

## REUNIÃO DE CONJUNTURA

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## Republican Class Warfare: The Next Generation (Paul Krugman – 13/11/2017)

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The other day, Mitch McConnell, the Senate majority leader, admitted to The New York Times that he “misspoke” when he declared that his party’s tax plan wouldn’t raise taxes on any middle-class families. But he misspoke when he said “misspoke”: The proper term is “lied.”

McConnell was forced into his sort-of-kind-of admission by a new report from the Joint Committee on Taxation, Congress’s own scorekeeper, which found that millions of middle-class families would see higher taxes under the Senate Republican proposal. But this wasn’t some kind of narrow, technical mistake on his part.

Both the Senate proposal and the similar proposal from House Republicans offer huge tax cuts to corporations and the wealthy, then try to limit the impacts of these tax cuts on the budget deficit by clawing back tax credits and exemptions that mainly benefit the middle class. Of course many in the middle class would see their taxes go up.

But focusing on how many would face tax increases gets at only a small part of what’s going on here.

Top down class warfare, coupled with false claims to be cutting taxes on the middle class, has been standard G.O.P. operating procedure for a long time. In fact, for policy wonks of a certain age, the current tax debate inspires an overwhelming sense of déjà vu, because many of the tricks Republicans are using come right out of the Bush administration’s playbook in 2001 and 2003.

Tax breaks that phase in or out to make the 10-year budget impact look smaller? Check. Misleading examples and calculations to give the false impression of a tax cut for the middle class? Check. Pretending that tax cuts come free, that they won’t eventually have to be offset by cuts to popular programs? Check, again.

But there are also some new aspects to this latest money grab. This time around, much more clearly than before, the goal seems to be to favor wealth, especially inherited wealth, over work. And buried in the legislation are multiple measures that would make it much harder for the children of the middle and working classes to work their way up.

So, about the wealthy: The prime example is the way G.O.P. plans would eliminate or sharply reduce taxes on inherited wealth, which currently apply only to a tiny number of huge estates. Yes, Republicans are still pretending that this is about helping small family businesses and family farms, but at this point that’s a sick joke: The best estimates suggest that only around 80 — eight-zero — of such businesses and farms pay any estate tax each year. This is about making wealthy heirs even wealthier — full stop.

There are other big examples, like a new tax loophole that would benefit business owners — but only as long as they don’t actually run their businesses. And there’s more. But let me shift focus instead to what Republicans are trying to do to ordinary families.

We’re still waiting for detailed analysis of the Senate bill, but the House bill doesn’t just raise taxes on many middle-class families: It selectively raises taxes on families with children. In fact, half — half! — of families with children will see a tax hike once the bill is fully phased in.

Suppose that a child from a working-class family decides, despite limited financial resources, to attend college, probably taking out a loan to help pay tuition.

Well, guess what: Under the House bill, that interest would no longer be deductible, substantially raising the cost of college.

What if you're working your way through school and your employer contributes toward your education expenses? The House bill would make that contribution taxable income.

What if your parent is a university employee, and you get reduced tuition as a result? That tuition break becomes taxable income. So would tuition breaks for graduate students who work as teaching or research assistants.

So what we're looking at here are a variety of measures that will close off opportunities for children who weren't clever enough to choose wealthy parents.

Meanwhile, funding for the Children's Health Insurance Program, which covers more than eight million children, expired a month and a half ago — and so far, Republicans have made no serious effort to restore it. This is surely the shape of things to come: If tax cuts pass, and the deficit explodes, the G.O.P. will suddenly decide that deficits matter again and will demand cuts in social programs, many of which benefit lower-income children.

So this isn't just ordinary class warfare; it's class warfare aimed at perpetuating inequality into the next generation. Taken together, the elements of both the House and the Senate bills amount to a more or less systematic attempt to lavish benefits on the children of the ultra-wealthy while making it harder for less fortunate young people to achieve upward social mobility.

