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Trump's Trade Disaster (Anne O. Krueger – 08/06/2018)

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US President Donald Trump may fancy himself a builder, but when it comes to international treaties and norms, he has proved to be a one-man wrecking crew. And now, the chaos appears to be spreading and deepening.

In the last few months alone, Trump's "America First" administration announced commercial sanctions against the Chinese tech giant ZTE, but then reconsidered that decision, in the interest of – wait for it – saving Chinese jobs. And just weeks after Secretary of the Treasury Steven Mnuchin put a trade war with China "on hold," the administration declared that it would impose tariffs on $50 billion worth of Chinese imports after all, while also slapping sweeping import tariffs on steel and aluminum.

Of course, even if Trump's advisers have sent mixed messages on trade, it may be the only issue on which Trump himself has remained consistent, much to the detriment of US alliances and economic relations. Almost immediately upon taking office, Trump mothballed the Transatlantic Trade and Investment Partnership (TTIP) and withdrew the US from the Trans-Pacific Partnership (TPP). The TPP would not just have united the US and 11 other Pacific Rim countries within a single trade bloc; it also would have established region-wide rules and standards that even China might have been forced to follow, despite its exclusion.

But whereas Trump had little trouble scrapping the TTIP and TPP, the North American Free Trade Agreement between the US, Mexico, and Canada has continued to draw his ire. NAFTA – and particularly Mexico's role in it – seems to epitomize all of the hot-button issues that fired up Trump's base during his 2016 presidential campaign. To hear Trump tell it, the agreement is a source of lost manufacturing jobs, and a perfect example of the supposed "unfairness" of all trade pacts. So he promised his supporters to use the threat of abandoning NAFTA to force Mexico to pay for his "border wall," and to stem the flow of undocumented immigrants – whom he has described as "rapists" and "animals" – across the border.

That strategy has not worked. But over the past year, the Trump administration has been meeting with the Mexican and Canadian governments to renegotiate the terms of NAFTA, and those talks are now approaching their crunch point. Given that Trump has laid waste to every US commitment he has touched, Mexico and Canada – and the world – have every reason to prepare for the worst.

The Truth About NAFTA

For decades after World War II, Mexico pursued many of the same disastrous economic policies as other developing countries. It maintained high protectionist barriers for manufactured goods, and relied heavily on commodity exports, particularly oil. As a result, it experienced recurrent stop-go cycles, whereby accelerating inflation and ballooning balance-of-payments deficits would force a round of austerity, only for the process to repeat itself after increases in commodity prices, but at a slower rate of growth each time. Not surprisingly, the growth rate during these years waxed and waned dramatically, and by the start of 1989, Mexico's per capita income was around $2,393 – about 11% that of the US.

But then came the early 1990s, when Mexican President Carlos Salinas and his economic team reversed the country's trade policy and set the stage for negotiations on a free-trade agreement (FTA) with the US. President Bill Clinton's administration welcomed Salinas's new economic approach and quickly agreed to talks, which included Canada, because it already had an FTA with the US. The US had long wanted Mexico to liberalize its trade regime and permit more economic competition, and it now had a chance to see those changes through.

Before NAFTA, between two-thirds and three-quarters of Canada and Mexico's total trade was with the US, and about one-quarter of total US trade was with Canada and Mexico. But at the time, the average US tariff on manufactured imports was around 2%, while Mexico's average tariff on US exports was around 10%. It was clear from the start that the US would gain more from improved access to the Mexican market than vice versa.

Yet, despite the obvious benefits, there was a great deal of political dissent within the US about the prospect of Mexican workers threatening American jobs. In a 1992 presidential debate, the independent candidate Ross Perot famously warned that an FTA with Mexico would result in "a giant sucking sound going south." Of course, nothing of the sort happened. NAFTA entered into force on January 1, 1994, and between 1993 and 2000, US unemployment fell from 6.9% to 4%. Today, it stands at 3.8% – its lowest point in almost two decades. Professional economists generally consider an unemployment rate of 4-4.5% to represent an economy near "full employment" – meaning that virtually all who are willing and able to work can find a job.

Put another way, total US civilian employment in 1993 was around 120.3 million, compared to 136.9 million in 2000 and 148.8 million in 2016. The rate of turnover in jobs today is about 20% annually, with only a small share of the gains or losses attributable to Mexico. Overall, though some American jobs were lost over the lifetime of NAFTA, more were gained, owing not just to the additional exports resulting from lower Mexican tariffs, but also to the falling costs of inputs for US producers, which boosted their international competitiveness.

With NAFTA in place, US-Mexico trade grew rapidly, in part because cross-border value chains multiplied. Mexican producers employing unskilled labor exported components for cars and other goods to the US. And the US manufacturers that imported those less expensive inputs were better positioned to compete with Japanese, European, and other firms that already had access to cheaper components from South and Southeast Asia and Eastern Europe. Moreover, US firms also invested in Mexican facilities, which enabled Mexican firms to expand their capacity faster and meet the growing demand from US producers.

These investment and trade activities have undoubtedly benefited both countries. Access to cheaper components has lowered US producers' costs, while exports to Mexico have increased. Meanwhile, Mexican output, employment, and wages have grown more than they would have otherwise. For all three signatories, NAFTA represents a win.

Bad Faith and Worse Outcomes

Nevertheless, the Trump administration has insisted on renegotiating NAFTA. To be sure, there are a number of ways that the agreement could be updated to account for changes in economic activity, including those spurred by technological advances, since the early 1990s. But that has not been Trump's focus. Instead, US trade negotiators have demanded amendments to NAFTA that would turn it into a lose-lose-lose deal.

