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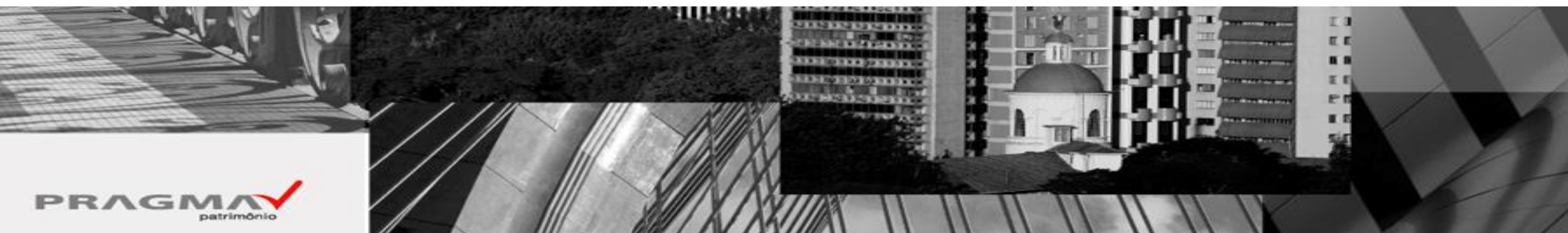
Sumário



The G.O.P. Is No Party for Honest Men (Paul Krugman – 16/10/2017)

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

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According to a new CBS News poll, almost 60 percent of the American public believes that the current Republican tax plan favors the wealthy. Some people see this number as a sign that the plan is in trouble; I see it as a sign that Republican lies are working far better than they deserve to.

For the plan does indeed favor the wealthy — overwhelmingly, undeniably. It's shocking that as many as 40 percent of Americans don't realize this.

It's not difficult to see how the plan is tilted toward the very top. The main elements of the plan are a cut in top individual tax rates; a cut in corporate taxes; an end to the estate tax; and the creation of a big new loophole that will allow wealthy individuals to pretend that they are small businesses, and get a preferential tax rate. All of these overwhelmingly benefit the wealthy, mainly the top 1 percent.

There are also some measures affecting middle-class families, but they're relatively small change — and some of them would actually raise taxes. Over all, the nonpartisan Tax Policy Center estimates that by 2027 almost 80 percent of the gains from the plan would go to the top 1 percent, just 12 percent of the gains to the middle 60 percent of Americans — and that more than a quarter of middle-class families would actually see their taxes go up.

So the question about this plan isn't whether it favors the wealthy — it does, to an outrageous extent. The questions we should be asking instead are why Republicans are pushing this so hard, and how they can hope to get away with it.

Bear in mind that there is essentially no popular constituency demanding tax cuts for the rich. By a large margin, the general public wants to see taxes on corporations and the wealthy go up, not down; even Republicans are divided, with only a modest margin in favor of cuts.

Yet tax cuts for the rich are the overriding objective of the modern G.O.P. They were the principal motivation for the attempt to repeal the Affordable Care Act, since that would also mean repealing the high-income taxes that pay for it; from Republicans' point of view, depriving millions of health care was just a minor side benefit. And now tax cuts for the wealthy are pretty much the only thing left on the G.O.P.'s legislative agenda.

In fact, it's becoming increasingly clear that the hope for tax cuts is the main thing keeping congressional Republicans in line behind Donald Trump. They know he's unfit for office, and many worry about his mental stability. But they'll back him as long as they think he might get those tax cuts through.

So what's behind this priority? Follow the money. Big donors are furious at missing out on the $700 billion in tax cuts that were supposed to come out of Obamacare repeal. If they don't get big bucks out of tax "reform," they might close their pocketbooks for the 2018 midterm elections.

Beyond that, modern conservatism is a sort of ecosystem of media outlets, think tanks, lobbying outfits and more that offers many lucrative niches — so-called wingnut welfare — for the ideologically reliable. And that means being reliable to the interests of the wealthy.

But how can an administration that pretends to be populist, to stand up for ordinary (white) working people, sell such elitist policies? The answer is a strategy based entirely on lies. And I mean entirely: The Trump administration and its allies are lying about every aspect of their tax plan.

I'm not talking about dubious interpretations of evidence or misleading presentation of the facts — the kind of thing the Bush administration used to specialize in. I'm talking about flat-out, easily refuted lies, like the claim that America has the world's highest taxes (among rich countries, we have close to the lowest), or the claim that estate taxes are a huge burden on small business (almost no small businesses pay any estate tax).

Nor do I mean that there are just one or two big lies. There are many — so many I literally don't have space to so much as list them in this column. In a long blog post this past weekend I tried to provide a systematic list; I came up with 10 major Republican lies about tax cuts, and I'm sure I missed a few.

So, politically, can they really get away with this? A lot depends on how the news media handles it. If an administration spokesperson declares that up is down, will news reports simply say "so-and-so says up is down, but Democrats disagree," or will they also report that up is not, in fact, down? I wish I were confident about the answer to that question.

