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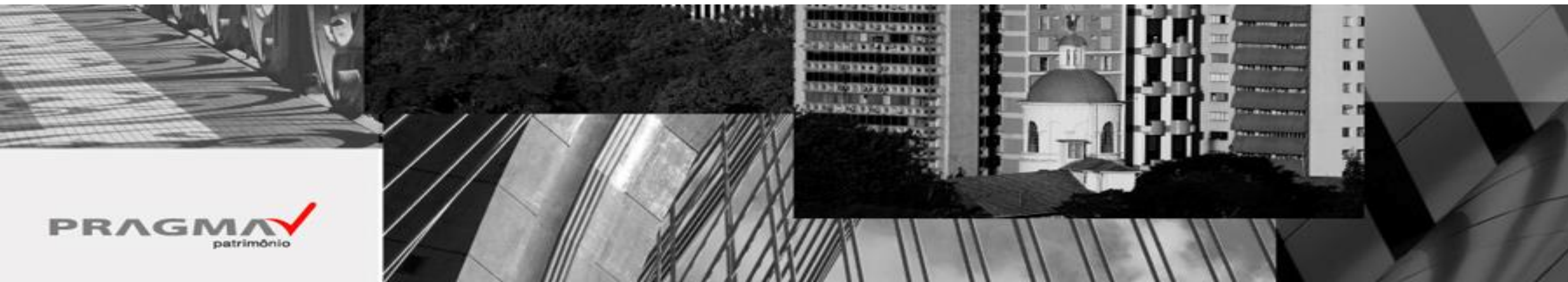

America’s tax plan is not worth its name (Lawrence Summers – 08/10/2017)

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

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The US administration’s tax plan is not a plan. It is a mélange of ideas put forth without precision or arithmetic. It is not clear enough to permit the kind of careful quantitative analysis of budget costs, economic impacts and distributional implications that precedes legislation in a serious country. It is clear enough to demonstrate that the claims of Steven Mnuchin, Treasury secretary, Gary Cohn, director of the National Economic Council, and Kevin Hassett, chair of the Council of Economic Advisers, are some combination of ignorant, disingenuous and dishonest.

I have strong disagreements on tax policy with Republican economists like Greg Mankiw, Glenn Hubbard and Martin Feldstein and with Treasury alumni like Nick Brady, John Snow and Hank Paulson. Nothing I have ever heard or read from them seems absurd or dishonest in the way that almost everything coming out of this administration has that character.

We know enough to know that a tax reform plan along the lines of the administration’s sketch will not substantially increase growth, will blow out the budget deficit and will make America an even more unequal place.

The administration pushes the idea that cutting the corporate tax rate will spur investment. It is certainly possible that with a lower rate, accountants will locate more corporate income in the US but a big spur to investment seems very unlikely. With long-term interest rates well below 2 per cent, the stock market sky high and business able to write off investments immediately, capital costs have never been lower.

True, there is much cash parked outside the US. But almost all the companies with large cash holdings outside the US also have cash hoards in the US that they choose not to invest. The first order impact of a “territorial system” that renounces a US tax claim to corporations’ overseas income will be to encourage the relocation of productive activity from America to tax-haven jurisdictions, and so to slow US growth.

It should not be forgotten that the most rapid growth in gross domestic product that the US has seen took place in the 1950s, 1960s and 1970s when top tax rates were nearly twice as high as now. Those rates were surely too high and punitive rates would be a huge mistake in the current context. Yet it is absurd to suggest that reductions from current levels will call forth some renaissance of hard work.

What about the budget deficit? In order for tax cuts to pay for themselves, as Mr Mnuchin sometimes asserts, they would have to massively spur growth. Since it is unlikely they will have any important effect on growth, they will bloat the budget deficit at a time when we should be preparing for the next downturn, for rising entitlement costs, and potentially for the need for increased national security spending.

It is worse than this. Many in the administration’s orbit have expressed the belief that the Federal Reserve’s quantitative easing programme has inflated asset prices. If so, increasing the supply of bonds should have a significant depressing impact on asset prices and the economy. Any possible supply-side benefits of the tax programme have to be weighed against the damping impact of future deficits on economic growth.

Finally, there is the question of fairness. Those secure in their beliefs do not, as Mr Mnuchin did, seek to de-publish studies by apolitical civil servants. There is very little doubt among serious economists that the immediate impact of corporate tax cuts would be to help corporations and that the vast majority of corporate shareholding is concentrated among those at the top of the income and wealth distribution.

Anyone in doubt about fairness should note that the administration chooses to exclude the estate tax from discussion when it considers fairness and is unwilling, as all previous Treasuries have been, to present a revenue and distributional analysis of its plan.

