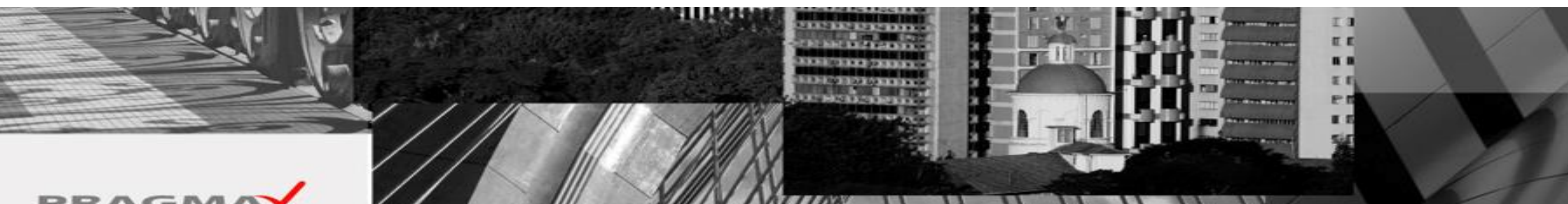
REUNIÃO DE CONJUNTURA

06/11/2017

Conjuntura Global



The Curious Case of the Missing Defaults (Carmen Reinhart – 01/11/2017)

Carmen Reinhart is Professor of the International Financial System at Harvard University's Kennedy School of Government.

* * *

Booms and busts in international capital flows and commodity prices, as well as the vagaries of international interest rates, have long been associated with economic crises, especially – but not exclusively – in emerging markets. The "type" of crisis varies by time and place. Sometimes the "sudden stop" in capital inflows sparks a currency crash, sometimes a banking crisis, and quite often a sovereign default. Twin and triple crises are not uncommon.

The impact of these global forces on open economies, and how to manage them, has been a recurring topic of discussion among international policymakers for decades. With the prospect of the US Federal Reserve raising interest rates in the near and medium term, it is perhaps not surprising that the International Monetary Fund's 18th Annual Research Conference, to be held on November 2-3, is devoted to the study and discussion of the global financial cycle and how it affects cross-border capital flows.

Rising international interest rates have usually been bad news for countries where the government and/or the private sector rely on external borrowing. But for many emerging markets, external conditions began to worsen around 2012, when China's growth slowed, commodity prices plummeted, and capital flows dried up – developments that sparked a spate of currency crashes spanning nearly every region.

In my recent work with Vincent Reinhart and Christoph Trebesch, I show that over the past two centuries, this "double bust" (in commodities and capital flows) has led to a spike in sovereign defaults, usually with a lag of 1-3 years. Yet, since the peak in commodity prices and global capital flows around 2011, the incidence of sovereign defaults worldwide has risen only modestly.

If the model fitted to almost 200 years of data is used to predict the share of countries in default, the predictions are consistently higher than what has materialized to date. This is the case of the *missing defaults*.

A caveat, as our study highlights, is that there is a potential mismeasurement of the "true" incidence of default, which we cannot begin to quantify at this time – namely, defaults or accumulated arrears on Chinese loans. China's lending to many emerging markets, most notably commodity producers, rose significantly during the last boom. While most of this lending is from official Chinese sources, much of it is not reflected in the World Bank data, and unknown amounts may well be in default or protracted arrears.

This state of affairs describes the situation in a number of African commodity producers and Venezuela. While Venezuela's government-run oil company continues to service its external bonds (which is why no default appears in the books of the credit rating agencies), debts owed to China are understood to be in arrears.

Measurement issues aside, there are two types of explanation for the *missing defaults.* The first is that emerging market economies are more resilient this time around. This view, which suggests a structural shift, was emphasized in early October during one of the most upbeat IMF/World Bank annual meetings in recent memory, and the message was echoed in *The Economist*'sspecial report "Freedom from financial fear."

Recent studies suggest that less procyclical fiscal and monetary policies and stronger macroprudential measures during the inflow phase or boom may have left countries on a more solid footing to cope with sudden capital-flow reversals. In the past, it was all too common for policymakers to convince themselves that a boom in commodity prices and associated surge in government revenues was permanent. Government expenditures would then ratchet up during the boom, only to be slashed as revenues sank along with commodity prices. Aside from waning procyclicality, macroprudential policies and capital controls appear to help restrain the intensity of aggregate credit booms and asset bubbles, with policies in place during the boom enhancing economic resilience during the bust.

The second type of explanation focuses on external factors. The largest global surges in sovereign defaults have usually followed a capital-flow reversal that overlaps with a spike in international interest rates. The worst outcomes (Category 5 hurricanes of debt) involved a triple blow to a class of capital importers (the commodity producers).

Today, global liquidity conditions have not tightened as markedly or as rapidly as in the bust phase of previous cycles. Exceptionally low and stable interest rates have acted to dampen debt-servicing difficulties among the debtor countries and may also help explain the missing defaults.

In sum, while there is evidence to suggest that the macroeconomic management of capital inflow surges has been improving over time in emerging markets as a whole, one has to recall that prior to the 2007-2009 global financial crisis, a widely accepted view was that the advanced economies had tamed the business cycle. This was the short-lived era of the so-called Great Moderation.