One thing we know for sure, however, is that a great majority of Republican politicians know perfectly well that their party is lying about its tax plan — and every even halfway competent economist aligned with the party definitely understands what's going on.

What this means is that everyone who goes along with this plan, or even remains silent in the face of the campaign of mass dissimulation, is complicit — is in effect an accomplice to the most dishonest political selling job in American history.

Don't Bank on Bankruptcy for Banks (Mark Roe – 18/10/2017)

Mark Roe is a professor at Harvard Law School. He is the author of studies of the impact of politics on corporate organization and corporate governance in the United States and around the world.

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In the next month, the US Treasury Department is expected to decide whether to seek to replace the 2010 Dodd-Frank Act's regulator-led process for resolving failed mega-banks with a solely court-based mechanism. Such a change would be a mistake of potentially crisis-size proportions.

Yes, creating a more streamlined bankruptcy process can reduce the decibel level of a bank's failure, and bankruptcy judges are experts at important restructuring tasks. But there are critical factors that cannot be ignored. Restructuring a mega-bank requires pre-planning, familiarity with the bank's strengths and weaknesses, knowledge of how to time the bankruptcy properly in a volatile economy, and the capacity to coordinate with foreign regulators.

The courts cannot fulfill these tasks alone, especially in the time the proposal under consideration has allotted – a 48-hour weekend. Unable to plan ahead, the courts would enter into the restructuring process unfamiliar with the bank. Moreover, the courts cannot manage the kind of economy-wide crisis that would arise if multiple mega-banks sank simultaneously. And they cannot coordinate with foreign regulators.

In short, completing a proper restructuring would require contributions from regulators, including pre-planning, advice, and coordination. Yet, far from accepting these contributions, the plan would largely cut regulators out of the process.

For example, the plan would bar regulators from initiating a mega-bank's bankruptcy, leaving it to the discretion of the bank's own managers. In the nonfinancial sector, failing companies often wait too long before declaring bankruptcy, so creditors may step in to do some pushing, potentially even forcing a bankruptcy of a failed firm. While bank regulators have tools to push banks similarly, their most effective one is the power to initiate a bankruptcy when it is best for the economy.

Taking this tool away could have severe adverse consequences. Bank executives, like sinking industrial firm executives, have reason to "pray and delay," hoping that some new development will save them. But if a failing mega-bank runs out of cash during such a delay, the risk that its bankruptcy will be disorderly – as with Lehman Brothers in 2008 – rises, as does the potential that it will wreak havoc on the real economy.

The simple fact is that government regulators can do things that courts cannot. Courts lack the staff and expertise to come up with a nation-wide recovery plan. Moreover, they cannot lend to a cash-poor wobbly bank until it can stand on its own. The government can do that – and it can make sure that either the bank will repay the loans (by getting good collateral) or that the financial sector overall will cover the repayment (as Dodd-Frank authorized and required).

When courts preside over nonfinancial bankruptcies, they depend on private lenders to provide emergency liquidity. But in a financial crisis, weakened banks cannot lend, meaning that the government must serve as the lender of last resort. And to play that role well, the government must be deeply involved in the bankruptcy process, so that it can jump in if needed.

The current proposal, which the US House of Representatives has already passed, has other major flaws. For starters, American mega-banks operate worldwide, typically with a significant presence in London and other financial centers. If creditors and depositors of a failed American mega-bank's foreign affiliate run off with the cash they held there, or if a foreign regulator shuts down that affiliate, the US bank would be in an untenable position. Yet courts cannot negotiate understandings with foreign regulators. American regulators can, but only if they can control the timing of the bankruptcy, and otherwise engage in the process.

To be sure, the bankruptcy bill now in play is useful. But it is not robust. It would not allow broad-spectrum, full-scale bankruptcies, in which failing operations are closed under the court's aegis, viable operations are sold, and debts are restructured up and down a company's balance sheet. Rather, the current proposal envisages a limited-scale weekend restructuring, requiring that a precise loan structure be put in place years ahead of time. The bank would be closed on Friday evening, unburdened of pre-positioned evaporating debts over the weekend, and reopened on Monday morning, without (in the best-case scenario) needing a government bailout.

If successful, this kind of rapid-fire bankruptcy process would be valuable. But it has never been tried. To have any chance of re-opening on Monday morning, a bankrupt bank's billions of dollars in long-term debt would already have to be structured in such a way that a bankruptcy court could eliminate it over a weekend.

But bankruptcy judges would have no knowledge in advance of a bank's debt, and they would need more than a weekend to determine whether that debt could be properly stripped out. Government regulators, on the other hand, could do this in advance. And yet, under the current proposal, their official means of doing so would be sharply rolled back.

Bankruptcy, if it works, is a good way for a failing firm to restructure or shrink. But if a failing mega-bank cannot open on Monday morning, the financial system will need backup. Under the current proposal, the absence of a regulatory safety net could result, if the weekend restructuring fails, in a global chaotic free-for-all, just like the one that followed the 2008 Lehman Brothers bankruptcy.

