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America's Founders vs. Trump (Bradford DeLong – 01/06/2018)

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From the very beginning of the American experiment, Alexander Hamilton, one of the new country's founders, had serious doubts about democracy. "It is impossible to read the history of the petty republics of Greece and Italy without feeling sensations of horror and disgust at the … state of perpetual vibration between the extremes of tyranny and anarchy," he wrote in The Federalist Papers No. 9.

But Hamilton went on to praise such principles as, "The regular distribution of power into distinct departments; the introduction of legislative balances and checks; the institution of courts composed of judges holding their offices during good behavior; the representation of the people in the legislature." These, he wrote, "are means, and powerful means, by which the excellences of republican government may be retained and its imperfections lessened or avoided."

And yet those improvements in the "science of politics" that Hamilton identified could apply just as well to monarchies as to republics, and in fact emerged from monarchies. The Plantagenet kings who ruled England between the twelfth and fifteenth centuries professionalized the judiciary, and established the precedent of securing parliamentary consent before levying taxes. Likewise, the professional bureaucracy and distribution of power that one would expect to find in a republic were also enshrined in the Council of the Indies and the Council of Castile under the sixteenth-century Spanish monarch Philip II.

If Hamilton's favored political institutions had just as much potential to improve monarchy as to improve republicanism, then why did he have so much confidence in the latter form of governance? He never addressed that question, but another founder, James Madison, devoted considerable attention to it.

Judging by his contributions to The Federalist Papers, Madison's position revolved around two core ideas: "representation," which he welcomed; and "faction," which he warned against. With respect to representation, Madison surmised that, "The public voice, pronounced by the representatives of the people, will be more consonant to the public good than if pronounced by the people themselves."

Madison expected elected representatives to look outward, assessing the people's interests and drawing on their knowledge and ideas. But he also hoped that elected officials would look inward, to the government and to one another, to ensure that policies were well crafted. Through prudent representation, a republican form of government can enjoy the advantages of professionalization and expertise, as well as new ideas from society, as it pursues the public interest.

At the same time, Madison stressed the importance of avoiding factionalism, which he defined as, "some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community." A monarchy or aristocracy, of course, is nothing but a faction – one that is firmly in control and under little pressure to work for the public interest or consider new ideas. But in a republic, Madison observed, a faction could rule only if it commanded an electoral majority. That is why, when "you take in a greater variety of parties and interests," he wrote, "you make it less probable that a majority of the whole will have a common motive to invade the rights of other citizens." The problem, of course, is that majorities with a malign "common motive" emerge nonetheless. That is how the US got the near-century-long period of "Jim Crow" racial persecution following the Civil War, the herding of Japanese-Americans into concentration camps during World War II, and other shameful episodes.

Or consider what today we would call the ethnic cleansing of Cherokee land in the early nineteenth century – an act of state-sanctioned forced migration known as the "Trail of Tears." When the US Supreme Court ruled in 1832 that the Cherokee were in fact a sovereign nation, then-President Andrew Jackson simply ignored it. "The decision of the Supreme Court has fell still born," he told Brigadier General John Coffee, and "cannot coerce Georgia to yield to its mandate."

Jackson thus rejected a decision handed down by what Hamilton would call "judges holding their offices during good behavior." In doing so, he confirmed Madison's fear that if bureaucracy, established procedure, and deliberation cannot transcend the passions of a majority faction, then there can be no "republican remedy for the diseases most incident to republican government."

Meanwhile, it has been more than a century since the constitutional and semi-constitutional monarchies of Europe faced their own political crises. In the event, they did not move toward centralized socialist dictatorships or strongman plebiscitary ethnocracies, but rather toward representative parliamentary democracy.

The American experiment has not yet reached a point of existential crisis. But there can be little doubt that the US in the Trump era is experiencing the problems that Madison foresaw when he warned that "enlightened statesmen" capable of making "clashing interests … subservient to the public good … will not always be at the helm."

The two primary advantages of republican democracy that Madison identified – prudent, informed representation and the transcendence of factionalism – seem to have gone missing. For republican democracy to remain the best form of government, they will need to be rediscovered.

Fonte: DELONG, Bradford. America's Founders vs. Trump. Disponível em: <https://www.project-syndicate.org/commentary/north-korea-boon-to-sino-american-relationship-by-richard-n--haass-2018-05?a_la=english&a_d=5b112e8a78b6c719e81106ce&a_m=&a_a=click&a_s=&a_p=homepage&a_li=north-korea-boon-to-sino-american-relationship-by-richard-n--haass-2018-05&a_pa=curated&a_ps=> Acesso em 07 de junho de 2017.

