REUNIÃO DE CONJUNTURA

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Artigos de Conjuntura Global

Donald Trump's Normal Fed (Kenneth Rogoff – 03/05/2018)

Kenneth Rogoff, Professor of Economics and Public Policy at Harvard University and recipient of the 2011 Deutsche Bank Prize in Financial Economics, was the chief economist of the International Monetary Fund from 2001 to 2003. The co-author of This Time is Different: Eight Centuries of Financial Folly, his new book, The Curse of Cash, was released in August 2016.

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In a presidency that has shown little regard for conventional institutional norms, how can one explain Donald Trump's completely reasonable appointments to the Federal Reserve Board? The most recent nominations, Columbia professor Richard Clarida and Michelle Bowman, the bank commissioner for the state of Kansas, continue a pattern of choosing seasoned technocrats, beginning, most importantly, with Jerome Powell, the new Fed chair.

If Trump were a normal president, appointing highly regarded individuals who can ensure effective policymaking would be business as usual. But here is a president who has often chosen officials with little government experience, and then seems to task them with creating the most disruption possible in the departments they are selected to run. Yet for the Fed, the author of The Art of the Deal has nominated as vice-chair an academic (Clarida) whose most famous paper is entitled "The Science of Monetary Policy."

All right, you might say, giving Trump credit for maintaining stability at the Fed is like giving high marks for not starting a nuclear war. The idea of central-bank independence has gained enormous traction over the past 30 years among politicians worldwide. Not only is it the norm in democracies such as the United States, the eurozone and Japan, but even strongman leaders like Russian President Vladimir Putin and Hungarian Prime Minister Viktor Orbán pause long and hard before challenging their central banks.

But people forget just how new the idea of central-bank independence really is. The venerable Bank of England gained monetary independence only 20 years ago. Back in the early 1980s, when I wrote an academic paper making the case for independence as a tool to establish central banks' anti-inflation credibility, one journal after another rejected it. The referees scoffed at the idea that independence could be more than a meaningless façade, easily pierced by the government.

Which brings us back to Trump. Is he just pausing long and hard before pressing the Fed to stoke the economy ahead of the 2020 election, and ultimately to monetize the massive deficits wrought by Republican tax cuts? If that is his plan – and who really believes a cornered Trump would not resort to high inflation? – the good news is that his Fed appointments will not make his life easy.

Trump does appear to understand this. After all, on the campaign trail in 2016, he himself railed against Powell's predecessor, Janet Yellen, for allegedly holding down interest rates to facilitate Hillary Clinton's election. Now as president, that is exactly what he would like to see in 2020. Interviewing candidates to succeed Yellen last year, he supposedly asked just one key question: "You aren't going to raise interest rates and ruin my beautiful stock market, are you?"

True, Trump is somewhat constrained by the need to win Senate approval of his nominations. In fact, some conservative Republicans have objected to another of his appointments, Marvin Goodfriend of Carnegie Mellon University, for daring to suggest that the Fed might need a new approach to monetary policy (negative interest rates) to confront the next very deep recession or financial crisis. And although someday the Fed will almost surely embrace this advice (I have also published on the issue), Goodfriend's nomination barely survived the US Senate Banking Committee. But, by and large, the Senate has given Trump what he wants, and many Republicans would have embraced a disrupter – for example, a disciple of Ron "End the Fed" Paul – or another conservative preaching a return to the pre-World War I gold standard.

Unfortunately, the battle for the Fed's independence is far from over. Trump may just be keeping his powder dry until a real conflict erupts. Right now, the Fed's planned interest-rate hikes are largely prophylactic. Inflation is rising only very slowly, even as the economy seems to be running red-hot. But the moment of reckoning could still come. And, assuming that Trump stays healthy, avoids impeachment, and runs again, the last thing he would want in 2019 and 2020 is sharply higher interest rates, an untimely rise in unemployment, and a likely price collapse in his beautiful stock market.

In a crunch, the Fed's much-vaunted independence could prove more fragile than most people realize. It is not enshrined in the US Constitution, and the president and Congress maintain several levers of control. An act of Congress created the Fed in 1913, and in principle Congress could revamp it, say, by greatly increasing congressional oversight, or by starving it of funding. Indeed, from time to time bills have floated around Congress that would have done just that.

For now, Fed appointees have been treated almost as well as generals in the Trump universe. True, with ballooning deficits and the approach of the 2020 election campaign, testing times lie ahead. But for now, let's acknowledge that this is one area where the Trump presidency has been almost normal – so far.

Fonte: ROGOFF, Kenneth. "Donald Trump's Normal Fed".
Disponível em: <https://www.project-syndicate.org/commentary/donald-trump-federal-reserve-appointees-by-kenneth-rogoff-2018-05>. Acesso em 3 de Maio de 2018.

DB warns of US debt crisis (John Cochrane – 02/05/2018)

John H. Cochrane is the Jack and Rose-Marie Anderson Senior Fellow at the Hoover Institution. He is also a research associate of the National Bureau of Economic Research and an adjunct scholar of the CATO Institute.

