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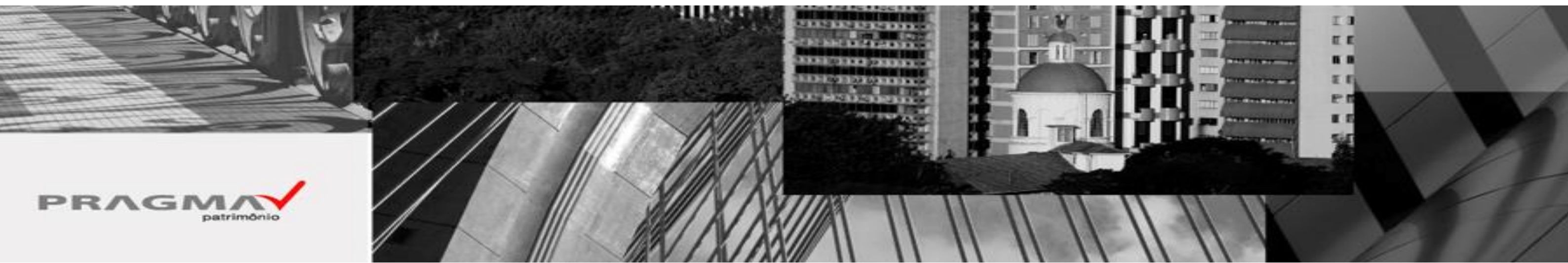

Has Trump Captured the Fed? (Joseph E. Stiglitz – 03/11/2017)

Joseph E. Stiglitz, recipient of the Nobel Memorial Prize in Economic Sciences in 2001 and the John Bates Clark Medal in 1979, is University Professor at Columbia University, Co-Chair of the High-Level Expert Group on the Measurement of Economic Performance and Social Progress at the OECD, and Chief Economist of the Roosevelt Institute.

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One of the important powers of any US president is to appoint members and heads of the many agencies that are responsible for implementing the country's laws and regulations and, in many cases, governing the economy. Perhaps no institution is more important in that regard than the Federal Reserve.

In exercising that power, Donald Trump has broken a long-standing pattern, going back almost a half-century, whereby the president reappoints (on a non-partisan basis) the incumbent Fed chair, if he or she has been seen to be doing a good job. Probably no chair has done a better job, in a particularly difficult moment, than Janet Yellen.

Whereas her two immediate predecessors greatly tarnished the Fed's reputation by looking the other way as massive risk was accumulating – and massive fraud occurring – within the financial sector, Yellen restored the Fed's reputation. Her calm and balanced hand nurtured broad consensus among a Federal Reserve Board characterized by divergent economic philosophies, and she navigated the economy through a slow recovery in a period when fiscal policy was unnecessarily constrained, as duplicitous Republicans hyped the dangers of deficits. The Republicans' shallow commitment to fiscal rectitude is now being exposed as they advocate massive tax cuts for corporations and billionaires that will add one and half trillion dollars to the deficit over the next decade.

To be fair, Trump chose a moderate, when many in his party were pushing for an extremist. Trump, never shy about conflicts of interest, has an uncanny ability to embrace economic policies, such as the proposed tax cuts, that benefit him personally. He realized that an extremist would raise interest rates – any real-estate developer's worst nightmare.

Trump broke with precedent in another way: he chose a non-economist. The Fed will face great challenges in the next five years, as it reverts to more normal policies. Higher interest rates could give rise to market turmoil, as asset prices undergo a significant "correction." And many are expecting a major downturn in the next five years; otherwise, the economy would have experienced an almost unheard-of decade-and-a-half expansion. While the Fed's tool kit has been greatly expanded in the last decade, the Fed's low interest rates and huge balance sheet – and the possibly massive increase in debt, should Trump get his tax cuts – would challenge even the best-trained economist.

Most importantly, there has been a bipartisan (and global) effort to depoliticize monetary policy. The Fed, through its control of the money supply, has enormous economic power, and such power can easily be abused for political purposes – say, to generate more jobs in the short run. But lack of confidence in central banks in a world of fiat money (where central banks can create money at will) weakens long-term economic performance, owing partly to fears of inflation.

Even in the absence of direct politicization, the Fed always faces a problem of "cognitive capture" by Wall Street. That's what happened when Alan Greenspan and Ben Bernanke were in charge. We all know the consequences: the greatest crisis in three quarters of a century, mitigated only by massive government intervention.

Yet, somehow, the Trump administration seems to have forgotten what happened less than a decade ago. How else to explain its efforts to rescind the 2010 Dodd-Frank regulatory reforms, designed to prevent a recurrence? The consensus beyond Wall Street is that Dodd-Frank didn't go far enough. Excessive risk taking and predatory behavior are still real problems, as we are frequently reminded (for example, by reports about the growing volume of subprime auto loans). In one of the more insidious recent instances of malfeasance, bankers at Wells Fargo simply opened accounts on behalf of customers, unbeknownst to them, so that it could collect additional fees.

