's rousing call to arms is the latest development in a diplomatic offensice that included hobnobbing with Saudi Crown Prince Mohammed bin Salman and frank discussions about EU-Turkey relations with Turkish President Recep Tayyip Erdoğan. That effort is now continuing, with the jupiterian Macron meeting the mercurial Donald Trump in Washington, DC, this week. Earlier this month, both leaders – along with British Prime Minister Theresa May – ordered strikes on Syrian military installations, following a chemical-weapons attack on rebel-held territory allegedly carried out by President Bashar al-Assad's forces.

Some argue that Macron's soaring pro-European rhetoric and outsize international personality amount to a ploy to boost his popularity within France. After all, his attempts to reform the French economy, public sector, and labor markets – not to mention his perceived elitist pretensions and imperialist tendencies – have produced a swift and severe backlash.

This is almost certainly true. But so what? Virtually all politicians try to leverage their international status to boost their standing at home. And, whatever his motive, Macron's message is sound.

Yet even Macron's supporters fail adequately to defend that message, instead getting caught up in the practical challenges ahead. This is the "yes, but" crowd: "Yes he is right about Europe," they say, "but he has to reform the French economy first," or "he can't succeed without more German support."

The criticisms are not unwarranted. To be an engine of change in Europe, France must undergo a deep structural transformation, which, as student protests at Sciences Po and railway strikes across France show, will be very difficult. And to reform the EU, Macron will need German backing, which may not be in the offing, given the apparent turn by Merkel's coalition away from deeper European integration.

The danger is here is that by tying the message too tightly to Macron and his achievements, we may devalue the underlying ideas. France might not get its act together, and Merkel might not leap to reform Europe's monetary union. But that does not change the fact that Europe needs to evolve. It needs new ideas and, most important, a new animating spirit.

In his Strasbourg speech, Macron set out a potent agenda: the EU must convince its citizens that it deserves their support, by engaging with them directly and offering a compelling narrative that emphasizes the Union's unwavering commitment to liberal democracy. But he cannot do it alone.

Rather than poke holes in Macron’s methods or circumstances, Europeans should view his message as a challenge. Everyone who believes in the EU must step up to strengthen it, not just by offering ideas, but also by fighting for their realization. Leadership is needed at all levels.

Macron might be a talented soloist, but what Europe needs now is a chorus. Unfortunately, too few voices have been ringing out.

Fonte: PALACIO, Ana. Macron’s Vital Message.
Disponível em: <https://www.project-syndicate.org/commentary/macron-vision-european-reform-by-ana-palacio-2018-04> Acesso em 26 de Abril de 2018.

Why Is Bangladesh Booming? (Kaushik Basu – 23/04/2018)

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Bangladesh has become one of Asia’s most remarkable and unexpected success stories in recent years. Once one of the poorest regions of Pakistan, Bangladesh remained an economic basket case – wracked by poverty and famine – for many years after independence in 1971. In fact, by 2006, conditions seemed so hopeless that when Bangladesh registered faster growth than Pakistan, it was dismissed as a fluke.

Yet that year would turn out to be an inflection point. Since then, Bangladesh’s annual GDP growth has exceeded Pakistan’s by roughly 2.5 percentage points per year. And this year, its growth rate is likely to surpass India’s (though this primarily reflects India’s economic slowdown, which should be reversed barring gross policy mismanagement).

Moreover, at 1.1% per year, Bangladesh’s population growth is well below Pakistan’s 2% rate, which means that its per capita income is growing faster than Pakistan’s by approximately 3.3 percentage points per year. By extrapolation, Bangladesh will overtake Pakistan in terms of per capita GDP in 2020, even with a correction for purchasing power parity.

To what does Bangladesh owe its quiet transformation? As with all large-scale historical phenomena, there can be no certain answers, only clues. Still, in my view, Bangladesh’s economic transformation was driven in large part by social changes, starting with the empowerment of women.

