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Brexit Identities (Andrés Velasco – 10/04/2019)

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Bad politics is more the rule than the exception around the world, so it should come as no surprise that the United Kingdom, where parliamentary democracy was born, is not immune. What is surprising is that the UK's withdrawal from the European Union should be the reef on which its political elite is crashing.

Having just moved to London from Latin America, I recently told British dinner companions that the local politics – with its grandstanding politicians, overheated rhetoric, rampant populism, and leaders who put party over country – makes me feel right at home. Their obvious discomfort suggested that I should not repeat the joke.

But I was only half kidding. After all, bad politics is more the rule than the exception around the world. Not even the country that invented parliamentary democracy can be expected to be immune. What *is* surprising – at least to a newcomer – is that the United Kingdom's withdrawal from the European Union should be the cause of all this trouble.

Consider some of the options heatedly debated recently in the House of Commons: customs union, Common Market 2.0 (also known as "Norway-plus"), and a Canada-style free-trade agreement. International trade wonks know that there are substantive differences among these alternatives. But how many MPs knew six months ago the difference between a customs union and a free-trade agreement? Was that subtle distinction a good reason to lead the country into political anarchy? Would ongoing compliance with EU rules really turn the UK into a "vassal state," as former foreign secretary Boris Johnson likes to claim?

Or consider possible outcomes to this terrible tale. Under all the "soft Brexit" options, the UK would remain tightly tied to the European economy, though it would lose all say on the relevant rules. A "hard Brexit" would prove so disruptive that businesses, citizens, and even trade unions would soon be clamoring for renewed ties with Europe. And a new referendum could well overturn Brexit altogether.

As in Lampedusa's *The Leopard*, "Everything must change so that nothing will change" – except that the UK will have wasted a decade and left its GDP at least 2.5% smaller than it might have been.

Of course, Brexit is also about migration. But leaving the EU is necessary to control inflows of people from Europe, not the rest of the world. And while immigration from Europe has fallen since the 2016 Brexit referendum, immigration from the rest of the world has risen, so that the total flow has barely budged.

Brexit exemplifies the age-old principle that politics thrives on conflict. And, more often than not, that conflict is between competing identities, rather than between opposing positions on issues like trade and migration.

Wannabe statesmen always claim to practice the politics of dialogue and consensus. But it is disagreement and conflict that give rising politicians the visibility they need to reach the top. Any practicing politician knows the routine: say something nice about your opponents and you will be ignored. Launch a vitriolic tirade and you will be front-page news.

As Chile's finance minister a decade ago, it took me forever to learn this lesson. Parliamentarians from my own coalition hated highly technical bills that elicited broad support and could be passed with opposition support. They hankered for polarizing issues that would allow them to pick a good fight with the opposition.

Social scientists often assume that political conflict arises from differences over *what you support*. In reality, conflict follows from differences over *who you are*. Britons are no longer supporters of the Conservatives, Labour, or the Liberal Democrats. They are, above all, *Remainers* or *Leavers*.

Recent research shows that nearly one-third of UK voters do not think of themselves as supporters of a political party, but only 11% fail to identify themselves as Remainers or Leavers. Moreover, 44% say that they are a "very strong" Remainers or Leavers, while only 9% claim to identify "very strongly" with a political party.

Brexit-related identities have little to do with policies or facts. Despite much information since the referendum about the likely costs and tradeoffs of Brexit, the share of people claiming that voting to leave the EU was right or wrong has changed remarkably little. As Sara Hobolt of the London School of Economics and her coauthors put it: "To the extent that Brexit identities motivate how we view the world, we are also less likely to change our minds about whether Brexit was 'good' or 'bad,' even when the facts change."

There is one thing both sides agree on, however: the other side is no good. Hobolt and her colleagues report that "both describe each other as *hypocritical*, *selfish*, and *closed-minded*, and their own group as *honest*, *intelligent*, and *open-minded*."

As the white rural voters who traditionally voted Conservative and the Labour-allied industrial working class declined in relative terms, political identities in Britain were bound to change. But it was not historically ordained that nationalism versus cosmopolitanism would become the new axis orienting these identities.

In Richard II, Shakespeare described England as "This precious stone set in the silver sea, which serves it in the office of a wall, or as a moat defensive to a house, against the envy of less happier lands." For centuries, however, Britain used the moat as a means of exercising influence over those other lands, not as a means of cutting itself off from them.

