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Learning from America's Forgotten Default (Sebastián Edwards – 22/05/2018)

Sebastián Edwards is a Professor of International Economics at UCLA, and author, most recently, of American Default: The Untold Story of FDR, the Supreme Court, and the Battle over Gold.

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One of the most pervasive myths about the United States is that the federal government has never defaulted on its debts. Every time the debt ceiling is debated in Congress, politicians and journalists dust off a common trope: the US doesn't stiff its creditors.

There's just one problem: it's not true. There was a time, decades ago, when the US behaved more like a "banana republic" than an advanced economy, restructuring debts unilaterally and retroactively. And, while few people remember this critical period in economic history, it holds valuable lessons for leaders today.

In April 1933, in an effort to help the US escape the Great Depression, President Franklin Roosevelt announced plans to take the US off the gold standard and devalue the dollar. But this would not be as easy as FDR calculated. Most debt contracts at the time included a "gold clause," which stated that the debtor must pay in "gold coin" or "gold equivalent." These clauses were introduced during the Civil War as a way to protect investors against a possible inflationary surge.

For FDR, however, the gold clause was an obstacle to devaluation. If the currency were devalued without addressing the contractual issue, the dollar value of debts would automatically increase to offset the weaker exchange rate, resulting in massive bankruptcies and huge increases in public debt.

To solve this problem, Congress passed a joint resolution on June 5, 1933, annulling all gold clauses in past and future contracts. The door was opened for devaluation – and for a political fight. Republicans were dismayed that the country's reputation was being put at risk, while the Roosevelt administration argued that the resolution didn't amount to "a repudiation of contracts."

On January 30, 1934, the dollar was officially devalued. The price of gold went from $20.67 an ounce – a price in effect since 1834 – to $35 an ounce. Not surprisingly, those holding securities protected by the gold clause claimed that the abrogation was unconstitutional. Lawsuits were filed, and four of them eventually reached the Supreme Court; in January 1935, justices heard two cases that referred to private debts, and two concerning government obligations.

The underlying question in each case was essentially the same: did Congress have the authority to alter contracts retroactively?

On February 18, 1935, the Supreme Court announced its decisions. In each case, justices ruled 5-4 in favor of the government – and against investors seeking compensation. According to the majority opinion, the Roosevelt administration could invoke “necessity” as a justification for annulling contracts if it would help free the economy from the Great Depression.

Justice James Clark McReynolds, a southern lawyer who was US Attorney General during President Woodrow Wilson’s first term, wrote the dissenting opinion – one for all four cases. In a brief speech, he talked about the sanctity of contracts, government obligations, and repudiation under the guise of law. He ended his presentation with strong words: “Shame and humiliation are upon us now. Moral and financial chaos may be confidently expected.”

Most Americans have forgotten this episode, as collective amnesia has papered over an event that contradicts the image of a country where the rule of law prevails and contracts are sacred.

But good lawyers still remember it; today, the 1935 ruling is invoked when attorneys are defending countries in default (like Venezuela). And, as more governments face down new debt-related dangers – such as unfunded liabilities associated with pension and health-care obligations – we may see the argument surface even more frequently.

According to recent estimates, the US government’s unfunded liabilities are a staggering 260% of GDP – and that does not include conventional federal debt and unfunded state and local government liabilities. Nor is this a problem only for America; in many countries, pension and health-related liabilities are increasing, while the ability to cover them is diminishing.

A key question, then, is whether governments seeking to adjust contracts retroactively may once again invoke the legal argument of “necessity.” The 1933 abrogation of the gold clause provides abundant legal and economic reasons to consider this possibility. The US Supreme Court agreed with the “necessity” argument once before. It is not far-fetched to think that it may happen again.

Fonte: EDWARDS, Sebastián. “Learning from America’s Forgotten Default”
Disponível em: <https://www.project-syndicate.org/commentary/americas-forgotten-debt-default-by-sebastian-edwards-2018-05> Acesso em 24 de Maio de 2017.

Monopsony, Rigidity, and the Wage Puzzle - Wonkish (Paul Krugman – 20/05/2018)

Paul Krugman joined The New York Times in 1999 as an Op-Ed columnist. He is distinguished professor in the Graduate Center Economics Ph.D. program and distinguished scholar at the Luxembourg Income Study Center at the City University of New York. In addition, he is professor emeritus of Princeton University’s Woodrow Wilson School.

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Once a year my academic base, CUNY’s Stone Center on Socio-Economic Inequality, holds a workshop featuring cutting-edge research on inequality. At this point in my life, I can't claim to be doing cutting-edge research (hey, even Paul Samuelson was writing mostly survey papers and history of thought by the time he was in his 60s); but I'm still asked to give a talk on research issues that I find interesting, hopefully with some relationship to the general theme of the workshop. One virtue of this grand-old-man role, by the way, is that it forces me to tear myself away for a little while from the awful political headlines.

In the past I've used the ECINEQ talk to discuss issues involving inequality and macroeconomic performance, both vulnerability to crises and long-term growth. Both areas are still very much unresolved; but I'm not sure I have anything new to say. So I thought I'd do something different, and focus on an issue some very smart economists have been worrying at: the puzzle of continuing wage stagnation despite very low unemployment.

An aside: the way this discussion is taking place marks a kind of new frontier in the mechanics of scientific communication – and, I think, an unfortunate one. Once upon a time economic debate took place in the pages of refereed journals, but that stopped being true at least 30 years ago, with working papers becoming the principal means of communication. Even that turned out to be too slow in the face of rapid change; so during the crisis years, say from 2008-2013, a lot of discussion and debate moved to blogs, which I'd say worked very well. In retrospect, the debates we all had over leverage, monetary policy, fiscal policy and more were really classic – the 21st-century equivalent of, say, Keynes vs. Ohlin on trade balances and relative prices.

But this latest debate has taken place largely through dueling Twitter threads – which is, I'd say, awful. The economists involved are very smart, and the threads very informative; but for people trying to keep track, including students, this is really a mess. If you want an entry point, you might try this tweet by Nick Bunker. But guys, we really need something like, you know, articles – blog posts would do the trick — that summarize your positions.