Thanks to efforts by the nongovernmental organizations Grameen Bank and BRAC, along with more recent work by the government, Bangladesh has made significant strides toward educating girls and giving women a greater voice, both in the household and the public sphere. These efforts have translated into improvements in children’s health and education, such that Bangladeshis' average life expectancy is now 72 years, compared to 68 years for Indians and 66 years for Pakistanis.

The Bangladesh government also deserves credit for supporting grassroots initiatives in economic inclusion, the positive effects of which are visible in recently released data from the World Bank. Among Bangladeshi adults with bank accounts, 34.1% made digital transactions in 2017, compared to an average rate of 27.8% for South Asia. Moreover, only 10.4% of Bangladeshi bank accounts are "dormant" (meaning there were no deposits or withdrawals in the previous year), compared to 48% of Indian bank accounts.

Another partial explanation for Bangladesh's progress is the success of its garment manufacturing industry. That success is itself driven by a number of factors. One notable point is that the main garment firms in Bangladesh are large – especially compared to those in India, owing largely to different labor laws.

All labor markets need regulation. But, in India, the 1947 Industrial Disputes Act imposes heavy restrictions on firms' ability to contract workers and expand their labor force, ultimately doing more harm than good. The law was enacted a few months before the August 1947 independence of India and Pakistan from British imperial rule, meaning that both new countries inherited it. But Pakistan's military regime, impatient with trade unions from the region that would become Bangladesh, repealed it in 1958.

Thus, having been born without the law, Bangladesh offered a better environment for manufacturing firms to achieve economies of scale and create a large number of jobs. And though Bangladesh still needs much stronger regulation to protect workers from occupational hazards, the absence of a law that explicitly curtails labor-market flexibility has been a boon for job creation and manufacturing success.

The question is whether Bangladesh's strong economic performance can be sustained. As matters stand, the country's prospects are excellent, but there are risks that policymakers will need to take into account.

For starters, when a country's economy takes off, corruption, cronyism, and inequality tend to increase, and can even stall the growth process if left unchecked. Bangladesh is no exception.

But there is an even deeper threat posed by orthodox groups and religious fundamentalists who oppose Bangladesh's early investments in progressive social reforms. A reversal of those investments would cause a severe and prolonged economic setback. This is not merely a passing concern: vibrant economies have been derailed by zealotry many times throughout history.

For example, a thousand years ago, the Arab caliphates ruled over regions of great economic dynamism, and cities like Damascus and Baghdad were global hubs of culture, research, and innovation. That golden era ended when religious fundamentalism took root and began to spread. Since then, a nostalgic pride in the past has substituted for bold new pursuits in the present.

Pakistan's history tells a similar tale. In its early years, Pakistan's economy performed moderately well, with per capita income well above India's. And it was no coincidence that during this time, cities like Lahore were multicultural centers of art and literature. But then came military rule, restrictions on individual freedom, and Islamic fundamentalist groups erecting walls against openness. By 2005, India surpassed Pakistan in terms of per capita income, and it has since gained a substantial lead.

But this is not about any particular religion. India is a vibrant, secular democracy that was growing at a remarkable annual rate of over 8% until a few years ago. Today, Hindu fundamentalist groups that discriminate against minorities and women, and that are working to thwart scientific research and higher education, are threatening its gains. Likewise, Portugal's heyday of global power in the fifteenth and sixteenth centuries passed quickly when Christian fanaticism became the empire's driving political force.1

As these examples demonstrate, Bangladesh needs to be vigilant about the risks posed by fundamentalism. Given Prime Minister Sheikh Hasina's deep commitment to addressing these risks, there is reason to hope for success. In that case, Bangladesh will be on a path that would have been unimaginable just two decades ago: toward becoming an Asian success story.

Fonte: BASU, Kaushik. Why Is Bangladesh Booming?
Disponível em: <https://www.project-syndicate.org/commentary/bangladesh-sources-of-economic-growth-by-kaushik-basu-2018-04/english > Acesso em 26 de Abril de 2018.