Some of the demands directed at Mexico, in particular, are so outrageous that no country could ever accept them. Others, such as the US proposal for more stringent rules of origin (which require that a certain percentage of an imported article be fabricated within the NAFTA trade bloc), are very problematic, but a compromise can probably be reached.

Unfortunately, the Trump administration's extreme approach has made meaningful progress impossible, even in areas that actually could stand to be improved. One of the US's most disruptive tactics has been to demand that Mexico bring its auto workers' pay up to the level of their US counterparts. The minimum wage in Mexico is currently around $4 per day, and around $6 per day in manufacturing industries. But the wage floor US negotiators have reportedly demanded is $16 per hour – 21 times the average wage in Mexican manufacturing. That is the equivalent of asking the US to raise its auto workers' wages to $588 per hour (based on the $28 average hourly wage for unionized auto workers).

Needless to say, no producer in the world could absorb or pass on such a cost increase. Mexican firms would either have to close or demand tariff protection, which, at best, would allow them to produce only for the smaller Mexican market. And it is inconceivable that the Mexican electorate would stand for one segment of workers earning $128 per day while everyone else still earned an average of $4-6 per day. The social and political backlash would be unmanageable. In fact, the Trump administration's demand is so absurd that even the US auto industry opposes it, not least for what it would do to US producers' value chain.

Another impossible US demand, which would affect Canada as much as Mexico, is a sunset clause that would force each government to renew the renegotiated NAFTA every five years. The fact that the entire deal could potentially expire every five years would create a permanent state of uncertainty for businesses throughout North America. Most companies base their investment decisions and output plans on a time horizon of at least five years, so it is hard to believe that any would make investments in Mexico to sell to the US market under such conditions.

Tinny Trade Logic

As if the situation was not bizarre enough, the Trump administration has now subjected Mexico and Canada to import tariffs of 25% on steel and 10% on aluminum, after first trying to use exemptions from such tariffs as a bargaining chip in the NAFTA negotiations. The sweeping metal tariffs – which have now also been imposed on America's European allies – are highly objectionable for obvious reasons. They will raise costs for all US firms that use steel and aluminum inputs – a group that of course includes the auto industry.

The Trump administration has justified the tariffs on national-security grounds, which makes absolutely no sense when one considers that US allies are bearing the brunt of the costs. The exception is South Korea, which was exempted from the tariffs because it agreed to quotas limiting its steel exports to the US.

The Trump administration's approach to both allies and adversaries represents the worst kind of "managed trade," which the US and other countries with market-based economies have long condemned. South Korea did not achieve strong, sustained growth until it liberalized its trade and other economic policies, starting around 1960, with the encouragement of the US.

But under its new managed-trade agreement with the Trump administration, South Korea must now create an administrative apparatus to limit its steel producers' exports to the US. That means tracking 52 different categories of steel to ensure that exports remain at or below 70% of their 2014-2017 levels. It is estimated that South Korea has already met its quota for this year for nine categories of steel.

At the same time, there is a need to monitor and regulate the inflow of steel and aluminum, whether by the US, South Korea, or both. For the US, expanding its own customs service to perform this task would carry enormous administrative costs; and the new dispensation will likely lead to all manner of influence peddling as firms try to win scarce licenses from customs officials.

Destined for Failure

There is little reason to think that Mexico or Canada will accept the Trump administration's demands unless they are significantly watered down. But even if they do accept them in some form or another, the result will be the opposite of what Trump and his team intended.

There are around 80,000 jobs in the US steel industry, more than 900,000 jobs in the US auto industry, and millions more in other industries that use steel or aluminum. The Trump administration's metal tariffs will drive up the price of cars and reduce domestic demand, thus offsetting any increase in auto-industry employment that Trump might have hoped for. And if Trump were to follow through on his threatened tariffs of 15-25% on imported autos, car sales across the US would decline, and the hundreds of thousands of workers who sell and service them would bear the costs.

Beyond the auto industry, the prices for all products that use steel and aluminum will increase, thus depressing demand and threatening output and employment across a wide range of sectors. Many steel- and aluminum-using producers compete directly with producers from around the world. But by protecting domestic producers, the Trump administration is raising steel and aluminum prices within the US, while reducing them in the rest of the world. In essence, Trump is conceding even more cost advantages to non-US producers, for no good reason.

After World War II, the US led the way in establishing a rules-based trading system, first with the General Agreement on Trade and Tariffs, and then with its successor, the World Trade Organization. The past 73 years have shown that when there are legitimate grievances between trading partners on issues such as high-tech secrets, bilateral efforts to resolve them often prove ineffective, whereas action taken through the WTO has a strong track record. Unless and until the Trump administration recognizes this fact, Americans themselves will bear the costs of its disastrous trade policies.

Fonte: KRUEGER, Anne O. Trump’s Trade Disaster. Disponível em: <https://www.project-syndicate.org/onpoint/trump-s-trade-disaster-by-anne-krueger-2018-06> Acesso em 14 de junho de 2017.

Cross-subsidies (John H. Cochrane – 12/06/2018)

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Cross-subsidies are an under-appreciated original sin of economic stagnation. To transfer money from A to B, it would usually be better to raise taxes on A and to provide vouchers or otherwise pay competitive suppliers on behalf of B. But our political system doesn't like to admit the size of government-induced transfers, so instead we force businesses to undercharge B. Since they have to cover cost, they must overcharge A. It starts as the same thing as a tax on A to subsidize B. But a cross-subsidy cannot withstand competition. Someone else can give A a better price. So our government protects A from that competition. That ruins the underlying markets, and next thing you know everyone is paying more for less.