This week the world's finance ministers and central bank governors will gather in Washington for the annual International Monetary Fund-World Bank meetings. These meetings used to be a time when the US urged other countries to respect the laws of economics and arithmetic in formulating economic policies. This time the lecturing should go in the opposite direction. The international community should make sure that US officials have a very uncomfortable week. Just possibly, that will be enough to get the administration economic team to consult their consciences as well as their Twitter accounts.

Fonte: Financial Times

The Demise of Dollar Diplomacy? (Barry Eichengreen – 11/10/2017)

Barry Eichengreen is Professor of Economics at the University of California, Berkeley, and a former senior policy adviser at the International Monetary Fund. His latest book is Hall of Mirrors:The Great Depression, the Great Recession, and the Uses – and Misuses – of History.

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Mark Twain never actually said "Reports of my death have been greatly exaggerated." But the misquote is too delicious to die a natural death of its own. And nowhere is the idea behind it more relevant than in discussions of the dollar's international role.

Pundits have been saying last rites for the dollar's global dominance since the 1960s – that is, for more than a half-century now. The point can be shown by occurrences of the phrase "demise of the dollar" in all English-language publications catalogued by Google.

The frequency of such mentions, adjusted for the number of printed pages per year, first jumped in 1969, following the collapse of the London Gold Pool, an arrangement in which eight central banks cooperated to support the dollar's peg to gold. Use of the phrase soared in the 1970s, following the collapse of the Bretton Woods system, of which the dollar was the linchpin, and in response to the high inflation that accompanied the presidencies of Richard Nixon, Gerald Ford, and Jimmy Carter in the 1970s.

But even that spike was dwarfed by the increase in mentions and corresponding worries about the dollar starting in 2001, reflecting the shock of the terrorist attacks that September, the mushrooming growth of the US trade deficit, and then the global financial crisis of 2008.

Yet through all of this, the dollar's international role has endured. As my coauthors and I show in a new book, the share of dollars in the foreign-currency reserves held by central banks and governments worldwide hardly budged in the face of these events. The greenback remains the dominant currency traded in foreign-exchange markets. It is still the unit in which petroleum is priced and traded worldwide, Venezuelan leaders' complaints about the "tyranny of the dollar" notwithstanding.

To the consternation of many currency traders, the value of the dollar fluctuates widely, as its rise, fall, and recovery in the course of the last year have shown. But this does little to erode the attractiveness of the dollar in international markets.

Central banks still hold US Treasury bonds because the market for them is the single most liquid financial market in the world. And Treasury bonds are secure: the federal government has not fallen into arrears on its debt since the disastrous War of 1812.

In addition, US diplomatic and military links encourage America's allies to hold dollars. States with their own nuclear weapons hold fewer dollars than countries that depend on the US for their security needs. Being in a military alliance with a reserve-currency-issuing country boosts the share of the partner's foreign-exchange reserves held in that currency by roughly 30 percentage points. The evidence thus suggests that the share of reserves held in dollars would fall appreciably in the absence of this effect.

This under-appreciated link between geopolitical alliances and international currency choice reflects a combination of factors. Governments have reason to be confident that the reserve-currency country will make servicing debt held by its allies a high priority. In return, those allies, by holding its liabilities, can help to lower the issuer's borrowing costs.

Here, then, and not in another imbroglio over the federal debt ceiling this coming December, is where the real threat to the dollar's international dominance lies. As one anonymous US State Department official put it, President Donald Trump "does not seem to care about alliances and therefore does not care about diplomacy."2

South Korea and Japan are thought to hold about 80% of their international reserves in dollars. One can imagine that the financial behavior of these and other countries would change dramatically, with adverse implications for the dollar's exchange rate and US borrowing costs, were America's close military alliances with its allies to fray.

Nor is it hard to imagine how this fraying could come about. President Donald Trump has painted himself into a strategic corner: he needs a concession from North Korea on the nuclear-weapons issue in order to save face with his base, not to mention with the global community. And, for all of Trump's aggressive rhetoric and posturing, the only feasible way to secure such a concession is through negotiation. Ironically, the most plausible outcome of that process is an inspections regime not unlike the one negotiated by Barack Obama's administration with Iran.

To get there, Trump's administration will have to offer something in return. The most obvious bargaining chip that could be offered to make the North Korean regime feel more secure is a reduction in US troop levels on the Korean Peninsula and in Asia in general, With that, the US security guarantee for Asia will weaken, in turn providing China an opportunity to step into the geopolitical breach.

And where China leads geopolitically, its currency, the renminbi, is likely to follow.

Fonte: Project Syndicate

The False Narrative of Realpolitik (Lee Howell – 09/10/2017)

Lee Howell is a member of the Management Board of the World Economic Forum.