The Future of Tech Policy (Michael Boskin – 25/04/2018)

Michael J. Boskin is Professor of Economics at Stanford University and Senior Fellow at the Hoover Institution. He was Chairman of George H. W. Bush's Council of Economic Advisers from 1989 to 1993, and headed the so-called Boskin Commission, a congressional advisory body that highlighted errors in official US inflation estimates.

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Technology and the largest tech firms are becoming increasingly controversial. Today, there are growing concerns about third parties accessing and manipulating Facebook user data; and before that, there was a raging debate about whether the government should be able to unlock devices belonging to suspects of terrorism or other crimes. More broadly, technology-driven job dislocation has become a source of constant anxiety.

For all of these reasons, technology policy has taken center stage, as I predicted it would exactly one year ago. Facebook Chairman and CEO Mark Zuckerberg recently conceded in congressional testimony that some regulation of his industry is necessary, and there is now an open window of opportunity to pursue new policies for the sector. In formulating such policies – whether through legislation, regulatory rule-setting, international agreements, or measures addressing related issues such as tax and trade – the goal should be to limit the downsides of technology without stifling innovation. To that end, five interrelated issues should be kept in mind.

The first is privacy. Although the European Union’s far-reaching General Data Protection Regulation (GDPR) goes into force on May 25, it will not offer any protection for non-Europeans. In the case of Facebook, that translates into 1.5 billion users, almost all of whom have clicked to agree to the company’s terms of service without having read them.

There are currently proposals to require tech companies to obtain an affirmative opt-in from users before collecting their data, and to allow users to retrieve or erase their data easily. How customers and companies, including new entrants, would react to such rules remains to be seen. To collect more data, firms might offer users inducements beyond the putatively free services they already provide, and that may or may not slow down the pace at which they can enhance services or add newfeatures.

The second issue is market power. In the early years of the Internet, an infant tech industry pled for a hands-off approach to regulation and taxation. But now, the four largest US firms by market capitalization – Apple, Google, Microsoft, and Amazon – are all tech companies (as of this writing, Berkshire Hathaway had edged out Facebook for fifth place). Devising sensible policies on this front will require that we first define the market, and then decide what level of concentration, and over what time frame, constitutes a threat to competition.

The tech sector seems to follow a classic pattern of Schumpeterian creative destruction, whereby successive waves of monopoly ascension give way to displacement: cell phones replaced landlines; email displaced postal mail; and social media and texting are supplanting phone calls.

Currently, Apple and Google hold a duopoly on smartphone operating systems, yet they compete vigorously to improve their features and roll out new products. Meanwhile, the iOS and Android app stores have become both a point of entry for many small businesses and a barrier to entry for new smartphone providers. Likewise, Facebook and Google dominate the digital advertising market, but their profits allow them to offer ostensibly free email and social-media services that benefit consumers.

Elsewhere, the US government is trying to block a merger between the telecom giants AT&T and Time Warner, which owns a movie studio, cable television stations, and print publications. Whereas regulators worry that the merger would lead to higher prices, AT&T argues that it is facing direct competition from tech giants like Netflix and Amazon, which both offer online video streaming and original programming. (Amazon is also dominant in online retail and data-center infrastructure.) The question, then, is whether the current competition among the behemoths more than offsets their market power.

A third issue concerns the control of information. Owing to the convenience and addictiveness of smartphones and social media, many people now get news exclusively from online platforms like Facebook. And yet the microtargeted advertising model used by Google and Facebook has disrupted print journalism’s traditional source of revenue, along with coverage of state and local governments.

Even worse, social-media algorithms tend to amplify the most extreme material at the expense of more credible sources. But efforts to eliminate material viewed as extreme by some will raise the specter of censorship. Conservatives, especially, fear that leftleaning companies in Silicon Valley will be allowed to decide what counts as acceptable debate.