This was the story of airlines and telephones: The government wanted to subsidize airline service to small cities, and residential landlines, especially rural. It forced companies to provide those at a loss and to cross-subsidize those losses from other customers, big city connections and long distance. But then the government had to stop competitors from undercutting the overpriced services. And as those deregulations showed, the result was inefficiency and high prices for everyone.

Health care and insurance are the screaming example today. The government wants to provide health care to poor, old, and other groups. It does not want to forthrightly raise taxes and pay for their health care in competitive markets. So it forces providers to pay less to those groups, and make it up by overcharging the rest of us. But overcharging cannot stand competition, so gradually the whole system became bloated and inefficient.

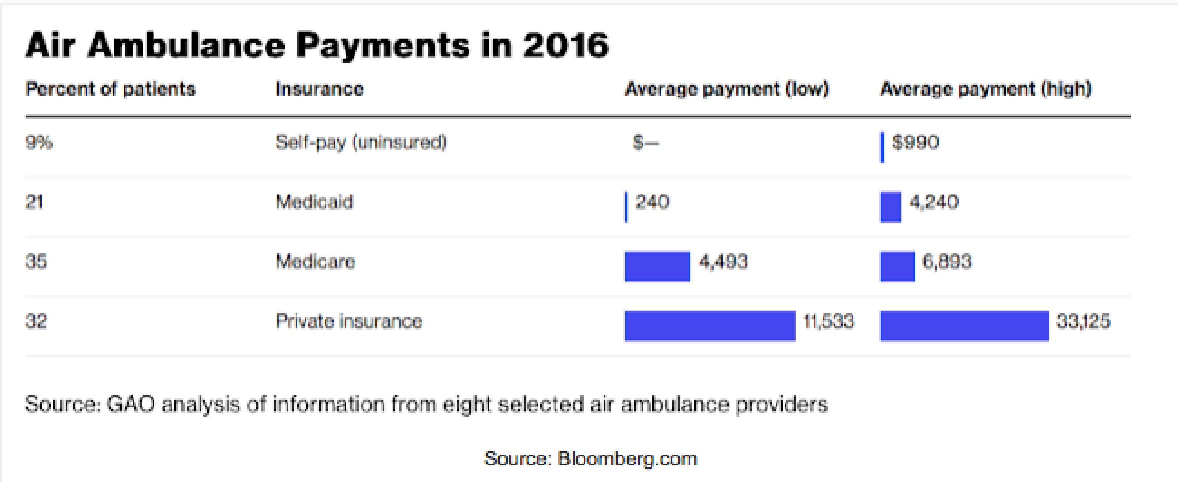
A Bloomberg article "Air Ambulances Are Flying More Patients Than Ever, and Leaving Massive Bills Behind" by John Tozzi offers a striking illustration of the phenomenon, and much of the mindset that keeps our country from fixing it.

The story starts with the usual human-interest tale, a $45,930 bill for a 70 mile flight for a kid with a 107 degree fever.

At the heart of the dispute is a gap between what insurance will pay for the flight and what Air Methods says it must charge to keep flying. Michael Cox ... had health coverage through a plan for public employees. It paid $6,704—the amount, it says, Medicare would have paid for the trip.

The air-ambulance industry says reimbursements from U.S. government health programs, including Medicare and Medicaid, don’t cover their expenses. Operators say they thus must ask others to pay more—and when health plans balk, patients get stuck with the tab.

Seth Myers, president of Air Evac, said that his company loses money on patients covered by Medicaid and Medicare, as well as those with no insurance. That's about 75 percent of the people it flies.



Air Ambulance Payments in 2016

Percent of patients	Insurance	Average payment (low)	Average payment (high)
9%	Self-pay (uninsured)	$—	$990
21	Medicaid	240	4,240
35	Medicare	4,493	6,893
32	Private insurance	11,533	33,125

Source: GAO analysis of information from eight selected air ambulance providers

Source: Bloomberg.com

According to a 2017 report commissioned by the Association of Air Medical Services, an industry trade group, the typical cost per flight was $10,199 in 2015, and Medicare paid only 59 percent that.

So, I knew about cross-subsidies, but $45,950 vs. $6,704 is a lot!

OK, put your economics hats on. How can it persist that people are double and triple charged what it costs to provide any service? Why, when an emergency room puts out a call, "air ambulance needed, paying customer alert" are there not swarms of helicopters battling it out -- and in the process driving the price down to cost?

Supply is always the answer -- and the one just about everyone forgets, as in this article.

I don't know the regulation, and the article doesn't go near it, so I will hazard guesses.

a) Not just any helicopter will do. Look at any small airport. There are a lot of helicopters hanging around whose owners would jump in a flash for an uber-helicopter call that pays $45,000. So, it must be true that in every such case you have to have an air-ambulance. Which makes a lot of sense, of course -- the helicopter should have the standard kind of life-saving equipment on it. But clearly the emergency room is only going to call and allow a air ambulance.

b) Air-ambulances must be properly certified and licensed. OK, but there are still lots of people who could go in to this business, or the ones who are there could bid aggressively. That brings us to

c) I'm willing to bet part of the conditions for license is that operators must carry anyone regardless of ability to pay, and not ask any financial questions.

Competition for paying customers must be banned. Only such a ban can explain the crazy situation. If there were any way to compete for the paying customers, it would happen and the problem would evaporate.