Surveys reveal that Remainer and Leaver identities were not firmly established early on. The share of people identifying strongly with each side only grew *after* the 2016 referendum. In other words, Brexit may have spurred, rather than reflected, the formation of these two competing identities.

Since that fateful day in June 2016, many have tried to establish empirically that Leavers tend to be rural, white, older, uneducated, and – in some accounts – economically disadvantaged, while Remainers are none of the above. But the UK is certainly not the only country with disgruntled citizens who feel left behind by globalization or offended by cultural liberalization. Voters' anger could just as easily have been directed at the London establishment, rather than the Brussels establishment.

All of which reminds us we should never underestimate the role of accident and circumstance in human affairs. Perhaps none of this would have happened if then-Prime

Minister David Cameron had not tried to resolve an internal party dispute by means of a national plebiscite. Surely some of the anger nowadays in the UK should be directed at him.

Fonte: VELASCO, Andrés. Brexit Identities. Disponível em: < https://www.project-syndicate.org/commentary/brexit-identities-prevail-over-policies-and-interests-by-andres-velasco-2019-04?a_la=english&a_d=5cadea9b2674a633f87c4328&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=brexit-identities-prevail-over-policies-and-interests-by-andres-velasco-2019-04&a_pa=&a_ps=> Acesso em 10 de abril de 2019.

Emerging Risks for Emerging Economies (Barry Eichengreen – 10/04/2019)

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The US Federal Reserve's pause on further monetary-policy tightening has fueled a revival of capital inflows. But, given the uncertainties about US policy and Chinese growth prospects, it is too early to conclude that emerging economies are out of the woods.

Suddenly it seems that emerging-market economies have gained a respite. Capital flows to these economies dried up in the second half of last year as the US Federal Reserve raised its policy rate for five consecutive quarters and shrank its balance sheet. But in January, the Fed announced a pause, which now looks to be extended: the dot plots of Federal Open Market Committee members currently indicate no rate rises for the remainder of the year. Moreover, the Fed has signaled that "quantitative tightening," the process of allowing treasuries and mortgage-backed securities to roll off its balance sheet, will continue only through September.

This means merciful relief for emerging economies, which have been buoyed by the resumption of capital inflows. A replay of the second half of last year, much less of the 2013 "taper tantrum," now seems unlikely.

In addition, there is the rebound of the Chinese economy. Other emerging markets, linked to China through global supply chains and raw material exports, are highly leveraged on its growth. Thus, they had good reason to worry when Chinese manufacturing activity shrank in February for the third straight month. Chinese exports are down. Car sales are down. As recently as two weeks ago, all was doom and gloom.

We now know that this pessimism was overdone. Manufacturing activity recovered in March, reflecting measures taken by the Chinese authorities. Policymakers are relying more on fiscal stimulus and less on liquidity creation to offset weak demand.

My view, contrary to that of others, is that this is something China can well afford. Government debt is still low by emerging-market standards. More important, the differential between the interest rate and the growth rate, which shapes debt dynamics, is lower than virtually anywhere else in the world.

Consequently, the central government was able to raise the threshold below which no income tax is paid and to add a tax deduction for parental elder care. It had room to cut taxes for small businesses. It can cut the value-added tax (VAT) and spend upward of 1.5% of GDP on railways, roads, and other projects, as announced in March.

To be sure, China's corporate debt load is heavy. Total social financing is still expected to grow by 10% this year, faster than nominal GDP. Much of this new liquidity is destined for relatively inefficient state-owned enterprises already saddled with bad loans. That said, China remains enough of a controlled economy that the authorities can mitigate its deceleration, as last month's manufacturing rebound indicates.

Relief may also be coming on the tariff front. US President Donald Trump may have hardened his anti-China rhetoric at the behest of his trade representative, Robert Lighthizer, who sees threats as necessary to extract concessions from the Chinese government on intellectual property and technology transfer. There is also the danger of additional US tariffs on other products and sources, such as motor vehicles manufactured in Europe and Mexico.

But Trump's tariff talk is consistently worse than his bite. When other countries refuse to roll over and accept his demands, he has a history of accepting limited concessions and declaring victory, as with the renegotiation of the North American Free Trade Agreement. There is every sign now that a similar cosmetic agreement is in the offing with China.

At the same time, Trump never entirely abandons the tariff threat. Trade conflicts are useful background noise that diverts attention from ongoing political investigations and embarrassments. They make it appear, to the uninitiated and uninformed, that the administration is doing something about slowing US growth.

As a result, Trump's tariff threats will continue to roil global markets and international relations. But they will not culminate in a full-blown tariff war and complete collapse of the multilateral system.

