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## **When Politics Trumps Economics (Stephen S. Roach – 27/06/2018)**

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With each passing day, it becomes increasingly evident that US President Donald Trump's administration cares less about economics and more about the aggressive exercise of political power. This is obviously a source of enormous frustration for those of us who practice the art and science of economics. But by now, the verdict is self-evident: Trump and his team continue to flaunt virtually every principle of conventional economics.

Trade policy is an obvious and essential case in point. Showing no appreciation of the time-honored linkage between trade deficits and macroeconomic saving-investment imbalances, the president continues to fixate on bilateral solutions to a multilateral problem – in effect, blaming China for America's merchandise trade deficits with 102 countries. Similarly, his refusal to sign the recent G7 communiqué was couched in the claim that the US is like a "piggy bank that everybody is robbing" through unfair trading practices. But piggy banks are for saving, and in the first quarter of this year, America's net domestic saving rate was just 1.5% of national income. Not much to rob there!

The same can be said of fiscal policy. Trump's deficit-busting tax cuts and increases in government spending make no sense for an economy nearing a business-cycle peak and with an unemployment rate of 3.8%. Moreover, the feedback loop through the saving channel only exacerbates the very trade problems that Trump claims to be solving. With the Congressional Budget Office projecting that federal budget deficits will average 4.2% of GDP from now until 2023, domestic saving will come under further pressure, fueling increased demand for surplus saving from abroad and even bigger trade deficits in order to fill the void. Yet Trump now ups the ante on tariffs – in effect, biting the very hand that feeds the US economy.

So what Trump is doing is not about economics – or at least not about economics as most academics, political leaders, and citizens know it. Sure, Trump has been quick to draw on some fringe mutations of economics – say, Arthur Laffer's infamous back-of-a-napkin supply-side musings – but none that have withstood the test of time and rigorous empirical validation.

But why single out economics? The same complaint could be made about Trump's views on climate change, immigration, foreign policy, or even gun control. It's power politics over fact-based policymaking.

This should not be all that surprising. Trump's battle with China merely underscores his eagerness – transparent from the start – to use economics as a foil in his pitch to "Make America Great Again." Contrary to his bluster over unfair trade deficits, China's real challenge to the United States is less about economics and more about the race for technological and military supremacy.

Indeed, the pendulum of geopolitical leadership is now in motion. China's massive pan-Asian infrastructure plan, the Belt and Road Initiative, together with its muscular behavior in the South China Sea, pose far greater threats to American hegemony than does

one bilateral piece of a much larger multilateral trade deficit. At the same time, China's recent efforts to build the institutions of an alternative financial architecture – spearheaded by the Asian Infrastructure Investment Bank and the New (BRICS) Development Bank – stand in sharp contrast to an increasingly inward-looking US.

Much has been written about the historical trajectory of great powers and the military conflicts that often arise during their rise and fall. This is where economics eventually comes back into play. Geostrategic power and economic power are joined at the hip. As Yale historian Paul Kennedy has long stressed, a condition of “imperial overreach” arises when the projection of military power outstrips a country's shaky economic foundations.

It has been 30 years since Kennedy warned that the US, with its excessive defense spending, was increasingly vulnerable to such overreach. But then the would-be heirs to the US faded: The Soviet Union collapsed, Japan's economic miracle imploded, and Germany became entangled in reunification and European integration. An unthreatened America plodded on.

China, of course, was barely on the radar screen back then. Moreover, in 1988 the US had a net domestic saving rate of 5.6% of national income – only slightly below the 6.3% average of the final three decades of the twentieth century, but nearly four times the current rate. Back then, the US was spending \$270 billion on defense – less than half the \$700 billion authorized in the current budget, which now outstrips the combined military outlays of China, Russia, the United Kingdom, India, France, Japan, Saudi Arabia, and Germany.

Meanwhile China has ascended. Back in 1988, its per capita GDP was just 4% of the US level (in purchasing-power-parity terms). This year, that ratio is close to 30% – nearly an eightfold increase in just three decades.

Can power politics offset the increasingly tenuous fundamentals of a saving-short US economy that continues to account for a disproportionate share of global military spending? Can power politics contain the rise of China and neutralize its commitment to pan-regional integration and globalization?

The Trump administration seems to believe that America has reached a propitious moment in the economic cycle to play the power game. Yet its strategy will succeed only if China capitulates on the core principles of the growth strategy that frames President Xi Jinping's great power aspirations: indigenous innovation, technological and military supremacy, and pan-regional leadership.

Like Trump, Xi does not do capitulation. Unlike Trump, Xi understands the linkage between economic and geostrategic power. Trump claims that trade wars are easy to win. Not only is he at risk of underestimating his adversary, but he may be even more at risk of over-estimating America's strength. The trade war may well be an early skirmish in a much tougher battle, during which economics will ultimately trump Trump.