The article comes close to confirming this suspicion.

“I fly people based on need, when a physician calls or when an ambulance calls,” he [Seth Myers] said. “We don’t know for days whether a person has the ability to pay.”

The alternative? Well, pass a tax on air ambulance rides, and use the proceeds to pay for rides for the poor or indigent. It's the same thing -- except with a tax, there needs to be no regulation or bar on competition. Or pass an income tax surcharge and do the same thing. Yes, I don't like taxes any more than you do -- but given we're going to grossly subsidize air ambulance rides, a tax and subsidy is much more efficient than banning competition and allowing an ex-post free-for-all price gouge.

The article is most revealing, I think, that neither the author nor anyone he interviews even thinks of supply. Their explanations are as usual: demand, negotiating ability, and lack of regulation.

It is true that when faced with an emergency, a loved one needs an air ambulance and is in danger of dying, you are in a very poor position to negotiate. But supply competition should solve that problem. If you can get $45,000 for a 70 mile helicopter ride, competing helicopter companies would have representatives sitting in the emergency rooms! When you arrive at an airport at 11 pm and want a rental car, you're not in a great negotiating position either. Somehow they don't charge $45,000 then! Why not? Supply competition -- and the need to have good reputations in any business.

The ex-post negotiation is surreal.

For people with private insurance, short flights in an air ambulance are often followed by long battles over the bill.

Consumer groups and insurers counter that air-ambulance companies strategically stay out of health-plan networks to maximize revenue.

[This is an increasingly common scam. The hospital may be in network, but many emergency room teams are out of network contractors. You find out when you wake up.]

...the Cox family went through two appeals with their health plan. After they retained a lawyer, Air Methods offered to reduce their balance to $10,000 on reviewing their tax returns, bank statements, pay stubs, and a list of assets. The family decided to sue instead. [My emphasis]

“I felt like they were screening us to see just how much money they could get out of us,” Tabitha Cox said.

You got it Mrs. Cox. On what planet do you get on a helicopter with no mention of cost, and then the operator afterwards looks at your tax returns, bank statements, pay stubs and lists of assets to figure out how much you can pay? Only universities get away with that outside of health care!

The reporter put the blame squarely on ... wait for it... the lack of price controls and other regulations.

Favorable treatment under federal law means air-ambulance companies, unlike their counterparts on the ground, have few restrictions on what they can charge for their services. Through a quirk of the 1978 Airline Deregulation Act, air-ambulance operators are considered air carriers—similar to Delta Air Lines or American Airlines—and states have no power to put in place their own curbs.

Air-ambulance operators’ special legal status has helped them thwart efforts to control their rates. West Virginia's legislature passed a law in 2016 capping what its employee-health plan—which covered West Cox—and its worker-compensation program would pay for air ambulances

It is a sad day in America that the average reporter, faced with insane pricing behavior, can only come up with the lack of price control and regulation as an explanation. If voters don't understand that consumer protection comes from supply competition, we cannot expect politicians to shove that enlightenment down our throats.

Does it take a genius to figure out what price controls mean? Well, medicare, medicaid and indigent people aren't about to pay the cost. So if the companies can't cover costs by looking at our tax returns and coming up with a tailored price gouge for each of us, that means less air ambulance flights. The kid with the 107 degree temperature will end up driving in rush hour traffic to the hospital that can help him. Some will die in the process. Actually, it means who "needs" an air ambulance will depend on connections.

That's the problem with negoatiation as the answer to everything. Negotiation can shift costs from one person to another, but we can't all negotiate for a better deal.

Actually, there is some supply competition -- just not competition of the sort that brings down costs for non-indigent customers. The business has grown in response to its overall profitability.

The number of aircraft grew faster than the number of patients flown. In the 1990s, each helicopter flew about 600 patients a year, on average, according to Blumen's data. That's fallen to about 350 in the current decade, spreading the expense of keeping each helicopter at the ready among a smaller pool of patients.

While adding helicopters has expanded the reach of emergency care, "there are fewer and fewer patients that are having to pay higher and higher charges in order to facilitate this increase in access," Aaron D. Todd, chief executive officer of Air Methods, said on an earnings call in May of 2015, before the company was taken private. "If you ask me personally, do we need 900 air medical helicopters to serve this country, I'd say probably not," he said.

If there are too many helicopters for the number of patients who need them, market forces should force less-efficient operators out of business,

Now pick up your jaw off the floor. So, the answer to inadequate supply competition is to ... reduce supply!

Fonte: COCHRANE, John H. Cross-subsidies. Disponível em: <https://johnhcochrane.blogspot.com/2018/06/cross-subsidies.html#more> Acesso em 14 de junho de 2018.

Debacle in Quebec (Paul Krugman – 09/06/2018)

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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For all their pomp, most multilateral summit meetings are boring and of little consequence. I once spoke to a State Department official who had a role in putting these meetings together; he described his job as “policing the nuances,” which gives you an idea about how much is normally at stake.

Occasionally, however, such meetings do have real consequences, good or bad. The 2009 G20 summit, at which nations agreed to provide economic stimulus and loans to troubled countries in the face of the financial crisis, played at least some role in helping the world avoid a full replay of the 1930s. The 2010 summit, by contrast, effectively endorsed a turn to austerity that significantly delayed recovery and, arguably, partially set the stage for the rise of political extremism.