The fourth issue is the concentration of wealth. The founders of today's tech giants are now among the world's wealthiest people, with Amazon's Jeff Bezos topping the list. But their growing fortunes stand in stark contrast to decades of slow wage growth, which is creating a political backlash.

Still, the creative destruction of the digital era has also enriched many tech workers and investors, while reducing the fortunes of previous incumbents. It has both destroyed and created well-paying jobs. And, most important, it has produced goods and services that make virtually all of us better off.

Policies to address distributional concerns should not suppress entrepreneurship or discourage work, saving, and investment, especially for new market entrants. For example, a capital-gains tax, whatever its distributional intent, amounts to a tax on becoming rich. And yet creating incentives for people to improve their lot is what drives broad-based prosperity.

The last issue concerns national security and national economic interests. This month, a number of tech firms, including Microsoft and Facebook, declared that they will not assist any government in conducting offensive cyberwarfare operations, and that they will defend unconditionally any countries or individuals targeted by a cyber attack. Does that really include a cyber attack against North Korea or Iran to preempt a nuclear event?

With respect to economic interests, all governments look for ways to help their countries' own industries, whether through regulation, subsidies, or trade barriers. But China has been playing a different game with its alleged theft of intellectual property and forced technology transfers.

With China expanding its cyberwarfare capabilities and investing in vital telecom infrastructure, the US government recently saw fit to bar US firms from selling components to the Chinese telecom giant ZTE. In response, China is now holding up the US chipmaker Qualcomm's acquisition of the Dutch semiconductor firm NXP.

All of these issues will shape the future of tech policy, and thus future innovations and the benefits they bring to society.

Fonte: BOSKIN, Michael. The Future of Tech Policy.
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The Advanced Economies' Lost Decade (Robert Skidelsky – 13/04/2018)

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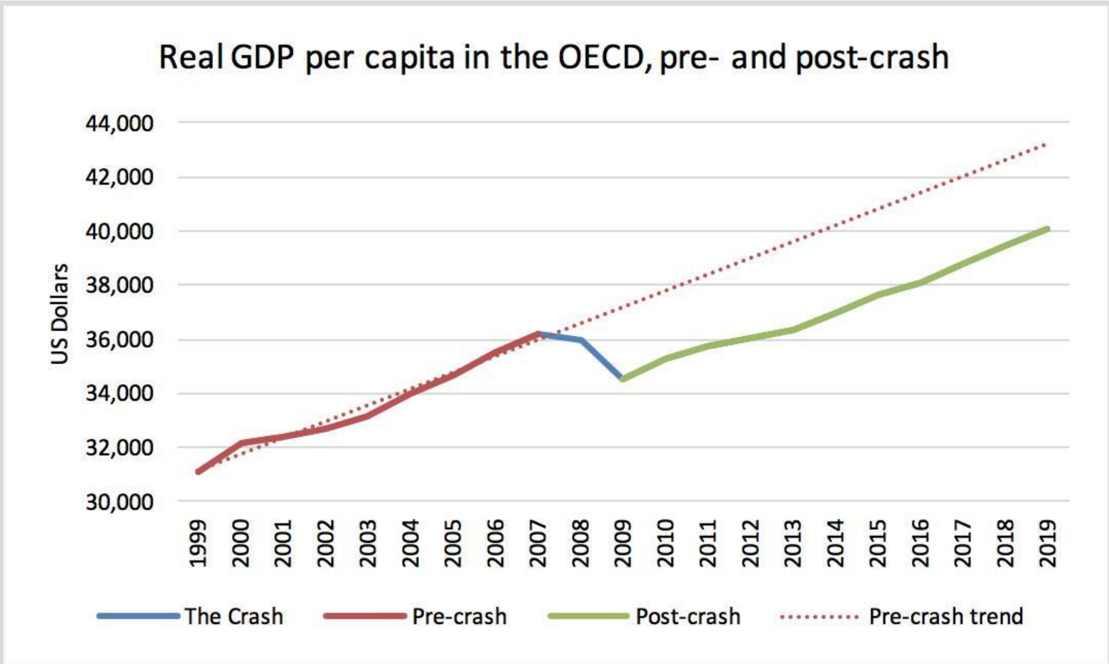
Ten years after the 2007-2008 financial crisis, it is worth asking where the world's developed economies are today, where they would have been had there been no crisis, and, perhaps more important, where they might have been had different policy choices prevailed before and after the collapse.