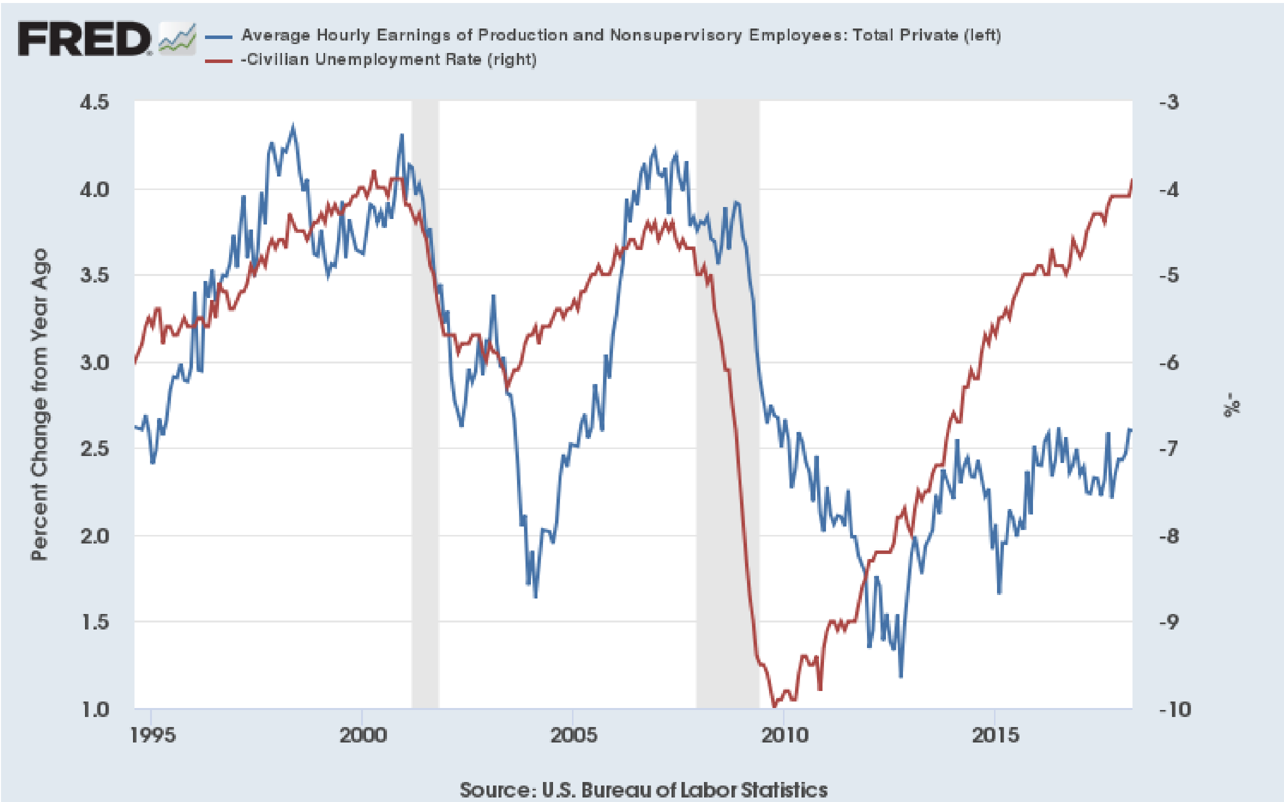
I guess I'm doing some of that here, but we need clear statements by the principals.

OK, complaints registered. What I want to do now is, first, describe the wage puzzle; then describe the resulting debate, which is largely over how much if any slack remains in the labor market; then lay out a story which combines the issue of downward nominal wage rigidity – which has been discussed fairly extensively – with the role of monopsony power in labor markets, which I don't think has been integrated into this debate, but should be.

1. The wage puzzle

From the mid-1990s until the 2008 financial crisis, it looked as if there was a fairly stable Phillips curve – a relationship between unemployment and the rate of wage growth. This wasn't the "accelerationist" Phillips curve that underlies the concept of the natural rate of unemployment – there was no sign that low unemployment led to accelerating inflation. It was, instead, a neo-paleo-Keynesian relationship between unemployment and wages. You can see how good the relationship looked in Figure 1, in which wage growth is measured on the left axis and the inverse of the unemployment rate on the right axis:

After the crisis, wage growth dropped – but only about as much as it dropped in the early 2000s slump, despite much higher unemployment. And it has increased only modestly since then, to levels well below pre-crisis growth, despite unemployment rates as low as we've seen in a very long time:



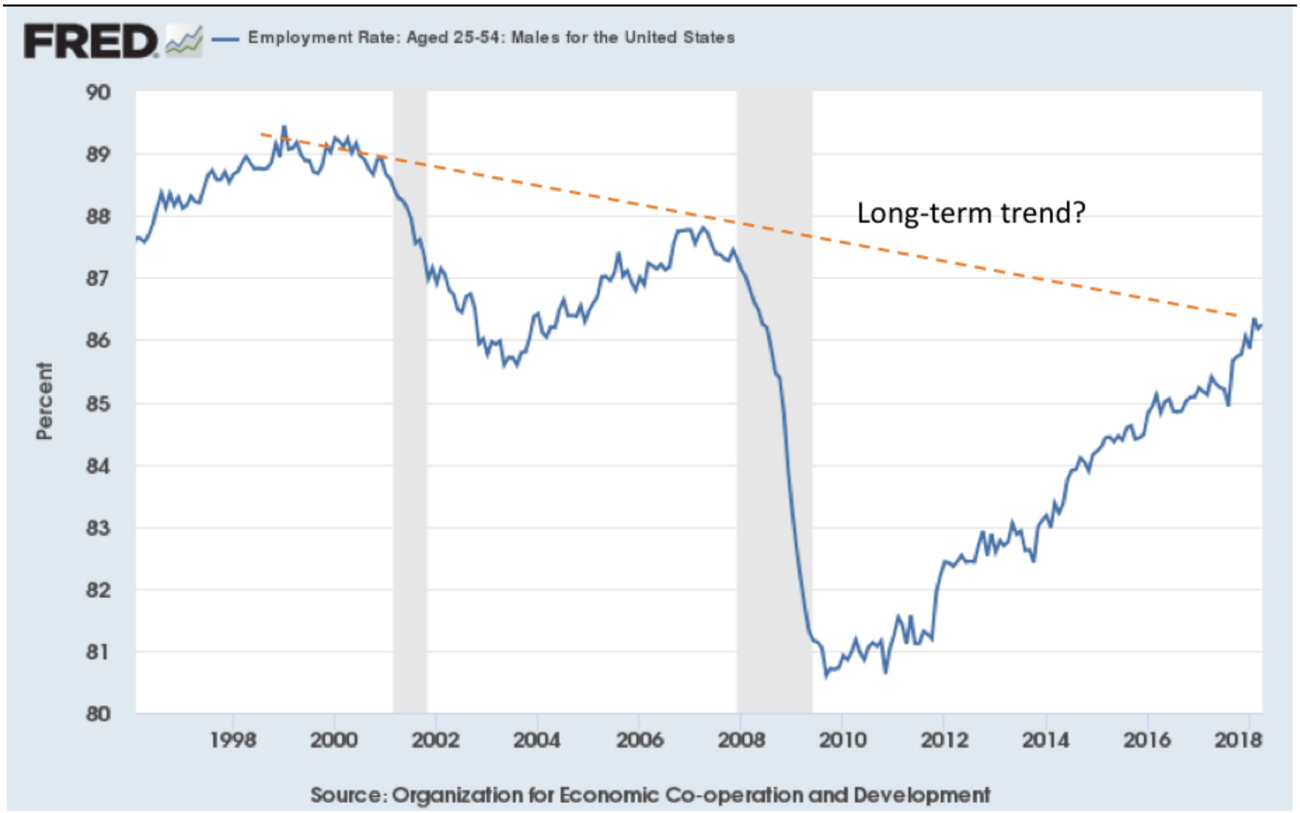
It's a puzzle. But why does the explanation matter? Basically, we're trying to assess the current state of the U.S. economy, which has lots of implications for monetary and fiscal policy. The unemployment rate, plus some other indicators I'll get to shortly, suggest an economy pretty much at full employment. But sluggish wage growth could indicate that there's still substantial slack in the labor market. Which is it?