Still, there has never been a disaster like the G7 meeting that just took place. It could herald the beginning of a trade war, maybe even the collapse of the Western alliance. At the very least it will damage America’s reputation as a reliable ally for decades to come; even if Trump eventually departs the scene in disgrace, the fact that someone like him could come to power in the first place will always be in the back of everyone’s mind.

What went down in Quebec? I’m already seeing headlines to the effect that Trump took a belligerent “America first” position, demanding big concessions from our allies, which would have been bad. But the reality was much worse.

He didn’t put America first; Russia first would be a better description. And he didn’t demand drastic policy changes from our allies; he demanded that they stop doing bad things they aren’t doing. This wasn’t a tough stance on behalf of American interests, it was a declaration of ignorance and policy insanity.

Trump started with a call for readmitting Russia to the group, which makes no sense at all. The truth is that Russia, whose GDP is about the same size as Spain’s and quite a bit smaller than Brazil’s, was always a ringer in what was meant to be a group of major economies. It was brought in for strategic reasons, and kicked out when it invaded Ukraine. There is no possible justification for bringing it back, other than whatever hold Putin has on Trump personally.

Then Trump demanded that the other G7 members remove their “ridiculous and unacceptable” tariffs on U.S. goods – which would be hard for them to do, because their actual tariff rates are very low. The European Union, for example, levies an average tariff of only three percent on US goods. Who says so? The U.S. government’s own guide to exporters.

True, there are some particular sectors where each country imposes special barriers to trade. Yes, Canada imposes high tariffs on certain dairy products. But it’s hard to make the case that these special cases are any worse than, say, the 25 percent tariff the U.S. still imposes on light trucks. The overall picture is that all of the G7 members have very open markets.

So what on earth was Trump even talking about? His trade advisers have repeatedly claimed that value-added taxes, which play an important role in many countries, are a form of unfair trade protection. But this is sheer ignorance: VATs don’t convey any competitive advantage – they’re just a way of implementing a sales tax — which is why they’re legal under the WTO. And the rest of the world isn’t going to change its whole fiscal system because the U.S. president chooses to listen to advisers who don’t understand anything.

Actually, though, Trump might not even have been thinking about VATs. He may just have been ranting. After all, he goes on and on about other vast evils that don't exist, like a huge wave of violent crime committed by illegal immigrants (who then voted in the millions for Hillary Clinton.)

Was there any strategy behind Trump's behavior? Well, it was pretty much exactly what he would have done if he really is Putin's puppet: yelling at friendly nations about sins they aren't committing won't bring back American jobs, but it's exactly what someone who does want to break up the Western alliance would like to see.

Alternatively, maybe he was just acting out because he couldn't stand having to spend hours with powerful people who will neither flatter him nor bribe him by throwing money at his family businesses – people who, in fact, didn't try very hard to hide the contempt they feel for the man leading what is still, for the moment, a great power.

Whatever really happened, this was an utter, humiliating debacle. And we all know how Trump responds to humiliation. You really have to wonder what comes next. One thing's for sure: it won't be good.

Fonte: KRUGMAN, Paul. Debacle in Quebec. Disponível em: <https://www.nytimes.com/2018/06/11/opinion/trump-quisling-enablers.html?rref=collection%2Fcolumn%2Fpaul-krugman> Acesso em 14 de junho de 2018.

Can the Euro Be Saved? (Joseph E. Stiglitz– 13/06/2018)

Joseph E. Stiglitz, a Nobel laureate in economics, is University Professor at Columbia University and Chief Economist at the Roosevelt Institute.

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The euro may be approaching another crisis. Italy, the eurozone's third largest economy, has chosen what can at best be described as a Euroskeptic government. This should surprise no one. The backlash in Italy is another predictable (and predicted) episode in the long saga of a poorly designed currency arrangement, in which the dominant power, Germany, impedes the necessary reforms and insists on policies that exacerbate the inherent problems, using rhetoric seemingly intended to inflame passions.

Italy has been performing poorly since the euro's launch. Its real (inflation-adjusted) GDP in 2016 was the same as it was in 2001. But the eurozone as a whole has not been doing well, either. From 2008 to 2016, its real GDP increased by just 3% in total. In 2000, a year after the euro was introduced, the US economy was only 13% larger than the eurozone; by 2016 it was 26% larger. After real growth of around 2.4% in 2017 – not enough to reverse the damage of a decade of malaise – the eurozone economy is faltering again.

If one country does poorly, blame the country; if many countries are doing poorly, blame the system. And as I put it in my book The Euro: How a Common Currency Threatens the Future of Europe, the euro was a system almost designed to fail. It took away governments' main adjustment mechanisms (interest and exchange rates); and, rather than creating new institutions to help countries cope with the diverse situations in which they find themselves, it imposed new strictures – often based on discredited economic and political theories – on deficits, debt, and even structural policies.

The euro was supposed to bring shared prosperity, which would enhance solidarity and advance the goal of European integration. In fact, it has done just the opposite, slowing growth and sowing discord.

The problem is not a shortage of ideas about how to move forward. French President Emmanuel Macron, in two speeches, at the Sorbonne last September, and when he received the Charlemagne Prize for European Unity in May, has articulated a clear vision for Europe's future. But German Chancellor Angela Merkel has effectively thrown cold water on his proposals, suggesting, for example, risibly small amounts of money for investment in areas that urgently need it.

In my book, I emphasized the urgent need for a common deposit insurance scheme, to prevent runs against banking systems in weak countries. Germany seems to recognize the importance of a banking union for the functioning of a single currency, but, like St. Augustine, its response has been, "O Lord, make me pure, but not yet." Banking union apparently is a reform to be undertaken sometime in the future, never mind how much damage is done in the present.