**Fonte:** ROACH, Stephen S. When Politics Trumps Economics. Disponível em: <[https://www.project-syndicate.org/commentary/politics-trumps-economics-by-stephen-s--roach-2018-06?a\\_la=english&a\\_d=5b30bfed78b6c7088cd3b12e&a\\_m=&a\\_a=click&a\\_s=&a\\_p=%2Farchive&a\\_li=politics-trumps-economics-by-stephen-s--roach-2018-06&a\\_pa=&a\\_ps=>](https://www.project-syndicate.org/commentary/politics-trumps-economics-by-stephen-s--roach-2018-06?a_la=english&a_d=5b30bfed78b6c7088cd3b12e&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=politics-trumps-economics-by-stephen-s--roach-2018-06&a_pa=&a_ps=>)>  
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## Trump's Child Hostages (Elizabeth Drew – 27/06/2018)

*Elizabeth Drew is a contributing editor at The New Republic and the author, most recently, of Washington Journal: Reporting Watergate and Richard Nixon's Downfall.*

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Suddenly, without much thought or planning, which is essentially how he operates, US President Donald Trump lit a match to his administration by approving a policy of separating migrant children from their parents as they arrived – many fleeing violence in Central America – at the southern border with Mexico. And then, by doing what he is intent on never doing – backing down – Trump created more problems for himself.

Whether the US actually has an immigration “crisis” is hotly debated. But Trump has one of his own: for all but his most devoted followers, he finally went too far. Stories of babies ripped from the arms of their mothers, a recording of small children sobbing, and government-released images showed older boys being kept in wire cages (observers have not yet been permitted to see the youngest children or older girls in captivity): all of this proved too much for the public.

Usually supine congressional Republicans panicked and told Trump and his team that his policy of tearing families apart could ruin their chances in November's midterm elections. In fact, the policy of separating families was threatening to drive a wedge between Trump and even his evangelical followers. And they had been willing to overlook growing evidence of Trump's sexual hijinks during his marriage to the first lady, Melania (including apparent payoffs to a porn star and others for silence), in exchange for policy influence and appointments of social conservatives to the Supreme Court and throughout the federal judiciary. Unusually for her, former first lady Laura Bush spoke out against the policy of taking children from their mothers.

One problem for Trump is that he is obsessed with appearing “strong.” While an authentically strong person can admit error and change course, America's “strutter in chief” resists admitting any mistake. So Trump and his allies recited a catechism of evasions and excuses: they were simply enforcing the law and had not adopted a new policy.

But this was a problem of Trump's own making. On May 7, Attorney General Jeff Sessions, at the border in Texas, announced a new policy of “zero tolerance” for illegal border crossings: anyone suspected of crossing the border illegally would be detained and held for trial. (No more “catch and release,” or trusting illegals to return for trial.) Young children would not be detained with them; they would be held separately, which Sessions viewed as a deterrent to other would-be immigrants.

Then, when the chorus of objections began to rise, Trump and Sessions blamed the Democrats for the law they were supposedly applying. When that (false) argument failed to gain traction, Trump claimed that the problem could be solved only with legislation, though Democrats and even Republican Senator Lindsey Graham countered that the president could solve it “with a phone call.”

Finally, the threat of political repercussions – the realization that the policy's bad “optics” could have consequences – drove Trump to back down and issue an executive order requiring that parents and children be detained together. Lest his base think he had

gone soft on immigration, Trump attempted to cover his retreat with harsh rhetoric, arguing that illegal immigrants would “infest” the US and that most were hardened criminals.

But now there was a new problem: the administration had made no plans for how to reunite the already separated parents and children, who had been sent to shelters and foster homes all over America, often in the dead of night. Parents and children are under the aegis of different federal agencies. The government claims that some 500 children have been reunited with a parent; but that still leaves at least 2,000 kids without their parents (if government estimates are to be believed). With some parents having been deported while their children remain in detention, it is possible that many of these families will *never* be reunited.

The US Congress long faced gridlock over immigration policy. A broad compromise has been elusive, and even limited efforts have failed. In January, a bipartisan Senate compromise was reached that would have funded Trump’s unnecessary border wall in exchange for allowing “dreamers” (who as children had been brought to the US illegally by their parents) to become citizens. (President Barack Obama had promised this by executive order, but Trump had reversed the policy upon becoming president.) But Trump, who initially favored the compromise, then backed away from it, under pressure from his immigration adviser, Stephen Miller (an aide to Sessions when he was in the Senate), and his chief of staff, John Kelly.

