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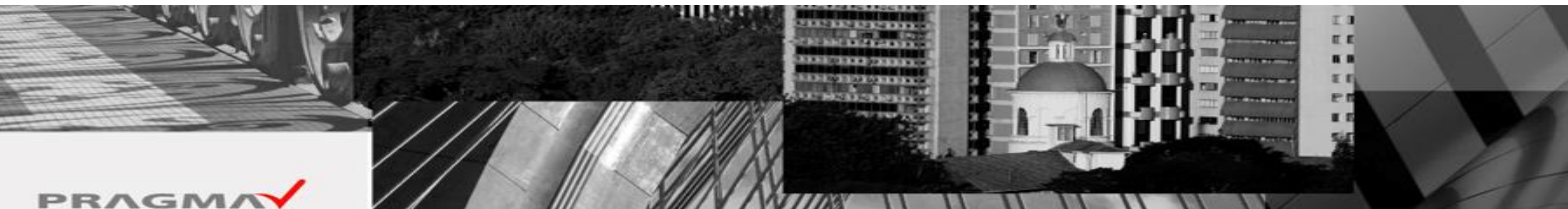

Republicans Are Coming for Your Benefits (Paul Krugman– 04/12/2017)

Paul Krugman is an American economist and professor of economics at Princeton University. He is a leading liberal voice in American policy debate and has been labelled one of the most influential academic thinkers in America. He was awarded the Nobel Prize for economics in 2008 in recognition for his work on international economics.

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Senator Orrin Hatch wants steep tax cuts that will benefit corporations and the wealthy. But he says the Children's Health Insurance Program is in trouble because "we don't have money anymore."

Republicans don't care about budget deficits, and never did. They only pretend to care about deficits when one of two things is true: a Democrat is in the White House, and deficit rhetoric can be used to block his agenda, or they see an opportunity to slash social programs that help needy Americans, and can invoke deficits as an excuse. All of this has been obvious for years to anyone paying attention.

So it's not at all surprising that they were willing to enact a huge tax cut for corporations and the wealthy even though all independent estimates said this would add more than $1 trillion to the national debt. And it was also predictable that they would return to deficit posturing as soon as the deed was done, citing the red ink they themselves produced as a reason to cut social spending.

Yet even the most cynical among us are startled both by how quickly the bait-and-switch is proceeding and by the contempt Republicans are showing for the public's intelligence.

In fact, the switch began even before the marks swallowed the bait.

During the Senate debate over the Tax Cuts and Jobs Act, Senator Orrin Hatch was challenged over support for the Children's Health Insurance Program, which covers nine million U.S. children — but whose funding lapsed two months ago, and has not been renewed. Hatch declared his support for the program, but insisted that "the reason CHIP's having trouble is because we don't have money anymore" — just before voting for a trillion-and-a-half-dollar tax cut that will deliver the bulk of its benefits to the richest few percent of the population.

He then went on to say, "I have a rough time wanting to spend billions and billions and trillions of dollars to help people who won't help themselves, won't lift a finger and expect the federal government to do everything."

So who, exactly, was he talking about, and which programs are consuming these billions and billions and trillions?

Was he talking about food stamps, most of whose beneficiaries are children, elderly or disabled? (And many of the rest are working hard, just not earning enough to get by.)

Was he talking about the earned-income tax credit, which rewards only those who work?

Was he talking about Medicaid, which again mainly benefits children, the elderly and the disabled, plus people who work hard but whose jobs don't provide health benefits?

We can go on down the list. The simple fact is that big spending on people who "won't lift a finger" doesn't actually happen in America — only in Hatch's meanspirited imagination.

Now, to be fair, there are some people in America who get lots of money they didn't lift a finger to earn — namely, inheritors of large estates. Strange to say, however, Republican legislation would give these people much more — indeed, billions and billions of dollars — without requiring any additional effort on their part.

The House version of the big tax cut would eliminate the estate tax entirely; the Senate version would double the level of wealth exempted from the tax, to $22.4 million for a couple. How can this be justified if it's supposedly hard to find money for children's health care?

Well, Senator Chuck Grassley explained it all last week: "I think not having the estate tax recognizes the people that are investing, as opposed to those that are just spending every darn penny they have, whether it's on booze or women or movies."