The central problem in a currency area is how to correct exchange-rate misalignments like the one now affecting Italy. Germany's answer is to put the burden on the weak countries already suffering from high unemployment and low growth rates. We know where this leads: more pain, more suffering, more unemployment, and even slower growth. Even if growth eventually recovers, GDP never reaches the level it would have attained had a more sensible strategy been pursued. The alternative is to shift more of the burden of adjustment on the strong countries, with higher wages and stronger demand supported by government investment programs.

We have seen the first and second acts of this play many times already. A new government is elected, promising to do a better job negotiating with the Germans to end austerity and design a more reasonable structural reform program. If the Germans budge at all, it is not enough to change the economic course. Anti-German sentiment increases, and any government, whether center-left or center-right, that hints at necessary reforms is thrown out of office. Anti-establishment parties gain. Gridlock emerges.

Across the eurozone, political leaders are moving into a state of paralysis: citizens want to remain in the EU, but also want an end to austerity and the return of prosperity. They are told they can't have both. Ever hopeful of a change of heart in northern Europe, troubled governments stay the course, and the suffering of their people increases.

Portuguese Prime Minister António Costa's socialist-led government is the exception to this pattern. Costa managed to lead his country back to growth (2.7% in 2017) and achieve a high degree of popularity (44% of Portuguese thought the government was performing above expectations in April 2018).

Italy may prove to be another exception – though in a very different sense. There, anti-euro sentiment is coming from both the left and the right. With his far-right League party now in power, Matteo Salvini, the party's leader and an experienced politician, might actually carry out the kinds of threats that neophytes elsewhere were afraid to implement. Italy is large enough, with enough good and creative economists, to manage a de facto departure – establishing in effect a flexible dual currency that could help restore prosperity. This would violate euro rules, but the burden of a de jure departure, with all of its consequences, would be shifted to Brussels and Frankfurt, with Italy counting on EU paralysis to prevent the final break. Whatever the outcome, the eurozone will be left in tatters.

It doesn't have to come to this. Germany and other countries in northern Europe can save the euro by showing more humanity and more flexibility. But, having watched the first acts of this play so many times, I am not counting on them to change the plot.

Fonte: STIGLITZ, Joseph E. Can the Euro Be Saved? Disponível em: <https://www.project-syndicate.org/commentary/next-euro-crisis-italy-by-joseph-e--stiglitz-2018-06?a_la=english&a_d=5b20fb9c78b6c719e8aee69c&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=next-euro-crisis-italy-by-joseph-e--stiglitz-2018-06&a_pa=&a_ps=> Acesso em 14 de junho de 2018.

The Populists' Euro (Barry Eichengreen – 12/06/2018)

Barry Eichengreen is Professor of Economics at the University of California, Berkeley, and a former senior policy adviser at the International Monetary Fund.

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The majority of Italians want two things: new political leadership and the euro. The question is whether they can have both.

The point about new leadership is uncontroversial. The country's two ruling populist parties, the League and the Five Star Movement (M5S), together commanded 50% of the vote in the March 4 general election, and, as a result, have majorities in both houses of parliament. Their majorities may be slim, but the election, in which the main center-right and center-left parties eked out just 33%, was a resounding repudiation of the status quo.

The second point is less well known, but even less controversial: recent polls show that 60-72% of Italians favor the euro. Some believe the single currency safeguards their savings, while others regard it as an emblem of Italy's status as a founding member of the European Union. But if motives differ, the balance of public opinion does not.

Bowing to this reality, the coalition partners have now dropped the idea of abandoning the euro, expunging the possibility from their "contract" and respective websites. Paolo Savona, a diehard opponent of the euro, has been denied the finance ministry. But Carlo Cottarelli, whose proposed appointment at the head of a technocratic government would have disenfranchised a majority of voters, has also been denied the reins of power. Appropriately, given the election result, Italians now have their populist government and their euro, too.

Keeping them will be another matter. If its initial measures fail to deliver economic growth, the new government will lose popular support. In desperation and anger, its leaders may then resort to even more extreme policies. Support for the euro will weaken as well, because the government and its backers will blame the EU and its most visible achievement, the euro, for frustrating their best-laid plans.

Indeed, it is not hard to imagine that if the coalition proceeds with its ambitious fiscal plans, instituting both a flat tax, as the League proposes, and a universal basic income (UBI), as M5S advocates, it could blow up the budget deficit. It would then be sanctioned by the European Commission, deemed ineligible for financial supportby the European Central Bank, and experience capital flight. Italy could quickly find itself out of the eurozone and ring-fenced by capital controls, regardless of whether the government intended this outcome.

In fact, the argument for a measured fiscal stimulus is sound – just not the kind of fiscal stimulus the League and M5S have in mind. An economy in Italy's condition needs "two-handed policies": supply-side reforms of labor and product markets to boost productivity and international competitiveness, accompanied by demand stimulus to prevent the uncertainties of reform and the surrounding political noise from depressing spending. Although Italy has a heavy debt burden, it also has a modicum of fiscal space, given low interest rates and a primary budget surplus.

But whether the government will use that space to get growth going again is very much in doubt. The League's flat tax would benefit mainly the rich, who have a relatively low propensity to spend, and aggravate complaints about inequality. And, given its dire fiscal implications, M5S's proposed UBI would trigger a sharp reaction by financial markets.

A better approach would be to cut payroll and social security taxes, thereby reducing the third-highest tax wedge in the OECD. This should appeal to M5S voters, who would see bigger pay packets. To the extent that the recipients spend the additional pay, the tax cuts will stimulate demand and growth.