Maintaining financial stability in a crisis is too important for us to pin our hopes on a narrow bankruptcy channel. The courts can help, especially after they have developed a routinized process for restructuring banks, as they have done with airline restructurings. But we should be wary about relying on courts to do things they have never been asked to do before.

The House already voted, precipitously, to replace the regulator-led restructuring system with a weaker court-led setup. Let's hope that wiser heads at the Treasury Department prevail.

Is Vladimir Putin Losing His Grip? (Anders Åslund – 19/10/2017)

Anders Åslund is a senior fellow at the Atlantic Council in Washington, DC. He is the author of Ukraine: What Went Wrong and How to Fix It and, most recently, Europe's Growth Challenge (with Simeon Djankov). He is currently writing a book on Russia's crony capitalism.

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In 1984, just before Mikhail Gorbachev's ascent to power, there was a sense in Moscow that the Soviet Union was petrified, and nothing could change. Then everything did change, exposing the extent of the transformation that had occurred beneath the surface. Today, a similar mood pervades Moscow, with President Vladimir Putin's regime appearing stable, even unbreachable. But, as was the case back then, a closer look reveals a number of chinks in the armor.

In many ways, Russia has been moving backward in recent decades. In the 1990s, Russia was a freewheeling place, where virtually everything was allowed. Moscow had 20 daily newspapers, with views ranging from liberal to Stalinist. Today, Russian civil society is severely stifled, and to watch television in Moscow is to find 20 channels controlled by the Kremlin.

In 1991, Boris Yeltsin, in one of his first actions as President, broke up the old KGB into several agencies, cut its staff by half, and slashed its budget. Today, the KGB's successor, the Federal Security Service (FSB), has seized complete control over Russia's security apparatus, including by arresting high-level generals in other law-enforcement agencies. The result is a single security service that is more powerful than at any time since Stalin – and viewed as independent from the Kremlin.

On the economic front, too, Russia has backtracked. In 2003, Russia's private sector produced 70% of the country's GDP. Today, the state sector generates most of the country's output, squeezing out small and medium-size enterprises, and five big state banks dominate the financial market.

Moreover, Putin's policy of "de-offshoring" has imposed such cumbersome controls on the business leaders of the 1990s that most have sold off their assets in Russia and decamped to London or Monaco. This trend has been accelerated by Russia's lack of any real property rights, which has enabled the Kremlin to cut Russia's wealthy down to size at will, often targeting the most law-abiding among them. Small wonder that forecasts for annual GDP growth are stuck at 1.5-2%.

The regime wants to change this pattern. In May 2016, Putin asked three expert groups to recommend economic-reform programs: a liberal group led by former Finance Minister Alexei Kudrin; a technocratic group led by Economy Minister Maxim Oreshkin; and the more statist Stolypin Club led by Putin's business ombudsman Boris Titov. Each group has delivered thousands of pages of expert reports.

But any shift toward respecting the rule of law would be incompatible with the kleptocratic character of Putin's regime, implying that genuine reform is out of the question. The mandate given to the three groups thus appears to have been little more than therapy for social scientists, a way to keep them busy – and out of the opposition.

Far from embracing change, Putin will seek a fourth term in next year's presidential election – a race he will surely win, given the Kremlin's control over the media and the courts. But, to render his victory credible, Putin needs Russia's dispirited population to show up to vote. It is rumored that Sergei Kiriyenko, the Kremlin's first deputy chief of staff, is targeting 70% turnout, with 70% of those votes going to Putin.

That won't be easy to achieve. In the State Duma elections in September 2016, only 47.8% of registered voters turned out. In local elections last month, even fewer bothered to participate, with Vladivostok reporting just 13% turnout.

If voters are going to show up for next year's presidential election, they will need to believe that real change is possible. Putin needs a credible rival, not the same old Kremlin-linked candidates – the communist Gennady Zyuganov, the nationalist buffoon Vladimir Zhirinovsky, and the purported liberal Grigory Yavlinsky – to join the race. The