But there remains one significant and serious risk to emerging markets: a US recession. The inversion of the yield curve late last month suggests that investors are now taking this possibility seriously. Some sages at institutions like JPMorgan, which make their living forecasting such events, think there is a significant chance of a recession this year or next**.**

If a recession does occur, it will be severe, because there will be relatively little US policymakers can and will do about it. US interest rates remain low, giving the Fed little room to cut. And, because the budget deficit has already blown up, there will be less appetite for fiscal stimulus.

Moreover, a US recession would interact with other risks. Trump would look for someone to blame, so the trade war could be back on. In that case, China would find it harder to outgrow its corporate debt problem, which in turn would weaken the world's principal engine of economic expansion.

For this reason, the recent respite for emerging-market economies could be short-lived. Given the uncertainties about US policy and Chinese growth prospects, it is too early to conclude that these countries are out of the woods.

Fonte: EICHENGREEN, Barry. Emerging Risks for Emerging Economies. Disponível em: < https://www.project-syndicate.org/commentary/growing-risks-for-emerging-economies-by-barry-eichengreen-2019-04?a_la=english&a_d=5cadf36e2674a633f8865c85&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=growing-risks-for-emerging-economies-by-barry-eichengreen-2019-04&a_pa=&a_ps=> Acesso em 10 de abril de 2019.

Peaceful Coexistence 2.0 (Dani Rodrik – 10/04/2019)

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Today's Sino-American impasse is rooted in "hyper-globalism," under which countries must open their economies to foreign companies, regardless of the consequences for their growth strategies or social models. But a global trade regime that cannot accommodate the world's largest trading economy is a regime in urgent need of repair.

The world economy desperately needs a plan for "peaceful coexistence" between the United States and China. Both sides need to accept the other's right to develop under its own terms. The US must not try to reshape the Chinese economy in its image of a capitalist market economy, and China must recognize America's concerns regarding employment and technology leakages, and accept the occasional limits on access to US markets implied by these concerns.

The term "peaceful coexistence" evokes the Cold War between the US and the Soviet Union. Soviet leader Nikita Khrushchev understood that the communist doctrine of eternal conflict between socialist and capitalist systems had outlived its usefulness. The US and other Western countries would not be ripe for communist revolutions anytime soon, and they were unlikely to dislodge the Communist regimes in the Soviet bloc. Communist and capitalist regimes had to live side by side.

Peaceful coexistence during the Cold War may not have looked pretty; there was plenty of friction, with each side sponsoring its own set of proxies in a battle for global influence. But it was successful in preventing direct military conflict between two superpowers armed to the hilt with nuclear weapons. Similarly, peaceful *economic* coexistence between the US and China is the only way to prevent costly trade wars between the world's two economic giants.

Today's impasse between the US and China is rooted in the faulty economic paradigm I have called "hyper-globalism," under which countries must open their economies to foreign companies maximally, regardless of the consequences for their growth strategies or social models. This requires that national economic models – the domestic rules governing markets –converge considerably. Without such convergence, national regulations and standards will appear to impede market access. They are treated as "non-tariff trade barriers" in the language of trade economists and lawyers.

Thus, the main US complaint against China is that Chinese industrial policies make it difficult for US companies to do business there. Credit subsidies keep state companies afloat and allow them to overproduce. Intellectual property rules make it easier for copyrights and patents to be overridden and new technologies to be copied by competitors. Technology-transfer requirements force foreign investors into joint ventures with domestic firms. Restrictive regulations prevent US financial firms from serving Chinese customers. President Donald Trump is apparently ready to carry out his threat of slapping additional punitive tariffs on $200 billion of Chinese exports if China does not yield to US demands in these areas.

For its part, China has little patience for arguments that its exports have been responsible for significant whiplash in US labor markets or that some of its firms are stealing technological secrets. It would like the US to remain open to Chinese exports and investment. Yet China's own opening to world trade was carefully managed and sequenced, to avoid adverse impacts on employment and technological progress.

Peaceful coexistence would require that US and China allow each other greater policy space, with international economic integration yielding priority to domestic economic and social objectives in both countries (as well as in others). China would have a free hand to conduct its industrial policies and financial regulations, in order to build a market economy with distinctive Chinese characteristics. The US would be free to protect its labor markets from social dumping and to exercise greater oversight over Chinese investments that threaten technological or national security objectives.