Perhaps the change is structural. But a more cautious interpretation of the missing defaultsis that the protracted nature of the downturn in international conditions has yet to take its cumulative toll, or that lingering weaknesses will only become evident once the major central banks move further along in renormalizing their policy stances.

Fonte: Project Syndicate

Europe’s Economic Dilemma (Martin Feldstein– 30/11/2017)

Martin Feldstein, Professor of Economics at Harvard University and President Emeritus of the National Bureau of Economic Research, chaired President Ronald Reagan’s Council of Economic Advisers from 1982 to 1984. In 2006, he was appointed to President Bush's Foreign Intelligence Advisory Board, and, in 2009, was appointed to President Obama's Economic Recovery Advisory Board. Currently, he is on the board of directors of the Council on Foreign Relations, the Trilateral Commission, and the Group of 30, a non-profit, international body that seeks greater understanding of global economic issues.

* * *

Europe faces a serious problem. Although economic activity has recently increased, the eurozone has lost the ability to respond to the next downturn when it happens, as it inevitably will.

The European Central Bank deserves credit for the economic improvements that have occurred in the past few years. In a speech at the annual gathering of central bankers in Jackson Hole, Wyoming, in 2014, Mario Draghi, the ECB’s president, explained that three things could improve economic performance in Europe:

fiscal expansion by the country that had the capacity to do it (Germany);

structural reforms in Italy and France;

a change of monetary policy.

But Draghi went on to predict that Germany would not create a fiscal deficit and that Italy and France would not undertake the needed structural reforms. He concluded that the ECB would have to stimulate growth by reducing interest rates, which would increase net exports by creating a more competitive euro.

The ECB has since taken the short-term interest rate into negative territory, cutting it from 0.2% in August 2014 to -0.3% now. The ECB also bought long-term bonds for its portfolio, increasing the volume of its holdings from €2.2 trillion ($2.6 trillion) in

2014 to more than double that amount now. The euro-dollar exchange rate fell from $1.39 in 2014 to a low of $1.04 in 2016, before recovering to the current level of $1.18. The ECB’s negative-interest-rate policy also stimulated business investment and other spending that is sensitive to borrowing costs.

But the ECB’s policies also mean that it has no ammunition left to fight the next recession, which could be caused by a collapse of asset prices, starting with the price of long-term bonds. German ten-year bond prices are extremely high, reflecting a current yield of less than 0.5%. A fall in US stock and bond prices, which are also out of line with past experience, could cause European asset prices to decline in sympathy.

Alternatively, European exports could fall in response to geopolitical events in Asia or the Middle East, depressing overall economic activity in Europe. An end to the US expansion, now in its ninth year, could pull down demand in Europe. Although the US economy is now performing very well, the excessive level of asset prices – the result of a decade of near-zero interest rates – poses a threat to stability.

Whatever the cause of the next downturn, ECB policies that helped in the past would no longer be available. The conventional response – reducing interest rates – is impossible, because current short-term interest rates in the eurozone countries are already near zero or negative.

To be sure, the ECB could expand its purchases of long-term bonds. But doing so would not have the same effect that it did in the past. One of the goals of large-scale bond purchases – so-called quantitative easing – was to drive down long-term interest rates in order to stimulate business investment and housing construction. But with long-term interest rates now close to zero, bond purchases would not be able to lower them any further.

Another goal of lowering the yield on long-term bonds was to stimulate demand for equities. Higher stock prices would lower the cost of equity-financed business investment and increase household wealth, thereby stimulating consumption. This was never as successful in Europe as it was in the United States, where share ownership is more widespread. But now, with long-term bond yields already close to zero, it could not even be tried.

In short, the ECB would be unable to respond to an economic downturn by lowering interest rates and buying long-term bonds. And without the ability to reduce interest rates, the ECB also would be unable to stimulate net exports by reducing the value of the euro.

Whereas the US could respond to a new downturn with fiscal stimulus, it is difficult to see how this could be achieved in Europe. The eurozone has no fiscal authority. Each member country could of course reduce taxes and increase spending. But much of the stimulus would spill over to the country’s trading partners through increased imports. The result would be an increase in the country’s national debt with relatively little increase in its domestic demand.

An appropriate response to this dilemma may be a policy of coordinated fiscal expansion. Each country would have to agree to a combination of tax cuts and increases in government spending scaled to the size of the economic downturn. Waiting until the downturn occurs to plan this coordinated response would be a mistake. All eurozone governments should place fiscal coordination with their European partners high on their agenda, before it is too late

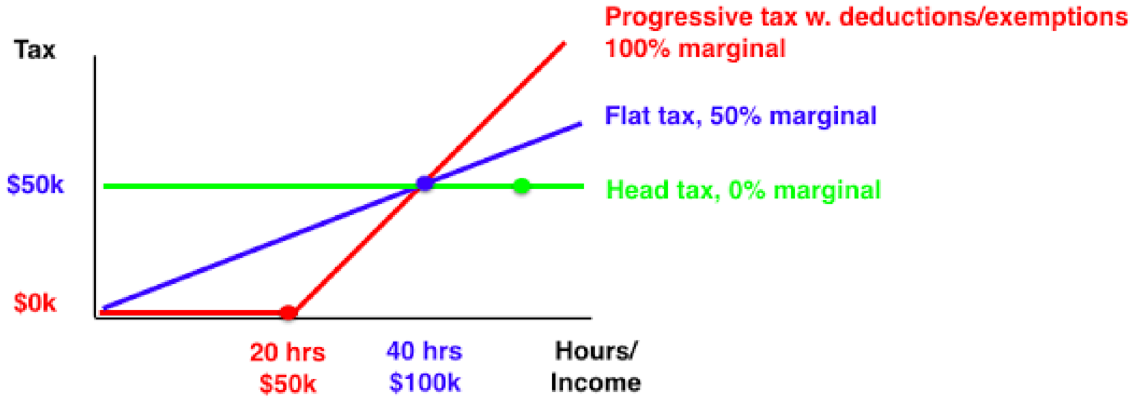
---

Fonte: Project Syndicate

Tax Graphs (John Cochrane– 01/11/2017)