socialite Ksenia Sobchak, who announced her candidacy after meeting with Putin, may seem able to inject some life into the campaign. But there is only one real option to secure a large voter turnout: the anti-corruption campaigner and vocal Kremlin critic Alexei Navalny.
In September 2013, when Navalny ran for mayor of Moscow, he received 27% of the vote. But the independent pollster Levada Center reckons that, despite strong support for Navalny in Moscow, he would not obtain more votes today.
Given this, some Kremlin advisers want to let Navalny run, while keeping him off national television. And it seems that the Kremlin may be considering just that, as it has allowed Navalny to hold large campaign meetings with up to 10,000 people in 100 cities.
But others in Putin's inner circle would prefer to lock up Navalny for the fourth time this year – no surprise, given his proven capacity to disrupt the Kremlin's authority. Last March, for example, Navalny produced a 50-minute documentary on corruption, revealing that Prime Minister Dmitri Medvedev had used $1.3 billion in bribes to purchase six palaces and two vineyards. The film, watched on YouTube by some 25 million people, effectively killed Medvedev's political career.
Now, Putin will need to consider who should succeed Medvedev. In the past, he has usually installed a loyal non-entity in that position, and he has many possible candidates, such as the remarkably ineffective Gazprom Chairman Alexei Miller. The question is whether the next prime minister will be more closely allied with Putin or the FSB.
The United States may play an unexpected role in this drama. The recently enacted Countering America's Adversaries Through Sanctions Act, which calls for a report on Russian "oligarchs and parastatal entities" within 180 days, offers the US a unique opportunity to influence the Kremlin before the presidential election.
Many of Russia's wealthy have already fled Russia in fear of the FSB. Now, Russia may see another wave of departures, with those close to the Kremlin fearing that Putin can no longer protect them. Putin may be guaranteed another presidential term, but a regime that cannot satisfy even its rulers is hardly sustainable.

Zombie ideas about Brexit that refuse to die (Martin Wolf – 19/10/2017)

Shang-Jin Wei, a former chief economist of the Asian Development Bank, is Professor of Finance and Economics at Columbia University.

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It is highly likely that the Brexit negotiations will fail, imposing an abrupt shock on the UK economy and ruining relations with its neighbours. This view is condemned by those who insist we must be more positive. That is like advising someone who has just jumped off a building that, if only he thought positively, he could fly. To understand the state we are now in we need to understand the zombie ideas that hold so many Brexiters in their grip.
The first such idea is that the EU is being unreasonable in insisting that the broad terms of the divorce (if not the details) are settled before moving on to transitional arrangements. David Davis, who is in charge of the negotiations for the UK, complained to the House of Commons that "they are using time pressure to see if they can get more money out of us. Bluntly that's what is going on — it's obvious to anybody." Indeed, it is. Stop complaining: that is what strong parties do.
A linked zombie idea is that the UK is really in a stronger position than the EU, because it runs a trade deficit with it. But, even in goods, UK exports to the EU are three times more important to the UK's economy than vice versa (7.5 per cent of gross domestic

product against 2.5 per cent). Even without the UK, the EU remains the second-largest economy in the world, with an economy almost six times bigger, at market prices, in 2016. The UK is negotiating with an economic superpower. How does that feel? Just ask the Canadians, now negotiating with the US over the North American Free Trade Agreement.

Even the notion that the EU's priorities are unreasonable is a zombie idea. It makes sense for the EU to insist that the issues of money, Ireland and EU residents in the UK be dealt with, at least in principle, before moving on. It also has good reason to feel that the UK's suggestions on the first two are inadequate or incoherent. Despite Theresa May's helpful speech in Florence last month, the UK has not indicated in any detail what it thinks it owes: Boris Johnson's statement that the EU can "go whistle" for money is characteristically unhelpful.

A further zombie idea is that the UK economy is a powerhouse. A reading of the latest economic survey from the Organisation for Economic Co-operation and Development demonstrates how delusional this is. The UK has a good employment record. But its average productivity is at best mediocre and its productivity growth post-crisis is in the basement, down there with Italy's. Investment is weak and relative export performance consistently dismal. Contrast Germany. Debt-fuelled consumption kept growth up after the Brexit referendum. But real wages are now falling and growth has weakened, partly due to the dawning reality that Brexit is likely to be ultra-hard, despite the chancellor Philip Hammond's justified efforts to prevent this disaster from happening.

Yet another zombie idea is that the UK can survive quite well without a favourable deal with the EU or a transition to such a deal. It can, we are told, trade perfectly well on World Trade Organisation terms. In any case, trade with our neighbours just does not matter that much. But, as Mark Carney, governor of the Bank of England, has rightly noted, the initial impact of Brexit will be "deglobalisation", not a "global Britain".

This is self-evident. It is also impossible to compare today's intra-industrial trade, particularly within supply chains, with the inter-industry trade of the 19th century, as some now do. In trade today both proximity and regulatory barriers matter. It will be impossible to offset the loss of favourable access to EU markets, which now take some 40 per cent of the UK's exports. Even to start on this, the UK would have to reach favourable deals with the US, China and India, the actual and potential superpowers. In all such negotiations, the UK will be very much the weaker party. Talks would be brutal.

Yet another zombie is the idea that it will be possible to shift smoothly to WTO terms for trade with the EU. All procedures governing trade with the EU would need to be refashioned. That would take the enthusiastic co-operation of partners who will regard the UK as something like a pariah. Why should anybody think they will make it easy for the UK?

The last zombie is the idea that those who deny the claims of the Brexiters are "traitors" or "saboteurs" working against "the will of the people". This is despotism. In a liberal democracy, we are all entitled to our opinions and to seek to overturn what we consider grossly mistaken decisions. The saboteurs are those whose zombie ideas have brought the UK to a ruinous break with its neighbours and natural partners. It is our right to argue this. And we will.