Or to put it differently, the tax legislation Republicans are trying to ram through Congress with indecent haste, without hearings or time for any kind of serious study, looks an awful lot like an attempt not simply to reinforce plutocracy, but to entrench a hereditary plutocracy.

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Fonte: Financial Times

## **Central Banks in the Dock (Barry Eichengreen – 10/11/2017)**

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

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On November 11, 1997, the Bank of England took a big step toward independence, courtesy of the second reading in the House of Commons of a bill amending the Bank Act of 1946. The bill gave legislative affirmation to the decision, taken by then-Chancellor of the Exchequer Gordon Brown, to free central bank operations from governmental control. This was a landmark event for an institution that had been under the yoke of government for a half-century. It symbolized how the need for central bank independence had become conventional wisdom.

Now, however, this wisdom is being questioned, and not just in the United Kingdom. So long as inflation was the real and present danger, it made sense to delegate monetary policy to conservative central bankers insulated from pressure to finance government budget deficits. Today, in contrast, the problem is the opposite, namely the inability of central banks to raise inflation to target levels.

To achieve this, it is necessary for monetary and fiscal policymakers to work together, including by allowing the central bank, in extremis, to monetize budget deficits. But when it comes to cooperating with the fiscal authorities, central bank independence is a hindrance, not a help.

Independence was also easier to defend when central bankers' task was limited to keeping inflation low and stable. Given this narrow remit, the distributional consequences of central banks' decisions were limited. It was easier, moreover, to

explain how a central bank's policy instruments were linked to its politically mandated targets.

But after the global financial crisis highlighted the dangers of consigning monetary and fiscal policy to separate silos, central banks acquired additional responsibilities. Deciding whether or not to rescue a specific financial institution, whether to ensure systemic stability or for other reasons, has visible consequences for individual investors.

The same is true of unconventional interventions in markets for corporate bonds and mortgage-backed securities. Not surprisingly, the notion of independence for central banks that visibly aided specific financial institutions – and this at a time when society as a whole was under unprecedented economic stress – quickly became politically toxic.

Independence is even more problematic in an age when the cross-border spillovers of national monetary policies have become powerful. Those spillovers make it important for central banks to take into account the impact of their policies on foreign countries and the global system. But the pursuit of global objectives is difficult, bordering on the impossible, when central banks function under the kind of narrow, domestically focused mandates that independence requires.

Today, central banks are under attack for all of these reasons: for missing their inflation targets, for failing to maintain financial stability, for failing to restore stability in transparent ways, and for not adequately taking into account the global repercussions of their policies. Dissatisfied by their performance, politicians are seeking to reassert control.

Thus, we see the Bank of Italy attacked for its handling of the country's banking crisis. We hear the Bank of England criticized for voicing worries about the macroeconomic repercussions of Brexit. We encounter speculation that US President Donald Trump is intent on packing the Federal Reserve Board with politically compliant appointees.

But compromising central bank independence in order to enhance political accountability would be to throw the baby out with the bathwater. Monetary policy is complex and technical. Returning control to politicians is no more prudent than handing them the keys to a country's nuclear power plants.

Some will say that the way for central banks to ensure their independence is to abandon macroprudential and microprudential policies and foreswear unconventional interventions in securities markets. But a key lesson of the crisis is that macroeconomic and financial policies are closely intertwined, and that their coordination is most effective when the two tasks are housed in the same institution, if run by separate committees. Given the prevailing low level of interest rates, moreover, it is all but certain, come another crisis, that unconventional policies will be back.

What central banks can do to head off threats to their independence is become more transparent. They can announce the votes of individual board members on all policy-relevant matters and release minutes without undue delay. They can hold more press conferences and be less platitudinous in explaining their policies. They can avoid pontificating on questions remote from their mandates. They can acknowledge the right of politicians to define the goals the central bank is tasked with achieving.

And to shape the views of those politicians, they can better explain why cooperation with fiscal authorities and foreign central banks is in the public interest. They can publish more detailed financial accounts, including on their individual security transactions and counterparties.