The first two questions can be answered with a single graph, which shows real (inflation-adjusted) per capita GDP growth for OECD countries from 2000 to 2018. As a bloc, the OECD spent five years getting back to where it was just before the crash (the eurozone took two years longer). And its average annual growth rate (1.5%) has remained at three-quarters of the pre-crash level (2%).



The red dotted line shows where the OECD would be but for the crisis, and the green line shows where it will be if growth continues at its lower post-crash rate. By 2019, each person in the bloc will have suffered a cumulative loss of $32,000, on average.

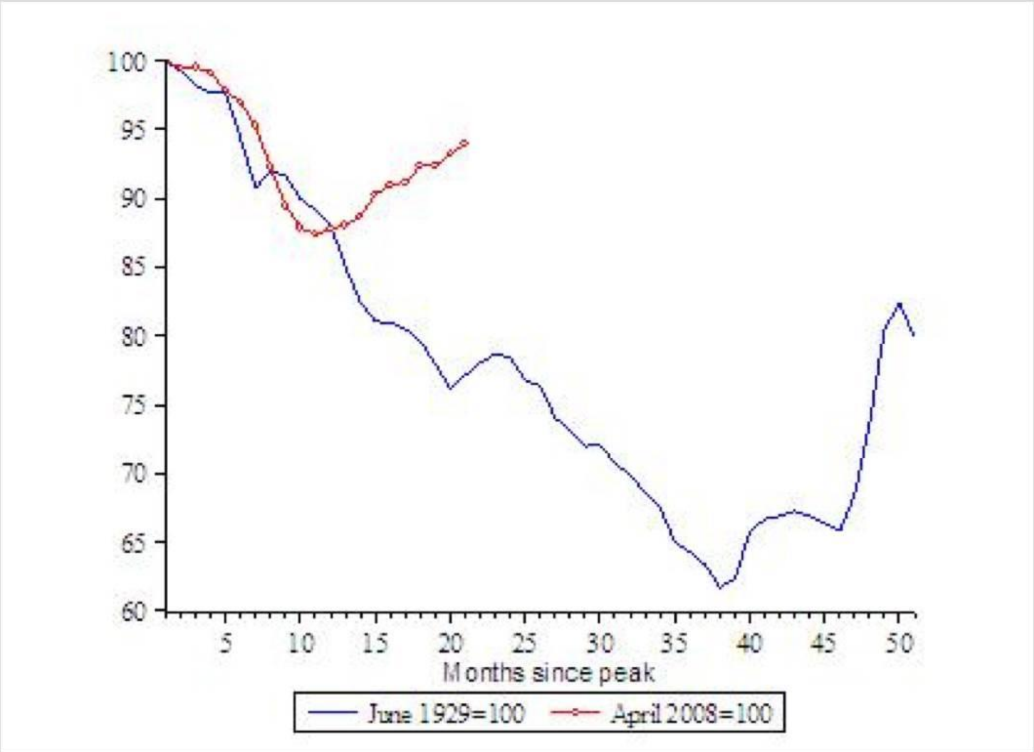
The question of where we would be had different policies been adopted is, no surprise, much harder to answer. Could the crisis have been avoided in the first place? In retrospect, there is a strong case to be made that it could have been. We now know that financial-market liberalization, influenced by "efficient market theory," made banks inherently more vulnerable to contagion. But what about the effects of post-crash policies? The insight and analysis offered in recent years by Project Syndicate commentators, many of whom have led the economic-policy debate since the crisis, help to answer that question.