A North Korean Opportunity for America and China (Richard N. Haass – 01/06/2018)

Richard N. Haass, President of the Council on Foreign Relations, previously served as Director of Policy Planning for the US State Department (2001-2003), and was President George W. Bush's special envoy to Northern Ireland and Coordinator for the Future of Afghanistan.

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It is not obvious, but North Korea could be the best thing for the relationship between the United States and China since the collapse of the Soviet Union. Whether or not that potential is realized, it is not difficult to understand why it exists.

The contemporary Sino-American relationship was born nearly a half-century ago on a foundation of shared concern about the threat posed to both countries by the Soviet Union. It was a textbook case of the old adage, “The enemy of my enemy is my friend.”

Such a relationship could survive just about anything – except the disappearance of the common enemy. And this is of course precisely what happened with the end of the Cold War in 1989 and the demise of the USSR at the beginning of 1992.

The US-China relationship, however, showed surprising resilience, finding a new rationale: economic interdependence. Americans were happy to buy vast quantities of relatively inexpensive Chinese manufactured goods, demand for which provided jobs for the tens of millions of Chinese who moved from poor agricultural areas to new or rapidly expanding cities.

For its part, the United States was mesmerized by the potential for exporting to the vast Chinese market, which was hungry for the more advanced products it wanted but could not yet produce. Many in the US also believed that trade would give China an increased stake in preserving the existing international order, increasing the odds that its rise as a major power would be peaceful. The related hope was that political reform would follow economic growth. Calculations such as these led to the US decision to support China’s entry into the World Trade Organization in 2001.

Now, years later, the economic ties that had become the foundation of the Sino-American relationship have increasingly become a source of friction that threaten it. China exports far more to the US than it imports, contributing to the disappearance of millions of American jobs, and has not opened up its market as expected or delivered on promised reforms. Moreover, China’s government continues to subsidize state-owned enterprises, and either steals intellectual property or requires its transfer to Chinese partners as a condition of foreign companies’ access to the domestic market.

This critique of China is widely embraced by US Republicans and Democrats alike, even if they disagree with many of the remedies proposed by the Trump administration. And the criticism is not limited to economic affairs. There is growing concern in the US about China’s increasing assertiveness beyond its borders. The Belt and Road Initiative appears to be less a development program than a geo-economic tool to expand Chinese influence. China’s broad claims to the South China Sea and its creation of military bases there are viewed throughout the region as a provocation.

China's domestic political development has also disappointed observers. The abolition of the presidential term limit and President Xi Jinping's concentration of power have come as an unwelcome surprise to many. There are also concerns about the suppression of dissent (often cloaked in the guise of Xi's anti-corruption drive), the clampdown on civil society, and the repression of western China's Uighur and Tibetan minorities. The net result is that it is now commonplace for official US government documents to pair China with Russia and to speak of it as a strategic rival.

All of which brings us back to North Korea, whose nuclear weapons and long-range missiles are viewed by China as a genuine threat – not to itself, but to its regional interests. China does not want a conflict that would disrupt regional trade and lead to millions of refugees streaming across its border. It fears that such a war would end with a unified Korea firmly in America's strategic orbit. Nor does it want Japan and other neighbors to rethink their long-standing aversion to developing nuclear weapons of their own. The Chinese government also opposes South Korea's missile defense system (acquired from the US in response to North Korea's missile deployments), which China sees as a threat to its own nuclear deterrent.

The US does not want to live under the shadow of a North Korea that possesses long-range missiles capable of delivering nuclear payloads to American cities. At the same time, the US has no appetite for a war that would prove costly by every measure.

China and the US thus have a shared interest in making diplomacy work and ensuring that any US-North Korean summit succeeds. The question for China is whether it is prepared to put enough pressure on North Korea so that it accepts meaningful constraints on its nuclear and missile programs. The question for the US is whether it is willing to embrace a diplomatic outcome that stabilizes the nuclear situation on the Korean Peninsula but does not resolve it for the foreseeable future.

A US-North Korean summit that averted a crisis that would benefit neither the US nor China would remind people in both countries of the value of Sino-American cooperation. And the precedent of the world's two major powers working together to resolve a problem with regional and global implications might provide a foundation for the next era of a bilateral relationship that, more than any other, will define international politics in this century.