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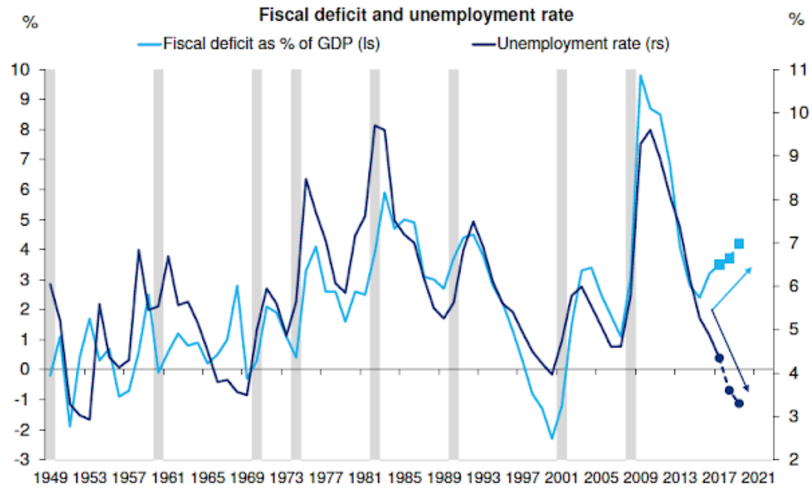
"A coming debt crisis in the US?" warns a Deutsche Bank report* by Quinn Brody and Torsten Slok.

Figure 5: Aggressive fiscal expansion at this point in the business cycle is highly unusual



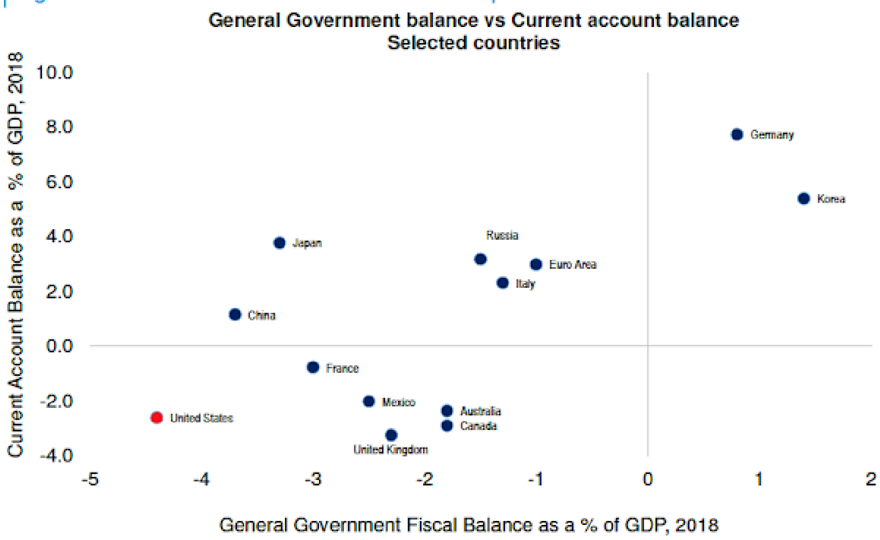
Source: OMB, BLS, Federal Reserve Board, Haver Analytics, Deutsche Bank Research

This graph is gorgeous. US deficits have, historically, been driven overwhelmingly by the state of the business cycle, and have very little to do with tax policies and spending decisions that dominate press coverage. In booms, income rises, so tax rate times income rises. In busts, the opposite, plus "automatic stabilizer" spending kicks in.Until now.

There is a good reason past deficits did not really spook markets. They understood the deficit was a temporary phenomenon, due to temporary poor demand-side economic performance. We do not have that excuse now.

In case you thought this was some alarmist crank sheet, the report starts by quoting the latest CBO report: the CBO argues that, assuming current policies and trends are not changed, “the likelihood of a fiscal crisis in the United States would increase. There would be a greater risk that investors would become unwilling to finance the government’s borrowing unless they were compensated with very high interest rates.”

Figure 6: Twin deficits for the US a serious problem for the dollar



Source: IMF, CBO, Haver Analytics, Deutsche Bank Research

Other countries running big debts and deficits, like Japan and currently China, also are running big trade surpluses. That means they are, as a countries, accumulating foreign assets. The US by contrast is accumulating foreign debts. DB dares to ask the question:

Historically, twin deficits have been considered a source of macroeconomic risk, including downward pressure on the exchange rate and upward pressure on interest rates. Over the last several decades, many emerging market countries have experienced severe crises and recessions when their external financing became stressed or reversed (Mexico 1994, Thailand 1997, Argentina 2002, etc.). Given these experiences, it is relevant to ask if the US could also have such an EM-style debt crisis.

It's not as bad as it looks. The US is essentially the world's biggest hedge fund, borrowing abroad to invest in risky projects abroad, and we earn the premium on doing it. But overall, we are still borrowing to finance a trade deficit.

Like me, the DB report still sees a US debt crisis as a fairly remote possibility. Still not all their reassurance is reassuring if you think about it.

There are some good reasons why our model overstates the risks of an EM-style debt crisis. Most importantly, the US exclusively borrows in its own currency, while the model includes countries that have been exposed by borrowing abroad;

Borrowing in your own currency only means that our government can substitute inflation and devaluation for explicit default, if it refuses to fix its finances.

the US has scope to raise additional revenues (its overall tax rate of 26% of GDP in 2016 is below the OECD average of 34%);

That number looks suspiciously low -- I don't think it has federal, state, and local and all taxes in it. At all levels we're spending north of 40% of GDP. And raising a lot more revenue would mean middle class taxes like a VAT. Finally, debt crises are choices, and the main issue is really whether our government will raise nearly 10% of GDP in taxes to fund entitlements, reform the entitlements, or let the country drift to crisis.

the US dollar is the de facto global reserve currency.

This last point is significant. Figure 12 shows that almost two thirds of global official reserve assets are held in US dollars. One out of every four dollars lent to the US Treasury comes from the foreign official sector. These institutions need a safe, deep, and liquid place to park their reserves.