But to what extent does the US even face a “border crisis?” Illegal immigration has been low overall in recent years, though in both 2014 and recently, it has surged, driven often by a combination of motives. Many seek a more hopeful economic future. Many also are escaping gang violence, and some women have fled domestic abuse. Most of these people have been seeking asylum, which the Trump administration has tried to deny them. The avenues for asylum have, partly intentionally, become so crowded that many would-be immigrants have been forced to try to enter the US by illegal means.

Trump may regret that he issued the executive order reversing his own policy. Perhaps, he suggested, there should be no due process for undocumented immigrants; they should be sent back without getting the chance to make their case for asylum. (This proposal will likely remain rhetorical, given its blatant unconstitutionality.)

The US Border Patrol has now suspended prosecution of immigrants, because it has run out of space. So, whatever its preferences, the Trump administration is back to “catch and release.”

One reason for all of this chaos and tragedy is that Trump thinks his anti-immigrant posturing, with which he began his presidential campaign in June 2015, is what brought him victory. He is betting that the anti-immigration issue will be good for the Republicans in November and for his own political ambitions. He might yet be proven right.

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**Fonte:** DREW, Elizabeth. Trump’s Child Hostages. Disponível em: <[https://www.project-syndicate.org/commentary/trump-child-separation-mexico-border-by-elizabeth-drew-2018-06?a\\_la=english&a\\_d=5b339d7e78b6c7088cf05a92&a\\_m=&a\\_a=click&a\\_s=&a\\_p=%2Farhive&a\\_li=trump-child-separation-mexico-border-by-elizabeth-drew-2018-06&a\\_pa=&a\\_ps=>](https://www.project-syndicate.org/commentary/trump-child-separation-mexico-border-by-elizabeth-drew-2018-06?a_la=english&a_d=5b339d7e78b6c7088cf05a92&a_m=&a_a=click&a_s=&a_p=%2Farhive&a_li=trump-child-separation-mexico-border-by-elizabeth-drew-2018-06&a_pa=&a_ps=>)> Acesso em 28 de junho de 2018.

## The Great Soybean Conspiracy (Paul Krugman – 25/06/2018)

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The Trump administration appears to be headed for a trade war on three fronts. As far as anyone can tell, it is simultaneously going to take on China, the European Union and our partners in the North American Free Trade Agreement. The economic fallout will be ugly. But that's probably not the whole story: There's also likely to be ugly political fallout, not just abroad but here at home, too. In fact, I predict that as the downsides of hard-line trade policy become apparent, we'll see a nasty search by President Trump and company for people to scapegoat. In fact, that search has already started.

To understand what's coming, you need to understand two crucial points.

First, the administration has no idea what it's doing. Its ideas on trade don't seem to have evolved at all from those expressed in a white paper circulated by Wilbur Ross, now the commerce secretary, and Peter Navarro, now the trade czar, in 2016. That white paper was a display of sheer ignorance that had actual trade experts banging their heads on their desks. So these people are completely unprepared for the coming blowback.

Second, this administration is infested — I use that word advisedly — with conspiracy theorists. In fact, it seems, literally, to treat belief in absurd conspiracy theories as a job qualification. You may remember the case of an official at the Department of Health and Human Services who was temporarily suspended after reports that she had worked for a conspiracy-theory website. Well, it turns out that she listed that connection on her résumé when she applied for government employment. She was hired not despite but because of her connection to paranoid politics.

So what will happen when cluelessness meets conspiracy theorizing?

About that trade blowback: Trump famously declared that “trade wars are good, and easy to win.” Never mind the goodness issue: It's already becoming apparent that the “easy to win” part is delusional. Other countries won't quickly give in to U.S. demands, in part because those demands are incoherent — Trump is demanding that Europe end the “horrible” tariffs it doesn't actually impose, while the Chinese can't even figure out what the Trump administration wants, with officials calling America “capricious.”

Add in the enormous amount of ill will Trump has generated around the world, and the idea that America is going to get major concessions anytime soon is deeply implausible. In fact, I'm finding it hard to see how we avoid a series of tit-for-tat retaliations that end up taking us well down the path toward full-blown trade war.

And while some import-competing industries might gain from such a trade war, there would be a lot of American losers. For one thing, a lot of American jobs — more than 10 million, according to the Commerce Department — are supported by exports. Agriculture, in particular, is a very export-centered sector, sending more than 20 percent of what it produces abroad. A trade war would eliminate many of these jobs; it would create new jobs

in import-competing industries, but they wouldn't be the same jobs for the same people, so there would be a lot of disruption.

And the damage wouldn't be limited to export industries: More than half of U.S. imports, and 95 percent of the Chinese goods about to face Trump tariffs, are intermediate inputs or capital goods — that is, things that U.S. producers use to make themselves more efficient. So the coming trade war will raise costs and hurt prospects for many businesses, even if they aren't exporters.