Hmm. Somehow, I don't think limiting spending on booze, women, and movies (movies?) is going to be sufficient for the median American household — which had an income of $59,000 last year — to end up with a $22 million estate. And if you think of people who really will benefit from eliminating taxes on inheritance — people like, say, Donald Trump Jr. — one is not immediately struck by the notion that this is a reward for their fathers' abstemious lifestyles.

The important thing to realize, however, is that the hypocrisy and contempt for the public we've seen in the past few days is just the beginning.

It has been widely noted that the tax bills enacted by the House and Senate are remarkably unfriendly to the middle class — in fact, the Senate bill, once fully phased in, would actually raise taxes on a majority of middle-class families. But that observation captures only a small part of what is about to happen to ordinary, hard-working Americans.

For budget deficits are going to soar thanks to Republican legislation — probably by even more than the official scorekeepers say, because the legislation creates so many new loopholes. And offsetting those deficits will require going after the true big-ticket programs, namely Medicare and Social Security.

Oh, they'll find euphemisms to describe what they're doing, talking solemnly about the need for "entitlement reform" as an act of fiscal responsibility — while their huge budget-busting tax cut for the rich gets shoved down the memory hole. But whatever words they use to cloak the reality of the situation, Republicans have given their donors what they wanted — and now they're coming for your benefits.

Fonte: NY Times

A Better British Story (Jim O'Neill– 06/12/2017)

Jim O'Neill, a former chairman of Goldman Sachs Asset Management and former Commercial Secretary to the UK Treasury, is Honorary Professor of Economics at Manchester University and former Chairman of the Review on Antimicrobial Resistance.

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Nowadays, there are hazards to looking for signs of hope in the British economy. As the latest OECD forecast for 2018 and beyond shows, a cloud of gloom has descended on the United Kingdom.

The primary source of pessimism is, of course, Brexit, and the fear that withdrawing from the European Union will hurt British consumers through higher import prices and weak business investment. And, making matters worse, the British government's independent Office of Budget Responsibility has now lowered its expectations for economic growth, owing to persistently weak productivity performance in the UK.

Against this economic backdrop, British politics are in a state of chaos, with Prime Minister Theresa May seemingly presiding over an increasingly weak government. At this point, the only thing stopping a Conservative Party putsch against

May is the fear of losing a fresh election, which would bring a far-left government to power for the first time in many years.

Meanwhile, the rest of the world economy appears to be strengthening, and indicators that I consider to be reliable have been accelerating as we approach 2018. One area that is particularly relevant to the UK is the eurozone, where the manufacturing Purchasing Managers' Index (PMI) rose above 60 in November – its highest level since 2000. Despite the UK's best attempts to declare economic independence, its fortunes will continue to depend more on its closest geographic neighbors than on any other country or region.

Elsewhere, almost all of the ten largest economies' performance has been strengthening in recent months. In the US, that was true even before Congress started writing corporate-tax-cut legislation, which now seems likely to be enacted.

So, where does this leave the UK? It may come as a surprise to hear that the UK's own PMI is now at its highest level in four years, suggesting that businesses are becoming more willing to make new investments. If official data in the coming months support this finding, it will represent a significant positive development indeed.

Moreover, there are some early signs of improvement outside of London and the southeast, which is particularly relevant for some of the UK's most deep-seated economic weaknesses. As of October, monthly regional PMIs, which lag one month behind the national PMI, show a persistent positive trend that economic observers and policymakers will need to reckon with if it continues.

It has been a number of months since London was the UK's top-performing region. In October, that honor belonged to Wales. And, just within England, parts of the so-called northern powerhouse have been outperforming London throughout 2017. The northwest PMI is at its highest level in months, and indicates a stronger absolute performance than that of London. Even more heartening, Yorkshire and the northeast are also showing signs of renewed strength.

Whether this newfound economic vigor will prove sustainable remains to be seen. But, for now, it is a highly welcome development, and may indicate that policies aimed at boosting the northern economy have had some effect.

Moreover, PMIs are not the only evidence of improving conditions in the north. Employment is increasing in some of these areas, notably the northwest. And weaknesses in the London housing market do not appear to have spread elsewhere. In fact, in the northwest, residential real-estate prices are showing signs of accelerating upward.

If this trend does endure, it would have far-reaching implications for the UK economy. Strengthening housing markets in the north could do wonders to reverse the disturbing regional inequalities that have emerged in recent decades.

One thing we can be absolutely certain about is that the government should continue pursuing policies to engage with the northern powerhouse, and perhaps with the "Midlands engine," too. That means keeping its commitment to improve transportation infrastructure in the region.