But these are also supply-side-friendly reforms, because they reduce the cost of labor and, by getting people into employment, facilitate the transmission of productivity-enhancing skills. They should also appeal to the League, insofar as business owners who support party leader Matteo Salvini will benefit from declining costs and enhanced competitiveness.

Will the European Commission permit the Italian government to exceed its mandated deficit target? The Commission worries, as always, about setting a dangerous precedent. But it should realize that frustrating the new government at every turn could end up only making the Italian authorities more intransigent. If the alternative to a modestly larger budget deficit, coupled with supply-side reforms, is a let-it-rip budget, open conflict with the EU, and massive capital flight, then the Commission would do well to think twice.

The view within EU institutions in Brussels is that, when sanctioned by the Commission and by financial markets, Italy's new government will change course, abandoning its fiscal ambitions to avoid catastrophe. But the view in Rome is that the new government has the voters behind it and that Italy is too big to fail, so it is the Commission and the other member states that will blink.

In America, there is a name for this situation. It's called a game of chicken: two cars hurtle toward each other at full speed; the driver who swerves first is the chicken. It is a game that does not always end well.

Fonte: EICHENGREEN, Barry. The Populists' Euro. Disponível em: <https://www.project-syndicate.org/commentary/italy-populist-government-euro-membership-by-barry-

eichengreen-2018-06?a_la=english&a_d=5b1fc2b778b6c719e8fdd35d&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=italy-populist-government-euro-membership-by-barry-eichengreen-2018-06&a_pa=&a_ps=> Acesso em 14 de junho de 2018.

How Democratic Is the Euro? (Dani Rodrik - 11/06/2018)

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When Italy's president recently vetoed the appointment of the Euroskeptic Paolo Savona as finance minister in the government proposed by the Five Star Movement-League party alliance, did he safeguard or undermine his country's democracy? Beyond constitutional strictures specific to the Italian context, the question goes to the heart of democratic legitimacy. The difficult issues it raises need to be addressed in a principled and appropriate manner if our liberal democracies are to be restored to their health.

The euro represents a treaty commitment from which there is no clear exit within prevailing rules of the game. President Sergio Mattarella and his defenders point out that an exit from the euro had not been subject to debate in the election campaign that brought the populist coalition to power, and that Savona's appointment threatened a financial market meltdown and economic chaos. Mattarella's detractors argue that he overstepped his authority and has allowed financial markets to veto the selection of a minister by a popularly elected government.

By joining the euro, Italy surrendered monetary sovereignty to an external, independent decision-maker, the European Central Bank. It also undertook specific commitments with respect to the conduct of its fiscal policy, though these constraints are not as "hard" as those framing monetary policy. These obligations place real limits on the Italian authorities' macroeconomic policy choices. In particular, the absence of a domestic currency means Italians cannot choose their own inflation target or devalue their currency vis-à-vis foreign currencies. They also have to keep their fiscal deficits below certain ceilings.

Such external restraints on policy action need not conflict with democracy. Sometimes it makes sense for the electorate to tie its hands when doing so helps it achieve better outcomes. Hence the principle of "democratic delegation": Democracies can enhance their performance by delegating aspects of decision-making to independent agencies.

The canonical case for democratic delegation arises when there is a paramount need for credible commitment to a particular course of action. Monetary policy is perhaps the clearest instance of this. Many economists subscribe to the view that central banks can generate output and employment gains through expansionary monetary policy only if they are able to produce surprise inflation in the short run. But, because expectations adjust to central bank behavior, discretionary monetary policy is futile: it yields higher inflation but no output or employment increases. Accordingly, it is far better to insulate monetary policy from political pressures by delegating it to technocratic, independent central banks that are charged with the singular objective of price stability.

Superficially, the euro and the ECB can be seen as the solution to this inflationary conundrum in the European context. They protect the Italian electorate from their politicians' counterproductive inflationary tendencies. But there are peculiarities to the European situation that make the democratic delegation argument more suspect.

For one thing, the ECB is an international institution, bearing responsibility for monetary policy for the eurozone as a whole rather than Italy alone. As a result, it will be generally less responsive to Italian economic circumstances than a purely Italian, but equally independent central bank would have been. This problem is aggravated by the fact that the ECB chooses its own inflation target, which was last defined in 2003 as "below, but close to, 2% over the medium term."

It is difficult to justify the delegation of the inflation target itself to unelected technocrats. When some countries in the eurozone are hit by adverse demand shocks, the target determines the extent of painful wage and price deflation these countries must undergo to readjust. The lower the target, the more deflation they must bear. There was a good economic argument for the ECB to have lifted its inflation target following the euro crisis to facilitate competitiveness adjustments in Southern Europe. Insulation from political accountability was probably a bad thing in this case.

As Paul Tucker, a former deputy governor of the Bank of England, discusses in his masterful recent book Unelected Power: The Quest for Legitimacy in Central Banking and the Administrative State, the argument for democratic delegation is a subtle one. The distinction between policy goals and how they are implemented needs to be clear. Insofar as they entail distributional consequences or tradeoffs between contending goals (employment versus price stability, for example), policy objectives have to be determined through politics. Delegation is warranted at best in the conduct of policy that serves politically determined objectives. Tucker argues, correctly, that few independent agencies are based on a careful application of principles that would pass the test of democratic legitimacy.