2. A slack-jawed debate

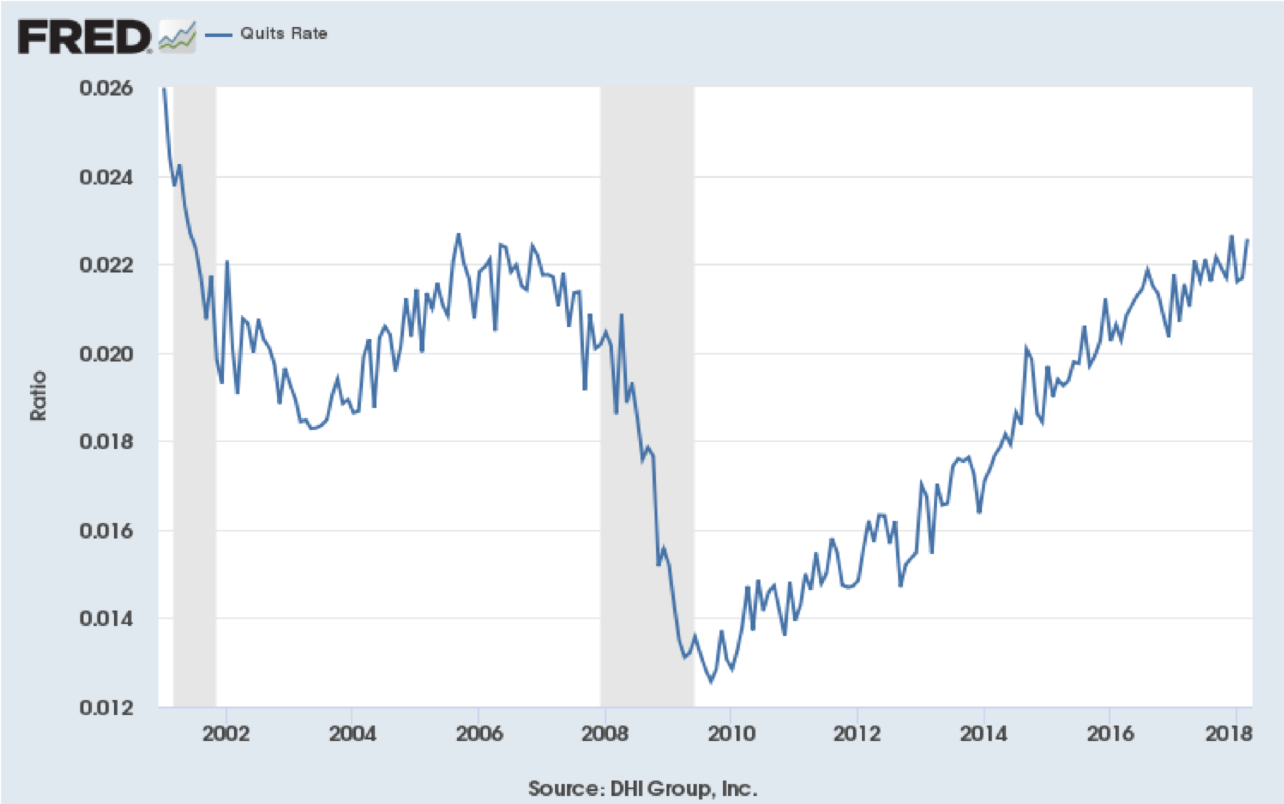
On the case for substantial slack: a number of economists have argued that the official unemployment rate, which only counts people actively looking for work, has become an increasingly inaccurate guide to the real state of labor markets. Their main point is that if we focus on employment rather than unemployment – specifically, the fraction of prime-working-age adults currently working (EPOP) – it's still significantly below pre-crisis levels. And using recent data, EPOP is a better predictor of wage growth than the unemployment rate. Ernie Tedeschi has a very good thread (but, alas, not a blog post) making this case.

Jason Furman, however, pushes back in another thread. (Guys, this is really a terrible way to do this kind of discussion.) You can see both Tedeschi's point and Furman's counter, done roughly, in Figure 3.

EPOP is indeed still significantly below its pre-crisis level. But it has been a decade since the crisis – and that's enough time to worry about secular trends in labor force participation. In particular, there's been a long-run trend toward fewer prime-age men working, and it's not at all clear that we're currently below that trend.



Two other pieces of data also cast doubt on the unmeasured-slack hypothesis. One, shown in Figure 4, is the quits rate – the fraction of workers quitting their jobs each month:



Quits rates vary with the state of the labor market: workers are more willing to quit if they feel sure of finding another job. And quits are back up to pre-crisis levels, suggesting that the labor market really is tight.

Another piece of evidence is what employers say about the ease of finding workers. And both news accounts and surveys like the NFIB (Figure 5) show employers screaming about either worker shortages or skill shortages, with the latter meaning “we can’t find workers we want at current wages.”

All in all, I think I come down on Jason Furman’s side here – not with 100% certainty, to be sure, but this really shows most of the signatures of a full-employment economy.

But in that case, why aren’t wages surging?