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In an era of divisive social media and partisan "fake news," the notion that "actions speak louder than words" is no longer true. As we are rediscovering, words are both powerful and problematic, particularly in the context of geopolitics. The recent United Nations General Assembly meeting in New York offered the latest reminder that in diplomacy, words still matter.

Much attention has been drawn to US President Donald Trump's remark that the United States "will have no choice but to totally destroy North Korea" should the Democratic People's Republic of Korea (DPRK) threaten it or its allies. In fact, most military experts agree that a kinetic war on the Korean Peninsula would annihilate the DPRK, and quite possibly South Korea along with it.

But other parts of Trump's UN speech, especially its passages about national interests and sovereignty, require further reflection. Trump makes no secret of his desire to "put America first," and he reiterated that pledge at the UN dais. But he also urged other leaders to put their countries first, too. "To overcome the perils of the present and to achieve the promise of the future, we must begin with the wisdom of the past," he said. "Our success depends on a coalition of strong and independent nations that embrace their sovereignty to promote security, prosperity, and peace for themselves and for the world."

One could infer, and many have, that such statements signal a revival of US devotion to Realpolitik in world affairs. As the historian John Bew observed in his 2016 history of the term, the pendulum swing was to be expected: “Our foreign policy debates follow cycles, in which policymakers declare themselves more idealistic, or more realistic.”

But Bew’s survey also reminds us that the singular pursuit of national interests – the type of worldview championed by Trump – is not Realpolitik at all if it is uncoupled from a transformative idea or normative purpose. Severing moral concerns from global affairs would only weaken the US and all who emulate it.

The concept of Realpolitik emerged from the mixed outcomes of the European revolutions of 1848, when Germany’s future unification had many possible permutations, but the larger political goal – an international order comprising strong nation-states – was nonetheless clear. But in the wake of Trump’s “America First” doctrine, the challenge for the world today is to discern what the purpose of political realism has become.

One answer was shared at the World Economic Forum’s (WEF) annual meeting in Davos earlier this year. There, Chinese President Xi Jinping offered a robust defense of globalization and emphasized his view that in pursuing national agendas, countries should place objectives “in the broader context” and “refrain from pursuing their own interests at the expense of others.”

If leaders of the world’s two most powerful countries differ fundamentally in their approach to international relations, what are the prospects for strengthening cooperation globally?

History is replete with examples of conflicts stemming from a rising power challenging the influence and interests of an incumbent. During the Peloponnesian War, according to the Greek historian Thucydides, “It was the rise of Athens and the fear that this instilled in Sparta that made war inevitable.” How China and the US avoid what Harvard’s Graham Allison has termed the “Thucydides Trap” is of great concern to the world, as is ensuring that geostrategic disputes elsewhere don’t lead to violence.

As Stanford biologist Robert Sapolsky has argued, behavioral dichotomies that might seem inevitable and crucial one minute can, under the right circumstances, “evaporate in an instant.” For Sapolsky, “contact theory,” which was developed in the 1950s by psychologist Gordon Allport, can foster reconciliation among rivals, and help bridge the “us-them” divide. “Contact,” whether between kids at a summer camp or negotiators around a table, can lead to greater understanding if engagement is lengthy and on neutral territory, outcome-oriented, informal, personal, and avoids anxiety or competition.

What is said during these engagements is crucial. As the Nobel laureate economist Robert J. Shiller has noted, stories, whether true or not, are drivers of major decisions, especially economic choices. In his study of “narrative economics,” Shiller highlights the effects that “viral” stories can have on the global economy. He points out that people’s choices and assessments of current events are partly based on the stories they have heard about past events. For example, the 2007-2009 global financial crisis is called the “Great Recession” because the traumatic tales of the Great Depression persist in our collective memory.

Words and narratives affect international affairs in similar ways. Narratives that have emerged in response to – or as a result of – national, regional, and global divisions are often structured by an “us-them” dichotomy. But these national narratives, as appealing as they may be to some, must not be confused with Realpolitik,as they remain bereft of the innovation, inspiration, and idealism needed for transformational change.

Stories that seek to preserve the singular benefits of global integration, while limiting shared obligations, may in fact go “viral” domestically, because citizens yearn for responsive leadership that addresses local and national concerns. But a shared identity and collective purpose remains elusive, despite the fact that we are living in an age of social networks.

That fact alone cannot absolve governments of their regional and global responsibilities. The political, economic, and social fractures that have emerged must not foster intolerance, indecision, or inaction. That is why next year's WEF annual meeting will seek to rededicate leaders to the development of a shared narrative, one that strengthens cooperation for this generation and every generation to come.