So how will this conspiracy-minded administration react when domestic victims of its trade policy start complaining? We've already had a preview.

To date we've only had some minor trade skirmishes; but even these have sent the price of soybeans, which we export to China, plunging, while the price of steel has soared. And farmers and steel-using businesses are unhappy.

So did the administration say, "Look, we're taking a tough stand, and there will be some costs"? Why, no. Instead, Ross declared that the price changes were the work of "antisocial" speculators engaged in "profiteering," and called for an investigation. See, we aren't looking at the predictable effects of administration policy; we're looking at an anti-Trump conspiracy.

By the way, this kind of accusation isn't normal for a top government official. I follow these things, and I've never seen anything like it.

And remember, soybeans and steel offer just a minor preview of the disruptions ahead. How will the administration react to the blowback when the trade war really gets going? Will it admit that it misjudged the effects of its policies? Of course not.

What I predict, instead, is that it will start seeing villains under every bed. It will attribute the downsides of trade conflict not to its own actions, but to George Soros and the deep state. I'm not sure how they can work MS-13 into it, but they'll surely try.

The point is that the politics of trade war will probably end up looking like Trump politics in general: a search for innocent people to demonize.

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**Fonte:** KRUGMAN, Paul. The Great Soybean Conspiracy. Disponível em: <<https://www.nytimes.com/2018/06/25/opinion/trump-trade-war.html>> Acesso em 28 de junho de 2018.

## **Profiles in European Denial (Yanis Varoufakis – 27/06/2018)**

*Yanis Varoufakis, a former finance minister of Greece, is Professor of Economics at the University of Athens.*

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Europe's establishment is luxuriating in two recent announcements that would have been momentous even if they were only partly accurate: The end of Greece's debt crisis, and a Franco-German accord to redesign the eurozone. Unfortunately, both reports offer

fresh proof of the European Union establishment's remarkable talent for never missing an opportunity to miss an opportunity.

The two announcements did not come in the same week by accident. The Greek debt implosion, back in 2010, was the ugly symptom of the eurozone's design flaws, which is why it triggered a domino effect across the continent. Greece's continuing insolvency reflects the deep disagreements within the Franco-German axis concerning eurozone redesign. While three French presidents and the same German chancellor were failing to agree on the institutional changes that would render the eurozone sustainable, Greece was asked to bleed quietly.

In 2015, the Greeks staged a rebellion, which Europe's establishment ruthlessly crushed. Neither Brexit nor the EU's steady de-legitimation in the eyes of European voters managed to convince the establishment to change its ways. French President Emmanuel Macron's election seemed the last hope for the new Berlin-Paris accord needed to prevent a suffocating Italy from triggering the next – this time lethal – domino effect.

Under Macron, new, hopeful ideas were proposed: a common budget for the eurozone; a new safe debt instrument and quasi-federal tax-raising capacities; a common unemployment insurance fund; common bank deposit insurance and a common pot from which to recapitalize failing banks (thus providing the missing foundation of a real banking union). Moreover, a new investment fund would mobilize idle savings across Europe, without adding to the fiscal stress of member-states. And Macron's government also seemed to adopt a proposal I made in 2015, when I was Greece's finance minister, for restructuring public debt via GDP-indexing. That way, the size of Greece's total public debt (and the speed of its repayment) would be linked to the size and growth rate of Greece's nominal income.

A year later, with Italy on a collision course with the EU, the Meseberg Summit between German Chancellor Angela Merkel and Macron delivered an agreement on eurozone reform. A few days later, the Eurogroup of eurozone finance ministers delivered its own "solution" to the Greek debt crisis.

In a decent universe, these two announcements would herald the end of a lost decade for Europe and the beginning of an era of rebuilding so that Europeans may face, together, the challenges posed by US President Donald Trump and the next economic downturn. Alas, that is not the universe we inhabit.

Even before the Meseberg Summit, Macron had diluted his proposals to the point of surrender. The common bank deposit insurance scheme and the recapitalization fund were pushed into an implausible future in which the eurozone periphery's banks have to shed their bad loans before a proper banking union is forged. The common unemployment insurance scheme was not even discussed. Last but not least, a common debt instrument to underpin a eurozone budget amounting to 2-3% of eurozone aggregate income – the main prerequisite for a macroeconomically significant fiscal union – was unceremoniously consigned to the dustbin.

Naturally, Merkel offered just enough to allow Macron to disguise his humiliation as a personal triumph. In front of an ecstatic press corps, they hailed the decision to create a eurozone budget in name, when in reality it is nothing more than a credit line from the European Stability Mechanism (ESM, the bailout fund that gave Greece its loans in 2015). They also agreed to an insubstantial "rainy day" fund, to be financed by member states and

a fictional financial transactions and digital economy tax – a “compromise” that costs Merkel nothing, given that countries like the Netherlands and Ireland are likely to torpedo it.