The Economic Case for China's Belt and Road (Shang-Jin Wei – 13/10/2017)

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Since 2013, China has been pursuing its "Belt and Road" initiative, which aims to develop physical infrastructure and policy linkages connecting more than 60 countries across Asia, Europe, and Africa. Critics worry that China may be so focused on expanding its geopolitical influence, in order to compete with the likes of the United States and Japan, that it may pursue projects that make little economic sense. But, if a few conditions are met, the economic case for the initiative is strong.

As a recent Asian Development Bank report confirms, many Belt and Road countries are in urgent need of large-scale infrastructure investment – precisely the type of investment that China has pledged. Some, such as Bangladesh and Kyrgyzstan, lack reliable electricity supplies, which is impeding the development of their manufacturing sectors and stifling their ability to export. Others, like Indonesia, do not have enough ports for internal economic integration or international trade.

The Belt and Road initiative promises to help countries overcome these constraints, by providing external funding for ports, roads, schools, hospitals, and power plants and grids. In this sense, the initiative could function much like America's post-1945 Marshall Plan, which is universally lauded for its contribution to the reconstruction and economic recovery of war-ravaged Europe.

Of course, external funding alone is not sufficient for success. Recipient countries must also undertake key reforms that increase policy transparency and predictability, thereby reducing investment risk. Indeed, implementation of complementary reforms will be a key determinant of the economic returns on Belt and Road investments.

For China, the Belt and Road investments are economically appealing, particularly when private Chinese firms take the lead in carrying them out. In 2013, when China first proposed the Belt and Road initiative, the country was sitting on $4 trillion in foreign-exchange reserves, which were earning a very low dollar return (less than 1% a year). In terms of China's own currency, the returns were negative, given the expected appreciation of the renminbi against the US dollar at the time.

In this sense, Belt and Road investments are not particularly costly for China, particularly when their far-reaching potential benefits are taken into account. China's trade-to-GDP ratio exceeds 40% – substantially higher than that of the US – owing partly to underdeveloped infrastructure and inadequate economic diversification among China's trading partners. By addressing these weaknesses, China's Belt and Road investments can lead to a substantial increase in participant countries' and China's own trade volumes, benefiting firms and workers substantially.

This is not to suggest that such investments are risk-free for China. The economic returns will depend on the quality of firms' business decisions. In particular, because efficiency is not the primary consideration, Chinese state-owned enterprises (SOEs) might purse low-return projects. That is why China's SOE-reform process must be watched carefully. Nonetheless, while the Belt and Road initiative is clearly driven partly by strategic objectives, a cost-benefit analysis shows that the economic case is also very strong – so strong, in fact, that one might ask why China didn't undertake it sooner.

Even the United States and other countries may reap significant economic returns. A decade after the global financial crisis erupted, recovery remains weak and tentative in much of the world. Bold, large-scale infrastructure investments can provide much-needed short-run stimulus to global aggregate demand. The US, for one, is likely to see a surge in demand for its own exports, including cars, locomotives, planes, and high-end construction equipment, and financial, accounting, educational, and legal services.

In the longer term, the new infrastructure will ease logistical bottlenecks, reducing the costs of production inputs. The result will be higher productivity and faster global growth.

If Belt and Road projects are held to high environmental and social standards, significant progress can also be made on global challenges such as climate change and inequality. The more countries choose to participate in these projects, the better the chance of achieving these standards, and the greater the global social returns will be.

In an era when some of the world's most influential countries are turning inward, talking about erecting trade barriers and constructing border walls, the world needs initiatives focused on building bridges and roads, both literal and figurative – initiatives like the Belt and Road strategy.

Central Banks Must Work Together – or Suffer Alone (Kaushik Basu – 18/10/2017)

Kaushik Basu, former Chief Economist of the World Bank, is Professor of Economics at Cornell University and Nonresident Senior Fellow at the Brookings Institution.

Global growth seems to be moving, slowly but surely, along the path to recovery. The International Monetary Fund's latest World Economic Outlook predicts 3.5% global growth this year, up from 3.2% last year. But there's a hitch: the easy monetary policies that have largely enabled economies to return to growth are reaching their limits, and now threaten to disrupt the recovery by creating the conditions for another financial crisis.

In recent years, the world's major central banks have pursued unprecedentedly easy monetary policies, including what a recent Deutsche Bank report calls "multi-century all-time lows in interest rates." That, together with large-scale quantitative easing, has injected a massive $32 trillion into the global economy over the last nine years. But these unconventional policies are turning out to be a classic game-theoretic bad equilibrium: each central bank stands to gain by keeping interest rates low, but, collectively, their approach constitutes a trap.

In today's globalized world, a slight reduction in interest rates by an individual central bank can bring some benefits, beginning with weakening the currency and thus boosting exports. But the more countries employ this strategy, the greater the strain on the banking sector. This is already apparent in Europe, where bank equity prices have dropped steadily in recent months.