That our debt is currently held as reserves by foreign official sectors with the above-stated need should not be quite so reassuring. It is a source of one-time demand for our debt, not for eternal expansion of that debt. Those are also "hot money" investors. A demand for safety can evaporate pretty quickly if everyone starts to worry about a dollar crash.

The appeal of Treasuries is further boosted by the US's military strength, the nation's cultural appeal, and strong domestic institutions.

I'm delighted that anyone feels that way about the US right now, especially the latter. Doubts may already be starting

...Treasuries tend to rally in episodes of market stress, even when US economic growth slowed sharply in 2008 or when China devalued its currency and signaled potential selling of its Treasury holdings in 2015. This is not happening today, which is why investors need to pay attention to whether an EM-style debt crisis is about to play out.

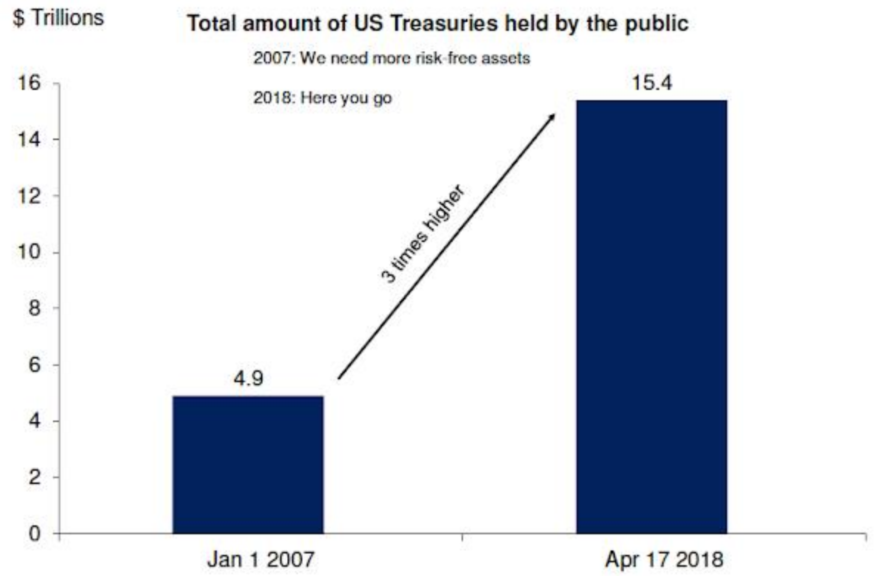
DB also cites a nicely fiscal-theoretic prior analysis that the 70s inflation was led by fiscal, not just monetary, troubles:

As we wrote earlier this year (see: 2018-02-22 US Economic Perspectives), a similar pro-cyclical fiscal policy was deployed in the 1960s and resulted in higher inflation. The magnitude of the divergence is set to be even more severe in the current episode.

The report concludes with a number of technical indications that demand is softening for U.S. treasuries, just as we are starting to issue a boatload of them. Short duration, meaning a huge amount is rolled over; softening foreign purchases, expectations of more devaluation meaning our apparently high yields aren't so high, and declining bid to cover ratios.

My candidate for best figure caption ever:

Figure 19: Stock of US debt held by public has tripled over last decade



Source: US Treasury, Haver Analytics, Deutsche Bank Research

Like DB, I agree it's not imminent. It will need a precipitating event like a recession, war, or crisis. Except that when it is imminent it already happened.

The conclusion is sensible: The world needs safe, liquid assets. Historically, this need has been filled by Treasuries- and it still is. Demand has thus far been inelastic [sic] despite the increase in supply (Figure 19). Treasuries have rallied for 30 years, rates continue to slide lower, and the stock of debt continues to expand. Eventually, however this will become unsustainable. We cannot say exactly what level of debt (85% of GDP? 100%? 125%?) will prove to be the tipping point, but we do believe that the latest fiscal developments have increased the odds of a crisis. Investors should continue to monitor Treasury auction developments and will remain alert to any indications of softening demand.

([sic] because selling a lot at a constant price is elastic, not inelastic.)
(*Alas, the report, of a type previously public, is only available to DB customers. Hilariously, this secrecy is, according to DB, mandated by the European Mifid II regulation, which is supposed to "increase transparency.")

Fonte: COCHRANE, John. “DB warns of US debt crisis”.
Disponível em: <https://johnhcochrane.blogspot.com.br/2018/05/db-warns-of-us-debt-crisis.html#more>. Acesso em 3 de Maio de 2018.

What to Expect From the Trump-Kim Summit (Christopher Hill – 01/05/2018)

Christopher R. Hill, former US Assistant Secretary of State for East Asia, was US Ambassador to Iraq, South Korea, Macedonia, and Poland, a US special envoy for Kosovo, a negotiator of the Dayton Peace Accords, and the chief US negotiator with North Korea from 2005-2009. He is Chief Advisor to the Chancellor for Global Engagement and Professor of the Practice in Diplomacy at the University of Denver, and the author of Outpost.

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Since the April 27 summit between South Korean President Moon Jae-in and his North Korean counterpart, Kim Jong-un, US President Donald Trump has sought, unsurprisingly, to portray himself as the mastermind behind inter-Korean diplomacy. But, despite the rays of hope emanating from the peninsula, Trump may come to regret having taken center stage, especially as his own summit with Kim draws closer.

In preparation for that event – now tentatively scheduled for late May or early June – Trump will likely eschew reading or listening to expert advice, and will allow himself to be buffeted by conflicting information. After all, he is reportedly unable to absorb comprehensive, organized policy briefings, and his opinions tend to reflect those of whomever he spoke to last. Beyond that, he is generally guided by a sense of indignation against his predecessors, especially President Barack Obama, for having been too gullible or unfocused to solve the problem at hand.