Fonte: Project Syndicate

The Case Against Free-Market Capitalism (Ngaire Woods – 12/10/2017)

Ngaire Woods is Dean of the Blavatnik School of Government and Founder of the Global Economic Governance Program at the University of Oxford.

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Free-market capitalism is on trial. In the United Kingdom, Labour Party leader Jeremy Corbyn accuses neoliberalism of increasing homelessness, throwing children into poverty, and causing wages to fall below subsistence level. For the defense, Conservative Prime Minister Theresa May cites the immense potential of an open, innovative, free-market economy. Similar "proceedings" are taking place around the world.

Just a quarter-century ago, the debate about economic systems – state-managed socialism or liberal democracy and capitalism – seemed to have been settled. With the Soviet Union's collapse, the case was closed – or so it seemed.

Since then, the rise of China has belied the view that a state-led strategy will always fail, and the global financial crisis exposed the perils of inadequately regulated markets. In 2017, few of the world's fastest-growing economies (Ethiopia, Uzbekistan, Nepal, India, Tanzania, Djibouti, Laos, Cambodia, Myanmar, and the Philippines) have free markets. And many free-market economies are suffering from growth slowdowns and rapidly rising inequality.

Against this background, some politicians are no longer defending free-market capitalism in terms of economic growth or the gains from globalization. Instead, they focus on individual opportunity. May, for example, has credited the system with reducing infant mortality, increasing life expectancy, driving down absolute poverty, boosting disposable incomes, expanding access to education, and slashing illiteracy rates.

But these claims aren't in line with the facts. Start with maternal mortality. Much of the world has made great strides in making childbirth safer. From 1990 to 2015, Albania reduced its maternal deaths per 100,000 live births from 29.3 to 9.6. China, the poster child for state-led growth, reduced its rate from 114.2 to 17.7.

Meanwhile, the trend in the United States, the paragon of free-market democracy, has gone in the opposite direction, with maternal deaths per 100,000 live births actually rising, from 16.9 in 1990 to 26.4 in 2015. Equally shocking, the morbidity and mortality of white (non-Hispanic) middle-aged men and women in the US increased between 1999 and 2013.

The claim that free-market policies "slash illiteracy" is also misleading. In England, some 15% of adults (5.1 million people) are still "functionally illiterate," meaning that they have literacy levels at or below those expected of an 11-year-old. Scotland's most recent survey showed a decline in literacy, with less than half of the country's 13- and 14-year-olds now performing well in writing. In fact, if you Google "successful literacy campaign," the country with astonishing literacy gains that fills your screen is Cuba – hardly a free-market system.

The conservative case, eloquently articulated by May, is that a free-market economy, operating under the right rules and regulations, is the greatest agent of collective human progress ever created. If that claim is true, the only logical conclusion is that we are doing it wrong.

So what measures are needed to get it right? The practical solutions on offer seem to be fairly consistent across the political spectrum. Indeed, for all their furious positioning, the differences between left and right seem to have collapsed in this regard.

In the UK, the first suggestion is to ensure economy-wide investment and growth, which will require government intervention. Corbyn proposes a National Investment Bank and Transformation Fund to mobilize public investment and create wealth and good jobs. May, for her part, suggests an industrial strategy to promote “growth across the whole country,” helping to “turn local areas of excellence into national export champions.”

Second, private-sector leadership must change, in order to prevent short-term thinking, tax avoidance, and other forms of opportunism and personal enrichment. Here, Corbyn focuses on accountability in corporate boardrooms, while May calls for giving workers and shareholders a stronger voice in firms’ decision-making and ensuring that the largest companies have incentives to think long term.

A third corrective is to improve employees’ pay and working conditions. In Britain, even as the economy has grown, wages have been dropping – by 10% from 2007 to 2014. Corbyn promises to take action to stop employers from driving down pay and working conditions. For May, “all work should be fair and decent, with scope for development and fulfillment.” Both make the case for improving vocational training and technical education.

Fourth, in Britain, the government must address the public-housing crisis. In the 1950s and 1960s, an average of some 300,000 houses were being built every year; that figure has now dropped to less than half. Corbyn proposes a review of social housing, rent control, and regeneration for the people. May has announced the creation of a £2 billion ($2.62 billion) fund for building more council housing.

Finally, Britain needs more effective rules and regulations to ensure that privatized utilities deliver cheaper, more sustainable services. Corbyn accuses companies of handing out large dividends to shareholders, while infrastructure crumbles, service deteriorates, and companies pay far too little in taxes. May promises to end “rip-off energy prices.”