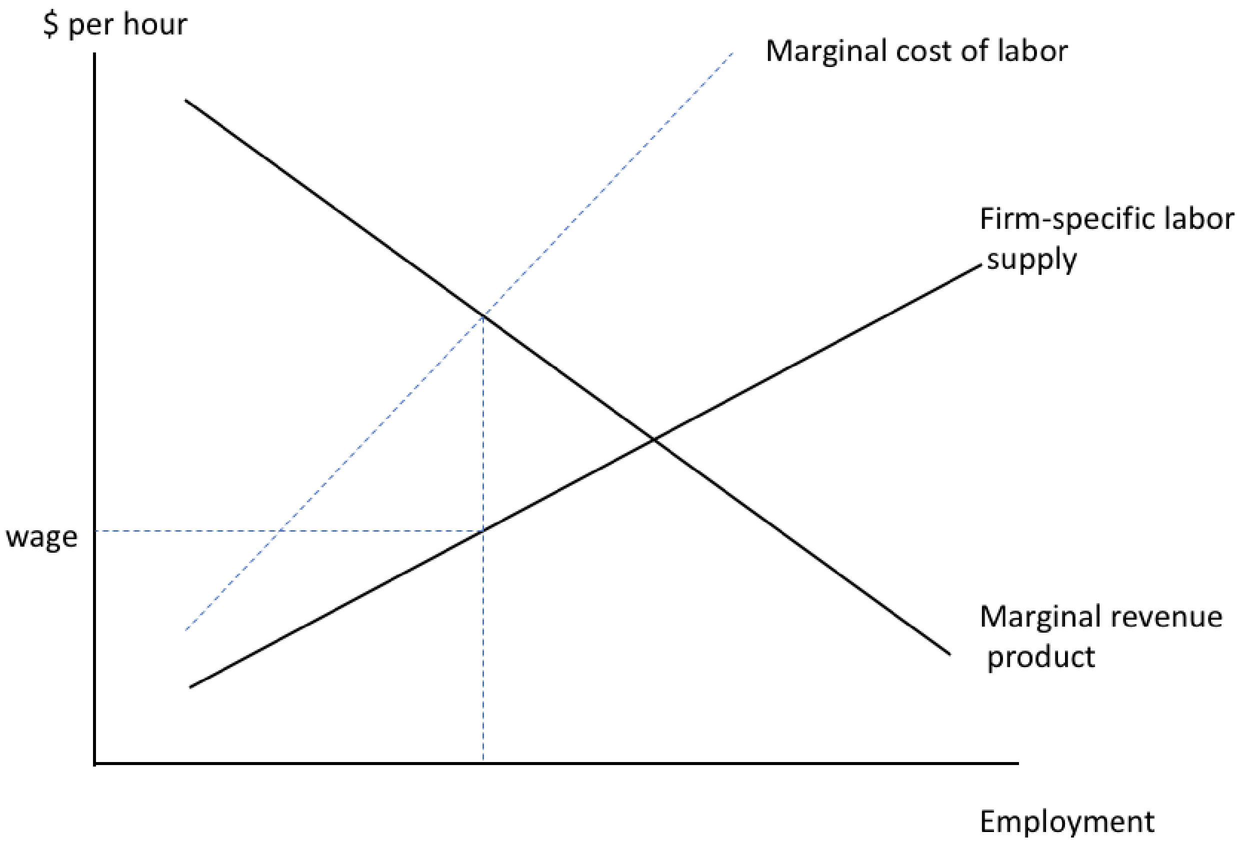
3. The interaction between monopsony and sticky wages

One old concept that has been overwhelmingly supported by the experience of the Great Recession and aftermath is the idea of downward nominal wage rigidity. Employers are extremely unwilling to cut wages, largely because they fear the effects on worker morale. Meanwhile, in a depressed, low-inflation economy, a lot of employers would want to cut wages if they could do it without side consequences. So as the San Francisco Fed’s wage rigidity meter (Figure 6) shows, the slump caused a surge in the number of workers whose wages didn’t change at all from year to year.

There have already been some analyses suggesting that an extended period of wages constrained by downward rigidity has created a sort of backlog of pent-up wage cuts that is currently holding down wage increases. But I think we need to say more about the context.

My starting point is that there's now a lot of evidence that many employers have considerable monopsony power in the labor market: that is, they don't face a going market wage they have to meet or be unable to hire at all, they face what amounts to an upward-sloping supply curve.

Figure 7 illustrates the position of such a firm. Marginal revenue product is the value to the firm of an additional worker. The supply of labor to that firm is upward sloping: From its point of view, to attract more workers the firm needs to raise wages. But if it does that it will have to pay more to the workers it would have had anyway, so the marginal cost of an additional worker to the firm is higher than that worker's wage.



We're all familiar with the fact that when a firm has market power over what it sells, it would always like to sell more than it can at the current price. A firm that has monopsony power over labor is in the same situation with regard to hiring: it would normally be happy to get more workers if it could do so without paying higher wages. That is, complaints about labor and/or skill shortages are normal for many employers, just like complaints about not having enough sales.

But here's the thing: during the years of high unemployment, firms faced both reduced demand – lower marginal revenue product – and increased supply of labor, from workers desperate for jobs. This "should" have allowed them to cut wages – but for the most part they couldn't, because wage cuts have lots of adverse side effects.

So for a while the usual complaints about the supply and/or quality of workers were in abeyance. Given the wages firms were still offering, willing workers were abundant.

But now demand has recovered, unemployment is low, and normality has been restored. Once again, firms are complaining that they can't find workers without raising wages – which is the normal state of affairs.

It's true that the complaints seem even louder than in previous business cycle peaks. But I can offer a couple of reasons.

One is simply that it has been a long time since labor markets were tight. Most HR managers, I would guess, don't remember what a full employment economy is like. They find the idea that there aren't tons of highly qualified workers lined up for every job opening shocking – and, inevitably, blame the workers.

More speculatively, I've suggested that employers are especially unwilling to raise wages because they remember the Great Recession, and don't want to lock in higher wage costs.

Either way, I'd argue that the combination of downward nominal wage rigidity and monopsony power helps explain both why wages didn't fall during the period of high unemployment and why employers aren't doing much to raise wages despite tight labor markets now.

4. Policy implications

The bottom line here is that I reluctantly find myself on the no slack side of this debate. I think the U.S. really is more or less at full employment.

But do I think the Fed is right to be raising rates, and that we should start being worried about fiscal deficits? Actually, no, for two reasons.

First, I might be wrong. And the costs of tightening when the economy still has room to grow are much bigger than those of waiting and discovering that we've overshot a bit.

Second, everything we've learned since a 2% inflation target became orthodoxy suggests that the target was too low. The effective lower bound on interest rates is a much bigger threat than we realized, and the problem of downward wage rigidity is a bigger deal too. So if inflation crept up from 2 to 3 or even 4, that would actually be a good thing.

So while I am not convinced that we have a lot of labor market slack, I actually favor policies that act as if we did. Hey, nobody except fools said economic policy was easy.

Fonte: KRUGMAN, Paul. "Monopsony, Rigidity, and the Wage Puzzle - Wonkish" Disponível em: <https://www.nytimes.com/2018/05/20/opinion/monopsony-rigidity-and-the-wage-puzzle-wonkish.html?rref=collection%2Fcolumn%2Fpaul-krugman&action=click&contentCollection=opinion&region=stream&module=stream_unit&version=latest&contentPlacement=3&pgtype=collection> Acesso em 24 de Maio de 2018.