But the emotional Moon-Kim meeting in Panmunjom, the “peace village” on the border of the two Koreas, poses an enormous challenge for Trump, who wants a big, showy display of his own deal-making magic, so that he can tell the world, “Now you see the crisis; now you don’t.” Unfortunately, North Korea’s desire for nuclear weapons cannot simply be conjured away.

At best, a Trump-Kim summit will produce more vague formulations of what might be possible through further talks. For a preview of just how vague and imprecise such diplomatic pronouncements can be, consider Moon and Kim’s joint statement from their bilateral summit, in which they claim to share the dream of a denuclearized Korean Peninsula.

Most likely, Kim will offer Trump assurances that sound even more encouraging than what he offered Moon – but not by much. Specifically, the North Koreans will argue that their nuclear arsenal is for self-defense – a logical response to decades of supposed US enmity. They will frame Trump's willingness to meet Kim as a welcome first step along the road to denuclearization; and they will return the gesture with some corresponding concession, such as a freeze on testing nuclear weapons or long-range missiles.

But on the question of whether North Korea will return to the status of a non-nuclear state and rejoin the Nuclear Non-Proliferation Treaty, Kim will demur. That, the North's leaders will say, would take much longer, and would require more step-by-step measures by the US and its regional allies to remove "mistrust" – a favorite North Korean concern.

Trump, for his part, will not take well to anything that is "step by step," so he will seek shortcuts to achieving something that resembles his stated objective. Given that he has criticized America's forward bases in the past, he may suggest a dramatic gesture to show that the US has no intention of using its troops in South Korea against the North. Kim, no doubt, will be interested, and he might even agree to shake hands on something along the lines of "denuclearization" in exchange for US troop withdrawals. But he will still plead for more time.

Trump could also raise the issue of US citizens who are currently incarcerated in North Korean prisons. To this, Kim will probably respond that securing any prisoner's release is difficult, given North Korea's "independent" judiciary; but he will present himself as a humanitarian willing to do what he can to help. And he might even express sorrow for Otto Warmbier, the American college student who was released from North Korean custody in a coma last year, never regained consciousness, and died shortly thereafter. He will not, however, take any responsibility for the beatings Warmbier apparently endured.

The Trump-Kim summit will have warm atmospherics. Kim will probably regale Trump with his plans for economic development and his goal of making North Korea's capital, Pyongyang, a world-class city with – you guessed it – a world-class hotel. More to the point, he will explain the logic of why sanctions must be suspended before he can even start to lay the groundwork for denuclearization.

Trump will need more than that in order to claim success. One possibility is that he will confront Kim on North Korea's fluid definition of "denuclearization." Even with no agreement on a timetable, Kim might at least have to acknowledge that denuclearization means the complete, verifiable, and irreversible dismantling of his country's nuclear-weapons program.

At any rate, to prove that he is not being played "like a fiddle," Trump will need to carry out several tasks simultaneously. For the sake of public opinion in South Korea, he will have to chart a course between upholding the spirit of the inter-Korean summit and not giving in on sanctions relief. He also must not do anything to weaken the US's alliances with South Korea and Japan, which will require him to maintain close contact with both Moon and Japanese Prime Minister Shinzo Abe throughout the process, lest either leader feels ignored or undermined.

Moreover, he will need to keep all alternatives on the table, even though military options are becoming less tenable in the context of inter-Korean dialogue. Most important, he will need to get the North Korean regime at least to acknowledge that genuine denuclearization is the goal, and to agree to a process for continued dialogue, perhaps culminating in another summit.

Whatever the outcome, Trump would do well to ask himself if it is any better than the Joint Comprehensive Plan of Action with Iran, which he has described has “the worst deal ever.” Then again, persuading Trump to engage in self-reflection could prove to be the toughest challenge yet.

Fonte: HILL, Christopher. “What to Expect From the Trump-Kim Summit”. Disponível em: <https://www.project-syndicate.org/commentary/trump-kim-nuclear-summit-by-christopher-r-hill-2018-05>. Acesso em 3 de Maio de 2018.

How the Beijing elite sees the world (Martin Wolf – 01/05/2018)

Martin Wolf is chief economics commentator at the Financial Times, London. He was awarded the CBE (Commander of the British Empire) in 2000 “for services to financial journalism”.

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How does the Chinese ruling elite view the world? Over the weekend, I participated in a dialogue between a handful of foreign scholars and journalists and top Chinese officials, academics and business people, organised by the Tsinghua University Academic Center for Chinese Economic Practice and Thinking. The discussion was franker than any I have participated in during the 25 years I have been visiting China. Here are seven propositions our interlocutors made to us.

China needs strong central rule. This idea went with the notion that China is in important ways a divided society: one participant even remarked that 500m Chinese people love Deng Xiaoping’s reforms, while 900m favour the world view of Mao Zedong. Another pointed to the fact that the central government spends only 11 per cent of the total by all levels of government and employs just 4 per cent of all civil servants. Others emphasised that China is a developing country with huge challenges.