The orthodoxy established by Margaret Thatcher and Ronald Reagan in the 1980s – to roll back the state, after a decade of profligate and bloated government – is guilty as charged. A new consensus is emerging that more active and effective government is required to boost growth and expand opportunity. The jury is still out, however, on whether governments will be given the tools and support they need to rehabilitate the defendant.

Fonte: Project Syndicate

Europe’s Return to Crisis? (Daniel Gros – 11/10/2017)

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

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Just four months ago, when the Europhile Emmanuel Macron was elected as France’s president, it seemed that the European Union could finally look forward to a period of calm. But calm is the last thing one can see on the streets of Barcelona, where demonstrations in favor of Catalonian independence – a referendum on which was brutally suppressed by government forces – have been met with equally potent protests against it.

As Spain’s internal conflict escalates, a return to crisis in Europe may seem all but inevitable. Yet what is happening on the ground in Spain actually indicates that the

European economic recovery is strengthening, while highlighting the limits of what the EU can achieve.

The strength of the EU's economic recovery is revealed by the absence of any significant financial-market reaction to the tumultuous scenes in Catalonia. Had a similar situation arisen a few years ago, there would have been a run on Spanish government bonds, and Spain's stock market would have tanked. Today, however, markets are taking the country's profound political uncertainty in stride.

This vote of confidence is built on solid foundations. The entire eurozone economy is growing at respectable, albeit unspectacular, rates. And the Spanish economy has been growing faster than the eurozone average, all while keeping its external accounts in slight surplus.

This means that Spain's recovery is based on increasing supply, rather than rising domestic demand, as was the case during the pre-crisis construction boom. Add to that the existence of eurozone institutions that can address temporary financing difficulties faced by banks or states, and it becomes clearer why Spain's deep political crisis has not been accompanied by dangerous financial-market gyrations.

But the Catalonia crisis also underscores the limitations of the EU's model of integration, which are rooted in the fact that the Union is ultimately based on the nation-state. This model cannot be described as inter-governmental. Rather, it is based on indirect implementation: almost everything the EU does and decides is carried out by national governments and their administrations.

This distinction can be seen most strikingly in the area of monetary policy, where the decision-making mechanism is definitely not intergovernmental: the European Central Bank's Governing Council operates on the basis of a simple majority.

But the implementation mechanism is certainly indirect: once a decision is made, it is carried out by national central banks – an approach that can have important implications. For example, the vast bond-buying operations nominally undertaken by the ECB in recent years have been handled largely by national central banks, which purchase their own governments' bonds.

The European Court of Justice in Luxembourg – another common institution of crucial importance – also relies on a decision-making mechanism that is not inter-governmental. Yet its judges are nominated by national governments, and national courts and administrations enforce its decisions.

A comparison with the United States highlights the weaknesses of this approach. While the US Federal Reserve also has a regional structure, the individual District Reserve Banks cover several states and aren't tied to any state government or institution. Likewise, US Supreme Court justices are nominated by federal institutions (the Senate accepts or rejects nominees put forward by the president), not by state governments.

For the EU, relying on its member states to build common institutions was arguably the only way to start the integration process, given deep mistrust among countries that had fought so many brutal wars against one another. And yet a union that relies on the nation-state, not just for implementation, but also for legitimacy, can function only as well as its individual members. But, today, with most of them are beset by internal strife, that model is reaching its limits.

In Greece, weak administrative and judicial systems have impeded economic recovery. In Poland and Hungary, "illiberal" governments are undermining judicial independence. And in Spain, the political system seems incapable of resolving the conflict between the regional government of Catalonia, with its aspirations of greater self-determination, and the central government in Madrid, which argues that even considering the question would undermine the constitutional order.

Even Germany is facing internal political challenges. Having lost about one-fifth of her voters in the recent federal election, Chancellor Angela Merkel will have to reckon with three unruly coalition partners during her fourth – and probably last – term. As for Italy, opinion polls suggest that a majority of voters now support populist and/or Euroskeptic parties.

While outright Euroskeptic parties appear unlikely to gain power anywhere, these political shifts do not bode well for European integration. The EU faces little outright hostility. Today it is facing, instead, an “obstructionist indifference,” as many of its member states are increasingly preoccupied with their internal challenges, making European integration little more than a second thought throughout most of the continent.

Those EU leaders who do still want to advance integration can no longer count on the argument, used during the financial crisis, that there is no alternative. And the permissive consensus of the first years of integration is long gone. If further progress toward “ever-closer union” is to be made, Europe’s leaders will have to find a new model that can overcome their citizens’ deepening apathy.

Fonte: Project Syndicate

Spain’s Crisis is Europe’s Opportunity (Yanis Varoufakis – 06/10/2017)

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

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To revive the ailing European project, the ugly conflict between Catalonia’s regional government and the Spanish state may be just what the doctor ordered. A constitutional crisis in a major European Union member state creates a golden opportunity to reconfigure the democratic governance of regional, national, and European institutions, thereby delivering a defensible, and thus sustainable, EU.