The objection that such an approach would open the floodgates of protectionism, bringing world trade to a halt, is based on a misunderstanding of what drives open trade policies. As the principle of comparative advantage indicates, countries trade because it is in their own interest. When they undertake policies that restrict trade, it is either because they reap compensating benefits elsewhere or because of domestic political failures (for example, an inability to compensate the losers).

In the first instance, freer trade is not warranted because it would leave society worse off. In the second case, freer trade may be warranted, but only to the extent that the political failure is addressed (and compensation is provided). International agreements and trade partners cannot reliably discriminate between these two cases. And even if they could, it is not clear they can provide the adequate remedy (enable compensation, to continue the example) or avoid additional political problems (capture by other special interests such as big banks or multinational firms).

Consider China in this light. Many analysts believe that China's industrial policies have played a key role in its transformation into an economic powerhouse. If so, it would be neither in China's interests, nor in the interest of the world economy, to curb such practices. Alternatively, it could be that these policies are economically harmful on balance, as others have argued. Even in that case, however, the bulk of the costs are borne by the Chinese themselves. Either way, it makes little sense to empower trade negotiators – and the special interests lurking behind them – to resolve fundamental questions of economic policy on which there is little agreement even among economists.

Those who worry about the slippery slope of protectionism should take heart from the experience under the General Agreement on Tariffs and Trade prior to the establishment of the World Trade Organization. Under the GATT regime, countries had much greater freedom to pursue their own economic strategies. Trade rules were both weaker and less encompassing. Yet world trade expanded (relative to global output) at a more rapid clip in the three and a half decades after World War II than it has under the post-1990 hyperglobalist regime. Similarly, one can make a convincing case that, thanks to its unorthodox growth policies, China today is a larger market for foreign exporters and investors than if it had stuck to WTO-compliant policies.

Finally, some may say that these considerations are irrelevant, because China has acceded to the WTO and must play by its rules. But China's entry into the WTO was predicated on the idea that it had become a Western-style market economy, or would become one soon. This has not happened, and there is no good reason to expect that it will (or should). A mistake cannot be fixed by compounding it. A global trade regime that cannot accommodate the world's largest trading economy – China – is a regime in urgent need of repair.

Fonte: RODRIK, Dani. Peaceful Coexistence 2.0. Disponível em: < https://www.project-syndicate.org/commentary/sino-american-peaceful-economic-coexistence-by-dani-rodrik-2019-04?a_la=english&a_d=5cade3bb2674a633f873312f&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=sino-american-peaceful-economic-coexistence-by-dani-rodrik-2019-04&a_pa=&a_ps= > Acesso em 10 de abril de 2019.

The Trouble's with Argentina's Economy (Martin Guzman – 10/04/2019)

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With sustained economic growth, Argentina would be able to avoid another debt crisis. Although there are no silver bullets to put the economy on a more stable path, changing current macroeconomic policies would at least give the country a chance.

In 2018, Argentina experienced a currency crisis and stagflation. Annual inflation reached 47.6%, GDP fell by 2.5%, and unemployment and poverty increased.

These indicators reflect chronic problems. Argentina's economy has shrunk in four out of the past seven years. And, for more than a decade, structural deficiencies have created tight constraints on the growth of real demand and prevented the economy from growing sustainably.

When the current government, led by President Mauricio Macri, took office in December 2015, it said that its economic policies would attract foreign direct investment and lead to sustained increases in productivity. The currency crisis that erupted in April 2018 underscored the failure of its policy approach.

In response, the government turned to the International Monetary Fund, secured a $57 billion stand-by loan – the largest in the IMF's history – and agreed on a new approach to address the country's macroeconomic imbalances. But the terms of the loan agreement have kept changing as investors remained nervous.

When the IMF approved the new deal with Argentina last June, the government said that instead of spending the funds, it would use them to increase its liquidity and restore market confidence. But when the peso fell further, the government and the IMF agreed that Argentina could use the loan to meet its debt payments and avoid a default in 2019, a presidential election year. And yet the doubts persisted. Last month, amid fears of another run on the peso, the Fund authorized the central bank to sell up to $9.6 billion of its foreign-exchange reserves to help support the exchange rate.

The situation remains delicate, not least because much of Argentina's public debt is denominated in foreign currencies. The IMF says the country's debt "remains sustainable, but not with a high probability," although the real test of Argentina's debt sustainability will start in 2020.

With elections six months away, there are other, more immediate concerns. For one thing, the IMF-backed macroeconomic plan of contractionary fiscal and monetary policies will help to lengthen the current recession. Moreover, the monetary-policy approach seems to be repeating some of the fundamental mistakes made before the currency crisis.