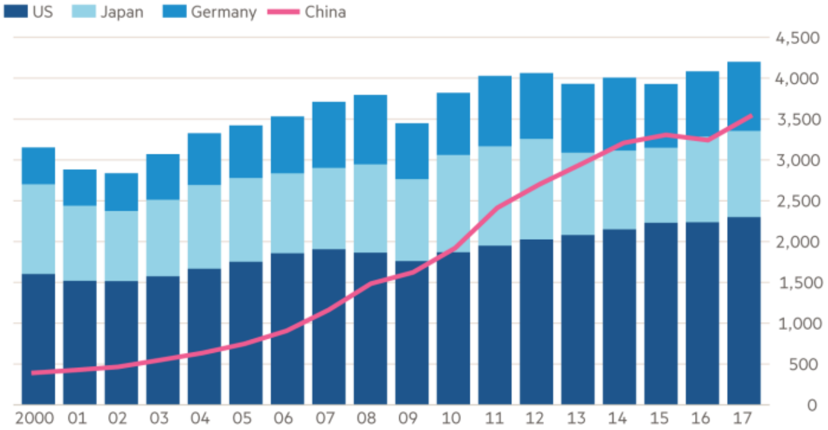
The conclusion participants drew was that the Chinese Communist party, with some 90m members, is essential to national unity. Yet corruption and factional infighting has threatened the legitimacy of the party. One senior official even stated that Xi Jinping “has saved the party, the country and the military”. This perspective also justifies the suspension of term limits on the presidency, which, it was stressed, does not mean perpetual one-man rule.

Western models are discredited. The Chinese have developed a state system run by a technocratic elite of highly educated bureaucrats under party control. This is China’s age-old imperial system in modern form. The attraction that western-style democracy and free-market capitalism may have exercised on this elite has now withered. They stressed the failure of western states to invest in their physical or human assets, the poor quality of many of their elected leaders and the instability of their economies. One participant added that “90 per cent of democracies created after the fall of the Soviet Union have now failed”. This risk is not to be run.

All this has increased confidence in China’s unique model. Yet this does not mean a return to a controlled economy. On the contrary, as a participant remarked: “We believe in the fundamental role of the market in allocating resources. But government needs to play a decisive role. It creates the framework for the market. The government should promote entrepreneurship and protect the private economy.” One participant even insisted that the new idea of a “core leader” could lead to strong government and economic freedom.

China emerges as a manufacturing power

Manufacturing output ($bn)

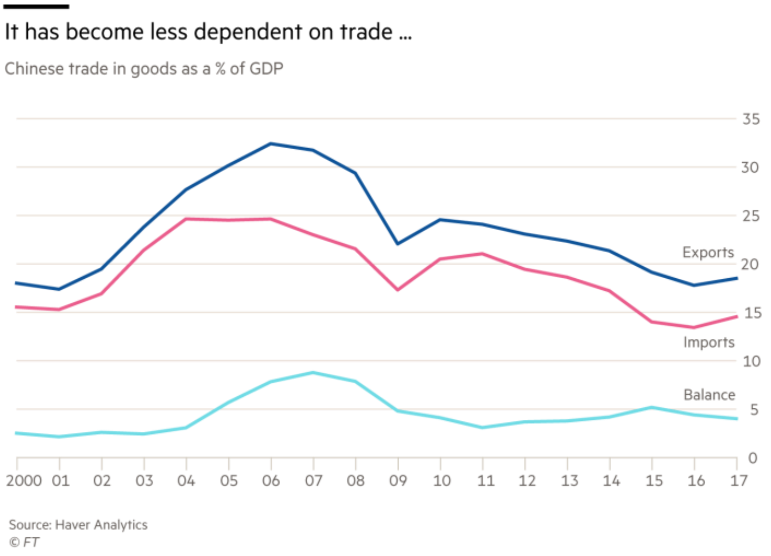


Sources: Haver Analytics, IMF
© FT

China does not want to run the world. This sentiment was repeated. Its internal problems are, in the view of participants, too big for any such ambition. In any case, it has no worked-out view of what to do. But, as a senior policymaker insisted, in the specific context of relations with the US, “we must co-operate, to deal with shared problems”.

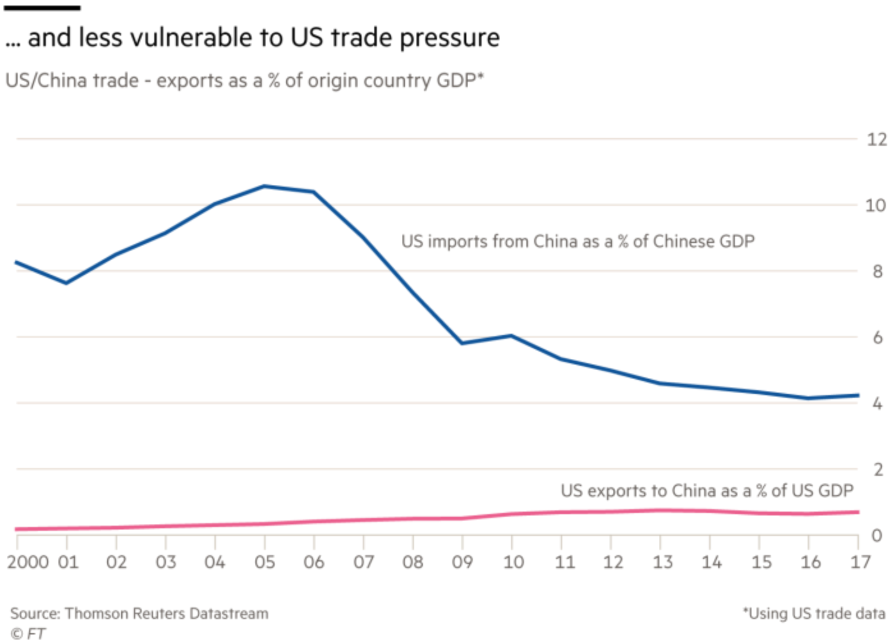
China is under attack by the US. One participant argued that “the US has now shot four arrows against China: over the South China Sea, Taiwan, the Dalai Lama and now trade”. This then is a systematic attack. Many expect this to get worse. That is not because of what China has done, but because Americans now view China as a threat to US economic and military hegemony.