John Cochrane is a Senior Fellow of the Hoover Institution at Stanford and also an adjunct scholar of the Cato Institute.

* * *



The tax discussion is moving to personal income taxes, and the world is waiting to hear the actual Republican proposal, due tomorrow (Thursday).With apologies to blog readers who know all this in their sleep, I thought I might explain just why (some) economists keep chanting "broaden the base, lower marginal rates," or why I keep saying that taxes don't matter, tax rates matter to economic growth. This is grumpy economist, Saturday morning cartoon edition. Perhaps a colorful graph will help as you try to explain taxes to relatives this Thanksgiving.

Start with the blue line. Suppose you work 40 hours a week, and make $100,000. Suppose the government wants half of it. One way to get that is with a flat tax -- for every dollar you earn, send 50 cents to the government. The government gets $50,000.

Now consider the red line. This line can represent a progressive tax: Exempt the first $50,000 of income, so people who make less have to pay a smaller share of their income in taxes, and charge a 100% tax rate on the rest. Equivalently, this line represents $50,000 of tax shelters and deductions -- employer-provided health care, charitable contributions to a foundation that employs your relatives and flies you around on private jets, a deduction for home mortgage interest, credits for the solar cells on your roof, and so on.

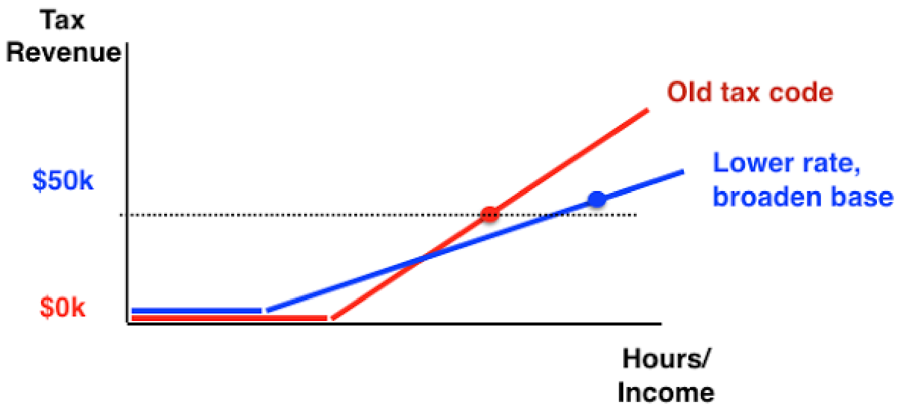
At first glance, this tax system raises the same amount of money. (That's "static scoring.")

You can see the hole in the argument. If we tax the marginal dollar after $50,000 at 100%, you won't bother working the second 20 hours, and the government will get no revenue. More deeply, slowly, and insidiously, in my view, people choose easy college majors that lead to $50,000 jobs, not harder ones that lead to $100,000 jobs, or they don't start businesses.

The green line is an economists' ideal tax. Everyone pays the first $50,000 no matter what and then keeps everything after that. People would choose to work more than 40 hours a week, and the economy would take off.

Of course, that's not realistic as an income tax, but it's the idea behind "land" taxes, the recent fashion for "monopoly" taxes, and so on. Find something to tax that has no disincentive effects, and tax the heck out of it. One of my graduate school professors explained (in jest!) that we should tax kidney-dialysis machines. If you need it, you really need it and you'll pay anything to get one.

But at least we can move from something like the red line to something more like the blue line. Broaden the base, lower the marginal rate.



Here I think we have gotten to an unproductive argument. See the next graph

If we broaden the base, and lower the rate, we increase incentives to work. Then, to raise the same revenue, we don't have to make the lines cross at the old revenue. The new line can lie below the old line at the old work effort, but greater growth will make up the revenue, as shown.

The argument is not whether "tax cuts pay for themselves." That's an extreme possibility. But tax rate cuts do partially pay for themselves, so one can raise the same revenue from a tax system that appears, on static scoring (ignoring that the points move to the right) to raise the deficit instead.

This argument is correct, but it leads to a huge fight over just how much growth will increase, and when. It is hard to quantify. It is especially hard, in my view, because most government analysis ignores all the important channels. We focus on labor effort. But once we have chosen careers and jobs, most people work the same amount. The damage is more insidious. Slowly, people drop out of the labor force. Slowly, people chose easier college majors. Slowly, people choose safe and steady but not well paying jobs rather than risky high reward business startups. Slowly, people abandon complicated lawyer-intensive tax-avoidance strategies. This all takes time.