As for bank recapitalization, Macron and Merkel touted an ESM-funded scheme. But with all ESM decisions subject to German parliamentary approval, the German Bundestag would have veto power over the recapitalization of, say, an Italian bank. Italy’s new government is unlikely to buy into this.

When bankers try to cover up bad loans on their books, they extend new loans to enable their insolvent borrowers to pretend to be servicing the original loan. When the new loan is exhausted, the client is allowed to suspend repayment for a few years, with interest accumulating. This keeps the net present value of their asset (the loan) constant while postponing the day of reckoning (when they have to confess to their regulator that the loan is unrecoverable).

Since 2010, Greece’s creditors have been practicing this extend-and-pretend strategy as though they were training for an Olympic event. Instead of a courageous and therapeutic haircut, or the moderate GDP-indexing solution, the Eurogroup’s recent decision, proclaimed as the “end of the Greek debt crisis” boiled down to the apotheosis of this cynical practice.

Technically speaking, the central pillar of the new debt agreement is a decade-long postponement of payments totaling €96.6 billion (\$112.5 billion) that were due to begin in 2023. The Greek state has thus been offered easy repayments until 2033 in exchange for continuing harsh austerity ad infinitum (a primary budget surplus target of 3.5% of national income until 2022, and 2.2% during 2023-2060); impossible annual debt repayments from 2033 to 2060 (around 60% of the state’s tax revenues); and a debt-to-national income ratio above 230% by 2060 if the next global recession puts the plan’s over-ambitious growth targets out of reach, as it surely will.

Any objective assessment of the Eurogroup’s recent deal on Greek public debt would conclude that it condemns Greece to permanent debt bondage. And an impartial observer of the Merkel-Macron Meseberg Summit would conclude that the eurozone remains as macroeconomically unsustainable as it was five years ago. And yet Europe’s establishment, oblivious to the Nationalist International preparing to devour the EU, is serving it appetizers.

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**Fonte:** VAROUFAKIS, Yanis. Profiles in European Denial. Disponível em: <[https://www.project-syndicate.org/commentary/europe-in-denial-greek-debt-eurozone-reform-by-yanis-varoufakis-2018-06?a\\_la=english&a\\_d=5b34bc1e78b6c7088c0869d5&a\\_m=&a\\_a=click&a\\_s=&a\\_p=%2Farchive&a\\_li=europe-in-denial-greek-debt-eurozone-reform-by-yanis-varoufakis-2018-06&a\\_pa=&a\\_ps=](https://www.project-syndicate.org/commentary/europe-in-denial-greek-debt-eurozone-reform-by-yanis-varoufakis-2018-06?a_la=english&a_d=5b34bc1e78b6c7088c0869d5&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=europe-in-denial-greek-debt-eurozone-reform-by-yanis-varoufakis-2018-06&a_pa=&a_ps=)> Acesso em 28 de junho de 2018.

## **The irremediable folly of a ‘no deal’ Brexit (Martin Wolf – 28/06/2018)**

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

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Important businesses are losing patience with the UK government over progress — or rather lack of it — in the Brexit negotiations. With just 10 months to go before Britain leaves the EU, that is entirely comprehensible. Airbus, for example, has threatened it might pull out of the UK altogether if no trade deal were agreed. Amazingly, Jeremy Hunt, health secretary, responded that it was “completely inappropriate for businesses to be making those kind of threats”. Is this the “party of business”?

Rival politicians are competing for the favour of their base. But some actually believe a “no deal” Brexit is a credible option, possibly even an attractive one. For support, they can appeal to Economists for Free Trade. While theirs is a minority position among economists, it must be evaluated, not only because some members are reputable, but also because it is influential in Brexiter circles. Two recent papers — *Alternative Brexit Economic Analysis* and *What if We Can't Agree?* — lay out the group's arguments for the superiority of a clean break over remaining inside the customs union and single market.

There has been an extensive debate about the best economic models to use. In recent work, this group simply argues that “if the correct Brexit policies are fed in, it seems that all of the models produce directionally the same results — all clustered around a positive 2 per cent to 4 per cent of GDP range” from unilateral free trade, under World Trade Organization rules. Yet such results are the opposite of those of almost all other economists. The differences are due to varying assumptions, as Alasdair Smith of Sussex University told the House of Commons Treasury and International Trade Committees' joint inquiry in May.

These are the group's key assumptions. The cost of EU membership is not the 4 per cent tariff consistent with its overt trade policy instruments, but actually 20 per cent, because of covert regulatory barriers. Under a clean Brexit, much, or even all, of these burdens could be eliminated.