US goals in the trade talks are incomprehensible. People closely engaged in the trade talks are puzzled by what the US is after. Does Donald Trump even want a deal, they wonder, or is his aim just conflict? In any case, top officials say they understand and accept the legitimacy (and value to China itself) of demands for better protection of intellectual property. They also understand the case for unilateral liberalisation, including of financial services. China would, one official suggested, like to make the Made in China 2025 programme a “win-win for the world”. But China’s technological upgrade is non-negotiable. Also, how is China expected to reduce the bilateral imbalance with the US if the latter imposes tough controls on exports of strategically sensitive goods and lacks the infrastructure to ship coal or oil competitively?



China will survive these attacks. The Chinese participants seemed reasonably confident that their country could endure the tests to come. One noted that China is already a huge industrial country. Its manufacturing sector is almost as big as those of the US, Japan and Germany together. It has enormous numbers of skilled people. The economy is also less dependent on trade than it used to be.

Furthermore, noted another, US business is highly involved with and dependent upon the Chinese economy. The Chinese people, stressed others, are probably better able to bear privation than Americans. They are also highly resistant to being bullied by US power. Indeed, the Chinese leadership could not ignore public opinion in considering concessions. Whatever happened, some insisted, China's rise was now unstoppable. (See charts.)



Furthermore, they noted, while China cannot challenge US global military dominance, that is less the case in the western Pacific, where China is increasingly potent. In the longer run, China will develop a “first-class” military.

This will be a testing year. China and the US will have a complex and fraught relationship over the long run. But, one participant remarked, “this will be a testing year. If it goes in the right direction, it will be fine; if it goes in the wrong direction, it will be earth-shaking.” The progress made over Korea, an area of Chinese and American co-operation, could be a harbinger of the former; friction over trade presages the latter. The direction taken may reshape our world.

Fonte: WOLF, Martin. “How the Beijing elite sees the world”.
Disponível em: <https://www.ft.com/content/c4df31cc-4d26-11e8-97e4-13afc22d86d4>
Acesso em 3 de Maio de 2018.

The Next Step for Chinese Economic Policy (Martin Feldstein – 23/05/2018)

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.

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 5 de Maio de 2018.

Is Realism Trumping Populism? (Anatole Kaletsky – 27/04/2018)

Anatole Kaletsky is Chief Economist and Co-Chairman of Gavekal Dragonomics. A former columnist at the Times of London, the International New York Times and the Financial Times, he is the author of Capitalism 4.0, The Birth of a New Economy, which anticipated many of the post-crisis transformations of the global economy. His 1985 book, Costs of Default, became an influential primer for Latin American and Asian governments negotiating debt defaults and restructurings with banks and the IMF.

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With economic conditions returning more or less to normal around the world after a decade of financial crises, nationalist populism is now seen as the biggest threat to global recovery. That was certainly true of the finance ministers who gathered in Washington, DC, this month for the IMF's annual spring meeting. But is it possible that this consensus has emerged just as the populist wave has crested? Rather than populist politics undermining economic recovery, could economic recovery be undermining populist politics?

Looking around the world, populist economic policy appears to be in retreat, even though no clear alternative is visible. In the United States, President Donald Trump seems to be curbing his protectionist instincts, and economic relations with China are stabilizing. In Europe, despite the media focus on the success of xenophobic politicians in Hungary and Poland, the pendulum is swinging away from economic nationalism in the countries that really matter: France, Germany, Spain, and Italy, where the two populist parties that recently achieved electoral breakthroughs are now vying to show their devotion to the euro.

Even in Britain, where economic nationalism won its most spectacular victory over globalization and multiculturalism in the 2016 Brexit vote, the tide may be turning. The British government is gradually realizing that voters do not really want the complete rupture with Europe demanded by hard-core Euroskeptics. Neither of the two alternatives to EU membership presented in the Brexit referendum – an inward-looking, protectionist "Little England," or a post-imperial "Anglosphere" based on the "special relationship" with America and the Commonwealth – is turning out to be economically feasible or politically attractive to voters. While only 3-4% of voters admit to changing their minds about Brexit, large majorities want to keep most of the benefits of free trade, easy travel, immigrant labor, and strong environmental, consumer, and health regulation.

Voters' aversion to Brexit's adverse consequences, analogous to the realism that gradually dawned in Greece after its 2015 referendum rejected an EU bailout, helps to explain the otherwise perplexing tactics of Prime Minister Theresa May and her Conservative Party. After starting out proclaiming a clear instruction from the people to "take back control" from the EU, May has gradually blurred and erased her red lines: an end to EU budget contributions, limiting European immigration, and an exemption from European rules and court judgments. Instead of strident demands for restoration of untrammeled national sovereignty in March 2019, she is now pleading for a transition, in which nothing noticeable to voters will change at all.

Surprisingly, May's compromises have all been accepted by nationalist hard-liners who previously threatened her leadership. The zealots still hope for a total rupture with Europe eventually, but seem relieved about postponing the day of reckoning until the end of May's "status quo transition" in December 2020. But if a "clean break" from Europe is too dangerous to attempt now, why will it be more acceptable in 2020? It won't be – and presumably that reality will dictate extending the transition until after the 2022 general election, then beyond.

The upshot is that, as I wrote nearly a year ago, Britain's belligerent Hard Brexit is turning into a docile Fake Brexit: Norwegian-style associate EU membership. Both Leavers and Remainers will be dissatisfied with that outcome, which will turn Britain into what Brexiteers justifiably call a "vassal state": a country that abides by EU laws but has no voting rights or ability to influence those laws.