None of this bothers Trump, of course, who as a businessman has been no stranger to nefarious practices. Fortunately, it appears that Powell recognizes the importance of well-designed financial regulations.

But politicization of the Fed should be viewed as just another part of Trump's battle against what his former chief strategist, Steve Bannon, has referred to as the "administrative state." That battle, in turn, should be viewed as part of a larger war against the Enlightenment legacy of science, democratic governance, and the rule of law. Upholding that legacy entails employing expertise as needed, and creating, as Edward Stiglitz of Cornell Law School has emphasized, trust in public institutions. A large body of research now supports the idea that societies perform more poorly without such trust.

Every few days, Trump does something to rend the fabric of US society and inflame its already-deep social and partisan divisions. The clear and present danger is that the country is growing so accustomed to Trump's outrages that they now appear "normal." For more than seven decades, America has fought – often fitfully, to be sure – to redeem its stated values, taking on bigotry, fascism, and nativism in all their forms. Now, America's president is a misogynist, racist xenophobe whose policies embody profound contempt for the cause of human rights.

One may approve or disapprove of the Republicans' tax proposals, efforts to "reform" health care (oblivious to the tens of millions who might lose insurance coverage), and commitment to financial deregulation (ignoring the consequences of the 2008 crisis). But, while the Fed may be safe for now, whatever possible economic benefits this agenda could bring pale in comparison to the magnitude of the political and social risks posed by Trump´s assaults on America´s most cherished institutions and values.

Fonte: Project Sindicate

The Plot Against America's 99% (Nouriel Roubini – 06/11/2017)

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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After multiple failed attempts to "repeal and replace" the 2010 Affordable Care Act (Obamacare), US President Donald Trump's administration now hopes to achieve its first legislative victory with a massive tax giveaway that it has wrapped in the language of "tax reform." To that end, Republicans in the US Congress have just unveiled a bill that, if enacted, could vastly widen the deficit and increase the public debt by as much as $4 trillion over the next decade.

Worse still, the Republican plan is designed to funnel most of the benefits to the rich. It would lower the corporate tax rate from 35% to 20%, reduce the tax on capital gains (investment profits), eliminate the estate tax, and introduce other changes that benefit the wealthy.

Like the Republicans' health-care proposals, their tax plan offers little to struggling middle- and working-class households. Trump continues to govern as a pluto-populist – a plutocrat pretending to be a populist – who has not hesitated to betray the people he conned into voting for him.

Before releasing the current plan, congressional Republicans passed resolutions to reduce taxes by $1.5 trillion over the next decade. But the actual tax cut will likely be much larger. The proposal to lower the corporate tax rate to 20%, for example, implies a $2.5 trillion tax cut, once other tax cuts in the plan are considered. To keep the tax cuts below $1.5 trillion, one would have to keep the corporate rate at or above 28% and broaden the tax base.

To make up for this difference, the bill proposes a cap on the mortgage-interest deduction for homeowners, and on the deductibility of property tax, as well as eliminating other tax benefits for the middle class. It would eliminate or cap the income-tax deduction for state and local taxes – again, squeezing the middle class to cover tax cuts for the rich.

The problem is that eliminating the state and local tax deduction would provide just $1.3 trillion in revenue over the next decade. And because this change would hurt middle-income families, many Republicans in high-tax states such as New York, New Jersey, and California will oppose it. If congressional Republicans and the Trump administration end up keeping the state and local tax deduction, their tax cuts will add $3.8 trillion to the public debt over the next decade.

Moreover, Republicans want their tax cuts to be permanent. Yet they are trying to enact their bill through the congressional budget reconciliation process, which requires any tax cuts that add to the deficit after ten years to be temporary. Even if the Republican plan really did keep the cuts at $1.5 trillion, it still would not comply with this rule.

Trump and congressional Republicans argue that tax cuts will boost economic growth, and thus revenues. But standard dynamic scoring models show that increased growth would offset the cost by only one third, at most: the US would face $1 trillion, rather than $1.5 trillion, in lost revenues.

So, how will the Republicans fudge these fiscal rules? For starters, like President George W. Bush's administration, they will set the personal income tax cuts to expire after ten years. This will give them plenty of time to enjoy the political gains of tax cuts – starting with the midterm elections in 2018 – long before the bill comes due.

But corporate tax cuts are another matter, because making them temporary would defeat the purpose. Companies operate with a much longer time horizon than households, and are unlikely to boost investment in response to cuts that last only ten years.