A Bilateral Foil for America’s Multilateral Dilemma (Stephen Roach – 23/05/2018)

Stephen S. Roach, former Chairman of Morgan Stanley Asia and the firm's chief economist, is a senior fellow at Yale University's Jackson Institute of Global Affairs and a senior lecturer at Yale's School of Management. He is the author of Unbalanced: The Codependency of America and China.

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The good news is that the United States and China appear to have backed away from the precipice of a trade war. While vague in detail, a May 19 agreement defuses tension and commits to further negotiation. The bad news is that the framework of negotiations is flawed: A deal with any one country will do little to resolve America’s fundamental economic imbalances that have arisen in an interconnected world.

There is a longstanding disconnect between bilateral and multilateral approaches to international economic problems. In May 1930, some 1,028 of America’s leading academic economists wrote a public letter to US President Herbert Hoover urging him to veto the pending Smoot-Hawley tariff bill. Hoover ignored the advice, and the global trade war that followed made a garden-variety depression “great.” President Donald Trump has put a comparable spin on what it takes to “make America great again.”

Politicians have long favored the bilateral perspective, because it simplifies blame: you “solve” problems by targeting a specific country. By contrast, the multilateral approach appeals to most economists, because it stresses the balance-of-payments distortions that arise from mismatches between saving and investment. This contrast between the simple and the complex is an obvious and important reason why economists often lose public debates. The dismal science has never been known for clarity.

Such is the case with the US-China debate. China is an easy political target. After all, it accounted for 46% of America’s colossal $800 billion merchandise trade gap in 2017. Moreover, China has been charged with egregious violations of international rules, ranging from allegations of currency manipulation and state-subsidized dumping of excess capacity to cyber-hacking and forced technology transfer.

Equally significant, China has lost the battle in the arena of public opinion – chastised by Western policymakers, a few high-profile academics, and others for having failed to live up to the grand bargain struck in 2001, when the country was admitted to the World Trade Organization. A recent article in Foreign Affairs by two senior officials in the Obama administration says it all: “(T)he liberal international order has failed to lure or bind China as powerfully as expected.” As is the case with North Korea, Syria, and Iran, strategic patience has given way to impatience, with the nationalistic Trump administration leading the charge against China.

The counter-argument from multilateral-focused economists like me rings hollow in this climate. Tracing outsize current-account and trade deficits to an extraordinary shortfall of US domestic saving – just 1.3% of national income in the fourth quarter of 2017 – counts for little in the arena of popular opinion. Likewise, it doesn't help when we emphasize that China is merely a large piece of a much bigger multilateral problem: the US had bilateral merchandise trade deficits with 102 countries in 2017. Nor does it matter when we point out that correcting for supply-chain distortions – caused by inputs from other countries that enter into Chinese assembly platforms – would reduce the bilateral US-China trade imbalance by 35-40%.

Flawed as it may be, the bilateral political case resonates in a US where there is enormous pressure to ease the angst of the country's beleaguered middle class. Trade deficits, goes the argument, lead to job losses and wage compression. And, with the merchandise trade gap hitting 4.2% of GDP in 2017, these pressures have only intensified in the current economic recovery. As a result, targeting China has enormous political appeal.

So, what can be made of the May 19 deal? Beyond a ceasefire in tit-for-tat tariffs, there are few real benefits. US negotiators are fixated on targeted reductions of around $200 billion in the bilateral trade imbalance over a two-year time frame. Given the extent of America's multilateral problem, this is largely a meaningless objective, especially in light of the massive and ill-timed tax cuts and federal expenditure increases that the US has enacted in the last six months.

Indeed, with budget deficits likely to widen, America's saving shortfall will only deepen in the years ahead. That points to rising balance-of-payments and multilateral trade deficits, which are impossible to resolve through targeted bilateral actions against a single country.

Chinese negotiators are more circumspect, resisting numerical deficit targets but committing to the joint objective of "effective measures to substantially reduce" the bilateral imbalance with the US. China's vague promise to purchase more American-made agricultural and energy products borrows a page from the "shopping list" approach of its earlier trade missions to the US. Unfortunately, the big-wallet mindset of a deal-hungry China reinforces the US narrative that China is guilty as charged.

Even if the stars were in perfect alignment and the US was not facing a saving constraint, it stretches credibility to seek a formulaic bilateral solution to America's multilateral problem. Since 2000, the largest annual reduction in the US-China merchandise trade imbalance amounted to $41 billion, and that occurred in 2009, during the depths of the Great Recession. The goal of achieving back-to-back annual reductions totaling more than double that magnitude is sheer fantasy.

In the end, any effort to impose a bilateral solution on a multilateral problem will backfire, with ominous consequences for American consumers. Without addressing the shortfall in domestic saving, the bilateral fix simply moves the deficit from one economy to others.

Therein lies the cruelest twist of all. China is America's low-cost provider of imported consumer goods. The Trump deal would shift the Chinese piece of America's multilateral imbalance to higher-cost imports from elsewhere – the functional equivalent of a tax hike on American families. As Hoover's ghost might ask, what's so great about that?

Fonte: ROACH, Stephen. "A Bilateral Foil for America's Multilateral Dilemma" Disponível em: <https://www.project-syndicate.org/commentary/america-china-trade-deficit-negotiations-by-stephen-s--roach-2018-05> Acesso em 24 de Maio de 2018.

The German Rules Trap (Zaki Laidi – 24/05/2018)

Zaki Laïdi, Professor of International Relations at Sciences Po, was an adviser to former French prime minister Manuel Valls. His most recent book is Le reflux de l'Europe.

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Europe has a new German problem. Unlike in the past, it stems neither from hegemonic ambitions nor from the sort of weakness that might tempt aggression. Instead, it is rooted in Germany's abdication of any sense of shared responsibility for Europe, despite boasting as robust an economy as it has had since 1945. The result of Germany's approach – "do as we do, or leave us alone" – is inertia, at a moment when Europe desperately needs momentum.

For a long time, Europe was at the center of German concerns. In 1994, for example, Wolfgang Schäuble – then parliamentary leader of the Christian Democratic Union, and now President of the Bundestag – and his CDU colleague Karl Lamers wrote a paper calling for the EU's "core" countries, including France, to move swiftly toward closer integration, including political union.

France resisted German pressure because it was extremely suspicious of political federalism. Then-president François Mitterrand did not want to move beyond the Maastricht framework. After the 2010 eurozone crisis, the debate shifted toward structural reforms. France advocated for more economic integration, but Germany conditioned any discussion of the eurozone's future on French structural reforms. President François Hollande agreed in principle to that trade-off, but lacked the time and political support to implement it.