At the same time, the government should be pursuing further initiatives to boost education and skills-training in the north, while also devolving more decision-making authority to regional and local governments. Greater Manchester is at the geographic heart of the northern powerhouse, and its leaders have been spearheading the push for greater devolution of authority. It cannot be a mere coincidence that the area is enjoying a stronger economy. Britain needs more such efforts.

In 2018, there will continue to be plenty of drama surrounding Brexit and the future of the May government. But, regardless of whether Britain manages to forge a productive new relationship with the EU, at least it has started to address longstanding challenges that have held too many regions back for too long. Given that those problems are of the UK's own making, policymakers, in this case, are right to look for solutions from within.

Fonte: Project Syndicate

Whither the Multilateral Trading System (Daniel Gros– 06/12/2017)

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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Free trade seems to have few supporters these days. Though actual trade volumes are recovering from the post-crisis recession and drop in commodity prices, "globalization" has become increasingly contentious, as exemplified by the election of US President Donald Trump on the back of a promise to rip up international agreements and get tough on trade partners. What does this mean for the future of the rules-based trading system?

Some 60 years ago, when the current rules-based global trading system was conceived, the United States was the world's sole economic "hyperpower," possessing unquestioned dominance in the day's most advanced manufacturing industries. With enough power to impose rules, and enough dominance to be able to count on accruing the largest share of the benefits, it could – and did – perform the role of "benevolent hegemon."

As Japan and Europe recovered from World War II – with the latter getting an added boost from economic integration – America's lead began to dwindle, and by the 1970s and 1980s, the US was sharing power over the world's trade agenda with Europe. Nonetheless, because the US and Europe share so many common interests, they generally adhered to a cooperative approach.

It was not until imports began to overwhelm a growing number of industries in the US, fueling the emergence of large and persistent external deficits, that the country's trade policy became more defensive, creating friction with many of its partners. Yet, even then, US leaders understood the value of the liberal multilateral trading system, and supported the establishment, in 1995, of the World Trade Organization as the successor to the General Agreement on Tariffs and Trade.

The WTO's creation amounted to a major step forward, as it addressed not just tariffs, but also other trade barriers, including indirect barriers arising from domestic regulations. Given the complexity of assessing how domestic regulations might impede trade, especially compared to judging whether a tariff has been correctly applied, the WTO needed effective dispute-settlement mechanisms, with members agreeing to binding arbitration. The system worked, because its major members recognized the legitimacy of independent panels, even if they sometimes deliver politically inconvenient judgments.

Yet this recognition is now increasingly in doubt. Consider what type of economy would support a rules-based system. After WWII, the US supported such a system, because of its unassailable economic supremacy. An open rules-based system would also be highly appealing in a world comprising only small countries, none of which could hope to gain by relying on its relative economic power.

Things become more complicated when the global economy includes a small number of economies of similar size, larger than the small economies from the previous example, but not large enough to dominate the system alone. That is the scenario the Nobel laureate economist Paul Krugman considered in a 1989 paper on bilateralism, in which he reported that a world consisting of three major trading blocs constitutes the worst constellation for trade, as a lack of explicit cooperation among all three would lead to increasing trade barriers.

Unfortunately, this is exactly the situation in which the global economy finds itself today. There are three dominant economies or trading blocs – China, the

European Union, and the US – with very similar trade volumes (exports plus imports) of around $4 trillion each. (Japan, which was a strong contender 25 years ago, now has a much smaller trade volume.) Together, the G3 economies account for 40% of world trade and 45% of global GDP.

With economic power distributed in this way, explicit cooperation by all three actors is crucial. Yet there are compelling reasons why they would be reticent to pursue such cooperation.

Even if Trump weren't president, the current global trading system would present problems for the US, whose trade policy has long focused on manufactured goods. (Trade in raw materials has always been relatively free, and trade in agricultural goods has usually been considered special, and thus not subject to rules like the "most favored nation" principle, which applies to manufactures.)

Because the US is now self-sufficient in energy, it needs to export fewer manufactured goods than industrialized countries with no domestic energy resources. Annual US exports of manufactured goods thus now amount to only about $1 trillion annually – significantly less than both the EU and China, which export almost twice as much in manufactured goods, despite having somewhat smaller economies.