To get around this problem, Trump and the Republicans might decide to bend or manipulate congressional rules. Or they might rely on unorthodox and untested economic models to claim that their cuts actually are revenue-neutral, and will have a much larger impact on growth than what standard models project.

Most mainstream economists would estimate that a tax cut of the size being proposed would increase US potential growth by 20 basis points, at most, taking the growth rate from around 2% to 2.2% over time. Yet Trump and his advisers have clung to the false claim that growth will increase to 3% or even 4%.

If this far-fetched projection sounds like voodoo economics all over again, that's because it is. Voodoo economics came into parlance in the 1980 presidential election, when George H. W. Bush criticized Ronald Reagan for claiming that his planned tax cuts would pay for themselves. Bush was vindicated just a few years later, when the Reagan administration's tax cuts blew a huge hole in US public finances.

And yet Republican administrations have persisted in pursuing unsustainable and undesirable tax cuts benefiting primarily the rich, leading to ever-larger deficits and trillions of dollars of additional public debt. The Republicans' eagerness to pass reckless tax cuts once in power gives the lie to their claims of fiscal rectitude.

Making matters worse, America's pluto-populist president is peddling a tax plan that will further increase economic inequality at a time when income and wealth gaps are already widening, owing to the effects of globalization, trade, migration, new labor-saving technologies, and market consolidation in many sectors.

Given that the rich tend to save more than middle- and working-class people, who must spend a larger proportion of their incomes on basic necessities, the Trump tax plan will do little for economic growth; it may even decrease it. And it will add far more to the US's excessively high public-debt burden. It is fake reform, brought to us by an alt-fact administration and a party that has lost its economic bearings.

Fonte: Project Sindicate

Europe in the Time of Trump (Guy Verhofstadt – 08/11/2017)

Guy Verhofstadt, a former Belgian prime minister, is President of the Alliance of Liberals and Democrats for Europe Group (ALDE) in the European Parliament and the author of Europe's Last Chance: Why the European States Must Form a More Perfect Union.

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The transatlantic alliance – which for decades has underpinned global stability, fortified democracy, and safeguarded the West as we know it – is under severe strain, and risks terminal decline. US President Donald Trump – who has repeatedly challenged America's traditional alliances, including by attacking NATO – undoubtedly bears much responsibility for this deterioration. But Europe, through its inaction, has also contributed to this state of affairs – and now it must contribute to fixing it.

The West's malaise is, no doubt, a result of the ongoing and unresolved economic-governance challenges created by globalization. These challenges are particularly acute in the European Union, where policy paralysis has prevented governments from fully implementing the reforms needed to overcome the financial crisis that began a decade ago.

European leaders agree that the eurozone's current institutional setup is flawed, and they know what must be done. But they remain plagued by inertia, immobilized by conservatism, and preoccupied by domestic politics, with many leaders allowing themselves to be taken hostage by populist Euroskepticism. As a result, they have failed to take the steps required to ensure the EU's long-term stability, including a complete banking union to backstop Europe's finances and a genuine system of EU-wide economic governance.

The absence of a cogent US president who is willing and able to encourage the EU to make further progress toward integration does not help matters. But European leaders must take responsibility for their own recalcitrance – and take action to save the Union.

The good news is that popular support for the EU has improved markedly since the United Kingdom's Brexit vote in June 2016, creating a window of opportunity to deliver meaningful reform. But the window will not stay open for long. And, so far, EU leaders have failed to leverage renewed support for the European project to argue for change.

This is not to say that no positive steps are being taken. In a welcome contrast with Trump's ignorant protectionism, the EU has continued to advance free trade, by concluding trade deals with Canada and Japan, and opening negotiations with Australia, Latin America's Mercosur bloc, and New Zealand

Given European trade deals' potential to help ensure a more progressive approach to globalization – critical to salvaging it – such efforts should be intensified. But the focus must shift from free trade to fair trade. And Europe's leaders must do a better job of communicating the potential benefits of EU rule-setting in global trade to those who stand to gain from it.

The same goes for other areas where the EU is showing valuable leadership. For example, the European Commission is leading the way in reining in abuse of capital-account openness – in particular, by clamping down on tax avoidance by multinational companies within the EU and elsewhere.

European leaders should showcase such efforts. Little more than a year after the Panama Papers underscored the extent of tax evasion by the world's wealthy, the release of the so-called Paradise Papers has again exposed those – including many in Trump's cabinet – who have poured large amounts of money into offshore tax havens. Now is the time for the EU to develop afully public register of beneficial owners of trusts, while redoubling its push for global reform.