Today, however, France is finally undertaking Germany's long-expected domestic reforms – and pressing for change at the EU level. French President Emmanuel Macron wants to create not a federal Europe – nobody is proposing that – but a sovereign EU capable of resisting the pressure of figures like US President Donald Trump, Russia's Vladimir Putin, China's Xi Jinping, and Turkey's Recep Tayyip Erdoğan.

Unfortunately, Germany is once more resisting French proposals. Though Chancellor Angela Merkel often lavishes Macron with praise for his courage and policy goals, she seems reluctant to agree to any action to strengthen the EU. German leaders concede that French reforms are good for France, but now argue that eurozone reform is a separate issue. Although disappointing, this stance is not unexpected. Merkel is politically weakened, and German public opinion remains deeply influenced by the false narrative that the country is Europe's paymaster.

Schäuble, a former euro federalist, has scaled back his ambitions dramatically. While he still dreams of a European Monetary Fund, it would only resemble a solidarity mechanism. Its main purpose would be to monitor and punish fiscally lax states for the purpose of reducing further the European Commission's budgetary oversight responsibilities.

The truth is that Germany aspires to live in a minimalist Europe that lacks any political union, but is tied to intergovernmental disciplinary mechanisms designed by its most prosperous countries. In other words, Germany wants to eliminate from the EU all traces of community spirit, and the politics that go with it, and replace them with an austere idyll of rigid rules. And current events in Italy are reinforcing the position of German hardliners. It is probably no coincidence that three days after the new Italian government revealed its economic plan – which, if implemented, will blow up the eurozone – 154 German economists published a manifesto strongly opposing any substantial eurozone reform.

But this stance also reflects the so-called ordoliberal principles that underpin German thought and that shape Germany's understanding of the eurozone crisis. Along with the Netherlands and the Baltic states, Germany blames that crisis on some member states' budgetary imprudence and insufficient monitoring of private debt, and thus refuses to examine properly the eurozone's systemic problems. Eight years later, Europeans still embrace divergent narratives about the crisis. How can we expect them to move toward the future if they strongly disagree on the past?

To acknowledge that the eurozone can function only on a foundation of solidarity and interdependence would be to engage in precisely the kind of thinking that German ordoliberals have always rejected. They see the national economy as the sum of microeconomic decisions, and a supranational economy as the sum of national economies. For them, solidarity is founded on consistent management. This reasoning leads to three lines of argument that preclude basic strategic analysis.

First, Germany embraces the self-serving fiction that it owes nothing to others for its prosperity. Yet we know very well how much Germany's economy depends on European demand, and how much it benefits from the undervaluation of the "German euro" (whereas the "Italian euro," for example, suffers from overvaluation). Germany also gains the most from European Central Bank policy. As the German economist Marcel Fratzscher recently tweeted, "The unbearable cynicism of some German politicians and economists: they attack ECB policy, yet Germany's government is its biggest beneficiary – €294 billion in interest savings since 2007. Compare that to risks assumed in the crisis, and it is an excellent deal for Germany."

Second, Germany insists that any slowdown should be met with greater discipline and tighter austerity, not countercyclical policies. According to German leaders, no matter how severe the effects of that approach may be, they are simply the price of redemption after committing the sin of accumulating excessive debt.

Finally, Germany is convinced that, in a market economy, the state's responsibility is to set rules, not to steer the choices of economic actors. In fact, a recent report from the Kiel Institute for the World Economy portrays Germany's enormous current-account surplus as a reality that policymakers cannot change, and that thus must be accommodated. This ignores the fact, highlighted by a recent study by Guntram B. Wolff, that Germany's current-account surplus is the result not of aging households' frenzied desire to save more, but of underinvestment by businesses seeking to resist wage pressure.

This presents France with a serious challenge. One option for overcoming German obstinacy would be to pursue a series of small compromises. But, as some critical German observers, such as the Financial Times' Wolfgang Münchau, have pointed out, this could lead to minimal and even illusory concessions.

The alternative would be a showdown that brings the debate to the European public. Perhaps this is what Macron was trying to initiate at Aix-la-Chapelle earlier this month, as he collected from Merkel the Charlemagne Prize for his pro-European efforts. Such a confrontation need not block progress on other issues, such as border security, investments in industries of the future, taxation of US tech giants, and the defense of multilateralism.

European integration owes much to France's Robert Schuman and Germany's Helmut Kohl, both of whom prioritized strategic European interests (through the European Steel and Coal Community and the eurozone, respectively) over the pursuit of immediate national advantage. Today, Macron is prepared to establish himself as a similar leader, but he needs a reliable German partner willing to challenge ordoliberal rigor in the name of Europe-wide prosperity. Unfortunately, it is not at all clear that he has such a partner in Merkel.

Fonte: LADI, Zaki. "The German Rules Trap"
Disponível em: <https://www.project-syndicate.org/commentary/germany-rules-fetish-blocking-european-reform-by-zaki-laidi-2018-05> Acesso em 24 de Maio de 2018.

Italy's new rulers could shake the euro (Martin Wolf – 22/05/2018)

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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Italy is not Greece. But not all the differences are encouraging. Its economy is 10-times bigger. Its €2.3tn public debt is seven-times bigger; it is the largest in the eurozone and fourth largest in the world. Italy is too big to fail and may be too big to save. The question is whether its new government will trigger such a crisis and, if so, what might follow?

So far markets are only slightly nervous. On Monday, yields on 30-year Italian government bonds were just 220 basis points above German levels, with yields of 3.4 per cent. This is far below peak spreads of 467 basis points and peak yields of 7.7 per cent in 2011. Alas, it could get far worse.

According to the European Council on Foreign Relations, in no member state of the EU, bar Greece, did the sense of “cohesion” of individuals with the EU fall more sharply between 2007 and 2017 than in Italy. By the latter year, its ranking on this criterion had tumbled to 23rd of 28 members.

This is not just due to the economic crisis. Between 1997, when the eurozone was launched, and 2017, Italy’s real gross domestic product per head rose 3 per cent — a worse performance than that of Greece. Italians also feel they have been abandoned to cope with their migration crisis largely on their own.

Many Italians, in brief, feel semi-detached from the EU. They are also contemptuous of their establishment. This is why an intellectually incoherent government of leftwing and rightwing populists have gained power, the former stronger in the south, the latter stronger in the north — a division explained by sharp regional economic divergences.

This mess is the fault of both Italy and the EU. The latter has failed to achieve target inflation or generate adequate demand. This has made it difficult to achieve necessary post-crisis adjustments in competitiveness. Germany’s refusal to recognise that these are problems has made things far worse. But Italians also failed to understand the necessity of radical economic and institutional reform if Italy is to thrive, especially in a currency union with Germany.