Moreover, low and especially negative interest rates make holding cash costly, prompting investors to seek riskier investments with higher potential returns. As a result, collateralized loan obligations (CLOs) have more than doubled this year, reaching an overall market value of $460 billion. That looks a lot like the surge in collateralized debt obligations (CDOs) that helped to drive the 2008 financial crisis. While the world has implemented more checks and balances for CLOs than it did for CDOs before the crisis, the trend remains deeply worrying.

Finally, persistently low interest rates can cause people to worry about their retirement funds, spurring them to save more. Far from boosting consumption, as intended, monetary stimulus may create an environment that dampens demand, weakening prospects for economic growth.

Today, no single country can steer the world away from this trap. The United States, which might have taken the lead in the past, has ceded its global leadership position in recent years – a process that has been greatly accelerated during the first year of Donald Trump's presidency. Moreover, the G20 has lately lost steam in supporting closer coordination of monetary and fiscal policies among the world's major advanced and emerging economies.

Perhaps a new grouping of the major players – the GMajor? – needs to step up, before it is too late. To gain the needed motivation, monetary policymakers should recall the "traveler's dilemma," a game theory parable that highlights the pitfalls of individual rationality.

The parable features a group of travelers, returning home with identical pottery purchased on a remote island. Finding that the pottery has been damaged in transit, they demand compensation from the airline. Because the airline manager – known as the "financial wizard" – has no idea what the price of the pottery is, a creative solution is needed to determine the appropriate amount of compensation.

The manager decides that each traveler should write down the price – any integer from $2 to $100 – without conferring with one another. If all write the same number, that

figure will be understood as the price, and thus the amount of compensation each traveler receives. If they write different numbers, the lowest number will be taken as the correct price. Whoever wrote the lowest number would receive an additional $2, as a reward for honesty, while anyone who wrote a higher number would receive $2 less, as a penalty for cheating. So if some write $80 and some $90, they will receive $82 and $78, respectively, in compensation.
At first blush, the travelers are thrilled. The pottery has no actual monetary value, but if they each write $100, all can receive $100 in compensation. One traveler, however, quickly realizes that writing $99 would be a better option, because it would garner that extra $2 reward, and thus a total of $101. That traveler quickly realizes, however, that others must have had the same idea, and so decides to put down $98 instead. But what if the others had the same thought? Better make it $97.
In the end, trapped by this inexorable logic, all travelers end up writing and receiving $2. The outcome may seem a disaster, but it is also the most rational choice – the "Nash equilibrium" of the traveler's dilemma game. It is clear how the financial wizard came by his moniker.
The moral of the story is simple. The invisible hand of the market does not always lead individually self-interested agents to a collectively desirable outcome. Altruism and regard for others must play a role. If they are missing, the players at least need to coordinate their decisions. Unless central bankers take that message to heart, they will find themselves sweeping up a lot of broken pottery.

The reason oil could drop as low as $20 per barrel (Anatole Kaletsky – 19/10/2017)

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How low can it go — and how long will it last? The 50 percent slump in oil prices raises both those questions and while nobody can confidently answer the first question (I will try to in a moment), the second is pretty easy.
Low oil prices will last long enough for one of two events to happen. The first possibility, the one most traders and analysts seem to expect, is that Saudi Arabia will re-establish OPEC's monopoly power once it achieves the true geopolitical or economic objectives that spurred it to trigger the slump. The second possibility, one I wrote about two weeks ago, is that the global oil market will move toward normal competitive conditions in which prices are set by the marginal production costs, rather than Saudi or OPEC monopoly power. This may seem like a far-fetched scenario, but it is more or less how the oil market worked for two decades from 1986 to 2004.
Whichever outcome finally puts a floor under prices, we can be confident that the process will take a long time to unfold. It is inconceivable that just a few months of falling prices will be enough time for the Saudis to either break the Iranian-Russian axis or reverse the growth of shale oil production in the United States. It is equally inconceivable that the oil market could quickly transition from OPEC domination to a normal competitive one. The many bullish oil investors who still expect prices to rebound quickly to their pre-slump trading range are likely to be disappointed. The best that oil bulls can hope for is that a new, and substantially lower, trading range may be established as the multi-year battles over Middle East dominance and oil-market share play out.

The key question is whether the present price of around $55 will prove closer to the floor or the ceiling of this new range. The history of inflation-adjusted oil prices, deflated by the U.S. Consumer Price Index, offers some intriguing hints. The 40 years since OPEC first flexed its muscles in 1974 can be divided into three distinct periods. From 1974 to 1985, West Texas Intermediate, the U.S. benchmark, fluctuated between $48 and $120 in today's money. From 1986 to 2004, the price ranged from $21 to $48 (apart from two brief aberrations during the 1998 Russian crisis and the 1991 war in Iraq). And from 2005 until this year, oil has again traded in its 1974 to 1985 range of roughly $50 to $120, apart from two very brief spikes in the 2008-09 financial crisis.