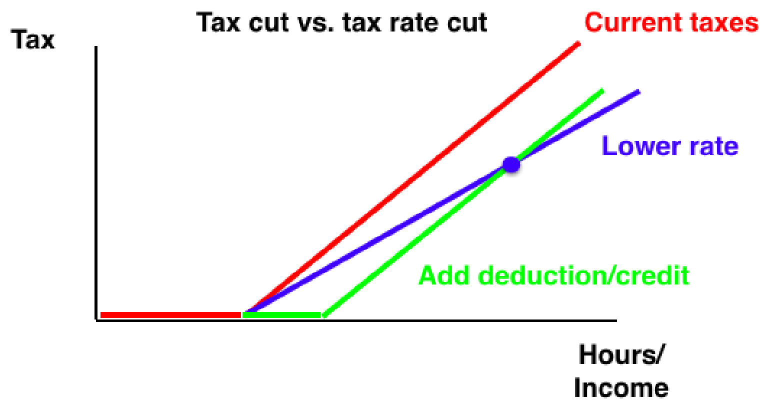
And we have a huge deficit. So, I would prefer not to fight this argument. Broaden the base and lower the rates on static scoring. When money starts roaring in, cut the rates. Agree on the structure of the tax code for a generation, and let rates adjust as needed. Yes, many readers will worry that lots of revenue will lead to lots more spending. OK, let's write in that rates go down further if and when the revenues increase, rather than cut them now.

Furthermore, if we had to make a revenue-neutral reform, I think the pressure to get rid of the deductions would be much stronger. These mostly benefit the rich anyway (class warriors, why are you so silent on the regressive effects of home mortgage, charitable, employer health care, and state and local deductions??) You just can't get significant rate reductions on a revenue neutral basis without really cutting the deductions, tax expenditures, and with them much of the complexity and corruption of the code.

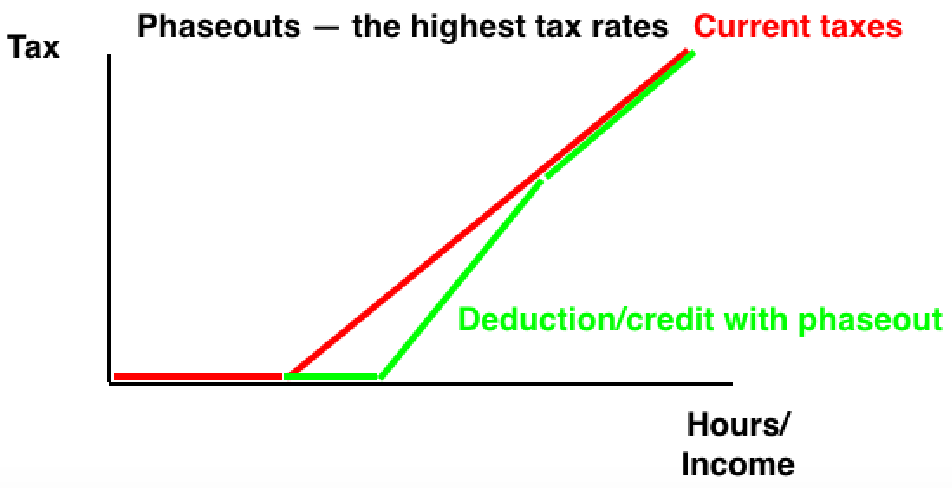
Alas, this eminently sensible idea -- broaden base, lower marginal rates, redistribution-neutral, and revenue-neutral, growth-oriented reform -- does not characterize much of what I'm hearing about the upcoming personal income tax changes.

One thing we are hearing more of is expanded deductions, for example for child care. This is supposed to give a "tax cut to the middle class." Well, again, a tax cut and a marginal tax rate cut are entirely different things, and have different effects on growth.

The next graph gives the "middle class" a "tax cut" in two different ways -- by lowering the marginal rate, or by offering a new deduction or credit, and keeping the old rates intact. At the blue dot, our taxpayer has received the same "tax cut." But notice that by adding a deduction, we have done nothing to improve our taxpayer's incentives. In fact, we have made matters worse. There are offsetting "income" and "substitution" effects in provoking effort. As we get wealthier, we choose to work less. As opportunities are larger, we work more. This is all income effect, and no substitution effect.



It gets worse. The budget impact of this deduction is obviously large. Everybody in the US gets the deduction, all the way up the income scale. For that reason, most of these deductions phase out. Sure, "gazillionaires don't need help with their childcare expenses." (A good example of bad economic thinking all around.) So the credit phases out. The next graph shows what happens if we add a deduction or credit that phases out with income:



The steepest part of the line -- the greatest disincentive to work -- is in the phaseout region. In fact, the Americans facing the highest marginal tax rates are those precisely in the "middle class," where earning an extra dollar phases out credits, health insurance subsidies, food stamp subsidies, and so forth. On average, pretty much from 0 to $60,000 there is very little incentive to work -- or, again, to study, to choose harder professions, to move to take a job, to start a business and so on.