<u>MISSED OPPORTUNITIES</u>

For his part, Nobel laureate economist Joseph E. Stiglitz frames the overall debate by emphasizing the role that policy can play in determining not just the depth of a crisis, but also its duration. "Success should not be measured by the fact that recovery eventually occurs," he writes, "but in how quickly it takes hold and how extensive the damage caused by the slump."

Looking back, it is clear that policy interventions immediately following the 2008 crash did make a difference, at least in the near term. As the graph below shows, the 2008 collapse was as steep as that of 1929, but it lasted for a much shorter time. Unlike US

Secretary of the Treasury Andrew Mellon in 1929, no one in 2008 really wanted to “Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate,” in order to “purge the rottenness out of the system.” In other words, no one wanted to create the conditions for another Adolf Hitler to emerge.



Instead, the 2008 crisis was met not by belt-tightening, but by globally coordinated monetary and fiscal expansions, particularly on the part of China. As J. Bradford DeLong of the University of California, Berkeley, notes, “The aftermath of the 2007-2008 financial crash was painful, to be sure; but it did not become a repeat of the Great Depression, in terms of falling output and employment.” Within four quarters, “green shoots” of recovery were appearing; that didn’t happen for 13 quarters after the 1929 crash.

Yet in 2010, before the shoots had time to flower, OECD governments rolled back their stimulus policies and introduced austerity policies, or “fiscal consolidation,” designed to eliminate deficits and put debt/GDP ratios on a “declining path.” It is now generally agreed that these measures slowed down the recovery, and probably reduced the advanced economies’ productive capacity as well. In Europe, Stiglitz observed in 2014, the period of austerity had “been an utter and unmitigated disaster.” And in the United States, notes DeLong, “relative performance after the Great Recession [has been] nothing short of appalling.”

Though the depressive effects of austerity were partly offset by expansionary monetary policies such as quantitative easing (QE), the mismatch itself has left a legacy of financial fragility. While per capita GDP has recovered in most OECD countries, median income has lagged behind, implying that there was a great deal of collateral damage that has still not been repaired.

OF CONFIDENCE AND COMPLACENCY

After the immediate threat of a depression was averted, economists vigorously debated the merits of withdrawing stimulus so early in the recovery. Their arguments, which can be broken down into four identifiable positions, open a window onto the role that macroeconomic theory played in the crisis.

Those in the first camp claimed that fiscal austerity – that is, deficit reduction – would accelerate the recovery in the short run. Those in the second camp countered that austerity would have short-run costs, but argued that it would be worth the long-run benefits. A third camp, comprising Keynesians, argued unambiguously against austerity. And the fourth camp maintained that, regardless of whether austerity was right, it was unavoidable, given the situation many countries had created for themselves.

The first, least cautious argument for fiscal austerity came from Harvard University economist Alberto Alesina, who was much in vogue during the early phase of the crisis. In April 2010, Alesina published a paper assuring European finance ministers that, "Many even sharp reductions of budget deficits have been accompanied and immediately followed by sustained growth rather than recessions even in the very short run." Alesina based this conclusion on historical studies of fiscal contractions, and argued that a credible program of deficit reduction would boost confidence enough to offset any adverse effects of the fiscal contraction itself.

A number of Project Syndicate commentators took Alesina to task for these claims. Nobel laureate economist Robert J. Shiller countered that, contrary to Alesina's assurances, "There is no abstract theory that can predict how people will react to an austerity program." Writing in 2012, Shiller correctly predicted that "austerity programs in Europe and elsewhere appear likely to yield disappointing results."

Similarly, Harvard's Jeffrey Frankel pointed out in May 2013 that Alesina's co-author on two influential papers, Robert Perotti, had recanted, having identified flaws in their methodology. Following more criticism of his methodology by the International Monetary Fund and the OECD, Alesina himself became considerably more circumspect about the promise of austerity. Of course, by then, he had already contributed his mite to the sum of human misery.