It may be too late. The spiral of populism is: unhappy voters; irresponsible promises, bad outcomes; even unhappier voters; still more irresponsible promises; and worse outcomes. The story is not over. It may have just begun.

The Five Star Movement and the League’s common programme contains enough to spark conflict with the EU and the eurozone: higher spending, lower taxes and assaults on eurozone fiscal and monetary rules. Bruno Le Maire, French finance minister, has already sounded the alarm. Matteo Salvini, hardline leader of the League, responded briskly that: “I didn’t ask for votes . . . to continue on a path of poverty, precariousness and immigration: Italians first!”

The complacent assumption is that creditors will rule. If the new government were to break the rules, the European Central Bank could not help it. In a clash, financial instability would bring the Italians to heel. But this is only true if the Italians are unwilling to employ the doomsday weapon of default. Non-residents owned €686bn of Italian government bonds (36 per cent) at the end of 2017. Moreover, in March 2018, the Italian central bank owed partners — the Bundesbank, above all — a further €443bn in the “Target 2” system. Today, debtor and creditor positions inside the European System of Central Banks surpass their scale during the crisis of 2012.

If Italy were to crash out and default, the damage could be huge. Yet even this ignores the wider economic, not to mention political, impact. It will be harder to bully Italy than Greece, largely because Italexit is obviously a far more dangerous proposition than Grexit.

So what might happen? One possibility is that Giuseppe Conte, the proposed prime minister, will lead a conventional government. Alternatively, the government will back down at the first whiff of gunpowder. But it is also possible that it will persist with its policies, triggering a run on Italian debt and Italian banks. Without ECB support, that could force limitations on the transferability of bank money outside the country or on its conversion into cash. Italy would effectively fall out of the eurozone.

This would be a monstrous crisis. Would the government then back down? Again, probably so. But the damage to confidence might take years to reverse. The Italian economy would lose its limited forward momentum and go into reverse. The flight of capital, people and businesses could be devastating. Given all this, another election might see the emergence of a still more radical government or, at worst, the unity of Italy might come into question.

Would such a long-running Italian crisis be contained in this one country? Again, possibly so. Yet, in a serious crisis, other countries might be affected. Note that Spain too has increasing debts within the ECB's Target 2 system. The pressure on the eurozone could become substantial: reform or perish.

In 1991, I argued of monetary union: "The effort to bind states together may lead, instead, to a huge increase in frictions among them. If so, the event would meet the classical definition of tragedy: hubris (arrogance), ate (folly); nemesis (destruction)."

Many Italians do blame Europe for their plight. That may be unfair, but it is inevitable, since so many of the decisions that now affect them are made in Europe. The attempt to break out of the straitjacket, for which they have now voted, seems sure to fail. But that will not resolve the crisis. It could even make it worse in the long run. Until Italy regains prosperity, its politics and its place in Europe will stay fragile. Anything can happen.

Fonte: WOLF, Martin. "Italy's new rulers could shake the euro"
Disponível em: <https://www.ft.com/content/eb82fdfe-5ce4-11e8-9334-2218e7146b04> Acesso em 24 de Maio de 2018.

The Old Allure of New Money (Robert Schiller - 21/05/2018)

Robert J. Shiller, a 2013 Nobel laureate in economics, is Professor of Economics at Yale University and the co-creator of the Case-Shiller Index of US house prices. He is the author of Irrational Exuberance, the third edition of which was published in January 2015, and, most recently, Phishing for Phools: The Economics of Manipulation and Deception, co-authored with George Akerlof.

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The cryptocurrency revolution, which started with bitcoin in 2009, claims to be inventing new kinds of money. There are now nearly 2,000 cryptocurrencies, and millions of people worldwide are excited by them. What accounts for this enthusiasm, which so far remains undampened by warnings that the revolution is a sham?

One must bear in mind that attempts to reinvent money have a long history. As the sociologist Viviana Zelizer points out in her book The Social Meaning of Money: “Despite the commonsense idea that ‘a dollar is a dollar is a dollar,’ everywhere we look people are constantly creating different kinds of money.” Many of these innovations generate real excitement, at least for a while.

As the medium of exchange throughout the world, money, in its various embodiments, is rich in mystique. We tend to measure people’s value by it. It sums things up like nothing else. And yet it may consist of nothing more than pieces of paper that just go round and round in circles of spending. So its value depends on belief and trust in those pieces of paper. One might call it faith.

Establishing a new kind of money may be seen as a community’s avowal of faith in an idea, and an effort to inspire its realization. In his book Euro Tragedy: A Drama in Nine Acts, the economist Ashoka Mody argues that the true public justification for creating the European currency in 1992 was a kind of “groupthink,” a faith “embedded in people’s psyches” that “the mere existence of a single currency…would create the impetus for countries to come together in closer political embrace.”

New ideas for money seem to go with the territory of revolution, accompanied by a compelling, easily understood narrative. In 1827, Josiah Warner opened the “Cincinnati Time Store” that sold merchandise in units of hours of work, relying on “labor notes,” which resembled paper money. The new money was seen as a testament to the importance of working people, until he closed the store in 1830.

Two years later, Robert Owen, sometimes described as the father of socialism, attempted to establish in London the National Equitable Labour Exchange, relying on labor notes, or “time money,” as currency. Here, too, using time instead of gold or silver as a standard of value enforced the notion of the primacy of labor. But, like Warner’s time store, Owen’s experiment failed.3

Likewise,Karl Marx and Friedrich Engels proposed that the central Communist premise – “Abolition of private property” – would be accompanied by a “Communistic abolition of buying and selling.” Eliminating money, however, was impossible to do, and no Communist state ever did so. Instead, as the British Museum’s recent exhibit, “The Currency of Communism,” showed, they issued paper money with vivid symbols of the working class on it. They had to do something different with money.

During the Great Depression of the 1930s, a radical movement, called Technocracy, associated with Columbia University, proposed to replace the gold-backed dollar with a measure of energy, the erg. In their book The A B C of Technocracy, published under the pseudonym Frank Arkright, they advanced the idea that putting the economy “on an energy basis” would overcome the unemployment problem. The Technocracy fad proved to be short-lived, though, after top scientists debunked the idea’s technical pretensions.

But the effort to dress up a half-baked idea in advanced science didn’t stop there. Parallel with Technocracy, in 1932 the economist John Pease Norton, addressing the

Econometric Society, proposed a dollar backed not by gold but by electricity. But while Norton's electric dollar received substantial attention, he had no good reason for choosing electricity over other commodities to back the dollar. At a time when most households in advanced countries had only recently been electrified, and electric devices from radios to refrigerators had entered homes, electricity evoked images of the most glamorous high science. But, like Technocracy, the attempt to co-opt science backfired. Syndicated columnist Harry I. Phillips in 1933 saw in the electric dollar only fodder for comedy. "But it would be good fun getting an income tax blank and sending the government 300 volts," he noted.