To be sure, Trump is unlikely to start an outright trade war, because any US tariff would harm the interests of the country's largest companies, which have invested huge sums in production facilities abroad. Yet no individual firm will be willing to give up much of its political capital to defend the rules-based system, either, because it would have to bear the losses, while its competitors shared the gains. The same goes for the G3 trading blocs: if the EU expends political capital to stop the US from undermining WTO mechanisms, China (and the rest of world) will reap most of the gains.

That dynamic goes some way toward explaining why China's leaders, despite having proclaimed their support for the multilateral rules-based trading system, haven't taken concrete action to reinforce it. Their reticence is probably intensified by the assumption that, within the current generation, their country will dominate the global economy; at that point, they might no longer want to be bound by somebody else's rules.

It does not help matters that the Communist Party of China has recently been empowered even further in all areas of the economy, with all major firms now having to accept a CPC representative on their board. It is difficult to see how a dominant economic power governed by a single party – especially one with such extensive control over the economy – would accept the primacy of international rules and procedures over domestic considerations.

The conclusion is clear. The world should prepare itself for the erosion of the rules-based trading system enshrined in the WTO.

Fonte: Project Syndicate

The Globalization of Our Discontent (Joseph E. Stiglitz– 05/12/2017)

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. A former senior vice president and chief economist of the World Bank and chair of the US president's Council of Economic Advisers under Bill Clinton, in 2000 he founded the Initiative for Policy Dialogue, a think tank on international development based at Columbia University. His most recent book is Globalization and Its Discontents Revisited: Anti-Globalization in the Era of Trump.

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Fifteen years ago, I published *Globalization and Its Discontents,* a book that sought to explain why there was so much dissatisfaction with globalization within the developing countries. Quite simply, many believed that the system was “rigged” against them, and global trade agreements were singled out for being particularly unfair.

Now discontent with globalization has fueled a wave of populism in the United States and other advanced economies, led by politicians who claim that the system is unfair to their countries. In the US, President Donald Trump insists that America’s trade negotiators were snookered by those from Mexico and China.

So how could something that was supposed to benefit all, in developed and developing countries alike, now be reviled almost everywhere? How can a trade agreement be unfair to all parties?1

To those in developing countries, Trump’s claims – like Trump himself – are laughable. The US basically wrote the rules and created the institutions of globalization. In some of these institutions – for example, the International Monetary Fund – the US still has veto power, despite America’s diminished role in the global economy (a role which Trump seems determined to diminish still further).

To someone like me, who has watched trade negotiations closely for more than a quarter-century, it is clear that US trade negotiators got most of what they wanted. The problem was with *what* they wanted. Their agenda was set, behind closed doors, by corporations. It was an agenda written by and for large multinational companies, at the expense of workers and ordinary citizens everywhere.

Indeed, it often seems that workers, who have seen their wages fall and jobs disappear, are just collateral damage – innocent but unavoidable victims in the inexorable march of economic progress. But there is another interpretation of what has happened: one of the objectives of globalization was to weaken workers’ bargaining power. What corporations wanted was cheaper labor, however they could get it.

This interpretation helps explain some puzzling aspects of trade agreements. Why is it, for example, that advanced countries gave away one of their biggest advantages, the rule of law? Indeed, provisions embedded in most recent trade agreements give foreign investors more rights than are provided to investors in the US. They are compensated, for example, should the government adopt a regulation that hurts their bottom line, no matter how desirable the regulation or how great the harm caused by the corporation in its absence.

There are three responses to globalized discontent with globalization. The first – call it the Las Vegas strategy – is to double down on the bet on globalization *as it has been managed for the past quarter-century*. This bet, like all bets on proven policy failures (such as trickle-down economics) is based on the hope that somehow it will succeed in the future.

The second response is Trumpism: cut oneself off from globalization, in the hope that doing so will somehow bring back a bygone world. But protectionism won’t work. Globally, manufacturing jobs are on the decline, simply because productivity growth has outpaced growth in demand.

Even if manufacturing were to come back, the jobs won’t. Advanced manufacturing technology, including robots, means that the few jobs created will require higher skills and will be placed at different locations than the jobs that were lost. Like doubling down, this approach is doomed to fail, further increasing the discontent felt by those left behind.

Trump will fail even in his proclaimed goal of reducing the trade deficit, which is determined by the disparity between domestic savings and investment. Now that the Republicans have gotten their way and enacted a tax cut for billionaires, national savings will fall and the trade deficit will rise, owing to an increase in the value of the dollar. (Fiscal deficits and trade deficits normally move so closely together that they are called “twin” deficits.) Trump may not like it, but as he is slowly finding out, there are some things that even a person in the most powerful position in the world cannot control.