This is a little bit unfair. The credits and deductions do have incentive effects. That's half of why they're there. The mortgage interest deduction gives people an incentive to buy rather than rent, to borrow rather than save, to buy bigger rather than smaller, and to refinance frequently. (Interest payments are tax deductible, principal payments are not.) The childcare credit gives people an incentive to have children. (That this incentive is inversely scaled with income is another interesting issue.) The health care deduction encourages us to spend a lot more on health insurance and less on solar cells and electric cars. The solar cell and electric car deduction encourages us to spend more on those and less on food. And so forth. If these activities encourage economic growth, perhaps it's worth suffering the disincentive to work, study, save, or start businesses.

An honest economist must admit that for economic growth, taxes do not matter. Marginal tax rates matter. If there were a way to "tax the rich" without raising the disincentive to all the socially useful activities that becoming rich, or working to pass wealth on to your children entails, and if our society decided it wanted such redistribution, we would have much less argument against it. We would do the world a favor, I think, to harp most on incentives, which the world seems to ignore, and much less on our personal moral feelings about redistribution, pro or con.

Fonte: Blog The Grumpy Economist – John Cochrane

O Desafio da Autocracia Leninista de Xi (Martin Wolf- 01/11/2017)

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

* * *

"Gostem ou não, a história está do nosso lado. Nós vamos enterrar vocês!" Foi assim que Nikita Kruschev, primeiro-secretário do Partido Comunista da União Soviética em 1956 previu o futuro.

Xi Jinping é mais cauteloso. Mas suas afirmações são arrojadas também. "O socialismo com características chinesas transpôs o limiar e adentrou uma nova era", disse o secretário-geral do Partido Comunista da China em seu 19º Congresso Nacional na semana passada. "Isso oferece uma nova alternativa para outros países e nações que querem acelerar seu desenvolvimento preservando, ao mesmo tempo, sua independência." O sistema político leninista não foi para o porão da história. Tornou-se, mais uma vez, um modelo.

A declaração de Kruschev soa ridícula hoje. Não soava na época. A industrialização da União Soviética tinha contribuído para o país derrotar o exército nazista. O lançamento do Sputnik, em 1957, indicou que a URSS tinha se tornado a rival tecnológica dos Estados Unidos. Mas 35 anos após a bazófia de Kruschev o Partido Comunista soviético e sua economia vieram abaixo. Esse continua sendo o acontecimento político mais extraordinário desde a Segunda Guerra Mundial. Por seu lado, o acontecimento econômico mais marcante é a ascensão da China da pobreza para a condição de país de renda média. É por isso que Xi pode falar da China como modelo.

Mas como é que o sistema que fracassou em Moscou teve êxito em Pequim? A grande diferença entre os dois desfechos está nas brilhantes escolhas de Deng Xiaoping. O líder supremo da China após Mao Tsé-tung manteve o sistema político leninista - sobretudo o papel dominante do Partido Comunista - ao mesmo tempo em que liberava a economia. Sua determinação de manter o controle sobre o partido foi reafirmada por suas decisões durante o que é chamado pelos chineses de "O Incidente de 4 de Junho" e pelos ocidentais de "O Massacre da Praça da Paz Celestial" de 1989. Mas sua convicção de dar continuidade à reforma econômica nunca se abalou. Os resultados foram espetaculares.

A possibilidade ou não de a União Soviética poder ter seguido esse caminho é coisa que resta discutir. Mas ela não seguiu. Em decorrência disso, a Rússia atual não sabe como marcar a revolução de outubro de um século atrás. O presidente Vladimir Putin é um autocrata, mas o sistema comunista não existe mais. Xi também é um autocrata. Seu domínio sobre o partido e o país ficou notório no congresso do partido.

Mas ele é também um herdeiro da tradição leninista. Sua legitimidade repousa na legitimidade do partido.

Quais são as implicações do casamento promovido na China entre leninismo e mercado? A China aprendeu muito de economia com o Ocidente. Mas recusa a política ocidental contemporânea. Sob o comando de Xi, a China é cada vez mais autocrática e antiliberal. No Partido Comunista, a China tem um modelo ostensivamente contemporâneo para seu sistema ancestral de soberania imperial e burocracia meritocrática. Mas o imperador agora é o partido. Diante disso, quem controlar o partido controla tudo. Poderia se acrescentar que mudanças em um sentido autocrático ocorreram em outros países, especialmente na Rússia. Os que pensavam que a queda da URSS anunciava o triunfo perpétuo da democracia liberal estavam enganados.

Será que essa combinação de política leninista com economia de mercado continuará funcionando ao longo do desenvolvimento da China? A resposta deve ser: não sabemos. Uma resposta positiva poderia ser a de que este sistema não apenas combina com as tradições chinesas como os burocratas são também excepcionalmente competentes. O sistema funcionou espetacularmente até agora.

Mas há também respostas negativas. Uma delas é de que o partido está sempre acima da lei. Isso torna o poder, em última instância, sem lei. Outra é que a corrupção que Xi tem atacado é inerente a sistemas desprovidos de controles vindos de cima. Outra ainda é que, no longo prazo, essa realidade vai esgotar o dinamismo da economia. A última resposta negativa é que, na medida em que avançam a economia e o grau de instrução, o desejo por ter voz na política se tornará avassalador. No longo prazo, o domínio de uma pessoa sobre o partido e o domínio de um partido sobre a China não conseguirá se sustentar.