What makes these three periods significant is that the trading range of the past 10 years was very similar to the 1974-85 first decade of OPEC domination, but the 19 years from 1986 to 2004 represented a totally different regime. It seems plausible that the difference between these two regimes can be explained by the breakdown of OPEC power in 1985 and the shift from monopolistic to competitive pricing for the next 20 years, followed by the restoration of monopoly pricing in 2005 as OPEC took advantage of surging Chinese demand.

In view of this history, the demarcation line between the monopolistic and competitive regimes at a little below $50 a barrel seems a reasonable estimate of where one boundary of the new long-term trading range might end up. But will $50 be a floor or a ceiling for the oil price in the years ahead?

There are several reasons to expect a new trading range as low as $20 to $50, as in the period from 1986 to 2004. Technological and environmental pressures are reducing long-term oil demand and threatening to turn much of the high-cost oil outside the Middle East into a “stranded asset” similar to the earth's vast unwanted coal reserves. Additional pressures for low oil prices in the long term include the possible lifting of sanctions on Iran and Russia and the ending of civil wars in Iraq and Libya, which between them would release additional oil reserves bigger than Saudi Arabia's on to the world markets.

The U.S. shale revolution is perhaps the strongest argument for a return to competitive pricing instead of the OPEC-dominated monopoly regimes of 1974-85 and 2005-14. Although shale oil is relatively costly, production can be turned on and off much more easily – and cheaply – than from conventional oilfields. This means that shale prospectors should now be the “swing producers” in global oil markets instead of the Saudis. In a truly competitive market, the Saudis and other low-cost producers would always be pumping at maximum output, while shale shuts off when demand is weak and ramps up when demand is strong. This competitive logic suggests that marginal costs of U.S. shale oil, generally estimated at $40 to $50, should in the future be a ceiling for global oil prices, not a floor.

On the other hand, there are also good arguments for OPEC-monopoly pricing of $50 to $120 to be re-established once markets test the bottom of this range. OPEC members have a strong interest in preventing a return to competitive pricing and could learn to function again as an effective cartel. Although price-fixing becomes more difficult as U.S. producers increase market share, OPEC could try to impose pricing “discipline” if it can knock out many U.S. shale producers next year. The macro-economic impact of low oil prices on global growth could help this effort by boosting economic activity and energy demand.

So which of these arguments will prove right: The bearish case for a $20 to $50 trading-range based on competitive market pricing? Or the bullish one for $50 to $120 based on resumed OPEC dominance?

Ask me again once the price of oil has fallen to $50 – and stayed there for a year or so.

A Stock Market Panic Like 1987 Could Happen Again (Robert Schiller – 19/10/2017)

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Oct. 19, 1987, was one of the worst days in stock market history. Thirty years later, it would be comforting to believe it couldn’t happen again.

Yet that’s true only in the narrowest sense: Regulatory and technological change has made an exact repeat of that terrible day impossible. We are still at risk, however, because fundamentally, that market crash was a mass stampede set off through viral contagion.That kind of panic can certainly happen again.

I base this sobering conclusion on my own research. (I won a Nobel Memorial Prize in Economic Sciences in 2013, partly for my work on the market impact of social psychology.) I sent out thousands of questionnaires to investors within four days of the 1987 crash, motivated by the belief that we will never understand such events unless we ask people for the reasons for their actions, and for the thoughts and emotions associated with them.

From this perspective, I believe a rough analogy for that 1987 market collapse can be found in another event — the panic of Aug. 28, 2016, at Los Angeles International Airport, when people believed erroneously that they were in grave danger. False reports of gunfire at the airport — in an era in which shootings in large crowds had already occurred — set some people running for the exits. Once the panic began, others ran, too.

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That is essentially what I found to have happened 30 years ago in the stock market. By late in the afternoon of Oct. 19, the momentous nature of that day was already clear: The stock market had fallen more than 20 percent. It was the biggest one-day drop, in percentage terms, in the annals of the modern American market.

I realized at once that this was a once-in-a lifetime research opportunity. So I worked late that night and the next, designing a questionnaire that would reveal investors’ true thinking.

Those were the days before widespread use of the internet, so I relied on paper and ink and old-fashioned snail mail. Within four days, I had mailed out 3,250 questionnaires to a broad range of individual and institutional investors. The response rate was 33 percent, and the survey provided a wealth of information.

My findings focused on psychological data and differed sharply from those of the official explanations embodied in the report of the Brady Commission — the task force set up by President Ronald Reagan and chaired by Nicholas F. Brady, who would go on to become Treasury secretary.

The commission pinned the crash on causes like the high merchandise trade deficit of that era, and on a tax proposal that might have made some corporate takeovers less likely.

The report went on to say that the “initial decline ignited mechanical, price-insensitive selling by a number of institutions employing portfolio insurance strategies and a small number of mutual fund groups reacting to redemptions.”

Portfolio insurance, invented in the 1970s by Hayne Leland and Mark Rubinstein, two economists from the University of California, Berkeley, is a phrase we don’t hear much anymore, but it received a lot of the blame for Oct. 19, 1987.