There is a third approach: social protection without protectionism, the kind of approach that the small Nordic countries took. They knew that as small countries they had to remain open. But they also knew that remaining open would expose workers to risk. Thus, they had to have a social contract that helped workers move from old jobs to new and provide some help in the interim.

The Nordic countries are deeply democratic societies, so they knew that unless most workers regarded globalization as benefiting them, it wouldn't be sustained. And the wealthy in these countries recognized that if globalization worked as it should, there would be enough benefits to go around.

American capitalism in recent years has been marked by unbridled greed – the 2008 financial crisis provides ample confirmation of that. But, as some countries have shown, a market economy can take forms that temper the excesses of both capitalism and globalization, and deliver more sustainable growth and higher standards of living for most citizens.

We can learn from such successes what to do, just as we can learn from past mistakes what not to do. As has become evident, if we do not manage globalization so that it benefits all, the backlash – from the New Discontents in the North and the Old Discontents in the South – is at risk of intensifying.

Fonte: Project Syndicate

The Elusive Benefits of Flexible Exchange Rates (Gita Gopinath- 04/12/2017)

Gita Gopinath is Professor of Economics at Harvard University. She is a visiting scholar at the Federal Reserve Bank of Boston, a research associate at the National Bureau of Economic Research, and a World Economic Forum Young Global Leader.

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In 1953, Milton Friedman published an essay called "The Case for Flexible Exchange Rates," arguing that they cushion an economy from internal and external shocks by bringing about just the right price changes required to keep the economy at full employment. But after almost half-a-century of floating exchange rates, the reality is more complicated than that.

To understand Friedman's logic, consider a scenario in which productivity in the United States rises. In an efficient system, this should reduce the price of US goods relative to those of the rest of the world, with US exports becoming cheaper than imports. As America's terms of trade (the ratio of export prices to import prices) deteriorate, demand is shifted toward US goods, keeping the economy at full employment.

If prices are "sticky" (in the producer's currency), however, a potential hitch emerges. Say the prices of US imports from Japan are sticky in Japanese yen and the prices of US exports to Japan are sticky in dollars. The terms of trade will thus remain unchanged, as long as the exchange rate does as well.

Here is where a floating exchange rate comes in. By enabling monetary expansion, and thus causing the US dollar to depreciate, the logic goes, a floating exchange rate allows the prices of US exports to decline relative to its imports. The result is the desired deterioration of the producer's terms of trade and the maintenance of full employment.

But this line of reasoning assumes that a country's terms of trade move in lockstep with its exchange rate. And that, as history over a quarter-century has shown, does not seem to be the case.

In a recent paper, the International Monetary Fund's Emine Boz, Princeton's Mikkel Plagborg-Møller, and I construct bilateral export- and import-price indices for 2,500 country pairs, covering 91% of world trade for the period 1989-2015. We exclude the prices of commodities (oil, copper, and other such goods that are traded on an exchange), as these prices are not sticky.

As it turns out, there is no evidence that the terms of trade and the exchange rate move in tandem. On the contrary, a 1% depreciation in the bilateral exchange rate is associated with only a 0.1% depreciation in the bilateral terms of trade in the year of the depreciation. The origin of this disconnect – which Camila Casas, Federico Diez, Pierre-Olivier Gourinchas, and I describe in a 2016 paper – seems to be that, for the vast majority of internationally traded goods, prices are sticky in dollars, not in the producer's currency, as Friedman's reasoning required.

Consider the case of the US and Japan. Almost 100% of US exports to Japan are priced in dollars, meaning that they, as in Friedman's version, are sticky in dollars. But 80% of US imports from Japan are invoiced in dollars, meaning that those prices, too, are sticky in dollars, rather than in Japanese yen. As a result, the terms of trade change very little, even if the exchange rate fluctuates.

This means that, even if the US dollar depreciates, it does not become more expensive for US importers to buy Japanese goods, so there is limited incentive to switch from Japanese to US goods. A weaker dollar thus has limited impact on US imports. Likewise, a weaker yen does little to spur Japanese exports to the US, because the dollar price of those exports remains roughly constant.

This phenomenon applies even to trade transactions that do not include the US. As I documented in a 2015 paper, the share of world imports invoiced in US dollars is 4.7 times larger than the share of world imports involving the US. For world exports, that figure is 3.1. This "dominant currency paradigm" lies at the root of the terms-of-trade disconnect.