Above all, they can avoid intervening in parliamentary politics, as the European Central Bank did when it hastened the fall of Silvio Berlusconi's government in Italy in 2011. Then they can keep their heads down and hope for the best.

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Fonte: Project Syndicate

## China's Vision for the Next 30 Years (Zhang Jun – 14/11/2017)

*Zhang Jun is Professor of Economics and Director of the China Center for Economic Studies at Fudan University, Shanghai.*

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Every five years, the Communist Party of China convenes a National Congress, where two key decisions are made: who will lead China for the next five years, and what path to development those leaders will follow. The CPC's recently completed 19th National Congress did all that and more.

Beyond choosing the next Politburo Standing Committee, the 19th Party Congress reelected President Xi Jinping as the CCP's leader and added his eponymous ideology – “Xi Jinping Thought” – to the Party's charter. The Congress also produced a blueprint for the country's future development until 2050, one that reflects the changes that economic reform and opening have brought to China.

At the CPC's 13th National Congress, in October 1987, China's leaders declared that the “major contradictions” facing the country were those between “people's growing material and cultural needs and the backwardness of social production.” In other words, the key challenge was to produce enough food, clothing, and books for all Chinese.

Thirty years later, the major contradiction China faces is that between “rising demand for higher standards of living and the constraints imposed by insufficient and unbalanced economic development.” In his address to the 19th Party Congress, Xi declared that, because China can largely deliver basic necessities to its people, the goal now should be to improve their quality of life.

With that in mind, the 19th Congress charted a new roadmap, based on the “two centennial goals” inherited from the 18th Congress. The first centennial goal is to build a “moderately prosperous society” (xiao-kang) by 2021, the 100th anniversary of the CPC's founding. The key here is to ensure broad prosperity, with poverty all but eliminated.

The second centennial goal is to transform China into a “fully developed and advanced nation” by 2049, the 100th anniversary of the founding of the People's Republic. The vision, confirmed at the Congress, is for China to be a prosperous, civilized, harmonious, and modern socialist society, boasting strong governance. Such a China would be a leading global power, ranking high among the advanced economies.

The 19th Party Congress went some way toward marking the path between these two goals, asserting that once the first centennial goal is realized, China's next task will be to modernize Chinese society by 2035. Such a modern China would be a world leader in innovation, with a clean environment, a large middle class, and a much narrower gap between rural and urban growth, public services, and living standards.

Achieving these goals will require, first and foremost, that China's leadership understands where in the development process China is. In this sense, it is promising that China's leaders admitted at the latest Congress that China is and will remain in the primary phase of socialism. China must, therefore, put development first, with the expectation that economic growth will solve the country's problems.

Given this, China's top leaders promised that they would continue implementing structural reforms and advancing economic liberalization. This builds on a resolution, adopted at the Third Plenary Session of the 18th CPC Central Committee in 2013, to give the market the “decisive role” in allocating resources.

As the 19th Party Congress acknowledged, honoring these commitments will require China to protect private property rights and entrepreneurship. The importance of this is highlighted by the fact that the private sector contributes more than 60% of China's GDP, 50% of its taxes, 70% of its technological and product innovations, and 80% of its jobs, despite accounting for less than 40% of inputs.

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As for liberalization, China is committed to implementing policies to open up further its markets to trade and foreign investment, while protecting the legitimate rights and interests of foreign investors. As part of this effort, the government is authorizing further free-trade zones, and exploring the possibility of free-trade ports in selected locations.

It is believed that China is on track to achieve its goal of becoming a high-income economy by 2035. But it will have to sustain labor productivity growth of at least 5% annually for the next 15-20 years – an outcome that will depend on rising urbanization and deepening technological progress.

The key to success will be a Chinese leadership that adapts effectively to changing internal and external conditions and manages the risks that have accumulated in recent decades. For example, it must tackle growing income inequality, driven largely by the massive disparity between urban and rural incomes, though the income gap among urban residents is also widening. In 2014, per capita income was CN¥53,300 (\$8,024) for the top 5% households and just CN¥1,600 for the poorest 5%.