Tudo isso, no longo prazo. A posição imediata está suficientemente clara. A China desponta como uma superpotência econômica sob uma autocracia leninista, controlada por um homem. O resto do mundo não tem alternativa a não ser colaborar pacificamente com a potência ascendente. Juntos, temos de cuidar do nosso planeta, preservar a paz, promover o desenvolvimento e manter a estabilidade da economia. Ao mesmo tempo, aqueles entre nós que acreditam na democracia liberal - o valor duradouro do Estado de Direito, das liberdades individuais e do direito de todos de participar da vida pública - têm de reconhecer que a China não apenas é, como também se vê como, uma rival ideológica de peso.

O desafio ocorre em duas frentes. Primeira, o Ocidente tem de manter uma margem de superioridade tecnológica e econômica, sem desenvolver uma relação indevidamente antagônica com a China de Xi. A China é nossa parceira. Não é nossa amiga.

Segunda, e muito mais importante, o Ocidente (por mais frágil que esteja hoje) tem de reconhecer - e aprender com - o fato de que a administração de sua economia e de sua política é insatisfatória há anos, se não há décadas. O Ocidente deixou seu sistema financeiro encalhar numa enorme crise financeira. Ele subinvestiu, persistentemente, em seu futuro. Em casos importantes, notadamente nos EUA, permitiu que se abrisse um crescente fosso entre os ganhadores e os perdedores da economia. Sobretudo, permitiu que a mentira e o ódio consumissem sua política.

Xi fala do "grande rejuvenescimento da nação chinesa". O Ocidente também precisa rejuvenescer. Não pode rejuvenescer copiando a corrente rumo à autocracia que arrasta uma parte excessivamente grande do mundo atual. Não pode abandonar seus valores essenciais, e sim fazê-los viver, mais uma vez. Tem de criar economias mais inclusivas e dinâmicas, revitalizar sua política e reinstaurar de novo o equilíbrio frágil entre o nacional e o mundial, entre o democrático e o tecnocrático, que é essencial à saúde das democracias sofisticadas. A autocracia é a norma humana milenar. Não pode ficar com a última palavra. (Tradução de Rachel Warszawski)

Fonte: Valor Econômico/Financial Times

What's Behind Latin America's Jobless Recovery (Ernesto Talvi– 31/10/2017)

Ernesto Talvi is a non-resident senior fellow in the Global Economy and Development program at the Brookings Institution and Director of the Brookings Global-CERES Economic and Social Policy in the Latin America Initiative.

* * *

After a sharp and continuous slowdown that began in mid-2013 and ended in the last quarter of 2015, economic growth in most Latin American countries has now officially returned. But a corresponding decline in unemployment is nowhere in sight. In fact, unemployment in much of the region has continued climbing during the last seven quarters. Why?

Latin America's jobless recovery is of great concern for many, and with good reason. During the first seven quarters of the previous recovery, which began in 2004, average unemployment decreased by 0.2 percentage points for every percentage point of GDP growth. This time, unemployment over the last seven quarters has actually *increased* by 0.3 percentage points for each percentage point of growth, resulting in a total rise in unemployment of almost one percentage point since the end of 2015.

One common explanation for the apparent decoupling of growth and employment is that technological advances, such as automation and robotics, have resulted in capital substituting for labor across the region's economies. As innovations in production have reduced the number of workers needed to generate a unit of output, the traditional correlation between output and employment has been severed.

It seems like a compelling theory. But in Latin America's case, it is also likely the wrong one. We do not need the rise of robots to account for the growth-unemployment paradox.

If the technology hypothesis were true, we would expect to see an increase in productivity-enhancing capital expenditures during the current period relative to prior recoveries. But the data show the opposite. During the first seven quarters of this rally, the region's average investment decreased by 2.2% for each percentage point of growth; in the past, average investment increased by almost 2.3%.

But if labor-substituting technology does not explain Latin America's current jobless growth cycle, what does? Two possible answers stand out.

First, the current recovery is much slower and shallower than previous ones, which means that jobs are not being created as fast and at sufficiently high numbers to keep up with labor market entrants. In fact, average annual growth in Latin America was a meager 1.4% during the first seven quarters of the current recovery, compared to 5.4% following the previous one. The problem with this explanation is that it doesn't account for the lack of investment.

A second possible answer is what I call the "capacity glut" hypothesis. In the decade before mid-2013, Latin America grew at a breakneck pace – about twice its historic average. Until the boom's end, consensus forecasts predicted that the bonanza would continue. At the time, this seemed a reasonable assumption. China's voracious appetite for commodities dramatically altered perceptions about the global economy's trajectory. But, to paraphrase Mafalda, the iconic protagonist of the Argentine artist Quino's signature cartoon series, the future is no longer what it was.

In 2013, amid waning Chinese demand, commodity prices fell. Since then, average economic growth in Latin America has slowed to about a quarter of previously projected rates. Firms that predicted a continuing boom – and therefore invested in expanding production and increased their workforce – were left with excess capacity relative to actual demand. As aggregate demand conditions improved, firms responded by using this excess capacity, reducing capital expenditures and slowing their pace of hiring.

To illustrate this dynamic, consider how the region's soybean exporters have managed production in recent years. During the expansion period, producers thrived, owing in part to record-high prices. So did firms that provide complementary services – harvesting, transport, and storage, for example – which made investment decisions expecting high prices to persist.