The EU’s official reaction to the police violence witnessed during Catalonia’s independence referendum amounts to dereliction of duty. To declare, as the President of the European Commission did, that this is an internal Spanish problem in which the EU has no say is hypocrisy on stilts.

Of course, hypocrisy has long been at the center of the EU’s behavior. Its officials had no compunction about meddling in a member state’s internal affairs – say, to demand the removal of elected politicians for refusing to implement cuts in the pensions of their poorest citizens or to sell off public assets at ridiculous prices (something I have personally experienced). But when the Hungarian and Polish governments explicitly renounce fundamental EU principles, non-interference suddenly became sacrosanct.

The Catalan question has deep historical roots, as does nationalism more broadly. But would it have erupted the way it recently did had Europe not mishandled the eurozone crisis since 2010, imposing quasi-permanent stagnation on Spain and the rest of the European periphery while setting the stage for xenophobia and moral panic when refugees began crossing Europe’s external borders? An example illustrates the connection.

Barcelona, Catalonia’s exquisite capital, is a rich city running a budget surplus. Yet many of its citizens recently faced eviction by Spanish banks that had been bailed out by their taxes. The result was the formation of a civic movement that in June 2015 succeeded in electing Ada Colau as Barcelona’s mayor.

Among Colau’s commitments to the people of Barcelona was a local tax cut for small businesses and households, assistance to the poor, and the construction of housing for 15,000 refugees – a large share of the total number that Spain was meant to absorb from frontline states like Greece and Italy. All of this could be achieved while keeping the city’s books in the black, simply by reducing the municipal budget surplus.

Alas, Colau soon realized that she faced insurmountable obstacles. Spain’s central government, citing the state’s obligations to the EU’s austerity directives, had enacted legislation effectively banning any municipality from reducing its surplus. At the same time, the central government barred entry to the 15,000 refugees for whom Colau had built excellent housing facilities.

To this day, the budget surplus prevails, the services and local tax cuts promised have not been delivered, and the social housing for refugees remains empty. The path from this sorry state of affairs to the reinvigoration of Catalan separatism could not be clearer.

In any systemic crisis, the combination of austerity for the many, socialism for bankers, and strangulation of local democracy creates the hopelessness and discontent that are nationalism's oxygen. Progressive, anti-nationalist Catalans, like Colau, find themselves squeezed from both sides: the state's authoritarian establishment, which uses the EU's directives as a cover for its behavior, and a renaissance of radical parochialism, isolationism, and atavistic nativism. Both reflect the failure to fulfill the promise of shared, pan-European prosperity.2

Catalonia provides an excellent case study of Europe's broader conundrum. Choosing between an authoritarian Spanish state and a "make Catalonia great again" nationalism is equivalent to choosing between Jeroen Dijsselbloem, the President of the Eurogroup of eurozone finance ministers, and Marine Le Pen, the leader of France's far-right National Front: austerity or disintegration.

The duty of progressive Europeans is to reject both: the deep establishment at the EU level and the competing nationalisms ravaging solidarity and common sense in member states like Spain.

The alternative is to Europeanize the solution to a problem caused largely by Europe's systemic crisis. Instead of impeding local and regional democratic governance, the EU should be fostering it. The EU treaties could be amended to enshrine the right of regional governments and city councils, like Catalonia's and Barcelona's, to fiscal autonomy and even to their own fiscal money. They could also be allowed to implement their own policies on refugees and migration.

If there was still demand for statehood and separation from the internationally recognized state to which they belong, the EU could invoke a code of conduct for secession. For example, the EU could stipulate that it will sanction an independence referendum if the regional government requesting it has already won an election on such a platform with an absolute majority of the voters. Moreover, the referendum should be held at least one year after the election, to allow for a proper, sober debate.

As for the new state, it should be obligated to maintain at least the same level of fiscal transfers as before. Rich Veneto could secede from Italy, for example, as long as it maintained its fiscal transfers to the South. Moreover, the new state should be prohibited from erecting new borders and be compelled to guarantee its residents the right to triple citizenship (new state, old state, and European).

The Catalonia crisis is a strong hint from history that Europe needs to develop a new type of sovereignty, one that strengthens cities and regions, dissolves national particularism, and upholds democratic norms. The immediate beneficiaries would be Catalans, the people of Northern Ireland, and maybe the Scots (who would in this manner snatch an opportunity out of the jaws of Brexit). But the longer-term beneficiary of this new type of sovereignty would be Europe as a whole. Imagining a pan-European democracy is the prerequisite for imagining a Europe worth saving.