According to China Household Financial Survey data, China's Gini coefficient – the most common measure of inequality – climbed from 0.283 in 1983 to 0.491 in 2008, reaching highs of 0.61 in 2010 and 0.60 in 2012 (much higher than the official figures of 0.481 and 0.474, respectively). Though the Gini coefficient dropped to 0.465 by 2016, that still exceeds the 0.24-0.36 range for major developed economies.

China also faces increasing wealth disparity. In 1988 and 1995, China's Gini coefficient of household wealth was just 0.34 and 0.4, respectively. But the coefficient has grown, peaking at 0.739 in 2010. By 2014, the poorest 25% of households owned less than 2% of the country's total wealth, while the top 1% owned one third.

If China fails to contain inequality, its long-term growth could suffer. But with a clear development blueprint and a powerful leader whose political clout all but guarantees continued reform, China might be in a strong position to address the challenges it faces and sustain its unprecedented economic success.

Yet, even if China achieves its goals for 2050, the challenge will not be over, as China's leaders will then have to contend with an aging population. By 2050, 36.5% of China's population will be over the age of 60, according to the 2017 revision of the United Nations' World Population Prospects. The median age may be as high as 49.6, quite close to Japan's 53.3 and higher than in the Sweden, the United Kingdom, European Union as a whole, and the United States. This makes it all the more crucial for China's leaders to make the right decisions and put their country on a stable footing by 2050.

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Fonte: Project Syndicate

## **Toward a People-Centered ASEAN Community (Moon Jae-In – 10/11/2017)**

*Moon Jae-in is President of the Republic of Korea.*

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I am delighted that my first meeting with the leaders of the Association of Southeast Asian Nations comes at a historic moment: the 50th anniversary of ASEAN's founding. During those 50 years, not only my country, the Republic of Korea, but almost all of Asia has been utterly transformed. ASEAN's role in harnessing and spreading economic dynamism has been essential to the region's success.

For Korea, ASEAN has undoubtedly been a special and valued friend. Last year alone, some six million Koreans visited ASEAN member states, both as tourists and for business. Approximately 500,000 citizens of ASEAN member states now live and work in Korea, while roughly 300,000 Koreans live and work in ASEAN countries.

This is one example of why Korea's ties with ASEAN are more than just intergovernmental relations. Our relationship is deepened in the most personal way possible, through the intertwining of so many individuals' lives.

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This fact should not surprise anyone. ASEAN 2025: Forging Ahead Together, which was endorsed by ASEAN leaders at their 27th Summit in November 2015, states that the group strives to be a “people-centered, people-oriented community” that seeks to build a caring and sharing society which is inclusive and where the well-being, livelihood, and welfare of the people are enhanced.

“People first” has been my longstanding political philosophy as well, and it is a vision in line with the spirit of Korea’s “candlelight revolution” that lit and heated up the winter in Korea a year ago. Korea and ASEAN share a common philosophy that values people, and that shared outlook will set the path that Korea and ASEAN take together in the years and decades ahead.

Since 2010, Korea and ASEAN have made significant strides together as strategic partners. Korea-ASEAN cooperation so far, however, has remained focused mainly on government-led collaboration in political, security, and economic affairs. I intend to help advance Korea-ASEAN relations while placing a high priority on the “people” – both Koreans and the people of ASEAN. My vision is to create, in cooperation with ASEAN, a “peace-loving, people-centered community where all members are better off together.” This can be summed up in “three Ps”: People, Prosperity, and Peace.

To realize this vision, I will pursue “people-centered diplomacy.” So, from this point onward, cooperation between Korea and ASEAN will be developed in a way that respects public opinion among all of the peoples of our association, gains their support, and invites their hands-on participation.