Once soybean prices began to fall, however, the entire industry found itself with excess capacity, as well as high debt burdens, reflecting previous investments in labor and capital. When prices eventually recovered and soybean production picked up once more, firms could accommodate the surge in demand by making use of existing excess capacity. No additional hiring or investment in machinery was necessary.

If the "capacity glut" hypothesis bears out for Latin America as a whole, the region can breathe easy, because the higher unemployment and lower levels of investment accompanying the current recovery would be finite trends. As economic activity in the region picks up, and the slack in capacity utilization begins to shrink, the relationship between growth, unemployment, and investment should return to normal.

Of course, if the hypothesis does not hold, then we may have to revisit the possibility that technology-induced structural change is leading Latin America, if not the world, into uncharted territory, and perhaps even to a "new normal" of jobless growth. Or we may have to search for a different explanation altogether. But it is too soon to rule out a simpler and more plausible hypothesis.

Fonte: Project Syndicate

The Changing Geopolitics of Energy (Joseph S. Nye – 30/10/2017)

Joseph S. Nye, Jr., a former US assistant secretary of defense and chairman of the US National Intelligence Council, is University Professor at Harvard University. He is the author of Is the American Century Over?

* * *

In 2008, when the United States' National Intelligence Council (NIC) published its volume Global Trends 2025, a key prediction was tighter energy competition. Chinese demand was growing, and non-OPEC sources like the North Sea were being depleted. After two decades of low and relatively stable prices, oil prices had soared to more than $100 per barrel in 2006. Many experts spoke of "peak oil" – the idea that reserves had "topped off" – and anticipated that production would become concentrated in the low-cost but unstable Middle East, where even Saudi Arabia was thought to be fully explored, with no more giant fields likely to be found.

The US was regarded as increasingly dependent on energy imports, and this, together with rising prices, was seen as a major limit on American geopolitical influence. Power had shifted to the producers.

The NIC analysts did not neglect the possibility of a technological surprise, but they focused on the wrong technology. Emphasizing the potential of renewables such as solar, wind, and hydro, they missed the main act.

The real technological breakthrough was the shale-energy revolution. While horizontal drilling and hydraulic fracturing are not new, their pioneering application to shale rock was. By 2015, more than half of all the natural gas produced in the US came from shale.

The shale boom has propelled the US from being an energy importer to an energy exporter. The US Energy Department estimates that the country has 25 trillion cubic meters of technically recoverable shale gas, which, when combined with other oil and gas resources, could last for two centuries. The International Energy Agency now expects North America to be self-sufficient in energy in the 2020s. Facilities built to receive liquefied natural gas (LNG) imports have been converted to process exports.

World markets have also been transformed. Previously, gas markets were geographically restricted by dependence on pipelines. That gave market power to Russia, which used it to exercise political and economic leverage over its European neighbors. LNG has now added a degree of flexibility to gas markets and reduced Russian leverage. In 2005, only 15 countries imported LNG; today, that number has tripled.

Moreover, the smaller scale of shale wells makes them much more responsive to fluctuations in market prices. It is difficult to turn on and off the billion-dollar multiyear investments in traditional oil and gas fields; but shale wells are smaller, cheaper, and easier to start and stop as prices change. This means that the US has become the so-called swing producer capable of balancing supply and demand in global hydrocarbon markets.

As Harvard's Meghan O'Sullivan points out in her smart new book Windfall, the shale revolution has a number of implications for US foreign policy. She argues that the new energy abundance increases US power. Shale-energy production boosts the economy and creates more jobs. Reducing imports helps the balance of payments. New tax revenues ease government budgets. Cheaper power strengthens international competitiveness, particularly for energy-intensive industries like petrochemicals, aluminum, steel, and others.

There are also domestic political effects. One is psychological. For some time, many people in the US and abroad have bought into the myth of American decline. Increasing dependence on energy imports was often cited as evidence. The shale revolution has changed that, demonstrating the combination of entrepreneurship, property rights, and capital markets that constitute the country's underlying strength. In that sense, the shale revolution has also enhanced American soft power.

Skeptics have argued that lower dependence on energy imports will cause the US to disengage from the Middle East. But this misreads the economics of energy. A major disruption such as a war or terrorist attack that stopped the flow of oil and gas through the Strait of Hormuz would drive prices to very high levels in America and among our allies in Europe and Japan. Besides, the US has many interests other than oil in the region, including nonproliferation of nuclear weapons, protection of Israel, human rights, and counterterrorism.

The US may be cautious about overextending itself in the Middle East, but that reflects its experience with the costly invasion of Iraq and the general turmoil of the Arab Spring revolutions, rather than illusions that shale produces political "energy independence." America's ability to use oil sanctions to force Iran to negotiate an end to its nuclear-weapons program depended not only on Saudi willingness to make up Iran's exports of a million barrels per day, but also on the general expectations that the shale revolution created.

Other benefits of shale energy for US foreign policy include the diminishing ability of countries like Venezuela to use oil to purchase votes at the United Nations and in regional organizations of small Caribbean states, and Russia's reduced ability to coerce its neighbors by threatening to cut off gas supplies. In short, there has been a tectonic shift in the geopolitics of energy.

Although no one can know the future of energy prices, modest world prices may last for some time. Both technology and politics could of course upend this prediction. Technological advances could increase supply and reduce prices; politics is more likely to disrupt supply and cause prices to rise. But the disruptions are unlikely to be sharp or long-lasting in the wake of the shale revolution, which is what makes it a geopolitical revolution as well.