DUBIOUS DEBTS

Out of the Alesina wreckage emerged another case for austerity, based on the doctrine of "short-run pain for long-run gain." As Daniel Gros of the Center for European Policy Studies explained in August 2013, "Austerity always involves huge social costs," yet "almost all economic models imply that a cut in expenditures today should lead to higher GDP in the long run, because it allows for lower taxes (and thus reduces economic distortions)."

The most influential version of the "short-run pain for long-run gain" argument came from Harvard's Kenneth Rogoff and Carmen M. Reinhart. In their 2009 book, This Time is Different: Eight Centuries of Financial Folly, Rogoff and Reinhart attributed the "vast range of [financial] crises" throughout modern history to "excessive debt accumulation." And in a June 2012 Project Syndicatecommentary, Rogoff claimed that public debt levels above 90% of GDP imposed "stunning" cumulative costs on growth. The implication was clear: only by immediately reducing the growth of public debt could advanced economies avoid prolonged malaise.

This, it turned out, was another dubious recipe for recovery. Because Rogoff and Reinhart found a historical correlation between high debt and slow growth, they presumed that high debt caused slow growth. Yet it is just as likely that slow growth had caused high debt. Rogoff's theory had led him to a particular interpretation of the data. Or, as Oscar Wilde wrote of Wordsworth, "He found in stones the sermons he had already hidden there."

The sermons preached by Alesina, Rogoff, and Reinhart held that the state was inherently less efficient and more corrupt than the private sector. Thus, they believed that the growth of state spending was bound to impede the growth of income and wealth. It is little wonder that former British Chancellor George Osborne, who strongly supported reducing the size of the state, credited Reinhart and Rogoff for influencing his thinking.

USE IT OR LOSE IT

While the Rogoff/Reinhart school was calling for rapid reductions in the debt-to-GDP ratio to boost growth, Keynesians pointed out that austerity itself was limiting growth, by reducing demand. The Keynesian argument was straightforward. Because the slump had been caused by an increase in private-sector saving, the recovery would have to be driven by government dissaving – deficit spending – to offset the negative impact on aggregate demand.

As Mark Blyth of Brown University noted in 2013, the attempt by European governments at the time to increase their savings was having a ruinous effect. “GDP has collapsed,” he observed, and “unemployment in the eurozone has skyrocketed to an average rate of roughly 12%, with more than 50% youth unemployment in the periphery countries.”

In July 2012, DeLong acknowledged that the alternative to austerity – fiscal expansion – would indeed raise the current debt/GDP ratio in the short term. But, by stimulating investment, it would produce faster economic growth and thus reduce the debt ratio in the medium term – the exact reverse of Rogoff’s formulation. At issue was the effect of changes in the numerator (debt) on the denominator (national income). The question, then, was whether austerity would, under the circumstances of the day, fetter or spur the growth of national income.

DeLong’s main argument was that fiscal consolidation turns cyclical unemployment into structural unemployment, and thus reduces the economy’s future productive capacity. When workers experience long-term unemployment, DeLong explains, they can fall into a vicious cycle in which they become even less employable with the passage of time. The problem, notes Nouriel Roubini of New York University, is that “if workers remain unemployed for too long, they lose their skills and human capital.” And this erosion of the skills base can lead to “hysteresis,” such that “a persistent cyclical downturn or weak recovery (like the one we have experienced since 2008) can reduce potential growth.”

Hysteresis, which helps to explain the decline in the growth rate shown in Figure 1, can also result from a large-scale switch to inferior employment. Flexible labor markets in the US and the United Kingdom have enabled both economies to return to pre-crisis unemployment levels (in the range of 4-5%). But the official unemployment rate excludes millions of workers who are involuntarily employed part-time, as well as others doing what the anthropologist David Graeber has described as “bullshit jobs.”

In short, fiscal consolidation after a crisis doesn’t necessarily produce a persistently elevated level of unemployment, as classical Keynesian theory supposed. But it does slow down productivity and growth, whether through high long-term unemployment, as in countries such as Greece, Spain, and Italy, or through high underemployment, as in the US and the UK.