Fonte: HAASS, Richard N. A North Korean Opportunity for America and China. Disponível em: < https://www.project-syndicate.org/commentary/north-korea-boon-to-sino-american-relationship-by-richard-n--haass-2018-05?a_la=english&a_d=5b112e8a78b6c719e81106ce&a_m=&a_a=click&a_s=&a_p=homepage&a_li=north-korea-boon-to-sino-american-relationship-by-richard-n--haass-2018-05&a_pa=curated&a_ps= > Acesso em 07 de junho de 2018.

A Trade War Primer (Paul Krugman – 03/06/2018)

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At the moment, the Trumpian trade war appears to be on. And I've been getting some questions from readers about how this is possible. Congress, after all, hasn't voted to back out of our trade agreements, and one suspects that it wouldn't even if Trump asked for such legislation: to all appearances, a lot of Republicans are pretty much OK with the near-certainty that he colluded with a hostile foreign power and is currently obstructing justice, but policy actions that might strand and devalue a lot of corporate assets are something else entirely.

So how does Trump have the authority to do this? And what are the consequences for the world? It seems to me that this might be a good time to write down a brief, non-scholarly primer on how the trading system – and U.S. trade policy within that system – work.

The key thing you need to understand about trade policy is that the Econ 101 case for free trade plays very little role in actual policy, certainly in trade negotiations. That's not because policymakers either reject that case or fail to understand it; some do, some don't, but either way it doesn't make that much difference. (In fairness, there's an academic literature arguing that the underlying economics matter more than I'm suggesting, work that I consider admirable but unpersuasive.)

True, for the past 80 years the U.S. has sought to make trade gradually freer; this reflected in part the (very) indirect influence of economic theory, in part the belief that closer economic integration was good for peace and the free world alliance. But the process by which trade liberalization was sought was all about political realism rather than abstract ideals.

And what political realism on trade means is that producer interests matter much more than consumer interests, because producers tend to be far more organized and aware of the stakes in any given trade policy. The classic case was sugar, where for many years U.S. import quotas kept prices here several times above world levels. The benefits of that policy went to a few thousand sugar growers, for each of whom it was worth tens or hundreds of thousands a year. The costs were thinly spread among tens of millions of consumers, the vast majority of whom had no idea there even was an import quota.

Given this asymmetry in representation, you might expect the interests of import-competing industries to predominate in practically everything we could produce here, leading to high levels of protectionism. And that was in fact the way U.S. trade policy tended to work until the 1930s.

But then FDR introduced the Reciprocal Trade Agreements Act – a system, initially, of bilateral negotiations in which America would agree to reduce tariffs on foreign goods if foreign governments reduced tariffs on our goods. What this did was change the political calculus, by bringing the interests of export industries into the picture. U.S. firms competing with imports might still clamor for protection; but they would face the counterweight of U.S. exporters demanding deals that gave them access to foreign markets.

You could say that the RTAA was based on bad economics – that it embodied the mercantilist assumption that exports are good and imports are bad. But it was an enlightened form of mercantilism, creating a process that led to generally good economic outcomes.

For this process to work, Congress needed to step back from the details of trade policy; instead, it would allow the executive branch to negotiate deals, then vote those deals up or down. And the result, even before World War II, was a significant climb-down in tariff rates.

Then, in 1947, the U.S. and its partners established the General Agreement on Tariffs and Trade, which basically created a multilateral version of the same system. I think of the GATT as a system of levers and ratchets. The levers – the mechanism used to make trade gradually freer – consisted of elaborate horse-trading negotiations ("rounds") resulting in tariff reductions. The ratchets, preventing backsliding, consisted of rules preventing countries from going back on their previous commitments, except under certain conditions.

Why are there exceptions? Political realism, again. The creators of the trading system realized that it needed some flexibility – that too rigid a system of rules would end up being brittle and would shatter under the press of events. So countries were granted the right to impose new tariffs under the following conditions (real trade lawyers know that I'm oversimplifying, but the essence is right):

- Market disruption – a sudden surge of imports too fast for domestic producers to adjust to, in which case they could be given some breathing room
- National security – making sure you're not dependent on potential enemies for crucial goods
- Unfair practices – tariffs to counter, say, subsidized exports
- Dumping – when foreign firms seem to be selling goods below cost in an attempt to establish market dominance.

In the U.S., who determines when one of these justifications applies? Not Congress – that would just reopen the whole can of worms FDR closed in 1934. Instead, the executive branch is supposed to follow a quasi-judicial procedure, in which investigating agencies determine whether one of these conditions is met, then the president decides whether to take action.