Another positive step by the EU, expected at this month's Gothenburg Social Summit, is the endorsement of the European Pillar of Social Rights by the European Council, the European Commission, and the European Parliament. The pillar focuses on ensuring equal opportunities and labor-market access, fair working conditions, and social protection and inclusion. Here, too, such efforts – which disprove claims that the EU is nothing more than a club of neoliberal capitalist elites – must be publicized more effectively.

If the EU fails to seize the moment to implement effective reforms, illiberal political trends within the bloc could be reinvigorated, particularly if member countries that are already moving in this direction – namely, Poland and Hungary – are allowed to continue on their current path. And, just beyond the EU's borders, the bloc's leaders must move quickly to offer Turkey, where President Recep Tayyip Erdoğan has concentrated political power in his own hands, a new kind of relationship not based on eventual EU accession.

Europe has no choice but to act. Almost daily, new evidence emerges that Trump remains committed to his "America First" approach, which renounces the traditional US role as the world's main defender of liberal democracy. Right-wing populists and authoritarian regimes – in Europe and elsewhere – will continue seeking to exploit the resulting global leadership vacuum. The only way to protect the liberal world order is for other powers – beginning with the EU – to step into the breach.

World leaders must resist the pressure of short-term political tribalism and confront the geopolitical and economic challenges ahead. Populists and protectionists on the right and left will inevitably fail to deliver on their simplistic promises. But centrist and progressive forces in Europe and elsewhere must be ready.

Fonte: Project Sindicate

Japan's Demographic Lessons for Europe (Daniel Gros - 08/11/2017)

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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Demography is not destiny, at least not entirely. Over centuries, policy can affect fertility decisions, and migration can transform a country, as the experience of the United States shows. Over shorter time horizons, however, demographic trends must be taken as given, and can have a profound impact on growth. Yet demographic factors are often neglected in economic reporting, leading to significant distortions in assessments of countries' performance. Nowhere is this more apparent than in Japan.

With real output – the key measure of economic performance – having risen by only about 15% since 2000, or less than 1% per year, Japan easily seems the least dynamic of the worlds' major economies. But given Japan's demographics – the country's working-age population has been shrinking by almost 1% per year since the start of this century – this result is remarkable.

In fact, Japan's growth rate per working-age person was close to 2% – much higher than in the US or in Europe. Though the US economy grew more than 35% since 2000, its working-age population also grew markedly, leaving the annual growth rate per working-age person at only about 1%.

That indicator – growth rate per working-age person – is not widely used by economists, who instead focus on GDP per capita. By that measure, Japan is doing about as well as Europe and the US. But, while per capita indicators are useful for assessing a country's consumption potential, they do not provide an adequate picture of growth potential, because they include the elderly and the young, who do not contribute to production. Even in Japan, with its high life expectancy, those over the age of 70 do not contribute much to output.

So, given its rapidly declining potential, Japan has been extraordinarily successful. A key reason is that it has put a growing proportion of its working-age population to work: unemployment is today at a record low of less than 3%, and almost 80% of those who could work have a job, compared to about 70% for Europe and the US.

Japan’s achievement of full employment and high job growth over the last two decades is all the more noteworthy in view of near-permanent deflation during this period (most prices are still lower today than they were 15-20 years ago). This should give food for thought to those who maintain that deflation imposes unbearable economic costs

The Japanese experience holds important lessons for Europe, where the demographic future looks a lot like Japan’s past. The eurozone’s working-age population has not grown at all in recent years, and will soon start to decline at a rate similar to Japan’s over the last generation. It seems unlikely that immigration will alter the trend. In recent years, Europeans, like Japanese, have proven to be highly resistant to large-scale immigration, which is what would be required to offset demographic decline.

Moreover, the eurozone has now settled on a current-account surplus of around 3% of GDP. That is similar to the level long seen in Japan (except for the short period in the aftermath of the 2011 Fukushima Daiichi nuclear meltdown).

A first lesson of Japan’s experience is that, despite the eurozone’s difficulty generating inflation in an aging society characterized by excess savings, growth is not necessarily out of reach. Rather, given Japan’s record of growth without inflation, the European Central Bank should recognize that its target of “close to 2%” inflation might not be so important after all. In any case, the particularities of the eurozone’s structure mean that the ECB will have no choice but to halt its bond-buying operations in a year or so. This means that the ECB will not be able to follow in the footsteps of the Bank of Japan, which continues to purchase large volumes of government bonds, without any visible pick-up in inflation.

Another lesson from Japan is that a country with a large savings surplus can handle a large public debt, because it can be financed internally. That does not necessarily mean that it is desirable to run up the debt. Japan’s debt-to-GDP ratio now exceeds 150% of GDP (taking into account the large financial assets of the government-owned savings institutions), and continues to rise, owing to large fiscal deficits.