I find the Keynesian perspective more intuitively appealing than the Rogoffian one. It stands to reason that long spells of unemployment or inferior employment will undermine a country’s output potential. But to argue that an “abnormal” level of national debt does the same, one must also demonstrate that state spending – whether tax- or bond-financed – hurts long-term growth by reducing the economy’s efficiency. And such a claim relies heavily on ideology.

WHEN TO INTERVENE?

Of course, past policy follies or current constraints can leave a country with no alternative to austerity. In 2010, the Princeton University historian Harold James pointed out that a country’s creditors can sometimes force it to undergo “fiscal consolidation.” This is particularly true for countries with a fixed exchange rate, such as those that adhered to the gold standard during the Great Depression. James's emphasis on external policy constraints helps to explain the stagnation of the eurozone, where the demands of a mini-gold standard – the single currency – limited member states' monetary- and fiscal-policy options during the downturn.

In the early years of the crisis, Greece stood out as an awful warning to others. Ricardo Hausmann of Harvard University notes that, "by 2007, Greece was spending more than 14% of GDP in excess of what it was producing," with the gap being "mostly fiscal and used for consumption, not investment." Still, Laura Tyson of the University of California, Berkeley, contends that Europe's bondholders, led by Germany, conflated Greek public profligacy with private greed and myopia. Expanding on this point, Simon Johnson of MIT observed that while debtor countries suffered dearly for over-borrowing, banks faced almost no penalties for over-lending.

Many discussions about the feasibility of different fiscal policies revolve around the mysterious idea of "fiscal space." In Keynesian theory, fiscal space is a measure of slack or spare capacity in the economy. If the multiplier is positive, then there is some room for fiscal expansion.

By contrast, the hardest version of anti-Keynesian theory – Ricardian equivalence – holds the economy to be always fully employed. Resources commandeered by government will thus deprive the private sector of their use, implying that fiscal space is zero. Between these two views, some posit that fiscal space is elastic, determined by psychology, politics, and institutions, and encapsulated in the umbrella term "state of confidence."

For example, in September 2016, Roubini wrote that, "thanks to painful austerity, deficits and debts have fallen, meaning that most advanced economies now have some fiscal space to boost demand." Note that this argument implies a psychological or institutional definition of fiscal space. In this case, fiscal space is not based on the existence of spare capacity. Rather, it means that bondholders are willing to buy government debt at low interest rates, or that the deficit has fallen below some institutionally prescribed level.

Keynesians tend to be suspicious of this type of argument, because it leaves the definition of fiscal space to the bond markets, and is not based on an objective measure of economic slack. Moreover, implying that fiscal space can be created through prior "austerity" is like saying that an auto repair shop should damage a customer's car to win his consent to make repairs.

THE FALSE PROMISE OF MONETARY MIRACLES

In the US, the UK, and the eurozone (after March 2015), economic policymakers sought to offset fiscal contraction with monetary expansion, chiefly by purchasing massive quantities of government bonds. The consensus view is that QE was modestly successful, but fell far short of fulfilling monetary policymakers' goals. Central bankers had assumed, incorrectly, that if they simply printed money, it would automatically enter the spending stream.

This faulty theory of money was driven by pure ideology, as the Nobel laureate economist Robert E. Lucas, Jr. unwittingly intimated in a December 2008 Wall Street Journalcommentary. Unlike fiscal expansion, Lucas observed, monetary expansion "entails no new government enterprises, no government equity in private enterprises, no price fixing or other controls on the operation of individual business, and no government role in the allocation of capital across different activities." In his view, these are all "important virtues" – which is to say, a faulty theory is better than one that entails any increased role for the state.

All told, I believe the policies since the financial crisis have extended the damage of the slump itself. Looking ahead, we will have to confront not just the problem of waste or missed opportunities, but of regression. We are restarting economic life with dimmer long-term prospects than we otherwise would have had.

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