But what if the U.S. takes action, but our trading partners don't consider it justified? (Or, conversely, what if the U.S. objects to another country's actions?) They can demand international arbitration, which was very cumbersome until the World Trade Organization was created in 1993, but now usually proceeds quite quickly.

Then what? Suppose the WTO finds that a country has acted inappropriately; what power does it have to enforce that judgment? Directly, none: there isn't a fleet of black helicopters based in Geneva, ready to swoop down on trade miscreants. Instead, the WTO effectively declares the offending nation an outlaw, granting aggrieved trading partners the right to retaliate as they see fit.

And historically that threat has worked: countries that lose WTO cases generally back down and reverse their policies. Why did it work? Because everyone was aware that if things got out of hand, we could devolve into a tit-for-tat trade war that would undo 70 years of progress.

Which brings us to Trump.

The world trading system is actually a quite remarkable construction – a framework that has consistently produced a high level of global cooperation. It has been pretty robust in the face of even severe shocks – notably, the world did not see a major resurgence of protectionism after the 2008 financial crisis. But it was never designed to deal with a major world leader who has contempt for anything resembling the rule of law.

Past presidents have used their authority to impose tariffs, and not always for the best of reasons. Even Obama imposed a temporary "market disruption" tariff on Chinese tires. They have always, however, been circumspect: their tariff actions were limited, and the economic basis for their actions was at least vaguely defensible.

But Trump has gone ahead and imposed tariffs using the national security argument, in a context that makes no sense. There is no coherent argument about why imports of Canadian aluminum pose a national security threat; there will be even less justification if he does the same for autos. In fact, his administration is barely even trying to pretend that real national security concerns are at work. He's just doing this because he can.

Worse, there's no obvious end game. What can the Chinese, let alone the Europeans and the Canadians, offer that would satisfy him? An end to U.S. trade deficits? That's not something trade policy can or should deliver.

And of course everyone else in the world is furious with the U.S.. This matters, because trade policy is inherently political; even if giving Trump big concessions were good economics, which is far from clear, our democratic allies – former allies? – are going to be in no mood to go along.

So now you know why Trump has the power to do what he's doing, and why it's such a big, bad deal.

Fonte: KRUGMAN, Paul. A Trade War Primer. Disponível em: < https://www.nytimes.com/2018/06/03/opinion/a-trade-war-primer.html?rref=collection%2Fcolumn%2Fpaul-krugman> Acesso em 07 de junho de 2018.

Donald Trump's trade policy violates every rule of strategy (Lawrence Summers – 07/06/2018)

Lawrence Summers is Charles W Eliot university professor at Harvard and a former US Treasury secretary

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Donald Trump has put aggressive trade policy at the centre of his approach to the economy. No other economic subject has received such sustained presidential attention or generated so much controversy.

This is problematic as most economists agree that changes in trade policy are unlikely to have a big effect on growth in employment or over gross domestic product and that liberalising trade is likely to do more for US prosperity than managing trade.

But take as a given the US president's mercantilist premise that the central priority of American economic policy should be achieving more fairness in opening up markets around the world. Even given this dubious judgment about ends, the US is proceeding in a remarkably unstrategic and ineffective way. Indeed it is violating almost every strategic canon.

A first rule of strategy is to have well defined objectives so that success can be judged and your negotiating partners are not confused about what you want. Is the US's primary objective to reduce its trade deficit overall or just with particular countries? Is it to protect employment in politically sensitive sectors such as steel and automobiles?

Is it to stop commercial practices such as joint venture requirements that unfairly penalise American companies doing business in foreign countries? Is it to gain more market access for US companies regardless of how successful they are likely to be, as in the case of increased access for the US auto industry to the Korean market?

From tweet to tweet, and senior official to senior official, it is impossible for anyone to know what this administration's priorities are. When everything is presented as a top priority, as often seems to be the case, nothing can really be a top priority. No one can be confident that making concessions will resolve disputes. After all, when China's current account balance was approaching 10 per cent of GDP, it was a priority for the US to bring it down sharply. Today it is running below 1.5 per cent of GDP and America is more truculent than ever towards China on trade.

A second rule of strategy is to unite your friends and divide your potential adversaries. The US seems to be doing the opposite. Surely, China stands out as a competitor in terms of economic scale, growth, extent of government economic intervention and in areas such as artificial intelligence.