This shortcoming is far worse in the case of delegation to international agencies or treaties. Too often, international economic commitments serve not to fix democratic failures at home, but to privilege corporate or financial interests and undermine domestic social bargains. The European Union's legitimacy deficit derives from the popular suspicion that its institutional arrangements have veered too far from the former to the latter. When Mattarella cited the reaction of financial markets in justifying his veto of Savona, he reinforced those suspicions.

If the euro – and indeed the EU itself – is to remain viable and democratic at the same time, policymakers will have to pay closer attention to the demanding requirements of delegating decisions to unelected bodies. This does not mean that they should resist surrendering sovereignty to supranational agencies at all costs. But they should recognize that economists' and other technocrats' policy preferences rarely endow policies with sufficient democratic legitimacy on their own. They should promote such a delegation of sovereignty only when it truly enhances the long-term performance of their democracies, not when it merely advances the interests of globalist elites.

Fonte: RODRIK, Dani. How Democratic Is the Euro? Disponível em: <https://www.project-syndicate.org/commentary/how-democratic-is-the-euro-by-dani-rodrik-2018-06?a_la=english&a_d=5b1e5d3978b6c719e8ebb3ad&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=how-democratic-is-the-euro-by-dani-rodrik-2018-06&a_pa=&a_ps=> Acesso em 14 de junho de 2018.

Why the G7 Is a Zero (Jim O' Neill – 12/06/2018)

Jim O'Neill, a former chairman of Goldman Sachs Asset Management and former Commercial Secretary to the UK Treasury, is Honorary Professor of Economics at Manchester University and former Chairman of the Review on Antimicrobial Resistance.

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Though US President Donald Trump's appearance at the Group of Seven (G7) summit in Quebec last week was not particularly well received, I find myself sympathizing with his skepticism toward the group. I have long doubted that the annual meeting of leaders from Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States serves any useful purpose.

Back in 2001, when I coined the BRIC acronym, I predicted that the growing economic importance of Brazil, Russia, India, and China would eventually require a significant change to global economic governance. At a minimum, I observed, global-governance bodies should include China, if not all of the BRICs.

At the same time, I pointed out that there was little reason for France, Germany, and Italy to be represented individually, given that they share a currency, a monetary policy, and a framework for fiscal policy (at least in principle). And I questioned whether Canada and the UK should still be included among the world's most important economies.

It has now been 17 years, and the G7 is still serving little other purpose than to keep its member states' civil servants busy. Yes, it still comprises the seven Western democracies with the largest economies, but barely so. At this point, Canada's economy is not much bigger than Australia's, and Italy's is only slightly bigger than Spain's.

The G7 is an artifact of a bygone era. In the 1970s, when the G5 was expanded to include Canada and Italy, the new grouping really did dominate the world economy. Japan was booming, and many expected it to catch up to the US; Italy was growing, and nobody was thinking about China. But this year, China is projected to overtake the entire eurozone. And at its current rate of growth, it will effectively create a new economy the size of Italy in less than two years. Moreover, India's GDP is already larger than Italy's, and crisis-ridden Brazil is not far behind.

In other words, the only global legitimacy that the G7 can claim is that it represents a few major democracies. But 85% of the increase in world GDP (in US dollars) since 2010 has come from the US and China, and nearly 50% from China alone. Another 6% has come from India, while the dollar value of the Japanese and EU economies has actually declined. In light of these realities, the G7 would be much more relevant if Canada, France, Germany, and Italy were replaced by China, India, and a single delegation representing the eurozone. But, of course, there is already a body that represents the current G7 countries as well as the BRICs: the G20, which was formed 1999.

Since its first formal summit in 2008, the G20 has served a clear purpose as a forum for the world's leading economies. For any smaller club to be justified, it must have the same legitimacy as the G20. Representing the democracies that had the largest economies in the

1970s is no longer good enough. After all, India and Brazil also have functioning democracies, and could soon become more prosperous than France and the UK.

Trump provoked outrage when he demanded last week that the G7 re-incorporate Russia, which was kicked out following Russian President Vladimir Putin's 2014 annexation of Crimea. But it is worth asking what global challenges the current G7 is even capable of addressing, outside of narrow economic issues. From terrorism to nuclear proliferation to climate change, there are hardly any issues that can be solved without the help of non-G7 countries. And though the Western media depicted Trump as the black sheep of the summit, Italy, too, now has a government that favors rapprochement with Russia.

The recent G7 circus has added to the impression that Western policymakers are incapable of getting a grip on some of the world's most pressing issues. To be sure, global financial markets showed little concern about the disarray in Quebec last weekend. But, among other things, that may simply reflect the fact that the G7 no longer matters.

Looking ahead, it is clear that the G20 offers a better global-governance forum than does the G7 in its current state. Although a greater number of participants makes it harder to reach a viable consensus, it is also much more representative. Most important, the G20 includes the countries that will be indispensable for solving global problems now and in the future.

That said, a smaller, representative group of countries could still have a future role to play alongside the G20. But only if it is properly conceived. To that end, the world's leading think tanks should start offering specific ideas about the future of global governance. For my part, I will look forward to leading the charge when I assume the chairmanship of Chatham House next month.

Fonte: O'NEILL, Jim. Why the G7 Is a Zero. Disponível em: <https://www.project-syndicate.org/commentary/trump-g7-and-global-leadership-by-jim-o-neill-2018-06?a_la=english&a_d=5b1fbf9178b6c719e8f85da4&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=trump-g7-and-global-leadership-by-jim-o-neill-2018-06&a_pa=&a_ps=> Acesso em 14 de junho de 2018.

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