This brings us to a final key lesson from Japan: in a low-growth economy, the debt-to-GDP ratio can quickly spin of out control. Fortunately, it seems that this lesson already has been learned, with the average deficit in the eurozone now amounting to only around 2% of GDP. The deficit cap imposed by the Stability and Growth Pact (3% of GDP) seems to have had at least some impact in terms of stabilizing the debt ratio.

The structure of the eurozone imposes limits on the use of both fiscal and monetary policy. This should prevent the excessive build-up of debt, ultimately making it easier for the eurozone to manage a future in which the only way to sustain growth is to capitalize fully on the economy´s declining demographic potential.

Fonte: Project Sindicate

Mr. Trump Goes to China (Richard N. Haass – 06/11/2017)

Richard N. Haass, President of the Council on Foreign Relations, previously served as Director of Policy Planning for the US State Department (2001-2003), and was President George W. Bush's special envoy to Northern Ireland and Coordinator for the Future of Afghanistan. He is the author of A World in Disarray: American Foreign Policy and the Crisis of the Old Order.

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US President Donald Trump is spending nearly two weeks in Asia, visiting Japan, South Korea, China, Vietnam, and the Philippines. Putting China at the center of the trip makes sense, because it constitutes the most important stop in both strategic and economic terms.

North Korea will dominate much of the conversation when Trump is in China, in large part because he is counting on Chinese leaders to solve the North Korea problem for the United States. This approach is understandable, because the bulk of North Korea's trade transits Chinese territory, and China could exert enormous pressure on the North if it so chose.

But Trump will likely come away disappointed. China will resist deploying its full leverage, lest it undermine North Korea's stability and end up worse off as a result. The irony and potential tragedy of China's position is that allowing North Korea to increase and improve its nuclear and missile arsenals could fuel momentum toward war, or lead South Korea, Japan, or both to reconsider their non-nuclear postures. Any of these outcomes would be inconsistent with Chinese strategic interests; but, like many governments, China's leaders will seek to avoid difficult decisions in the short run, even if this results in damaging outcomes over time.

The North Korea problem is but one of many on the Sino-US agenda, which includes other geopolitical matters (most notably, the situation in the South China Sea and the status of Taiwan). There are also economic issues that need to be addressed, such as China's failure to respect intellectual property, its large government subsidies to export-oriented firms, its restriction of access to its market, and its efforts to require foreign firms doing business in China to transfer advanced technology to Chinese firms.

The list of issues dividing these two important and powerful countries is thus long and difficult, reinforcing the pessimism of those who predict that the bilateral relationship will continue to sour. One of the arguments that the pessimists marshal is the historical pattern whereby rising and established powers tend to end up competing with one another, or even fighting.

One recent book, by the Harvard political scientist Graham Allison, focuses on the so-called "Thucydides Trap," named for the ancient Greek historian who chronicled the competitive relationship that ultimately produced the Peloponnesian War between a rising Athens and Sparta, the superpower of its day. Allison portrays China and the US in these roles, and calls his book Destined for War.

Such predictions are unwarranted. They discount the dampening effect of nuclear weapons, which for more than four decades helped keep the Cold War between the US and the Soviet Union from turning hot. They also overlook the ability of the US and China to finesse their disagreement over Taiwan. Diplomacy can and will matter; little is inevitable in international relations.

Indeed, the US and China have managed to keep their ties on a relatively even keel, despite the disappearance of the original rationale for their relationship – shared antipathy toward the Soviet Union – when the Cold War ended a quarter-century ago. The extensive economic relationship that has evolved since then has given both countries a stake in maintaining good relations. And, given China's need for external stability to pursue economic development, its leaders have acted with considerable restraint.

Still, the pessimists' concerns cannot be dismissed. After all, countries often fail to act in their own self-interest, or events simply spin out of control. For example, Chinese leaders may be tempted to act more assertively to placate public opinion amid a slowing economy, and to take advantage of opportunities created by a US that has retreated from regional trade accords.

The stakes are high, as the history of the twenty-first century will be affected in no small part by the character of the Sino-American relationship. Trump, who vacillates between tough criticism of China over trade and encomiums to President Xi Jinping, will have to balance pressing his legitimate concerns over trade with the need to avoid starting a trade war. And Xi will have to judge what he can give to satisfy his American visitor without jeopardizing his or the Party's standing in the eyes of the Chinese people.

North Korea, though, will be the biggest test. Trump and Xi must find a way to defuse the looming crisis on the Korean Peninsula – or manage the consequences should diplomacy fail and war erupt. In the latter scenario, it would be essential that a second Korean War not lead to direct US-Chinese combat, as the first one did. And cooperation would be essential to maintain control over North Korea's nuclear materials. All of this will require deft diplomacy. Trump and Xi, one sincerely hopes, will soon be laying the groundwork for it.