Furthermore, no additional tariff, transaction or regulatory costs would fall on UK exports from trading under WTO rules. The justification for this extraordinary assumption is that, under unilateral free trade, UK producers will sell everywhere at the “world price”. Consequently, the costs of EU tariffs and other barriers will fall entirely on the EU's purchasers. Another justification is that WTO rules prohibit discriminatory barriers and eliminate nearly all transactions costs.

In addition, unilateral free trade is equivalent to general free trade or at least gives a lower bound to the benefits of having many free trade agreements.

These are loaded assumptions.

First, the notion that EU barriers have a tariff equivalent of 20 per cent is highly questionable. Yet let us accept it. The free trade group seems to assume that the UK will sweep away vast numbers of unspecified regulations on, let us say, pharmaceuticals, chemicals, motor vehicles, children's toys or food. Will the public really accept elimination of such notionally burdensome regulations?

Second, if this estimate of EU protection is correct, barriers equivalent to an average tariff of 20 per cent will face UK exports to the EU, in the absence of a trade deal. The group's apparent belief that this will not be costly rests on the idea that the UK's biggest market has no market power. That is incredible. Tell Airbus it can sell its wings freely at a

known “world price”. The idea of homogeneous products traded freely at world prices, anywhere, is absurd.

Third, the idea that trading from outside the customs union and single market is going to be frictionless is implausible. It is certainly not what business believes. If our newly deregulated haven for dangerous goods wants to export, the EU is going to make sure that its regulations really do apply. That is going to be “frictionful”, especially in the short- to medium- term, as businesses warn.

Fourth, the idea that the WTO will be able to protect the UK is a delusion: its dispute-settlement system is ponderous, and toothless; the US is at present engaged in destroying it; and, above all, the EU may well not view as sacrosanct the WTO rights of a country exiting without meeting its obligations. Who will make them think otherwise?

Finally, as Prof Smith notes, unilateral free trade will almost certainly increase the adjustment shock. In the long run, everybody might be better off, but the long run might be very long. Free trade overnight would be a big shock. One should never ignore such costs. In sum, the idea that a “no deal” Brexit would bring large benefits and next to no costs is simply incredible. The government has flirted with the “no deal” option. It should forget it.

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**Fonte:** WOLF, Martin. The irremediable folly of a ‘no deal’ Brexit. Disponível em: <<https://www.ft.com/content/a569100a-7aae-11e8-bc55-50daf11b720d>> Acesso em 28 de junho de 2018.

## **Does the West Want What Technology Wants? (Ricardo Hausmann - 27/06/2018)**

*Ricardo Hausmann, a former minister of planning of Venezuela and former Chief Economist of the Inter-American Development Bank, is Director of the Center for International Development at Harvard University and a professor of economics at the Harvard Kennedy School.*

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In many dimensions, today’s West is not at its best. Many people are challenging the values of liberal democracy (individual rights and majority rule) and even those of the Enlightenment (reason, science, and truth). Populist parties are channeling such sentiments with considerable electoral success, capitalizing on economic malaise, widening inequality, and rising immigration.

Technology is often blamed for the social ills underpinning the populist surge. But what about the causal arrow that runs in the opposite direction, from society to technology? In a world where technological progress promises large benefits, the capacity to supply “what technology wants” may determine which economies are positioned for success, and which are bound to go the way of the Spanish, Portuguese, or Ottoman Empires. Nowadays, that should worry the West more than it worries China.

To ascertain what technology wants requires understanding what it is and how it grows. Technology is really three forms of knowledge: embodied knowledge in tools and materials, codified knowledge in recipes, protocols, and how-to manuals, and tacit knowledge or knowhow in brains. We can have more tools and gadgets, more books and manuals, or more documents at our disposal on the web, but we do not have the capacity at the individual level to cram more stuff into our brains. For technology to grow, it needs to imprint different bits of knowhow in different brains. Societies become more knowledgeable not because individuals know more but because they know different things.

But after storing different bits of knowhow in different brains, using knowhow requires bringing those disparate brains back together again. No wonder, then, that there are fewer polymaths and Renaissance Men today, and that the number of authors per scientific papers or per patent has been growing fast.

One trick that technology uses in order to grow is modularization. If a product's components can be compartmentalized in such a way that different teams are good at different modules and a few are good at putting those modules together, each team may need to know less, even as the whole can know more.

Consider the following example: Chile is the world's largest producer of lithium and Japan's Panasonic is the largest manufacturer of lithium-ion batteries, but it is China's BAIC that is the largest electric vehicle (EV) manufacturer. While America's Tesla is an admirable company, by 2025 Europe and China are expected to have over ten times more EVs than the US, which also lags far behind in the number of charging stations to support them.