Fonte: Project Syndicate

Another Nobel Surprise for Economics (Robert J. Shiller – 10/10/2017)

Robert J. Shiller, a 2013 Nobel laureate in economics, is Professor of Economics at Yale University and the co-creator of the Case-Shiller Index of US house prices. He is the author of Irrational Exuberance, the third edition of which was published in January 2015, and, most recently, Phishing for Phools: The Economics of Manipulation and Deception, co-authored with George Akerlof.

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The winner of this year's Nobel Memorial Prize in Economic Sciences, Richard Thaler of the University of Chicago, is a controversial choice. Thaler is known for his lifelong pursuit of behavioral economics (and its subfield, behavioral finance), which is the study of economics (and finance) from a psychological perspective. For some in the profession, the idea that psychological research should even be part of economics has generated hostility for years.

Not from me. I find it wonderful that the Nobel Foundation chose Thaler. The economics Nobel has already been awarded to a number of people who can be classified as behavioral economists, including George Akerlof, Robert Fogel, Daniel Kahneman, Elinor Ostrom, and me. With the addition of Thaler, we now account for approximately 6% of all Nobel economics prizes ever awarded.

But many in economics and finance still believe that the best way to describe human behavior is to eschew psychology and instead model human behavior as mathematical optimization by separate and relentlessly selfish individuals, subject to budget constraints. Of course, not all economists, or even a majority, are wedded to this view, as evidenced by the fact that both Thaler and I have been elected president, in successive years, of the American Economic Association, the main professional body for economists in the United States. But many of our colleagues unquestionably are.

I first met Thaler in 1982, when he was a professor at Cornell University. I was visiting Cornell briefly, and he and I took a long walk across the campus together, discovering along the way that we had similar ideas and research goals. For 25 years, starting in 1991, he and I co-organized a series of academic conferences on behavioral economics, under the auspices of the US National Bureau of Economic Research.

Over all those years, however, there has been antagonism – and even what appeared to be real animus – toward our research agenda. Thaler once told me that Merton Miller, who won the economics Nobel in 1990 (he died in 2000), would not even make eye contact when passing him in the hallway at the University of Chicago.

Miller explained his reasoning (if not his behavior) in a widely cited 1986 article called "Behavioral Rationality in Finance." Miller conceded that sometimes people are victims of psychology, but he insisted that stories about such mistakes are "almost totally irrelevant" to finance. The concluding sentence of his review is widely quoted by his admirers: "That we abstract from all these stories in building our models is not because the stories are uninteresting but because they may be too interesting and thereby distract us from the pervasive market forces that should be our principal concern."

Stephen A. Ross of MIT, another finance theorist who was a likely future Nobel laureate until he died unexpectedly in March, argued along similar lines. In his 2005 book Neoclassical Finance, he, too, eschewed psychology, preferring to build a "methodology of finance as the implication of the absence of arbitrage." In other words, we can learn a lot about people's behavior just from the observation that there are no ten-dollar bills lying around on public sidewalks. However psychologically bent some people are, one can bet that they will pick up the money as soon as they spot it.

Both Miller and Ross made wonderful contributions to financial theory. But their results are not the only descriptions of economic and financial forces that should interest us, and Thaler has been a major contributor to a behavioral research program that has demonstrated this.

For example, in 1981, Thaler and Santa Clara University's Hersh Shefrin advanced an "economic theory of self-control" that describes economic phenomena in terms of people's inability to control their impulses. Sure, people have no trouble motivating themselves to pick up a ten-dollar bill that they might find on a sidewalk. There is no self-control issue there. But they will have trouble resisting the impulse to spend it. As a result, most people save too little for their retirement years.

Economists need to know about such mistakes that people repeatedly make. During a long subsequent career, involving work with UCLA's Shlomo Benartzi and others, Thaler has proposed mechanisms that will, as he and Harvard Law School's Cass Sunstein put it in their book Nudge, change the "choice architecture" of these decisions. The same people, with the same self-control problems, could be enabled to make better decisions.

Improving people's saving behavior is not a small or insignificant matter. To some extent, it is a matter of life or death, and, more pervasively, it determines whether we achieve fulfillment and satisfaction in life.

Thaler has shown in his research how to focus economic inquiry more decisively on real and important problems. His research program has been both compassionate and grounded, and he has established a research trajectory for young scholars and social engineers that marks the beginning of a real and enduring scientific revolution. I couldn't be more pleased for him – or for the profession.