Whereas the Macri administration planned to reduce the fiscal deficit gradually, the central bank took a much more aggressive approach to curbing inflation. In doing so, it relied on two main assumptions: that the government's policies would put the economy on a sustainable growth path, and that higher interest rates would be effective in stabilizing the price level.

Both assumptions proved to be disastrously wrong. Investment in the real economy largely failed to materialize. Furthermore, high interest rates attracted short-term speculative portfolio capital, making Argentina – and the peso – increasingly vulnerable to a sudden shift in market sentiment.

The authorities should have learned at least two lessons from this. First, fighting chronic inflation requires sustained, coordinated policy efforts rather than mere monetary-policy tightening. And, second, inflation in Argentina will continue in the short term, no matter how tight monetary policy is. Yet the authorities are persisting with the same policies.

The peso devaluation and the consequent rise in inflation have intensified Argentina's distributive conflict, with workers demanding wage increases that compensate for lost purchasing power during the previous year. In this context, monetary-policy announcements will not reduce inflationary expectations – especially given that the Macri administration missed its inflation targets for the past three years by 15, 7.8, and 32.6 percentage points respectively. Unsurprisingly, inflation has risen again in recent months, despite aggressive monetary tightening.

Moreover, financial markets will not allow the peso's real exchange rate to appreciate significantly any time soon. This means that the nominal exchange rate will come under downward pressure, in turn fueling further inflation. Breaking this vicious cycle will not be easy, because it requires policymakers to resolve the distributive conflict in a sluggish economy.

Meanwhile, the central bank continues to rely on high interest rates to support the peso. Although the bank had to act aggressively to contain the currency crisis, it has persisted for too long with a costly policy of high interest rates that is now not only prolonging and deepening the recession, but also – by attracting so-called hot money– increasing exchange rate instability. And while exchange-rate interventions may be warranted in extreme circumstances, selling borrowed foreign-exchange reserves to prop up the peso will make the economy even more fragile.

In 2020, the debt situation will move to center stage. The next government will try to regain access to international credit markets with the country already heavily indebted. If the economy is showing no signs of a quick take-off by then, there will be debt distress. In that scenario, higher debt-rollover costs would be a killer for the economy, because the authorities would have to allocate a larger share of the country's stagnant foreign-currency revenues to repay debt.

The new government would then face two unpleasant options: a straitjacket of higher debt payments, more austerity, and more recession, or a painful debt restructuring with an uncertain outcome.

One thing is clear: to be able to avoid another debt crisis, Argentina will need sustained economic growth. Although there are no silver bullets to put the economy on a more stable path, changing current macroeconomic policies would at least give the country a chance.

Fonte: GUZMAN, Martin. The Trouble with Argentina's Economy. Disponível em: < https://www.project-syndicate.org/commentary/argentina-wrong-economic-policies-by-martin-guzman-2019-04?a_la=english&a_d=5cae2bbb2674a633f8c53316&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=argentina-wrong-economic-policies-by-martin-guzman-2019-04&a_pa=&a_ps=> Acesso em 10 de abril de 2019.

Trump's Most Worrisome Legacy (Joseph E. Stiglitz – 09/04/2019)

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The US president's attacks on America's truth-seeking institutions jeopardize its continued prosperity and very ability to function as a democracy. As corporate giants capture the institutions that are supposed to protect ordinary citizens, a dystopia once imagined only by science fiction writers is emerging before our eyes.

Kirstjen Nielsen's forced resignation as US Secretary of Homeland Security is no reason to celebrate. Yes, she presided over the forced separation of families at the US border, notoriously housing young children in wire cages. But Nielsen's departure is not likely to bring any improvement, as President Donald Trump wants to replace her with someone who will carry out his anti-immigrant policies even more ruthlessly.

Trump's immigration policies are appalling in almost every aspect. And yet they may not be the worst feature of his administration. Indeed, identifying its foulest aspects has become a popular American parlor game. Yes, he has called immigrants criminals, rapists, and animals. But what about his deep misogyny or his boundless vulgarity and cruelty? Or his winking support of white supremacists? Or his withdrawal from the Paris climate accord, the Iran nuclear deal, and the Intermediate-Range Nuclear Forces Treaty? And, of course, there is his war on the environment, on health care, and on the rules-based international system.

This morbid game never ends, of course, because new contenders for the title emerge almost daily. Trump is a disrupting personality, and after he's gone, we may well reflect on how such a deranged and morally challenged person could have been elected president of the world's most powerful country in the first place.