Fonte: Project Sindicate

The Moral Identity of Homo Economicus (Ricardo Haussmann – 07/11/2017)

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

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Why do people vote, if doing so is costly and highly unlikely to affect the outcome? Why do people go above and beyond the call of duty at their jobs?

Two recent books – Identity Economics by Nobel laureate George Akerlof and Rachel Kranton and The Moral Economy by Sam Bowles – indicate that a quiet revolution is challenging the foundations of the dismal science, promising radical changes in how we view many aspects of organizations, public policy, and even social life. As with the rise of behavioral economics (which already includes six Nobel laureates among its leaders), this revolution emanates from psychology. But while behavioral economics relies on cognitive psychology, this one is rooted in moral psychology.

As with most revolutions, this one is not happening because, as Thomas Huxley surmised, a beautiful old theory has been killed by ugly new facts. The ugly facts have been apparent for a while, but people cannot abandon one mental framework unless another one can take its place: in the end, beautiful old theories are killed only by newer, more powerful theories.

For a long time, economic theory aspired to the elegance of Euclidean geometry, where all true statements can be derived from five apparently incontrovertible axioms, such as the notion that there is only one line that connects two points in space. In the nineteenth century, mathematicians explored the consequences of relaxing one of those axioms and discovered the geometries of curved spaces, where an infinite number of longitudinal lines can pass through the poles of a sphere.

The axioms underpinning traditional economics embody a view of human behavior known as homo economicus: we choose among the available options that which we want or prefer the most. But what makes us want or prefer something?

Economics has long assumed that whatever informs our preferences is exogenous to the issue at hand: de gustibus non est disputandum, as George Stigler and Gary Becker argued. But with a few reasonable assumptions, such as the idea that more is better than less, you can make many predictions about how people will behave.

The behavioral economics revolution questioned the idea that we are good at making these judgments. In the process, they subjected the assumptions underlying homo economicus to experimental tests and found them wanting. But this led at most to the idea of nudging people into better decisions, such as forcing them to opt out of rather than into better choices.

The new revolution may have been triggered by an uncomfortable finding of the old one. Consider the so-called ultimatum game, in which a player is given a sum of money, say, $100. He must offer a share of that money to a second player. If the latter accepts the offer, both get to keep the money. If not, they both get nothing.

Homo economicus would give $1 to the second player, who should accept the offer, because $1 is better than zero dollars. But people throughout the world tend to reject offers below $30. Why?

The new revolution assumes that when we make choices, we do not merely consider which of the available options we like the most. We are also asking ourselves what we ought to do.

In fact, according to moral psychology, our moral sentiments, on which Adam Smith wrote his other famous book, evolved to regulate behavior. We are the most cooperative species on earth because our feelings evolved to sustain cooperation, to put "us" before "me." These feelings include guilt, shame, outrage, empathy, sympathy, dread, disgust, and a whole cocktail of other sentiments. We reject offers in the ultimatum game because we feel they are unfair.

Akerlof and Kranton propose a simple addition to the conventional economic model of human behavior. Besides the standard selfish elements that define our preferences, they argue that people see themselves as members of "social categories" with which they identify. Each of these social categories – for example, being a Christian, a father, a mason, a neighbor, or a sportsman – has an associated norm or ideal. And, because people derive satisfaction from behaving in accordance with the ideal, they behave not just to acquire, but also to become.

Bowles shows that we have distinct frameworks for analyzing situations. In particular, giving people monetary incentives may work in market-like situations. But, as a now-famous study of Haifa daycare centers showed, imposing fines on people who picked up their kids late actually had the opposite effect: if a fine is like a price, people may find that it is a price worth paying.

But without the fine, coming late constitutes impolite, rude, or disrespectful behavior toward the caregivers, which self-respecting people would avoid, even without fines. Unfortunately, this other-regarding view of behavior has been de-emphasized both in the corporate and the public domain. Instead, strategies have been derived from the view that all our behaviors are selfish, with the intellectual challenge being to design "incentive-compatible" mechanisms or contracts, an effort that has also been recognized with Nobel Prizes.

But, as George Price showed long ago, Darwinian evolution may have made us altruistic, at least toward people we perceive as members of the group we call "us." The new revolution in economics may find a place for strategies based on affecting ideals and identities, not just taxes and subsidies. In the process, we may understand that we vote because that is what citizens ought to do, and we excel at our jobs because we strive for respect and self-realization, not just a raise.

If successful, the new revolution may lead to strategies that make us more responsive to our better angels. Economics and our view of human behavior need not be dismal. It may even become inspirational.