Yet, after alienating its Asian allies by pulling the plug on the Trans-Pacific Partnership, the US enraged all of its G7 allies with the imposition of tariffs on steel and aluminium as well as making further threats that have caused them to doubt the US commitment to the rule of law in global trade.

As with the Obama administration's disastrous initial shunning of the China-led Asian Infrastructure Investment Bank, the result has been to cause most of the rest of the world to take China's side against the US.

Decades of sustained efforts to foster a benign relationship with Mexico are also being squandered. The current US approach to Mexico could hardly be better designed for the objective of electing a leftist radical as president.

A third rule of strategy is to use as leverage threats that are credible in the sense that they do more damage to those you are negotiating with than they do to you. "Stop or I will shoot myself in the foot" is a singularly ineffective threat.

The recently imposed tariffs on steel fall into this category. The US has fewer steelworkers than it has manicurists. The market value of the US steel industry is about 0.1 per cent of the stock market. Yet steel is a key input into industries throughout the economy that employ about 50 times as many people as the steel industry does and compete internationally.

By raising the price of steel the US hurts much more of its economy than it helps. Why does the White House think this counts as leverage against the nations it competes with? Especially when in all likelihood they will retaliate in highly strategic ways, with international legal support, by limiting imports from key US industries.

President Trump's trade policies will raise the prices Americans pay for what they buy. They will reduce the competitiveness of the US economy. They will succeed where our traditional adversaries have failed in uniting much of the rest of the world in opposition to us. They will reduce our legitimacy and power by demonstrating our lack of competence. The sooner they are radically revised the better off the US and the rest of the world will be.

Fonte: SUMMERS, Lawrence. Donald Trump's trade policy violates every rule of strategy. Disponível em: <https://www.ft.com/content/4eda86ec-67da-11e8-aee1-39f3459514fd> Acesso em 07 de junho de 2018.

The Italian Economy's Moment of Truth (Michael Spence – 07/06/2018)

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Italy and Europe are at an inflection point. After an election in March in which the anti-establishment Five Star Movement (M5S) and the far-right League party captured a combined parliamentary majority, followed by months of uncertainty, Italy has become the first major EU member state to be governed by a populist coalition.

M5S and the League both openly question the benefits of eurozone membership, though neither party made leaving the euro a specific commitment of their governing program in the election campaign, a failure that Italian President Sergio Mattarella seized upon in vetoing key cabinet pick. They also disdain globalization more generally. The League, in particular, is obsessed with cracking down on immigration. On the domestic front, both parties have promised to tackle corruption and topple what they see as a self-serving political establishment, while introducing radical policies to reduce unemployment and redistribute incomes.

Still, we won't know the precise dimensions of the M5S/League agenda until the populist coalition begins governing in earnest. There are rumors that the parties want to write down Italy's sovereign debt, which currently stands at a relatively stable level of just over 130% of GDP. If they did, a Greek-style confrontation with the European Union would seem certain to follow, with interest rates and spreads on Italian sovereign debt increasing rapidly, especially if the European Central Bank decided that its mandate precluded it from intervening.

In such a scenario, Italian banks currently holding considerable amounts of government debt would suffer substantial balance-sheet damage. The risk of deposit flight could not be excluded.

Unlike most eurozone countries, Italy's nominal (non-inflation-adjusted) growth is too weak to produce substantial deleveraging, even at today's low interest rates. Other things being equal, a rise in nominal interest rates would thus produce rising debt ratios and further constrain the government's fiscal space, with adverse knock-on effects for growth and employment. And, unlike most of the rest of Europe, Italy's real per capita GDP remains well below its 2007 pre-crisis peak, indicating that the restoration of growth remains a key challenge.

Whether any of the risks Italy now faces will materialize depends on whether the incoming government accepts reality and pursues prudent action and policies to spur more inclusive growth.

The outcome in Italy resonates beyond Europe, because political developments there are consistent with a worldwide retreat from globalization and growing demands for national governments to reassert control over the flow of goods and services, capital, people, and information/data. Looking back, this worldwide trend seems to have been inevitable. For years, global market forces and powerful new technologies have plainly outstripped governments' capacity to adapt to economic change.

Broadly speaking, then, Italy's situation is not unique. And yet, more than many other countries, it desperately needs an agenda that ensures macroeconomic stability and encourages inclusiveness growth. That means more employment, more equitably distributed incomes and wealth, and more entrepreneurial opportunities.