In fact, we document that global trade prices and volumes are driven by the dollar exchange rate, rather than the exchange rate between the two trading partners' currencies. So fluctuations in the price and quantity of India's imports from China, for example, depend on the rupee-dollar exchange rate, rather than the rupee-renminbi exchange rate. The strength of the US dollar is thus a key predictor of aggregate trade volume and consumer/producer price inflation worldwide.

Friedman was right about one thing: flexible exchange rates do provide valuable monetary-policy independence. But, in a dollar-dominated trade environment, their ability to support full employment is severely limited.

Fonte: Project Syndicate

The Long and Winding Road to a Haircut (Carmen Reinhart – 30/11/2017)

Carmen M. Reinhart is the Minos A. Zombanakis Professor of the International Financial System at Harvard Kennedy School. Previously, she was the Dennis Weatherstone Senior Fellow at the Peterson Institute for International Economics and Professor of Economics and Director of the Center for International Economics at the University of Maryland. Professor Reinhart held positions as Chief Economist and Vice President at the investment bank Bear Stearns in the 1980s. She spent several years at the International Monetary Fund. Reinhart is a Research Associate at the National Bureau of Economic Research, and a member of the Congressional Budget Office Panel of Economic Advisers and the Economic Advisory Panel of the Federal Reserve Bank of New York. She has been listed among Bloomberg Markets Most Influential 50 in Finance.

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Default is back. Sovereign finances weathered a wrenching global recession and a collapse in commodity prices surprisingly well over the past few years. But failed economic models cannot limp along forever, and the slow bleeding of the economies of Puerto Rico and Venezuela have now forced their leaders to say “no mas” to repaying creditors.

Earlier this year, Puerto Rico declared bankruptcy. At the time, the United States commonwealth had about $70 billion in debt and another $50 billion or so in pension liabilities. This made it the largest “municipal” bankruptcy filing in US history.

The debt crisis came after more than a decade of recession (Puerto Rico’s per capita GDP peaked in 2004), declining revenues, and a steady slide in its population. The demographic trends are all the more worrisome because those fleeing Puerto Rico in search of better opportunities on the US mainland are much younger than the population staying behind. And in September, at a time of deepening economic hardship, hurricane Maria dealt the island and its residents an even more devastating blow, the legacy of which will be measured in years, if not decades.

More recently, in mid-November, Venezuela defaulted on its external sovereign debt and debts owed by the state-owned oil company, PDVSA. Default on official domestic debt, either explicitly or through raging hyperinflation, had long preceded this latest manifestation of national bankruptcy.

While the government and PDVSA owe about $60 billion to foreign bondholders, these entities reportedly owe a comparable (if not larger amount) to Russia and China. According to the International Monetary Fund’s most recent World Economic Outlook, Venezuela’s real per capita GDP has contracted nearly 40% since 2008. By 2022, the cumulative toll is expected to leave per capita income at about half its level a decade ago. Such an economic collapse, rare outside wartime, understates the extent of human suffering implied by the prolonged food and medicine scarcities that plague the country.

Sovereign debt restructuring has a long and often torturous history. Relatively few cases have been resolved quickly or amicably, and they are usually cases where the restructuring involves only some concession on the interest rate and a lengthening of maturities on outstanding debt. They usually do not involve writing off a substantial portion of the principal owed. In other words, there is no significant “haircut” for creditors and only limited debt relief, at best, for debtor governments.

Obviously, there are significant differences between Puerto Rico and Venezuela regarding the origins of their economic crises, their political systems, their relationship with the US and the rest of the world, and much else. Nonetheless, some notable similarities are likely to emerge as their debt sagas unfold.

For starters, prompt resolution can be ruled out (or nearly so) in both cases. As Christoph Trebesch and I document, a common pattern in the often-hostile back and forth between sovereign debtors and their creditors is the protracted nature of the resolution process. Initial restructuring terms often are too timid, relative to the haircut needed to restore solvency. As a result, restructuring efforts have often been piecemeal.

Moreover, this pattern has emerged whether the creditors are bondholders (as in the case of Puerto Rico’s debt and about half of Venezuela’s), commercial banks, or official creditors (as in Greece). For example, between the early 1980s and 1994, Brazil had six different external debt restructuring deals, and Poland had eight, before the decisive restructuring under the more encompassing Brady Plan restored medium-term debt sustainability.