Fonte: Project Sindicate

The Real Risk to the Global Economy (Christopher Smart – 08/11/2017)

Christopher Smart is a senior fellow at the Carnegie Endowment for International Peace and the Mossavar-Rahmani Center for Business at Harvard University's Kennedy School of Government. He was a special assistant to the US president for International Economics, Trade, and Investment (2013-2015) and Deputy Assistant Secretary of the Treasury for Europe and Eurasia (2009-13).

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One of the great mysteries of today's global markets is their irrepressible enthusiasm, even as the world around them appears on the verge of chaos or collapse. And yet, investors may be more rational than they appear when it comes to pricing in political risks. If investing is foremost about discounting future cash flows, it's important to focus precisely on what will and will not affect those calculations. The potential crises that may be most dramatic or violent are, ironically, the ones that the market has the easiest time looking through.

Far more dangerous are gradual shifts in international global institutions that upend expectations about how key players will behave. Such shifts may emerge only slowly, but they can fundamentally change the calculus for pricing in risks and potential returns.

Today's market is easy to explain in terms of fundamental factors: earnings are growing, inflation has been kept at bay, and the global economy appears to be experiencing a broad, synchronized expansion. In October, the International Monetary Fund updated its global outlook to predict that only a handful of small countries will suffer a recession next year. And while the major central banks are planning, or have already begun, to tighten monetary policy, interest rates will remain low for now.

Political crises, however sensational they may be, are not likely to change investors' economic calculus. Even after the greatest calamities of the twentieth century, markets bounced back fairly quickly. After Japan's attack on Pearl Harbor, US stock markets fell by 10%, but recovered within six weeks. Similarly, after the terrorist attacks of September 11, 2001, US stocks dropped nearly 12%, but bounced back in a month. After the assassination of President John F. Kennedy, stock prices fell less than 3%, and recovered the next day.

Yes, each political crisis is different. But through most of them, veteran emerging-markets investor Jens Nystedt notes, market participants can count on a response from policymakers. Central banks and finance ministries will almost always rush to offset rising risk premia by adjusting interest rates or fiscal policies, and investors bid assets back to their pre-crisis values.

Today, a conflict with North Korea over its nuclear and missile programs tops most lists of potential crises. Open warfare or a nuclear incident on the Korean Peninsula would trigger a humanitarian disaster, interrupt trade with South Korea – the world's 13th largest economy – and send political shockwaves around the world. And yet such a disaster would most likely be brief, and its outcome would be clear almost immediately. The world's major powers would remain more or less aligned, and future cash flows on most investments would continue undisturbed.

The same can be said of Saudi Arabia, where Crown Prince Mohammed bin Salman just purged the government and security apparatus to consolidate his power. Even if a sudden upheaval in the Kingdom were to transform the balance of power in the Middle East, the country would still want to maintain its exports. And if there were an interruption in global oil flows, it would be cushioned by competing producers and new technologies.

Similarly, a full-scale political or economic collapse in Venezuela would have serious regional implications, and might result in an even deeper humanitarian crisis there. But it would most likely not have any broader, much less systemic, impact on energy and financial markets.

Such scenarios are often in the headlines, so their occurrence is less likely to come as a surprise. But even when a crisis, like a cyber attack or an epidemic, erupts unexpectedly, the ensuing market disruption usually lasts only as long as it takes for investors to reassess discount rates and future profit streams.

By contrast, changes in broadly shared economic assumptions are far more likely to trigger a sell-off, by prompting investors to reassess the likelihood of actually realizing projected cash flows. There might be a dawning awareness among investors that growth rates are slowing, or that central banks have missed the emergence of inflation once again. Or the change might come more suddenly, with, say, the discovery of large pockets of toxic loans that are unlikely to be repaid.

As emerging-market investors well know, political changes can affect economic assumptions. But, again, the risk stems less from unpredictable shocks than from the slow erosion of institutions that investors trust to make an uncertain world more predictable.

For example, investors in Turkey know that the country's turn away from democracy has distanced it from Europe and introduced new risks for future returns. On the other hand, in Brazil, despite an ongoing corruption scandal that has toppled one president and could topple another, investors recognize that the country's institutions are working – albeit in their own cumbersome way – and they have priced risks accordingly.

The greatest political risk to global markets today, then, is that the key players shaping investor expectations undergo a fundamental realignment. Most concerning of all is the United States, which is now seeking to carve out a new global role for itself under President Donald Trump.

By withdrawing from international agreements and trying to renegotiate existing trade deals, the US has already become less predictable. Looking ahead, if Trump and future US leaders continue to engage with other countries through zero-sum transactions rather than cooperative institution-building, the world will be unable to muster a joint response to the next period of global market turmoil.