To this end, and in commemoration of ASEAN’s 50th anniversary, we have designated this year as “Korea-ASEAN Cultural Exchange Year,” and actively promoted various cultural and people-to-people exchanges. Last September, the ASEAN Culture House (ACH) opened in Korea’s southern port city of Busan. The ACH is the first of its kind to be opened in an ASEAN dialogue partner country, and it is expected to serve as a hub for cultural and people-to-people exchanges between Korea and ASEAN members. The Korean government will spare no effort to expand these exchanges, especially among the young people who will lead Korea-ASEAN relations in the future.

We should also work to build a community of peace where people are safe. In Asia, we all are facing the threat posed by North Korea’s nuclear weapons and missiles, as well as non-traditional security threats, including terrorism, violent extremism, and cyber-attacks on our businesses, our social and civic infrastructure, and our official institutions. The Korean government will strive to ensure that both Koreans and the people of ASEAN are able to lead happy and safe lives, which means cooperating with all ASEAN member states, at both the bilateral and multilateral level, to overcome the security challenges that we jointly face.

Finally, I will endeavor to promote greater mutual prosperity, which benefits citizens of both ASEAN and Korea. To ensure the sustainability of people-centered cooperation, all countries in the region must grow and develop together. Creating a structure for mutual prosperity requires lowering regional and transnational barriers to facilitate the flow of goods and promote people-to-people interactions. In short, ASEAN’s dynamism must now be tied to its inclusiveness.

That is why Korea will actively support the “Master Plan on ASEAN Connectivity 2025” and “Initiative for ASEAN Integration (IAI) Work Plan,” both of which call for enhancing the connectivity between ASEAN economies and citizens. We will also accelerate the pace of negotiations for the further liberalization of a Korea-ASEAN Free Trade Agreement (FTA), in order to pave the way for freer and more inclusive growth in the region.

Korea is now preparing for yet another “hot” winter: the PyeongChang Olympic and Paralympic Winter Games, to be held in February 2018. Our preparations are focused on ensuring that these Games deliver a message of reconciliation, peace, mutual understanding, and cooperation throughout the world.

I happily invite you all to discover a peaceful and joyous winter in PyeongChang, and experience the dynamism sweeping through Korea and ASEAN.

Don't miss an opportunity to find out and enjoy what Korea and ASEAN share in common.

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Fonte: Project Syndicate

## **Saudi Arabia's Populist Temptation (Ishac Diwan – 15/11/2017)**

*Ishac Diwan is a visiting professor at Columbia University's School of International and Public Affairs, and holds the Chaire d'Excellence Monde Arabe at Paris Sciences et Lettres.*

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Most efforts to comprehend the dynamics of Saudi Arabia's ongoing political earthquake have focused on the psychology of the young crown prince, Mohammed bin Salman. But there are also structural reasons for Prince Mohammed's brand of populism. Understanding these factors is key to finding a better path forward.

In the past, political stability in Saudi Arabia rested on three separate deals: within the royal family; between the royal family and the Kingdom's traditional elites; and between the state and the population.

The deal within the Al Saud family is rooted in *asabiyya* – the ability of an ambitious tribe to stick together to monopolize power. But the royal family has grown too large and become too divided to justify the cost of maintaining its unity. Loosely estimated, the 5,000 or so third-generation princes and their entourage consume \$30-50 billion per year.

The deal among traditional elites is also rooted in the Kingdom's genesis. These notable families were encouraged to accumulate economic power. Privileged access to government contracts, subsidies, capital, protection from competition, and the ability to import labor freely have embedded their companies deeply in the economy.

This protected elite private sector grew to represent over 50% of Saudi GDP. But, because it is largely staffed by expats, it generates no trickle-down benefits to the local population, only negative externalities.

The population, meanwhile, was offered economic security in exchange for loyalty – an arrangement institutionalized through a patronage network of high-paying public-sector jobs and a broad array of generous welfare benefits and consumer subsidies. As a result, more than 75% of Saudi citizens work for the state, and much of the rest of the public budget is spent on cradle-to-grave social support.

But with per capita revenue from oil exports now only \$5,000 a year for Saudi Arabia's 20 million nationals, the system has become too costly. The challenge for Prince Mohammed is to oversee a transition to a less expensive political order, while generating sufficient economic efficiency gains to prevent the necessary adjustment from fueling instability and civil unrest.