Another similarity between Puerto Rico and Venezuela that is likely to emerge stems from the severity of the economic damage that has already been sustained. Our work suggests that the size of the cumulative haircut is linked to the magnitude of the realized output losses. And, for both economies, bleak recovery prospects cast a long shadow over payment capacity.

On that basis alone, the haircuts will likely be on the high end of historical experience. Venezuela's previous debt restructuring, during the emerging-market crisis of the 1980s, was almost 40%. Research by Juan Cruces and Trebesch, who provide estimates for the size of debt write-offs, shows that in almost half of the 64 restructuring episodes from 1980 to 2011, the cumulative haircut ended up amounting to more than 50%. In 15 cases, more than 75% of the face value of external debt was effectively written off.

Ambitious recent proposals to provide comprehensive assistance to battered Puerto Rico could, in principle, facilitate debt restructuring, though it is too early to say. Venezuela's ever-more reprehensible regime under President Nicolás Maduro, and the uncertainty created by competing claims (mostly Western bondholders versus Chinese and Russian collateralized loans) sets the stage for a prolonged process culminating in substantial haircuts. While creditors should revise their expectations downward, the real tragedy is for ordinary citizens, for whom the restructuring process implies a protracted period of worsening impoverishment.

Fonte: Project Syndicate

Bitcoin and Bubbles (John H. Cochrane – 30/11/2017)

John Cochrane, former professor of University of Chicago Booth School of Business, is a Senior Fellow of the Hoover Institution at Standford.

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

So, what's up with Bitcoin? Is it a "bubble?" A mania of irrational crowds? It strikes me as a fairly pure instance of a regularly occurring phenomenon in financial markets, one that encompasses some "excess valuations" in stock markets, gold and commodities, and money itself.

Let's put the pieces together. The first equation of asset pricing is that price = expected present value of dividends. Bitcoin has no cash dividends, and never will. So right off the bat we have a problem -- and a case that suggests how other assets might have value above and beyond their cash dividends.

Well, if the price is greater than zero, either people see some "dividend," some value in holding the asset, beyond its cash payments; equivalently they are willing to hold the asset despite a lower expected return going forward, or they think the price will keep going up forever, so that price appreciation alone provides a competitive return. The first two are called "convenience yield," the latter is a "rational bubble."

"Rational bubbles" are intriguing, but I think fundamentally flawed. If a price goes up forever, eventually the value of bitcoin must exceed all of US wealth, then all of world wealth, then all of interplanetary wealth, then all of the atoms in the universe. The "greater fool" or Ponzi scheme theory must break down at some point, or rely on an irrational belief in the next fool. The rational bubbles theory also does not account for the association of price surges with high volatility and high trading volume.

So, let's think about "convenience yield." Why might someone be willing to hold bitcoins even though their price is above "fundamental value" -- equivalently even though their expected return over a decently long horizon is lower than that of stocks and bonds? Even though we know pretty much for sure that within our lifetimes bitcoin will become worthless? (If you're not sure on that, more later)

Well, dollar bills have the same feature. They don't pay interest, and they don't pay dividends. By holding dollar bills, you are holding an asset whose fundamental value is zero, and whose expected return is demonstrably lower than that of, say, one-year treasuries. One year Treasuries are completely risk free, and over a year will give you about 1.5% more than holding dollar bills. This is a pure arbitrage opportunity, which isn't supposed to happen in financial markets!

It's pretty clear why you still hold some dollar bills, or their equivalent in non-interest-bearing accounts. They are more convenient when you want to buy things. Dollar bills have an obvious "convenience yield" that makes up for the 1.5% loss in financial rate of return.

Also, nobody holds dollar bills for a whole year. You minimize the use of dollar bills by going to fill up at the ATM occasionally. And the higher interest rates are, the less cash you hold and the more frequently you go to the ATM. So, already we have an "overpricing" -- dollars are 1.5% higher priced than treasurys -- that is related to "short-term investors" and lots of trading -- high turnover, with more overpricing when there is more trading and higher turnover -- just like bitcoin. And 1999 tech stocks. And tulip bubbles.

Some of the convenience yield of cash is that it facilitates tax evasion, and allows for illegal voluntary transactions such as drugs and bribes. We can debate if that's good or bad. Lots of economists want to ban cash (and bitcoin) to allow the government more leverage. I'm less enthusiastic about suddenly putting out of work 11 million undocumented immigrants and about half of small businesses. The US tends to pass a lot of aspirational laws that if enforced would bring the economy to a halt. To say nothing of the civil liberties implications if the government can track every cent everyone has ever spent.