Without greater economic inclusiveness, Italy could soon find that its leading export is talented young people. Mobile workers in their prime will seek outlets for their skills, creativity, and entrepreneurial impulses elsewhere, and Italy will have lost one of the principal engines of economic dynamism, growth, and adaptability.

Outside of financial and economic circles, foreigners tend to see a different and important side of Italy. They see a country of stunning beauty that is rich in intangible assets, culture, and creative industries, and home to many of the world's most sought-after travel destinations. Those in academia or certain business sectors know about its centers of excellence in biomedical science, robotics, and artificial intelligence, and that Italian researchers, technologists, and entrepreneurs figure prominently in innovation hubs worldwide. And others are no doubt aware that Italian governments tend to come and go rather frequently, and that the economy and society have rarely suffered undue disruptions as a result.

In fact, international observers and Italians would all agree: Italy has enormous economic potential. But the challenge lies in unlocking it, which will require several things to happen.

For starters, the Italian government needs to root out corruption and self-dealing, and demonstrate a much stronger commitment to the public interest. The populists are probably right about these problems. And they are probably right that a reassertion of greater sovereignty over the key flows of globalization is necessary to counter the centrifugal political, social, and technological forces sweeping across advanced countries.

Moreover, Italy needs to develop the entrepreneurial ecosystems that underpin dynamism and innovation. As matters stand, the financial sector is too closed, and it provides too little funding and support for new ventures. There are major opportunities in e-commerce, mobile-payment systems, and social-media platforms to lower entry barriers and promote innovation. China, for its part, is rapidly advancing in these areas, creating significant opportunities for young people in the process.

Of course, with any digital technology, there are justifiable concerns about data security, privacy, and bad actors bent on manipulating information to undermine social cohesion and democratic institutions. But these issues should not stand in the way of realizing digital technology's tremendous potential as an engine of inclusive growth.

Finally, it is worth noting that collaboration between government, business, and labor has played a key role in the countries that have adapted better to globalization and technology-induced structural change. To be sure, collaboration requires trust, and trust is established gradually over time. But without it, economic structures ossify, productivity lags, competitiveness suffers, and activity in tradable goods and services migrates elsewhere.

At this stage, uncertainty about the future is inevitable. But unless a country is prepared to accept long-term stagnation, failing to adapt to the coming changes is not an option. With a clear mandate for change, Italy's new government could implement a vigorous, pragmatic, long-term policy agenda to produce inclusive growth. Otherwise, the country's great potential will continue to fall short of being fully realized.

Fonte: SPENCE, Michael. The Italian Economy's Moment of Truth. Disponível em: < https://www.project-syndicate.org/commentary/italy-five-star-league-economic-policy-by-michael-spence-2018-06> Acesso em 07 de junho de 2018.

Scapegoating the EU Won't Fix Italy (Daniel Gros - 06/06/2018)

Daniel Gros is Director of the Brussels-based Center for European Policy Studies. He has worked for the International Monetary Fund, and served as an economic adviser to the European Commission, the European Parliament, and the French prime minister and finance minister.

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Italy is making international headlines again. In the country's election on March 4, the populist Five Star Movement (M5S) and the right-wing League party captured a combined parliamentary majority by tapping into the public's discontent over immigration and economic stagnation. Now, M5S's Luigi Di Maio and the League's Matteo Salvini have formed a new government. Despite their differences, both place most of the blame for Italy's problems on "Europe" – meaning European Union rules and shared principles.

The perception among Italian voters that the EU has left them alone to deal with the problem of migration from Northern Africa is not particularly surprising. Of the hundreds of thousands of migrants who have crossed the Mediterranean from Libya in recent years, the vast majority land in – or are rescued and brought to – Italy. Most are in fact economic migrants, but they present themselves as refugees because that is the only legal way to stay in Europe.

Even so, Italian populists are simply wrong to claim that Italy is absorbing a disproportionate and unfair share of asylum seekers. In reality, some 400,000 asylum applications have been submitted in Italy since 2014. This represents about 11% of the EU total of 3.9 million, which is roughly equivalent to Italy's share of the EU's total population.

The migration crisis has appeared to be more acute in Italy because its system for processing asylum applications and repatriating those who do not qualify is slower than in other member states. Moreover, the distribution of migrants and refugees in Italy tends to be concentrated around metropolitan centers that lack adequate housing, which also makes the problem seem much larger than it actually is.

A new M5S/League government would most likely demand changes to the EU's Dublin Regulation, according to which the EU member state where an asylum seeker first sets foot is usually responsible for processing his or her claim. Reforming this system makes sense. But it would not change much for Italy, given that the country would still have to accept the same proportion of refugees as it does today.