Now we have something new again: bitcoin and other cryptocurrencies, which have spawned the initial coin offering (ICO). Issuers claim that ICOs are exempt from securities regulation, because they do not involve conventional money or confer ownership of profits. Investing in an ICO is thought of as an entirely new inspiration.

Each of these monetary innovations has been coupled with a unique technological story. But, more fundamentally, all are connected with a deep yearning for some kind of revolution in society. The cryptocurrencies are a statement of faith in a new community of entrepreneurial cosmopolitans who hold themselves above national governments, which are viewed as the drivers of a long train of inequality and war.

And, as in the past, the public's fascination with cryptocurrencies is tied to a sort of mystery, like the mystery of the value of money itself, consisting in the new money's connection to advanced science. Practically no one, outside of computer science departments, can explain how cryptocurrencies work. That mystery creates an aura of exclusivity, gives the new money glamour, and fills devotees with revolutionary zeal. None of this is new, and, as with past monetary innovations, a compelling story may not be enough.

Fonte: SHILLER, Robert. "The Old Allure of New Money"
Disponível em: <https://www.project-syndicate.org/commentary/cryptocurrencies-scientific-narrative-by-robert-j--shiller-2018-05> Acesso em 24 de Maio de 2018.

Why Reinvent the Monetary Wheel? (Robert Skidelsky – 23/05/2018)

Robert Skidelsky, Professor Emeritus of Political Economy at Warwick University and a fellow of the British Academy in history and economics, is a member of the British House of Lords. The author of a three-volume biography of John Maynard Keynes, he began his political career in the Labour party, became the Conservative Party's spokesman for Treasury affairs in the House of Lords, and was eventually forced out of the Conservative Party for his opposition to NATO's intervention in Kosovo in 1999.

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Slumps have always been boom times for monetary experiments, and the economic collapse of 2008-2009 was no different. Underlying this recurrence is the instinctive feeling that economic calamities must have monetary causes, and therefore monetary remedies. There is either too much money, which causes inflation, or too little, which leads to depression. So the aim of monetary reformers –among whom are always a large number of quacks and cranks – has been to “keep money in order” and prevent its gyrations from disturbing the “real” economy of production and trade.

A further motive for monetary reform has been to head off more drastic surgery to the established order. If monetary fluctuations are the main cause of economic fluctuations, and if one can ensure the right quantity of money to support normal business activity, there will be no need for government interference. This has been the main teaching of economists wedded to free markets.

Few remember that quantitative easing (QE) marked the start of US President Franklin D. Roosevelt’s New Deal. With the US on the gold standard, the Treasury purchased gold to lift its price and thus augment the buying power of heavily indebted farmers. FDR’s gold-buying spree, described at the time by John Maynard Keynes as “the gold standard on the booze,” has been generally dismissed as ineffective. But, to counter the collapse of 2008, the monetarist chairman of the US Federal Reserve, Ben Bernanke, and other central bankers revived it in the form of massive purchases of government securities. “Unconventional monetary policy” – Keynes surely would have called it “central banking on the booze” – was the default recovery mechanism. Although most of the new money was hoarded or used for speculation, QE succeeded in fending off the call for expansionary fiscal policy.

Banking reform was also vigorously promoted in the wake of both slumps. In 1933, the US Glass-Steagall Act stopped commercial bank proprietors from speculating with their customers’ deposits. After 2009, the US Dodd-Frank legislation, the Vickers Report in the United Kingdom, and the European Union’s Liikanen report similarly aimed to make the banking system more “resilient” to “shocks.” Although the shocks to banking were the effect, not the cause, of shocks to the economy, this was ignored: Restore money and banking to order, the argument went, and shocks would stop.

This is the context in which the rise of cryptocurrencies – the latest explosion of monetary mania – should be understood. These “peer-to-peer electronic cash systems” aim to cure economic ills by monetary measures, but this time by bypassing banks altogether. Why do we need these diseased intermediaries, cryptocurrencies’ inventors ask, when we can create electronic storage and transaction systems, secure to their users and invisible to would-be controllers?

The technical details of the new cash-generation systems are difficult to grasp; their inspiration is not. The start of Bitcoin in January 2009 coincided with the banking crisis. Banks went bust or were rescued from insolvency by taxpayers. Understandably people wanted to find a way to keep their money and monetary transactions out of the reach of failing banks and voracious tax authorities. The new cryptocurrency offered a solution.

Many motives lay behind the appeal of Bitcoin, not least opportunities for speculation, drug trafficking, and money laundering. But behind the more sordid motives lay Friedrich Hayek’s dream of a free market in money. Hayek introduced his proposal for privately issued competitive currencies at the height of the inflationary surge of the mid-1970s, which he attributed to excessive credit creation by central banks. “If we want free enterprise…to survive,” he argued, “we have no choice but to replace the government currency monopoly and national currency systems by free competition.” Government could not be stopped from making money go bad, Hayek wrote. “Government has failed, must fail, and will continue to fail to supply good money.”

Bitcoin can be seen as an attempt to use new technology to stop money from going bad. For example, the total supply of bitcoins is fixed, as it would be – more or less – for a gold-backed currency. Paradoxically, although it is created out of nothing, it will offer no possibility of money "creation." Bitcoin will be "mined" in diminishing quantities until it is exhausted in 2040, having delivered 21 million digital coins. In other words, there is no elasticity in the currency. This means that long before the mine is exhausted, the currency will run into the same problem as the gold standard: not providing enough money to support a growing economy and population. This would be exacerbated by any tendency to hoard bitcoins.

At the same time, cryptocurrencies provide no security against inflation. Hayek thought that a competitive currency system would eventually lead to a monopoly of the one that kept its value best. But we have, of course, been through exactly this process of weeding out inflationary currencies throughout history, and we ended up with central banks. It is amazing that anyone should consider it necessary to retrace these steps, only to end up in the same place.

The fact is that human societies have discovered no better way to keep the value of money roughly constant than by relying on central banks to exercise control over its issue and to act directly or indirectly on the volume of credit created by the commercial banking system. The Hayekian diagnosis of the last crisis – excessive creation of credit by the banks – is correct as far as it goes. But one has only to ask why this happened to understand that there are no mechanical answers to the question or solutions to the problem. It's not quite true to say, "Look after the economy and money will look after itself." But it is nearer the truth than the belief that monetary reform on its own will cure the problems of a sick economy.

Fonte: SKIDELSKY, Robert. "Why Reinvent the Monetary Wheel?"
Disponível em: <https://www.project-syndicate.org/commentary/cryptocurrencies-false-promise-by-robert-skidelsky-2018-05> Acesso em 24 de Maio de 2018.

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