But what concerns me most is Trump's disruption of the institutions that are necessary for the functioning of society. Trump's "MAGA" (Make America Great Again) agenda is, of course, not about restoring the moral leadership of the United States. It embodies and celebrates unbridled selfishness and self-absorption. MAGA is about *economics*. But that forces us to ask: what is the basis of America's wealth?

Adam Smith tried to provide an answer in his classic 1776 book *The Wealth of Nations*. For centuries, Smith noted, standards of living had been stagnant; then, toward the end of the eighteenth century, incomes start to soar. Why?

Smith himself was a leading light of the great intellectual movement known as the Scottish Enlightenment. The questioning of established authority that followed the earlier Reformation in Europe forced society to ask: How do we know the truth? How can we learn about the world around us? And how can and should we organize our society?

From the search for answers to these questions arose a new epistemology, based on the empiricism and skepticism of science, which came to prevail over the forces of religion, tradition, and superstition. Over time, universities and other research institutions were established to help us judge truth and discover the nature of our world. Much of what we take for granted today – from electricity, transistors, and computers to lasers, modern medicine, and smartphones – is the result of this new disposition, undergirded by basic scientific research (most of it financed by government).

The absence of royal or ecclesiastical authority to dictate how society should be organized to ensure that things worked out well, or as well as they could, meant that society had to figure it out for itself. But devising the institutions that would ensure society's wellbeing was a more complicated matter than discovering the truths of nature. In general, one couldn't conduct controlled experiments.

A close study of past experience could, however, be informative. One had to rely on reasoning and discourse – recognizing that no individual had a monopoly on our understandings of social organization. Out of this process emerged an appreciation that governance institutions based on the rule of law, due process, and checks and balances, and supported by foundational values like individual liberty and justice for all, are more likely to produce good and fair decisions. These institutions may not be perfect, but they have been designed so that it is more likely that flaws will be uncovered and eventually corrected.

That process of experimentation, learning, and adaptation, however, requires a commitment to ascertaining the truth. Americans owe much of their economic success to a rich set of truth-telling, truth-discovering, and truth-verifying institutions. Central among them are freedom of expression and independent media. Like all people, journalists are fallible;

but, as part of a robust system of checks and balances on those in positions of power, they have traditionally provided an essential public good.

Since Smith's day, it has been shown that a nation's wealth depends on the creativity and productivity of its people, which can be advanced only by embracing the spirit of scientific discovery and technological innovation. And it depends on steady improvements in social, political, and economic organization, discovered through reasoned public discourse.

The attack by Trump and his administration on every one of the pillars of American society – and his especially aggressive vilification of the country's truth-seeking institutions – jeopardizes its continued prosperity and very ability to function as a democracy. Nor do there appear to be checks on corporate giants' efforts to capture the institutions – the courts, legislatures, regulatory agencies, and major media outlets – that are supposed to prevent them from exploiting workers and consumers. A dystopia previously imagined only by science fiction writers is emerging before our eyes. It should give us chills to think of who "wins" in this world, and who or what we might become, just in the struggle to survive.

Fonte: STIGLITZ, Joseph E. Trump's Most Worrisome Legacy. Disponível em: < https://www.project-syndicate.org/commentary/trump-dangerous-anti-enlightenment-legacy-by-joseph-e-stiglitz-2019-04?a_la=english&a_d=5cac4f3613c4332b8c979c17&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=trump-dangerous-anti-enlightenment-legacy-by-joseph-e-stiglitz-2019-04&a_pa=&a_ps= > Acesso em 09 de abril de 2019.

Who's Afraid of Low Inflation? (Daniel Gros – 09/04/2018)

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The fact that eurozone inflation is closer to 1% than 2% is not ideal, but the European Central Bank should not be overly concerned. The ECB does not need to pull out all the stops and invent ever more instruments in the forlorn hope of increasing inflation by a few tenths of a percentage point.

A year ago, the European Central Bank took advantage of a temporary uptick in prices to declare victory in its fight to bring eurozone inflation up to its target of "below, but close to, 2%." But the triumph proved short-lived. Headline inflation has since come down again, and core inflation, which strips out volatile energy prices, is back to about 1%. Yet this should not be a major concern for the ECB.

The ECB's staff projections still see eurozone inflation reaching close to 2% by 2021-2022. But, having wrongly predicted a pickup in inflation for the past several years, these forecasts now have little credibility. This is apparent in financial-market expectations of eurozone inflation as measured by so-called inflation swap rates, which are stuck below 1%

even five years into the future. And markets predict that euro-area inflation will still be below 1.5% a decade from now.