Other autocratic regimes in the region, with larger populations and less oil – such as Iraq, Egypt, Algeria, and Syria – followed a “republican strategy” that appeased the poor with various forms of patronage, and repressed economic elites. This blocked the rise of any credible opposition, at the cost of entrenching an anemic, largely informal, and consumption-based economy.

Such a Venezuela-style approach could appeal to Prince Mohammed, because its populist fervor aligns with his purges of elites and neutralization of any serious opposition. Foreign and state-controlled firms could replace the notables in delivering necessary private services. And the balance of payments could be stabilized with lower consumption and imports, particularly that of the royals and the rich.

The problem with this approach is that it would only delay the essential challenge of raising labor productivity. While other autocrats under pressure – such as Turkey's Recep Tayyip Erdoğan and Russia's Vladimir Putin – are increasingly choosing this myopic route of sacrificing the private sector on the altar of regime survival, the Kingdom can do better, given the assets at its disposal.

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The alternative of an authoritarian ruling coalition of traditional elites is even less attractive to Saudi Arabia's current rulers, as it would entail lower levels of consumption for ordinary people – and thus, in all likelihood, higher levels of repression. Domestic strife is the last thing the crown prince needs.

A better way forward requires more balance and better coordination. The pain of adjustment should be shared more widely among all groups, and reforms should focus much more on enlarging the economic pie.

This route is feasible, thanks to Saudi Arabia's abundance of low-hanging fruit: a youthful society clamoring for social emancipation, better-educated women yearning for more participation, and millions of jobs created for expats available for nationals to fill.

What clouds this scenario is the low productivity of the elite private sector. To break free of its middle-income trap, Saudi Arabia needs to democratize, if not its politics, then at least its markets, through greater reliance on the rule of law and fair competition. Viewed from this perspective, Prince Mohammed's current anti-corruption campaign will need to be followed by efforts to establish more inclusive rules for the private sector.

If the Kingdom's private sector can be made to work, the economic challenge becomes modest. About 200,000 young people enter the labor market every year. If as many jobs are needed to allow women to join and to slowly wind down the public sector, two million new jobs would be needed over the next five years. To put this in perspective, there are now nine million foreign workers employed in the Kingdom.

Rather than new mega-investments in high tech, the difficult route of Saudization, initiated a decade ago, can gradually do the job, if augmented by greater support for competition and for small and medium-size enterprises. But the starting point is challenging, because public servants currently earn three times more than private-sector workers. To unify the labor market, a medium-term goal could be to reduce Saudi workers' pay by a third, increase their productivity by a third, and subsidize the rest from state coffers.

The populist temptation promises at best an authoritarian, middle-income welfare state. Saudi Arabia would be better served by a strategy of economic and social inclusion that broadens the basis of political support by convincing all influential groups – royals, notables, and mere mortals – to view their short-term losses as an investment in the Kingdom's future.

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Fonte: Project Syndicate

## **How to Combat Populist Demagogues (Dani Rodrik – 13/11/2017)**

*Dani Rodrik is Professor of International Political Economy at Harvard University's John F. Kennedy School of Government. He is the author of The Globalization Paradox: Democracy and the Future of the World Economy and Economics Rules: The Rights and Wrongs of the Dismal Science. His newest book Straight Talk on Trade: Ideas for a Sane World Economy will be published in Fall 2017.*

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At a recent conference I attended, I was seated next to a prominent American trade policy expert. We began to talk about the North American Free Trade Agreement (NAFTA), which President Donald Trump has blamed for American workers' woes and is trying to renegotiate. "I never thought NAFTA was a big deal," the economist said.

I was astonished. The expert had been one of the most prominent and vocal advocates of NAFTA when the deal was concluded a quarter-century ago. He and other trade economists had played a big part in selling the agreement to the American public. "I supported NAFTA because I thought it would pave the way for further trade agreements," my companion explained.