This example illustrates two points. First, each module in the value chain benefits from connecting to other modules in the world. Modularity creates a logic that is somewhat different from simple economies of scale. EVs benefit from innovations in mining and in battery manufacturing, wherever they occur. Whoever achieves those innovations will want to connect to the places that use them.

A jumbo aircraft literally requires millions of parts, and innovations in any component can have important implications for the plane's overall design and efficiency. For example, 3-D printing may radically lower the number of parts required by turbine engines and thus significantly reduce their weight (and thus their fuel consumption). To exploit these possibilities, innovating companies need to be able to connect to manufacturers elsewhere in a secure manner.

This is exactly the opposite of what a sunset clause in the North American Free Trade Agreement would accomplish. And it is why Airbus recently warned that Brexit will have severe negative consequences for the United Kingdom's aerospace industry. Modularization requires the ability to tap talent anywhere in the world. In Silicon Valley, over half the science, technology, engineering and math (STEM) workers are foreign-born, and fewer than a fifth were born in California, a state that, with 40 million residents, would rank 36th among the world's countries. With US President Donald Trump's clampdown on immigration, the neighbor to the north put billboards in Silicon Valley that read "H1B Visa Problems? Think Canada."

But implementing many technologies also requires ingredients that can be provided only through non-market mechanisms, and here governments play a critical role. Consider high-speed rail. Without government authorization and cooperation, no private company can build a rail line. Western Europe has more than 14,000 kilometers (8,700 miles) of high-

speed rail, and China has over 25,000. The United States claims to have 56 kilometers, in a short stretch that covers less than 8% of the distance between Boston and Washington, DC. The reason is obvious: this is a technology that, like the electric car, requires a social decision and a government that enables that choice.

In short, technology requires a society that connects to the world, both through trade and openness to talent, in order to exploit the gains from modularization. It also requires a society that is able to develop a shared sense of purpose, one that is deep and powerful enough to direct the government to provide the public goods that new technologies require. The first requirement is facilitated by a society having a broader and more inclusive sense of who is a member. The second is facilitated by a deeper and more meaningful sense of membership.

Developing these attitudes is not easy. It requires a civic rather than an ethnic sense of nationhood. This is why the stakes in today's policy debates in the West are not just about values. In a competitive world, societies pay dearly for being unable – or unwilling – to deliver what technology wants.

The Spanish Empire made the choice to expel the Jews and the Moors from its realm in the late fifteenth century. It tried and failed to impose its intolerance on its dominions in the Low Countries in the sixteenth century. But after an 80-year bloody war of independence, the Netherlands emerged as a beacon of tolerance and attracted some of Europe's greatest talent, from Descartes to Spinoza. Not surprisingly, it became the world's richest country during the seventeenth and eighteenth centuries.

Today's populist forces may disregard what technology wants and impose their vision on the world. But they will inadvertently leave their societies, just like the US rail system, on a very slow track.

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**Fonte:** HAUSMANN, Ricardo. Does the West Want What Technology Wants? Disponível em: <[https://www.project-syndicate.org/commentary/what-technology-wants-is-not-populism-by-ricardo-hausmann-2018-06?a\\_la=english&a\\_d=5b33584478b6c7088c98f35f&a\\_m=&a\\_a=click&a\\_s=&a\\_p=%2Farchive&a\\_li=what-technology-wants-is-not-populism-by-ricardo-hausmann-2018-06&a\\_pa=&a\\_ps=>](https://www.project-syndicate.org/commentary/what-technology-wants-is-not-populism-by-ricardo-hausmann-2018-06?a_la=english&a_d=5b33584478b6c7088c98f35f&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=what-technology-wants-is-not-populism-by-ricardo-hausmann-2018-06&a_pa=&a_ps=>)> Acesso em 28 de junho de 2018.

## **AMLO and Mexican Democracy (Andrés Velasco – 27/06/2018)**

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With the outcome of Mexico's presidential election on July 1 virtually assured, financial market analysts are now asking how bad Andrés Manuel López Obrador (popularly known as AMLO) will be for the economy. The honest answer is that it's anybody's guess.

But markets like few things more than concluding that a populist is not that bad after all. As they did with President Luiz Inácio Lula da Silva in Brazil and Ollanta Humala in Peru, among many others, pundits are rushing to identify reasons for optimism.

One cause for hope is that AMLO has moderated his incendiary rhetoric and is no longer threatening to do away with the North American Free Trade Agreement. Another is that Latin American populists can also be fiscal hawks, as Evo Morales has shown in Bolivia. AMLO's tenure as mayor of Mexico City was fiscally sound, and Carlos Urzúa, his likely finance minister, played a part in that. Moreover, Mexico has a capable central bank with a strong tradition of independence. AMLO's campaign manager has spent much time attempting to reassure investors, and markets may have already priced in whatever AMLO will do. The list goes on.