Ultimately, a less reliable US will require a higher discount rate almost everywhere. Unless other economic cycles intervene before investors' expectations shift, that will be the end of the current market boom.

Fonte: Project Sindicate

Crypto-Fool´s Gold? (Kenneth Rogoff – 09/11/2017)

Kenneth Rogoff, Professor of Economics and Public Policy at Harvard University and recipient of the 2011 Deutsche Bank Prize in Financial Economics, was the chief economist of the International Monetary Fund from 2001 to 2003. The co-author of This Time is Different: Eight Centuries of Financial Folly, his new book, The Curse of Cash, was released in August 2016.

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Is the cryptocurrency Bitcoin the biggest bubble in the world today, or a great investment bet on the cutting edge of new-age financial technology? My best guess is that in the long run, the technology will thrive, but that the price of Bitcoin will collapse.

If you haven't been following the Bitcoin story, its price is up 600% over the past 12 months, and 1,600% in the past 24 months. At over $4,200 (as of October 5), a single unit of the virtual currency is now worth more than three times an ounce of gold. Some Bitcoin evangelists see it going far higher in the next few years.

What happens from here will depend a lot on how governments react. Will they tolerate anonymous payment systems that facilitate tax evasion and crime? Will they create digital currencies of their own? Another key question is how successfully Bitcoin's numerous "alt-coin" competitors can penetrate the market.

In principle, it is supremely easy to clone or improve on Bitcoin's technology. What is not so easy is to duplicate Bitcoin's established lead in credibility and the large ecosystem of applications that have built up around it.

For now, the regulatory environment remains a free-for-all. China's government, concerned about the use of Bitcoin in capital flight and tax evasion, has recently banned Bitcoin exchanges. Japan, on the other hand, has enshrined Bitcoin as legal tender, in an apparent bid to become the global center of fintech.

The United States is taking tentative steps to follow Japan in regulating fintech, though the endgame is far from clear. Importantly, Bitcoin does not need to win every battle to justify a sky-high price. Japan, the world's third largest economy, has an extraordinarily high currency-to-income ratio (roughly 20%), so Bitcoin's success there is a major triumph.

In Silicon Valley, drooling executives are both investing in Bitcoin and pouring money into competitors. After Bitcoin, the most important is Ethereum. The sweeping, Amazon-like ambition of Ethereum is to allow its users to employ the same general technology to negotiate and write “smart contracts” for just about anything.

As of early October, Ethereum’s market capitalization stood at $28 billion, versus $72 billon for Bitcoin. Ripple, a platform championed by the banking sector to slash transaction costs for interbank and overseas transfers, is a distant third at $9 billion. Behind the top three are dozens of fledgling competitors.

Most experts agree that the ingenious technology behind virtual currencies may have broad applications for cyber security, which currently poses one of the biggest challenges to the stability of the global financial system. For many developers, the goal of achieving a cheaper, more secure payments mechanism has supplanted Bitcoin’s ambition of replacing dollars.

But it is folly to think that Bitcoin will ever be allowed to supplant central-bank-issued money. It is one thing for governments to allow small anonymous transactions with virtual currencies; indeed, this would be desirable. But it is an entirely different matter for governments to allow large-scale anonymous payments, which would make it extremely difficult to collect taxes or counter criminal activity. Of course, as I note in my recent book on past, present, and future currencies, governments that issue large-denomination bills also risk aiding tax evasion and crime. But cash at least has bulk, unlike virtual currency.

It will be interesting to see how the Japanese experiment evolves. The government has indicated that it will force Bitcoin exchanges to be on the lookout for criminal activity and to collect information on deposit holders. Still, one can be sure that global tax evaders will seek ways to acquire Bitcoin anonymously abroad and then launder their money through Japanese accounts. Carrying paper currency in and out of a country is a major cost for tax evaders and criminals; by embracing virtual currencies, Japan risks becoming a Switzerland-like tax haven – with the bank secrecy laws baked into the technology.

Were Bitcoin stripped of its near-anonymity, it would be hard to justify its current price. Perhaps Bitcoin speculators are betting that there will always be a consortium of rogue states allowing anonymous Bitcoin usage, or even state actors such as North Korea that will exploit it.

Would the price of Bitcoin drop to zero if governments could perfectly observe transactions? Perhaps not. Even though Bitcoin transactions require an exorbitant amount of electricity, with some improvements, Bitcoin might still beat the 2% fees the big banks charge on credit and debit cards.

Finally, it is hard to see what would stop central banks from creating their own digital currencies and using regulation to tilt the playing field until they win. The long history of currency tells us that what the private sector innovates, the state eventually regulates and appropriates. I have no idea where Bitcoin’s price will go over the next couple years, but there is no reason to expect virtual currency to avoid a similar fate.

Fonte: Project Sindicate