Why would Britain accept such second-class status? This is where we come to the relationship between nationalist populism and economics. The only remaining justification for the obviously inferior form of EU association that May is now proposing is the populist claim that "the people have spoken."

Until recently, wielding this slogan allowed all opponents of government policy to be branded as internationalist elitists, "citizens of nowhere" who despise the "real people." Delegitimizing political opposition made Brexit appear inevitable, which discouraged voters from even thinking about the issues that might change their minds.

But Britain's political atmosphere is changing. With the Brexit deadline of March 2019 approaching, May's "transition" extending into the distant future, and all of the tangible promises of Brexit receding like a desert mirage, both parliamentary and public opinion are shifting. The Labour Party is slowly coming to the conclusion that, even though many working-class voters supported Brexit, opposing it offers the only chance of bringing down the May government. As a result, May has repeatedly been defeated in Parliament and forced to concede a full parliamentary vote on whatever agreement she negotiates with the EU.

These parliamentary conflicts mean that opposition to Brexit is no longer discredited as anti-democratic and elitist. And public opinion is responding, with clear majority support for a "meaningful vote" in Parliament to decide whether May's final deal with Europe is genuinely better than remaining in the EU. When this vote occurs, probably in October, a tactical alliance of all opposition parties with a dozen pro-European Tories could well defeat the government. If such a defeat looks imminent, May will probably move to avert it by herself proposing a referendum to make the final decision between her version of Brexit and the EU status quo.

But would such a referendum, now backed by a recently launched campaign for a "People's Vote," simply mark another descent into populism, instead of a genuinely democratic conclusion to the Brexit debate? The answer is no, because voters would be offered an honest choice between two well-defined alternatives: to accept whatever agreement for leaving the EU the government negotiates, or to stay in the EU by withdrawing the Brexit notification before the March 29 deadline.

By contrast, the 2016 referendum offered voters an illusory choice between reality and fantasy: a fair-tale Brexit, onto which they could project whatever hopes or prejudices they cared to imagine. The opposite of nationalist populism is not globalist elitism. It is honest realism, as Britain is now re-discovering.

Fonte: KALETSKY, Anatole. "Is Realism Trumping Populism?".
Disponível em: <https://www.project-syndicate.org/commentary/brexit-realism-trumps-populism-by-anatole-kaletsky-2018-04>. Acesso em 3 de Maio de 2018.

The PPP Concerto (Ricardo Hausmann – 30/04/2018)

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As an old tale has it, there once was a competition between two pianists. After listening to the first pianist, the jury awarded the prize to the second. There was no need to listen further, because who could possibly be worse?

The same logic may seem to apply to public-private partnerships (PPPs) to provide infrastructure such as roads, power, water, airports, or the development of major tourist areas. In fact, listening to both contestants, and assessing their strengths and weaknesses, is essential.

The first pianist is public provision, which faces two challenges: an incentive (or corruption) problem and a budget problem. The incentive problem stems from the fact that when governments procure a road project, the winning contractor may cut corners, because he gets to pocket the savings. He might even share those savings with the government officials supervising the contract. The budget problem stems from the fact that there is only so much that a government can safely borrow, because it will have to raise future taxes to repay the debt. As a consequence, many worthwhile projects must be postponed.

In comes the second pianist. Suppose the project is a highway structured as a toll road with a 20-year concession. This seems to solve both the incentive and budget problem. The contractor will be responsible for the increased maintenance cost if he cuts corners at the time of construction, presumably making him more likely to do high-quality work. He also would have an incentive to run an efficient operation, because he gets to keep the savings. In addition, because the project is financed by tolls, it need not be limited by fiscal constraints.

Liberating a project from budgetary and public debt constraints can work wonders. Some 73% of Liberia's citizens have cell phones, but only 9.1% have electricity. This is because energy infrastructure is financed mainly with budgetary resources, whereas cellular telephony is provided privately. When projects are structured so that beneficiaries pay for them through service fees, markets can deliver them. When budgetary resources are needed, things move more slowly.

So it would seem that the second pianist wins. But life is more complicated than the story, owing to the problems that may arise over the course of a project. The first challenge that a project must address is whether it is a good idea. Answering this question requires an appraisal or pre-investment process that can be very expensive, and the outcome may be no better than a good guess, leaving many uncertainties.

For example, in the early phase of a highway project, the geology relevant for road design and construction, the amount of future traffic, the environmental impact, and the public response are unknown or only partly known. Most developing countries I know spend too little money devising good projects. When the private sector does, transforming ideas into bankable projects is often very difficult because many difficult-to-coordinate public-sector decisions or actions are involved.

So, let's assume that a toll road project is approved, a concession contract is prepared, and companies bid on it. The bidders need to plan for two phases: engineering, procurement, and construction (EPC), and a longer phase of operation when toll revenue is collected to recover incurred costs and expected returns.

There are plenty of uncertainties in both phases, but especially during EPC, which may last 3-7 years, depending on the project. Given the risks in this phase, capital markets demand that it be financed with more equity than debt and have an expected internal rate of return that often reaches 18% or higher. When construction is completed and the road put into operation, the lower risks and stable cash flows allow for more debt financing by a different set of more conservative investors, such as pension funds, which expect returns of 5-7%, allowing the initial investors to cash out.

So, the project involves quite sophisticated financial engineering. Almost always, such plans cannot be realized unless the government provides guarantees against geological or traffic risks. Negotiating such agreements often adds four years to the project – to get to the so-called financial closing – before any physical work is done. In addition, there are so many details to be negotiated and supervised that opportunities for malfeasance by government officials abound.