Fonte: Project Syndicate

Big Tech Meets Big Government (Mohamed A. El-Erian – 02/11/2017)

Mohamed A. El-Erian, Chief Economic Adviser at Allianz, the corporate parent of PIMCO where he served as CEO and co-Chief Investment Officer, was Chairman of US President Barack Obama's Global Development Council. He previously served as CEO of the Harvard Management Company and Deputy Director at the International Monetary Fund. He was named one of Foreign Policy's Top 100 Global Thinkers in 2009, 2010, 2011, and 2012. He is the author, most recently, of The Only Game in Town: Central Banks, Instability, and Avoiding the Next Collapse*.*

* * *

Impressive quarterly results from the biggest technology companies show that they are nowhere near saturating their consumer markets, exhausting their innovation cycles, or reaching growth maturation. Dig a little deeper, and those reports also illustrate the sector's substantial and growing systemic importance. Yet, for the tech sector, there is a distinct downside to this development.

With increased systemic importance often comes greater scrutiny. And, indeed, today's prosperous and innovative tech giants now face the prospect of redoubled efforts to regulate and tax their activities. The longer it takes for these companies to recognize their systemic importance, the greater the likelihood of a more powerful backlash by governments and the public, hurting the companies and undermining their ability to continue producing innovations that genuinely boost consumers' wellbeing.

When the tech sector began its evolution toward systemic importance, it comprised a collection of hungry start-ups possessing breakthrough technologies. Beyond disrupting existing economic sectors and activities, these technologies ended up producing new demand for the altogether new goods and services that they enabled.

Tech companies' track record – time and again proving their capacity for exceptional growth – enables them to attract massive investment. They are thus able not only to strengthen their market position in their core activities, but also to develop innovative capabilities in new areas, by taking over smaller competitors, whether actual or prospective. And some are even able to self-disrupt repeatedly – and thus consistently to remain at the technological frontier.

Fueling Big Tech's remarkable growth further, many of these companies' services are ostensibly free, facilitating quick adoption by consumers. It helps that these services often can be provided as seamlessly abroad as they are within their country of origin, to the point that the very concept of "abroad" has become rather elastic.

Over time, the major tech companies' rapid accumulation of market power has led to the rise of oligopolies in some sectors, and monopoly players in a few. Their social, economic, and even political influence has soared in some cases. Facebook and Twitter, for example, played a pivotal role in galvanizing protesters during the Arab Spring uprisings of 2011.

This raises serious risks: as beneficial as Big Tech's innovations are, they can also serve as important channels for state or non-state actors to bring about their own disruptions. In the run-up to last year's presidential election in the United States, some social media platforms inadvertently enabled the spread of disinformation. More menacing, extremists like the Islamic State have relied on social media for recruitment and propaganda purposes.

It should come as no surprise that Big Tech firms tend to move much faster than governments and regulators. As such, what began as a *laissez-faire* attitude of benign neglect– largely a result of ignorance and inattention – is evolving into something more forceful. As tech firms reach systemic importance, attitudes toward them change markedly.

This shift has become increasingly apparent in recent years, as major tech firms have faced intensifying scrutiny of their competitive practices, tax behavior, data uses, and privacy policies. Broader questions about their contributions to labor displacement and effects on wage growth have also arisen, even as societies increasingly recognize that technological disruption implies the need for education reform and improvements in skills acquisition and retraining.

Yet the tech sector itself still seems to underestimate its growing systemic importance. As a result, firms can lag in recognizing the need to update their operations, resources, and mindsets to reflect their shift from small disruptor to powerful incumbent. That means building more comprehensive and integrated business models, informed by experienced talent with expertise in a broader array of areas, in order to move beyond these companies' laser focus on innovation.

The longer this process takes, the greater the risk that tech firms will lose control of the narrative. Beyond fueling a rise in outside monitoring, regulation, and supervision, there is the risk of a consumer backlash – or even the further exploitation of innovations by malicious actors.

In an ideal world, major tech companies would recognize and adjust to their changing role in step with external actors, including governments and consumers, thereby striking the right balance between innovation, consumer benefits and protection, and national security. But this is not an ideal world. And, so far, internal and external forces have been out of sync, in terms of perceptions, capabilities, and actions. Add to that conscious and unconscious biases and considerable temptation for political manipulation, and the risks become only more profound.

Big Tech can and should play a larger role in helping the entire economy to evolve in an orderly and mutually beneficial manner. This will require, first and foremost, that they internalize their own systemic importance, and adjust their perspectives and behaviors accordingly. But it will also demand far better communication, with firms' objectives and operations becoming much more transparent. And, finally, it will call for a commitment to enhanced monitoring both of themselves and of their peers, together with more effective collective action, as appropriate.

If the tech sector fails to make such changes, government oversight and regulation will inevitably intensify. And it is far from certain that the net result will be positive for society, much less for business.

One thing we know for sure, however, is that a great majority of Republican politicians know perfectly well that their party is lying about its tax plan — and every even halfway competent economist aligned with the party definitely understands what's going on. What this means is that everyone who goes along with this plan, or even remains silente in the face of the campaign of mass dissimulation, is complicit — is in effect na accomplice to the most dishonest political selling job in American history.

Fonte: Project Syndicate