A couple of weeks later, I was at a dinner in Europe, where the speaker was a former finance minister of a eurozone country. The topic was the rise of populism. The

former minister had left politics and had strong words about the mistakes he thought the European policy elite had made. “We accuse populists of making promises they cannot keep, but we should turn that criticism back on ourselves,” he told us.

Earlier during the dinner, I had discussed what I describe as a trilemma, whereby it is impossible to have national sovereignty, democracy, and hyper-globalization all at once. We must choose two out of three. The former politician spoke passionately: “Populists are at least honest. They are clear about the choice they are making; they want the nation-state, and not hyper-globalization or the European single market. But we told our people they could have all three cakes simultaneously. We made promises we could not deliver.”

We will never know whether greater honesty on the part of mainstream politicians and technocrats would have spared us the rise of nativist demagogues like Trump or Marine Le Pen in France. What is clear is that lack of candor in the past has come at a price. It has cost political movements of the center their credibility. And it has made it more difficult for elites to bridge the gap separating them from ordinary people who feel deserted by the establishment.

Many elites are puzzled about why poor or working-class people would vote for someone like Trump. After all, the professed economic policies of Hillary Clinton would in all likelihood have proved more favorable to them. To explain the apparent paradox, they cite these voters’ ignorance, irrationality, or racism.

But there is another explanation, one that is fully consistent with rationality and self-interest. When mainstream politicians lose their credibility, it is natural for voters to discount the promises they make. Voters are more likely to be attracted to candidates who have anti-establishment credentials and can safely be expected to depart from prevailing policies.<sup>2</sup>

In the language of economists, centrist politicians face a problem of asymmetric information. They claim to be reformers, but why should voters believe leaders who appear no different from the previous crop of politicians who oversold them the gains from globalization and pooh-poohed their grievances?

In Clinton’s case, her close association with the globalist mainstream of the Democratic Party and close ties with the financial sector clearly compounded the problem. Her campaign promised fair trade deals and disavowed support for the Trans-Pacific Partnership (TPP), but was her heart really in it? After all, when she was US Secretary of State, she had strongly backed the TPP.

This is what economists call a pooling equilibrium. Conventional and reformist politicians look alike and hence elicit the same response from much of the electorate. They lose votes to the populists and demagogues whose promises to shake up the system are more credible.

Framing the challenge as a problem of asymmetric information also hints at a solution. A pooling equilibrium can be disrupted if reformist politicians can “signal” to voters his or her “true type.”

Signaling has a specific meaning in this context. It means engaging in costly behavior that is sufficiently extreme that a conventional politician would never want to emulate it, yet not so extreme that it would turn the reformer into a populist and defeat the purpose. For someone like Hillary Clinton, assuming her conversion was real, it could have meant announcing she would no longer take a dime from Wall Street or would not sign another trade agreement if elected.

In other words, centrist politicians who want to steal the demagogues’ thunder have to tread a very narrow path. If fashioning such a path sounds difficult, it is indicative of the magnitude of the challenge these politicians face. Meeting it will likely require new faces and younger politicians, not tainted with the globalist, market fundamentalist views of their predecessors.

It will also require forthright acknowledgement that pursuing the national interest is what politicians are elected to do. And this implies a willingness to attack many of the establishment’s sacred cows – particularly the free rein given to financial institutions, the bias toward austerity policies, the jaundiced view of government’s role in the

economy, the unhindered movement of capital around the world, and the fetishization of international trade.

To mainstream ears, the rhetoric of such leaders will often sound jarring and extreme. Yet wooing voters back from populist demagogues may require nothing less. These politicians must offer an inclusive, rather than nativist, conception of national identity, and their politics must remain squarely within liberal democratic norms. Everything else should be on the table.

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Fonte: Project Syndicate

## **Democracy Beyond the Nation-State (Kemal Dervis – 14/11/2017)**

*Kemal Derviş, former Minister of Economic Affairs of Turkey and former Administrator for the United Nations Development Program (UNDP), is Senior Fellow at the Brookings Institution.*

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According to the Harvard economist Dani Rodrik, it is impossible to have full national sovereignty, democracy, and globalization simultaneously. The concept of a “political trilemma of the world economy,” which Javier Solana also recently explored, is useful, but incomplete.