This puts the ECB in a quandary. The eurozone economy is weakening, which might further diminish inflationary pressures. But the ECB does not dare to restart its sovereign bond-buying program with the aim of providing additional economic stimulus, because national central banks in the eurozone already hold large amounts of their own governments' bonds. Making these central banks buy even more would put them in a very difficult position if any government were to experience financial stress. This is why the ECB has so far limited itself to announcing that it will continue to provide commercial banks with longer-term, three-year financing at ultra-low rates.

The ECB is not alone in facing unexpectedly low inflation. The Bank of Japan launched an even larger bond-buying program and capped interest rates at zero, and yet inflation remains minimal. And although inflation in the United States is much closer to 2%, it is still far lower than expected.

Central banks in advanced economies fear that this lack of inflation could quickly turn into falling prices, and that any slide into such outright deflation would be catastrophic. But are these worries justified?

Those fearing deflation point to the Great Depression of the 1930s, when unemployment rose to about 25% in the US and some Western European countries, and widespread economic hardship fostered political extremism. But one cannot really compare recent mild bouts of deflation, such as prices falling by 1% per year in Japan, to the situation in the 1930s, when prices fell by 20%-30%. As a deflationary event, the Great Depression remains unique.

Nonetheless, some argue that even mild deflation could cause unemployment, because reducing nominal wages is generally difficult. On this conventional view, falling prices would lead to excessively high real wages, resulting in job losses.

But recent experience shows that most advanced economies have maintained high employment despite inflation being close to zero. The obvious example is Japan, which currently has record-high employment and a low unemployment rate – undermining the standard narrative that the country is "mired" or "stuck" in a low-inflation trap. And although the Japanese economy has grown very little in recent decades, this is mainly due to a shrinking working-age population. In terms of *per capita* growth, Japan has not done significantly worse than Europe or the US.

Smaller European economies such as Switzerland and Sweden show a similar pattern of low inflation and high employment. More significantly, the much larger eurozone has also been moving in this direction for some time.

Despite low eurozone inflation, the labor-force participation rate has steadily increased. Today, the eurozone has a higher proportion of economically active adults than the US. Employment is at a record high, and unemployment continues to fall, although it remains high in some southern European countries.

Overall, the eurozone economy has not performed as badly as the consistently gloomy headlines would suggest. Some countries are still struggling to recover from the euro crisis at the beginning of this decade, but others are doing much better. And although average *per capita* GDP growth across the eurozone has slowed over the past 20 years, this deceleration is no worse than in the US or other developed economies.

The fact that eurozone inflation is closer to 1% than 2% is not ideal, but this is a minor inconvenience that most people do not even notice, and which has not impeded a continuous decline in unemployment. The ECB does not need to pull out all the stops and invent ever more instruments in the forlorn hope of increasing inflation by a few tenths of a percentage point. The message for Europe's nervous central bankers is clear: don't worry, be happy.

Fonte: GROS, Daniel. Who's Afraid of Low Inflation?. Disponível em: < https://www.project-syndicate.org/commentary/low-eurozone-inflation-ecb-worries-by-daniel-gros-2019-04?a_la=english&a_d=5cacc84c13c4332b8c1744c2&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=low-eurozone-inflation-ecb-worries-by-daniel-gros-2019-04&a_pa=&a_ps= > Acesso em 09 de abril de 2019.

How Western Economies Can Avoid the Japan Trap (Mohamed A. El-Erian – 08/04/2019)

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With the return of Europe's economic doldrums and signs of a coming growth slowdown in the United States, advanced economies could be at risk of falling into the same kind of long-term rut that has captured Japan. To avoid that outcome, policymakers must recognize and address the deeper structural forces at work.

Not too long ago, the conventional wisdom held that "Japanification" could never happen in Western economies. Leading US economists argued that if the combined threat of weak growth, disinflation, and perpetually low interest rates ever materialized, policymakers would have the tools to deal with it. They had no problem lecturing the Japanese about the need for bold measures to pull their country out of a decades-old rut. Japanification was regarded as the avoidable consequence of poor policymaking, not as an inevitability.

And yet the specter of Japanification now looms over the West. After the 2008 financial crisis, the recoveries in both Europe and the United States were more sluggish and less inclusive than the majority of policymakers, politicians, and economists expected. And, more recently, hopes for achieving "escape velocity" out of the "new normal" of low growth and persistent disinflationary pressure have been dashed in Europe and Japan, and some worry that they may be receding in the US.