This is all probably right. But it is also of secondary importance. Financial market gurus are not asking the right question. The key issue is not what AMLO may do to the economy, but what he may do to Mexican democracy. And here the news is not good.

Yes, populism is an approach to economic policy that refuses to acknowledge the existence of budget constraints. As a result, when in power, populists tend to undertax, overspend, overborrow, and allow inflation to rise.

But populism is also – and above all – a style of politics that weakens checks and balances, runs roughshod over institutions, and replaces pluralistic deliberation with the allegedly infallible leadership of a single charismatic leader. For all these reasons, as writers from Princeton's Jan-Werner Muller to Harvard's Yascha Mounk have stressed, political populism is a growing threat to liberal democracy.

The United States and Europe may just be discovering (or rediscovering) this, but Latin Americans know well from history that populism harbors a dangerous authoritarian streak. From Getúlio Vargas in Brazil and Juan Domingo Perón in Argentina decades ago to Daniel Ortega in Nicaragua and Nicolás Maduro in Venezuela today, populists have abused democratic rules and, in some cases, become outright dictators. AMLO has spent most of his long political career playing by the rules of the democratic game. One does not have to believe that he is a chavista or a castrista – he is not – to conclude that his presidency could further weaken the already vulnerable institutions of Mexican democracy.

AMLO's behavior after losing the 2006 presidential election by just 0.5% of the vote suggests what may lie in store. Without producing a shred of evidence, he declared the election had been stolen from him and camped out in Mexico City's main square in a fruitless attempt to prevent the victor from taking power. Mexico had actually made a great deal of progress on democratic reform, strengthening the independent Federal Elections Institute (IFE) to oversee an election that the journalist and writer Héctor Aguilar Camín has called "the most competitive and best counted" in Mexican history. But this did not prevent AMLO from calling IFE directors "thieves," the election process a "pigsty," and the winner, Felipe Calderón, an "illegitimate president."

No one should be surprised that AMLO has made fighting corruption the centerpiece of his campaign. In doing so, he has connected with a voting population that is not only tired of politicians' shenanigans but also frightened by what seems at times like a breakdown of the rule of law under pressure from growing (if localized) drug-related violence.

But no one should expect AMLO to produce a ten-point plan to fight corruption and lawlessness. One problem is that some of AMLO's associates in the motley coalition that is trying to propel him to the presidency – more than a few of them former PRI members – are not exactly paragons of transparency. More fundamentally, AMLO's approach to corruption is textbook populism: social problems that seem complex have simple solutions, and they have not been solved only because traditional elites do not want them solved. Elect a strong leader with sufficient willpower, and those problems will conveniently melt away.

That leader, of course, can only be AMLO. In the words of political scientist Jesus Silva-Herzog Márquez, “the medicine offered by AMLO to combat corruption is AMLO.” Remember Trump’s boast in the Republican National Convention that “I alone can fix it”? The parallel would be amusing if it were not so frightening.

Populism is a kind of identity politics. It thrives on division. It is always us against them. The kind of divisive speech that blames all of society’s ills on someone else – bankers and businesspeople, foreigners and immigrants, Muslims or Jews, pious folk or atheists – is the common thread that binds together right-wing populists like Trump or Hungary’s Viktor Orbán with left-wingers like Hugo Chávez or Ecuador’s Rafael Correa.

AMLO is a faithful member of that brotherhood. His political insults are legendary. He probably lost the 2006 election for calling president Vicente Fox “chachalaca” (a small bird with an annoying chirp). He recently has referred to Mexico’s business community as a “rapacious minority” that opposes him because “it does not want to stop stealing.” For him, politics is the continuation of war by other means.

Mexico is already a deeply polarized country. It does not need a president who preaches a politics of division, even if he turns out to be fiscally prudent. But that is what it will get once it elects AMLO.

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**Fonte:** VELASCO, Andrés. AMLO and Mexican Democracy. Disponível em: <[https://www.project-syndicate.org/commentary/mexico-populist-president-amlo-nears-victory-by-andres-velasco-2018-06?a\\_la=english&a\\_d=5b33b16e78b6c7088c05e262&a\\_m=&a\\_a=click&a\\_s=&a\\_p=%2Farchive&a\\_li=mexico-populist-president-amlo-nears-victory-by-andres-velasco-2018-06&a\\_pa=&a\\_ps=>](https://www.project-syndicate.org/commentary/mexico-populist-president-amlo-nears-victory-by-andres-velasco-2018-06?a_la=english&a_d=5b33b16e78b6c7088c05e262&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=mexico-populist-president-amlo-nears-victory-by-andres-velasco-2018-06&a_pa=&a_ps=>)> Acesso em 28 de junho de 2018.

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