Rodrik’s argument, elaborated in his new book, is that too much globalization erodes the sovereignty of democratic nation-states, by increasingly subjecting them to economic and financial forces that may not correspond with the wishes of the domestic majority. By this logic, an authoritarian state may function better in a globalized world, because it is unconstrained by, say, electoral concerns.

With less globalization, democratic decision-making within the nation-state would be less constrained by external forces – particularly financial markets – meaning that its scope would be wider. Globalization and democracy, without the nation-state, is also possible, though Rodrik is skeptical about whether democratic institutions could function on a global scale.

Of course, Rodrik does not portray this trilemma as a hard-and-fast rule. Rather, his goal is to highlight the challenges associated with fostering or maintaining these three institutional arrangements, partly or fully. But, to get the most out of Rodrik’s concept, it is necessary to account for another dimension: the many levels of governance that exist in today’s world.

The nation-state, managed by national government, remains the fundamental building block of the international order. But below the nation-state are states (or provinces), cities, and regions, which may have their own governance structures. Above, there are supranational blocs like the European Union and global institutions like the United Nations. Any discussion of the trilemma must take into account these various levels of governance.

It is true that today’s widespread disillusionment with government is partly a backlash against globalization, which has seemed to impose itself on nation-states. But another reason for the disillusionment may be that citizens feel disconnected from their national governments.

Yet subnational governments are not so far away, and citizens often feel that they can still exert significant influence over them. As a result, the tension between democracy and globalization seems to be less acute at, say, the municipal level. It helps that subnational governments tend to be focused on more local-level concerns – such as infrastructure, education, and housing – that are not perceived as being strongly influenced by globalization.

On the opposite end of the spectrum are supranational governance structures, such as the EU. Not only does the EU often deal with globalization-related issues like trade; Europe’s citizens feel that the distant and disconnected “Brussels,” over which they have little influence, is infringing on the sovereignty of nation-states. This sentiment, exemplified in the Brexit vote, can be observed across Europe.

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The ways in which these dynamics can complicate Rodrik's political trilemma have been on stark display in Catalonia, where the tension between local democracy and the nation-state is even more acute than that with globalization. Indeed, many Catalans are more frustrated with Spain's national government than they are with either globalization or the EU. The same can be said of Scotland vis-à-vis the United Kingdom.

In this context, a retreat to the nation-state that rejects globalization, as is occurring in the United States under President Donald Trump, becomes even more problematic, because it threatens to resurrect all of the economic and political pathologies that nationalism incited in the past, and then some.

But what if we adopted a new approach, in which local-level democracy and sovereignty were strengthened instead?

In many countries, if not most, cities are the centers of innovation and progress, as the promise of agglomeration, economies of scale, and positive spillovers attract high-performing firms. Citizens feel close to their municipal governments and proud of their cities, but their pride in their identity does not have the damaging qualities of nationalism.

As the nation-state cedes some of its power to regional, state, or municipal governments, the trilemma weakens. Both democracy, with its concomitant sense of belonging, and globalization, driven by cosmopolitan cities open to the world, can thrive, without causing any country to lose sovereignty.<sup>1</sup>

The benefits of such an approach could be profound. But there are serious risks. As successful metropolitan areas attract a growing share of a country's capital, skilled labor, and innovative capacity, rural areas, in particular, are likely to face economic decline: fewer job opportunities, closure of hospitals and schools, and deteriorating infrastructure. That trend, as we have seen, creates fertile ground for populist politicians to offer simplistic solutions, rooted in extreme ideologies that sow division and undermine progress.

That is why it is vital to find ways to help, from the start, those who may be left behind by such a system. Here, the nation-state would retain a major role, though an appropriate balance must be struck, in order to prevent the trilemma from reasserting itself.

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