This means that neither the incentive/corruption problems nor the budget/public-debt problems that the second pianist was supposed to eliminate actually go away. It also means that there are good reasons why privately financed projects become significantly more expensive, given the higher cost of capital, and why completing them can be much, much slower. Moreover, the second pianist does not do away with the need for a capable and honest state, able to design and manage such complex projects. But this may not be the best way to deploy government capacity.

An alternative is to concentrate the role of the private sector in the latter phases of the project. The best option may be for the government to build the road and sell the concession for operation and maintenance. This allows the government to cash out and reinvest the resources in pre-investment and EPC, thus recycling scarce public capital more quickly while cutting out the most expensive and slowest parts of private involvement.1

For other projects, such as the development of major tourism areas, the government must incur significant pre-investment and public infrastructure costs if it is to make them bankable. Recovering these costs would require participating in the project or co-investing with the private sector through some financial vehicle that also manages the project on behalf of the government.

This requires institutional capabilities that many countries do not have and that the development community has not fostered. But these capabilities could make a very large difference. That is why Albania's government, with the help of Harvard's Center for International Development (which I direct), is planning to create the necessary investment vehicle. Given the stakes, the many challenges and difficulties ahead will be worth it. As the pianists would say: Stay tuned!

Fonte: HAUSMANN, Ricardo. "The PPP Concerto".
Disponível em: <https://www.project-syndicate.org/commentary/improving-public-private-partnerships-infrastructure-by-ricardo-hausmann-2018-04>. Acesso em 3 de Maio de 2018.

Disrupting the Autocrats (Simon Johnson – 30/05/2018)

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The dawn of the Internet, it was widely believed, would herald a new era of democracy. Information would become free, in all senses, and this would pose an existential threat to regimes based on the control of knowledge, including those that had previously tried to close themselves off from the outside world.

Today, this vision looks tarnished, if not deeply flawed. Authoritarian rulers have figured out not only how to distort and control the flow of information within their own societies, but also how to confuse people in other countries and perhaps even disrupt previously well-functioning democracies. The more recent advent of social media may have disturbed the authoritarians slightly – remember the Arab Spring? – but there is no doubt that they have now regained their stride.

In almost all parts of the world, autocrats are becoming more secure in power, often behind a veneer of democracy and elections. Opponents are eliminated. The press is muzzled. And the flow of information is strictly controlled, through tools ranging from traditional regime-sponsored media outlets to more modern software or automated "bots." According to the most recent Economist index of democracy, half the countries in the world were less democratic in 2017 than in 2016, and only 5% of the world's population lives in a "full democracy."

Now a new digital technology has arrived: cryptocurrency. And while there is a great deal of discussion about how this approach to establishing and transferring value might affect banking systems, its potential impact on politics around the world has been largely overlooked.

Cryptocurrencies – such as bitcoin, ethereum, and their many competitors – are obviously related to Internet technology, but there is a simple and profound difference. The Internet is about accessing information in its many forms, with no need to converge on a single view. In fact, the Internet is inherently about giving you access to diverse opinions, at which point you are on your own in terms of figuring out what is accurate and who is distorting truth in the service of some malevolent dictatorship.

By contrast, cryptocurrencies work only if everyone (within that crypto system) agrees on who held a unit of value yesterday and to whom it was transferred today. You can try to distort this information or to hack into people's computers directly or to disrupt the algorithm that registers transactions – and such attacks are happening all the time. Given competition between cryptocurrencies with regard to their security and usefulness, however, it seems reasonable to suppose that the strongest will survive.

The value of a cryptocurrency consists in a digital record managed in a decentralized manner. The record exists on many nodes within the network, making it resistant to central control or "censorship" – a term used frequently by cryptocurrencies' founders, traders, and observers, precisely because so many of them are concerned about selective alteration of records.

It is not difficult to see why an authoritarian regime would want to prevent its people from having access to potentially untraceable, secure digital records.

For starters, with access to such records, a citizen could make payments or donations that bypass the banking system and its embedded surveillance. Rules that restrict political organization would become easier to defy.

Moreover, the same kinds of records could be used to store and transmit other information. For example, some of my colleagues are developing a system that would enable users to store and manage their own health records. Why not create a similar system structured around grievances about or protests against the regime?

And there is potentially no limit to how ingenious people can become with regard to writing so-called smart contracts, which will trigger payments or other digital transactions (like sending protest messages) when particular events occur. For activists around the world, the only constraint is their creativity.

Of course, authoritarian regimes are already waking up to the dangers – and we should expect them to proscribe holding cryptocurrencies in various draconian ways. And no doubt they will develop new tools that attempt to track what their citizens do in this regard. This will be an interesting innovation arms race – and one that will be hard for authoritarian regimes to win, given that the underlying technology, known as blockchain, was designed to circumvent or avoid the need for centralized power.

Well-organized democracies have little to fear from cryptocurrencies. There may be some scams – and investors should always beware of newfangled products that are not completely transparent. But mostly we will get new forms of competitive pressure on existing means of making payments. Anything that brings down credit card fees and broadens financial inclusion should be welcome.

By contrast, people whose political power is based on controlling information definitely have something new to worry about. Authoritarian regimes will always be with us in some form and in many places. But it would not be a surprise if the pendulum now starts to swing back in favor of those who would prefer more open systems and a greater degree of meaningful political competition.

Fonte: JOHNSON, Simon. “Disrupting the Autocrats”.
Disponível em: <https://www.project-syndicate.org/commentary/cryptocurrencies-disrupt-authoritarians-by-simon-johnson-2018-04>. Acesso em 3 de Maio de 2018.

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