Contrary to what Italian populists have claimed, the solution to Italy's migration problem can be found at home. Italy needs a better system for processing asylum applications, funneling refugees to available housing, and integrating them into society.

One arrives at a similar conclusion on economic matters. Populist politicians argue that the EU's Stability and Growth Pact prevents the government from stimulating demand, and thus job creation. But this ignores the fact that all eurozone countries are subject to the same rules. And it does not account for Italy's weak economic growth rate, which consistently falls short of the eurozone average in good times and bad.

Many economists now believe that in the member states hit hardest by the 2008 global financial crisis and the subsequent euro crisis, "austerity" aggravated the recession.

But even if one believes that, it doesn't change the fact that those same countries have staged much stronger recoveries than Italy has. Moreover, the claim that Italy has been barred from running higher deficits to stimulate growth is simply false. Italy has received a number of waivers from EU fiscal rules in recent years, allowing it to increase its deficit somewhat.

Similarly inconvenient facts apply to Italy's massive public debt, which was accumulated through excessive public spending financed by domestic savers (in stark contrast to Greece). Given the source of this debt, the M5S/League's earlier proposal to request debt forgiveness from the European Central Bank makes no sense. A new M5S/League government could still insist that the EU no longer count the debt held by the Banca d'Italia in its official statistics. But, again, we are talking about debt held by an Italian institution, which means that "Europe" has nothing to do with it.

With the recent return of growth and abatement of migratory pressure, European leaders are now exploring options for EU- and eurozone-level reforms. But if Italy defies common rules or refuses to accept the fundamental principles of sound budgeting, any reform will be dead on arrival.

That would not bode well for the EU. But at least today's situation is nothing like the peak of the euro crisis, when problems in Italy (and the rest of the eurozone periphery) threatened to spill over into core member states. So far at least, the moderate financial-market reaction to the M5S/League coalition has scarcely affected the rest of Europe. Investors seem to have concluded that while a populist government would pose a problem for Italy, it would not endanger the euro.

The likelier outcome of an M5S/League government, then, is not a euro meltdown, but stagnation. The eurozone's current incomplete governance framework will likely remain the status quo.

There is a political lesson here for the rest of Europe's populists. Scapegoating the EU to paint over domestic problems might pay off in elections, but it will also lead to national isolation. In the long run, it is a losing strategy.

Fonte: GROS, Daniel. Scapegoating the EU Won't Fix Italy. Disponível em: < https://www.project-syndicate.org/commentary/stagnation-after-italy-populist-takeover-by-daniel-gros-2018-06?a_la=english&a_d=5b17ba6a78b6c719e8f12885&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=stagnation-after-italy-populist-takeover-by-daniel-gros-2018-06&a_pa=&a_ps=> Acesso em 07 de junho de 2018.

The Roots of Argentina's Surprise Crisis (Martin Guzman and Joseph E. Stiglitz – 05/06/2018)

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The currency scare that Argentina suffered last month caught many by surprise. In fact, a set of risky bets that Argentina's government undertook starting in December 2015 increased the country's vulnerability. What was not clear was when Argentina's economy would be put to the test. When the test came, Argentina failed.

Argentina had to address a number of macroeconomic imbalances when President Mauricio Macri took office at the end of 2015. Early measures included the removal of exchange-rate and capital controls and the reduction of taxes on commodity exports. Argentina also recovered access to international credit markets following a settlement with so-called vulture funds over a debt dispute that had lasted more than a decade.

The government undertook a new macroeconomic approach based on two pillars: gradual reduction of the primary fiscal deficit, and an ambitious inflation-targeting regime that was supposed to bring annual price growth down to a single-digit rate in just three years.

Markets cheered. The prevailing view, eagerly promoted by Argentina's government, was that the country had done what was necessary to achieve sustainably faster economic growth. Presumably, foreign direct investment would flow in. But it did not.

Instead, Argentina suffered stagflation in 2016, followed by a debt-based recovery in 2017. That led to a surge in imports that was not accompanied by a proportional increase in exports, widening the current-account deficit to 4.6% of GDP and sowing doubt about the virtues of the new approach.