Portfolio insurance was often described as a form of program trading: It would cause the automatic selling of stock futures when prices fell and, indirectly, set off the selling of stocks themselves. That would protect the seller but exacerbate the price decline.

The Brady Commission found that portfolio insurance accounted for substantial selling on Oct. 19, but the commission could not know how much of this selling would have happened in a different form if portfolio insurance had never been invented.
In fact, portfolio insurance was just a repackaged version of the age-old practice of selling when the market started to fall. With hindsight, it's clear that it was neither a breakthrough discovery nor the main cause of the decline.
Ultimately, I believe we need to focus on the people who adopted the technology and who really drove prices down, not on the computers.
Portfolio insurance had a major role in another sense, though: A narrative spread before Oct. 19 that it was dangerous, and fear of portfolio insurance may have been more important than the program trading itself.
On Oct. 12, for instance, The Wall Street Journal said portfolio insurance could start a "huge slide in stock prices that feeds on itself" and could "put the market into a tailspin." And on Saturday, Oct. 17, two days before the crash, The New York Times said portfolio insurance could push "slides into scary falls." Such stories may have inclined many investors to think that other investors would sell if the market started to head down, encouraging a cascade.
In reality, my own survey showed, traditional stop-loss orders actually were reported to have been used by twice as many institutional investors as the more trendy portfolio insurance.
In that survey, I asked respondents to evaluate a list of news articles that appeared in the days before the market collapse, and to add articles that were on their minds on that day.
I asked how important these were to "you personally," as opposed to "how others thought about them." What is fascinating about their answers is what was missing from them: Nothing about market fundamentals stood out as a justification for widespread selling or for staying out of the market instead of buying on the dip. (Such purchases would have bolstered share prices.)
Furthermore, individual assessments of news articles bore little relation to whether people bought or sold stocks that day.
Instead, it appears that a powerful narrative of impending market decline was already embedded in many minds. Stock prices had dropped in the preceding week. And on the morning of Oct. 19, a graphic in The Wall Street Journal explicitly compared prices from 1922 through 1929 with those from 1980 through 1987.
The declines that had already occurred in October 1987 looked a lot like those that had occurred just before the October 1929 stock market crash. That graphic in the leading financial paper, along with an article that accompanied it, raised the thought that today, yes, this very day could be the beginning of the end for the stock market. It was one factor that contributed to a shift in mass psychology. As I've said in a previous column, markets move when other investors believe they know what other investors are thinking.
In short, my survey indicated that Oct. 19, 1987, was a climax of disturbing narratives. It became a day of fast reactions amid a mood of extreme crisis in which it seemed that no one knew what was going on and that you had to trust your own gut feelings.
Given the state of communications then, it is amazing how quickly the panic spread. As my respondents told me on their questionnaires, most people learned of the market plunge through direct word of mouth.
I first heard that the market was plummeting while lecturing to my morning class at Yale. A student in the back of the room was listening to a miniature transistor radio with an earphone, and interrupted me to tell us all about the market.
Right after class, I walked to my broker's office at Merrill Lynch in downtown New Haven, to assess the mood there. My broker appeared harassed and busy, and had time enough only to say, "Don't worry!"
He was right for long-term investors: The market began rising later that week, and in retrospect, stock charts show that buy-and-hold investors did splendidly if they stuck to their strategies. But that's easy to say now.

Like the 2016 airport stampede, the 1987 stock market fall was a panic caused by fear and based on rumors, not on real danger. In 1987, a powerful feedback loop from human to human — not computer to computer — set the market spinning.

Such feedback loops have been well documented in birds, mice, cats and rhesus monkeys. And in 2007 the neuroscientists Andreas Olsson, Katherine I. Nearing and Elizabeth A. Phelps described the neural mechanisms at work when fear spreads from human to human.

In response to the 1987 crash and the Brady Commission report, the New York Stock Exchange instituted Rule 80B, a “circuit breaker” that, in its current amended form, shuts down trading for the day if the Standard & Poor’s 500-stock index falls 20 percent from the previous close. That 20 percent threshold is interesting: Regulators settled on a percentage decline just a trifle less than the one that occurred in 1987. That choice may have been an unintentional homage to the power of narratives in that episode.

But 20 percent would still be a big drop. Many people believe that stock prices are already very high — the Dow Jones industrial average crossed 23,000 this week — and if the right kinds of human interactions build in a crescendo, we could have another monumental one-day decline. One-day market drops are not the greatest danger, of course. The bear market that started during the financial crisis in 2007 was a far more consequential downturn, and it took months to wend its way toward a market bottom in March 2009.

That should not be understood as a prediction that the market will have another great fall, however. It is simply an acknowledgment that such events involve the human psyche on a mass scale. We should not be surprised if they occur or even if, for a protracted period, the market remains remarkably calm. We are at risk, but with luck, another perfect storm — like the one that struck on Oct. 19, 1987 — might not happen in the next 30 years.