Europe, in particular, is back in the grips of a worrisome regionwide slowdown. Growth projections have been consistently revised downward, and the European Central Bank has acknowledged that its earlier optimism about achieving on-target inflation was misplaced. With yields on government bonds having fallen, the global trade in securities at negative interest rates has reached around $10 trillion.

Meanwhile, Japan is approaching its fourth consecutive decade of consistently low nominal growth, inflation, and interest rates. And in the US, a growing number of economists are worried about a coming slowdown, with some urging the US Federal Reserve to cut interest rates, and others calling for it to adopt a higher inflation target in order to combat the risk of excessive disinflation.

Were all those Western economists who dismissed the threat of Japanification in the past being too glib? Yes and no.

Today's Japanification fears stem from legitimate worries about structural disinflationary forces that could cause lower, less inclusive growth, both directly and indirectly. These forces include societal aging, rising inequality (in terms of income, wealth, and opportunity), social and economic insecurity among broad segments of the population, and a loss of trust in institutions and expert opinion.

Along with the zombification of firms after the last asset bubble, these structural factors have led to lower demand, as well as increased risk aversion and self-insurance, rather than growth-promoting risk-pooling, at the margin. Innovation, particularly in artificial intelligence, big data, and mobility, is another factor. Though the economic impact of these technologies is ambiguous, there is no doubt that they are reducing entry barriers across a growing number of economic activities and putting downward pressure on prices (the "Amazon effect"), at least in the short term. Nonetheless, their long-term effects on growth and productivity remain to be seen.

Growth is also being undercut in less direct ways. For example, persistently low – and in some cases negative – interest rates tend to eat away at the institutional integrity and operational effectiveness of the financial system, thereby reducing bank lending and limiting the range of long-term products that insurance/retirement firms can offer to households. Another indirect effect stems from expectations about the future. The longer growth and inflation remain low, the more tempted households and companies will be to postpone consumption and investment decisions, thus prolonging low growth and inflation.

The Western economists who initially underestimated the threat of Japanification did so because they had downplayed or simply ignored these direct and indirect factors. In retrospect, they should not be surprised to find that the societies with the fastest-aging populations and less inward migration are the ones now struggling with Japanification.

Still, those economists were not wrong to argue that policies can play a decisive role in macroeconomic outcomes – especially when structural forces are being amplified by excessive cyclical tightening, as was the case in Japan in 1989. The problem is that they have tended to focus too narrowly on monetary policy, while overestimating its effectiveness. Countries at risk of Japanification need a much broader mix of policies to address both the demand side and the supply side of the economy.

Monetary policy, after all, is less effective near the "zero bound" and in scenarios where other "liquidity trap" factors are in play. Large-scale balance sheet operations like quantitative easing (QE) can buy time by seeking to inject more liquidity directly into the system. But they don't address the underlying issues, and they come with their own set of costs, forms of collateral damage, and unintended consequences.

The strongest protection against Japanification, then, is a combination of demand- and supply-side measures at the national, regional (in the case of Europe), and global levels. In countries with adequate fiscal space, this could mean looser government budgets and more productivity-enhancing investments (such as in infrastructure, education, and training). And in any country facing skills shortages, increased legal migration and better policies to facilitate labor mobility can help close the gap.

Moreover, these policies would need to be accompanied by more effective protections for the most vulnerable segments of the population, particularly when it comes to health, training, and labor retooling. None of this will materialize without better political leadership and more enlightened global policy interactions.

Japanification offers three lessons that Western policymakers and politicians have yet to internalize sufficiently. First, structural pressures make prompt action to reverse low growth, disinflation, and zero-to-low interest rates all the more critical. Second, unconventional monetary measures may be necessary, but they certainly are not sufficient. And, third, when crafting the required comprehensive policy response, we must recognize that the hurdles are a lot less technical, and a lot more political.

Fonte: EL-ERIAN, Mohamed A. How Western Economies Can Avoid the Japan Trap. Disponível em: < https://www.project-syndicate.org/commentary/west-japanization-low-growth-inflation-by-mohamed-a-el-erian-2019-04?a_la=english&a_d=5cab1481fcdfdf4fe42ddce6&a_m=&a_a=click&a_s=&a_p=%2Farchive&a_li=west-japanization-low-growth-inflation-by-mohamed-a-el-erian-2019-04&a_pa=&a_ps=> Acesso em 08 de abril de 2019.

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