Then, a few weeks ago, markets stopped cheering, expectations soured, and capital fled. The peso depreciated 19% against the US dollar in just the first three weeks of May. Contrary to Macri's hopes, his reforms attracted mainly short-term portfolio capital and financing in the form of bonds, both in foreign and domestic currency, rather than foreign direct investment. Argentina's central bank bears a significant share of the responsibility; while its approach proved largely ineffective in reducing inflation to the target level (the annual rate is still at about 25%), high interest rates encouraged inflows of speculative capital, which worsened the external imbalances and heightened Argentina's vulnerability to external shocks.

As part of their inflation-targeting approach, the central bank has been sterilizing a large share of the increases in the monetary base through the sale of central banks bonds (LEBACS). This means that the public sector has been effectively financing through short-run central bank debt issuance the largest part of the sizable primary fiscal deficit (4.2% and 3.83% of GDP in 2016 and 2017, respectively). The issuance of LEBACS has been massive, soaring by 345% since December 2015. This might have been sustainable had early expectations of Argentina's prospects been validated.

There were obviously trade-offs. Less aggressive sterilization would have contained the growth in central bank debt that has now proven to be so risky, and it would have prevented upward pressure on the exchange rate; but it would have led to higher inflation. Nonetheless, attempting to reduce inflation and the fiscal deficit at similar speeds would have been a more prudent approach. After all, macroeconomic policy decisions should not be made on the basis of the most optimistic scenario when the cost of missed expectations is large.

The currency crisis finally revealed Argentina's vulnerabilities. Looking ahead, the country will be exposed to several different sources of risk. First, there is still a large stock of LEBACS. And every time a significant portion of that debt falls due, Argentina will be a hostage of financial markets' mood. This will increase the expected exchange-rate volatility, which may create opportunities for speculative financial investments, but will discourage investments in the real economy. Second, because the public sector's foreign-currency-denominated debt is much higher than it was two years ago, the increase in exchange-rate risk will also call into question the sustainability of public-sector debt.

To assess where Argentina is heading after the crisis requires highlighting several salient elements of how the episode was managed. First, the central bank lost 10% of its total stock of foreign-exchange reserves in just a month. Second, the annual nominal interest rate on the LEBACS was raised to 40% – the highest in the world, and a move that risks creating a snowball of central-bank debt. Third, and most shocking for Argentines, Macri announced that the country would seek a stand-by agreement with the International Monetary Fund.

Thus, if Argentina's public sector falls into a state of debt distress in the coming years, it will have to submit to the tutelage of the IMF – a creditor in itself, but also an institution that is dominated by international creditors. At that point, the conditionality that the IMF typically imposes in exchange for financing could cause severe damage.

Most worrisome is that the inflation-targeting approach that has exacerbated Argentina's external imbalances has been reaffirmed. It would thus not be surprising if a new cycle of real exchange-rate appreciation starts in 2019. With a presidential election next year, that would be good news for Macri; but it would not bode well for Argentina's future.

Ultimately, because Macri's approach to putting Argentina's economy on a sustained growth path has so far failed, and has increased the country's dependence on international creditors, his administration still faces the challenge of avoiding a debt crisis. To protect economic activity and redress vulnerabilities, the strategy of gradually reducing the primary fiscal deficit should be maintained. But, to save Argentina from an increase in external imbalances affecting the sustainability of external public debt, monetary policy must change.

That means finally recognizing that attempting to reduce inflation at a much faster rate than the fiscal deficit entails costly risks. The prudent path also requires a gradual reduction in the stock of LEBACS, recognizing that greater inflationary pressure in the short term is the price of minimizing the risk of higher external imbalances and larger exchange-rate depreciations down the road.

And it would certainly be a mistake to continue reducing the tax on soybean exports, as Macri's administration has announced it will do. Further tax cuts would increase the deficit, while benefiting a sector that already enjoys rents.

A change in macroeconomic policies is not sufficient to set Argentina on a path of inclusive and sustained economic development; but it is necessary. At the outset of Macri's administration, there were warnings that he had chosen a high-risk approach. Unfortunately, those warnings were ignored. The strategy we are recommending is not without its own risks. But we are convinced that it offers a viable and sounder path forward.

Fonte: GUZMAN, Martin; STIGLITZ, Joseph E. "The Roots of Argentina's Surprise Crisis" Disponível em: <https://www.project-syndicate.org/commentary/argentina-currency-crisis-lessons-by-martin-guzman-and-joseph-e--stiglitz-2018-06?a_la=english&a_d=5b168dd878b6c719e802e71b&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=argentina-currency-crisis-lessons-by-martin-guzman-and-joseph-e--stiglitz-2018-06&a_pa=&a_ps=> Acesso em 07 de junho de 2018.

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