Fonte: Project Syndicate

Three Scenarios for the Global Economy (Nouriel Roubini – 10/10/2017)

Nouriel Roubini, a professor at NYU's Stern School of Business and CEO of Roubini Macro Associates, was Senior Economist for International Affairs in the White House's Council of Economic Advisers during the Clinton Administration. He has worked for the International Monetary Fund, the US Federal Reserve, and the World Bank.

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For the last few years, the global economy has been oscillating between periods of acceleration (when growth is positive and strengthening) and periods of deceleration (when growth is positive but weakening). After over a year of acceleration, is the world headed toward another slowdown, or will the recovery persist?

The current upswing in growth and equity markets has been going strong since the summer of 2016. Despite a brief hiccup after the Brexit vote, the acceleration endured not just Donald Trump's election as US president, but also the heightening policy uncertainty and geopolitical chaos that he has generated. In response to this apparent resilience, the International Monetary Fund, which in recent years had characterized global growth as the "new mediocre," recently upgraded its World Economic Outlook.

Will the recent growth spurt continue over the next few years? Or is the world experiencing a temporary cyclical upswing that will soon be subdued by new tail risks, like those that have triggered other slowdowns in recent years? It is enough to recall the summer of 2015 and early 2016, when investor fears of a Chinese hard landing, an excessively fast exit from zero policy rates by the US Federal Reserve, a stall in US GDP growth, and low oil prices conspired to undercut growth.

One can envision three possible scenarios for the global economy in the next three years or so. In the bullish scenario, the world's four largest, systemically important economies – China, the eurozone, Japan, and the United States – implement structural reforms that boost potential growth and address financial vulnerabilities. By ensuring that the cyclical upswing is associated with stronger potential and actual growth, such efforts would produce robust GDP growth, low but moderately rising inflation, and relative financial stability for many more years. US and global equity markets would reach new heights, justified by stronger fundamentals.

In the bearish scenario, the opposite happens: the world's major economies fail to implement structural reforms that boost potential growth. Rather than using this month's National Congress of the Communist Party as a catalyst for reform, China kicks the can down the road, continuing on a path of excessive leverage and overcapacity. The eurozone fails to achieve greater integration, while political constraints limit national policymakers' ability to implement growth-enhancing structural reforms. And Japan remains stuck on its low-growth trajectory, as supply-side reforms and trade liberalization – the third "arrow" of Prime Minister Shinzo Abe's economic strategy – fizzle out.1

As for the US, the Trump administration, in this scenario, continues to pursue a policy approach – including a tax cut that overwhelmingly favors the rich, trade protectionism, and migration restrictions – that may well reduce potential growth. Excessive fiscal stimulus leads to runaway deficits and debt, which results in higher interest rates and a stronger dollar, further weakening growth. Trigger-happy Trump could even end up in a military conflict with North Korea – and, later, Iran – diminishing America's economic prospects further.

In this scenario, the lack of reform in major economies will leave the cyclical upswing constrained by low trend growth. If potential growth remains low, easy monetary and credit policies could eventually lead to goods and/or asset inflation, eventually causing an economic slowdown – and possibly an outright recession and financial crisis – when asset bubbles burst or inflation rises.

The third – and, in my view, most likely – scenario lies somewhere between the first two. The cyclical upswing, in both growth and equity markets, continues for a while, driven by the remaining tailwinds. Yet, while major economies pursue some structural reforms to improve potential growth, the pace of change is much slower, and its scope more modest, than is needed to maximize potential.

In China, this muddle-through scenario means doing just enough to avoid a hard landing, but not enough to achieve a truly soft one; with financial vulnerabilities left unaddressed, distress becomes all but inevitable over time. In the eurozone, this scenario would entail only nominal progress toward greater integration, with Germany's continued rejection of true risk-sharing or fiscal union weakening incentives for struggling member countries to undertake tough reforms. In Japan, an increasingly ineffective Abe administration would implement minimal reforms, leaving potential growth stuck below 1%.

In the US, Trump's presidency would remain volatile and ineffective, with a growing number of Americans realizing that, despite his populist pretense, Trump is merely a plutocrat protecting the interests of the rich. Inequality rises; the middle class stagnates; wages barely grow; and consumption and growth remain anemic, at barely close to 2%.

But the risks of muddling through extend far beyond mediocre economic performance. This scenario represents not a stable equilibrium, but an unstable disequilibrium, vulnerable to economic, financial, and geopolitical shocks. When such shocks eventually emerge, the economy will be tipped into a slowdown or, if the shock is large enough, even recession and financial crisis.

In other words, if the world does simply muddle through, as seems likely, it could, within three or four years, face a more bearish outlook. The lesson is clear: either political leaders and policymakers demonstrate the leadership needed to secure a better medium-term outlook, or downside risks will materialize before long – and do serious damage to the global economy.

Fonte: Project Syndicate