But US cash is largely stuffed in Russian mattresses. It is even less obvious that it is in our interest to enforce Russian laws on taxation or Russian control over transactions. Or Chinese, Venezuelan, Cuban, etc. control.

And more so bitcoin. This is the obvious "convenience yield" of bitcoin -- the obvious reason some people are willing to hold bitcoin for some amount of time, even though they may know it's a terrible long-term investment. It certainly facilitates ransomware. It's great for laundering money. And it's great for avoiding capital controls -- getting money out of China, say. As with dollars there is a lot of bad in that, and a lot of good as well. (See Tyler Cowen on some parallel benefits of offshore investing.)

But good or bad is beside the point here. The point here is that there is a perfectly rational demand for bitcoin as it is an excellent way to avoid both the beneficial and destructive attempts of governments to control economic activity and to grab wealth -- even if people holding it know that it's a terrible long-term investment.

On top of this "fundamental" demand, we can add a "speculative" demand. Suppose you know or you think you know that bitcoin will go up some more before its inevitable crash. In order to speculate on bitcoin, you have to buy some bitcoin. I don't know if you can short bitcoin, but if you wanted to you would have to borrow some bitcoin and sell it, and in the process you would have to hold some bitcoin. So, as we also see in high-priced stocks, houses and tulips, high prices come with volatile prices (so there is money to be made on speculation), and large trading volumes. Someone speculating on bitcoin over a week cares little about its fundamental value. Even if you told him or her that bitcoin would crash to zero for sure in three years, that would make essentially no dent in their trading profits, as you can make so much money in a volatile market over a week, if you get on the right side of volatility.

Now to support a high price, you need restricted supply as well as demand. There are only so many bitcoins, as there are only so many gold bars, at least for now. But that will change. The Achilles' heel of bitcoin's long term value is that there is nothing to stop people from creating bitcoin substitutes -- there are already hundreds of other similar competitors. And there is nothing to stop people from creating private claims to bitcoin -- bitcoin futures -- to satisfy speculative demand. But all that takes time. And none of my demands were from people who want to hold bitcoin for very long. Ice cream is also a fast-depreciating asset, but people hold it for a while. In this view, however, Bitcoin remains a terrible buy-and-hold asset, especially for an investor who plans to pay taxes.

In sum, what's going on with Bitcoin seems to me like a perfectly "normal" phenomenon. Intersect a convenience yield and speculative demand with a temporarily limited supply, plus temporarily limited supply of substitutes, and limits on short-selling, and you get a price surge. It helps if there is a lot of asymmetric information or opinion to spur trading, and given the shady source of bitcoin demand -- no annual reports on how much the Russian mafia wants to move offshore next week -- that's plausible too.

This view says that price surges only happen with restricted supply, and accompany price volatility, large trading volume, and short holding periods. That's a nice testable link, which seems to hold for bitcoin. And other theories, such as madness of crowds, no not explain that correlation.

Bitcoin is not a very good money. It is a pure fiat money (no backing), whose value comes from limited supply plus these demands. As such it has the huge price fluctuations we see. It's an electronic version of gold, and the price variation should be a warning to economists who long for a return to gold. My bet is that stable-value cryptocurrencies, offering one dollar per currency unit and low transactions costs, will prosper in the role of money. At least until there is a big inflation or sovereign debt crisis and a stable-value cryptocurrency not linked to government debt emerges.

(This view is set out in more detain in a paper I wrote about the tech stock era, Stocks as Money in William C. Hunter, George G. Kaufman and Michael Pomerleano, Eds., Asset Price Bubbles Cambridge: MIT Press 2003. Alas not available online, but the link to my last manuscript works.)

Fonte: The Grumpy Economist

Fix the roof while the sun is shining on the global economy (Martin Wolf– 05/12/2017)

Paul Krugman is an American economist and professor of economics at Princeton University. He is a leading liberal voice in American policy debate and has been labelled one of the most influential academic thinkers in America. He was awarded the Nobel Prize for economics in 2008 in recognition for his work on international economics.

The world economy is enjoying a synchronised recovery. But it will prove unsustainable if investment does not pick up, especially in high-income economies. Debt mountains also threaten the recovery's sustainability, as the OECD, the Paris-based group of mostly rich nations, argues in its latest*Economic Outlook*. This report is the swansong of Catherine Mann, who was an outstanding OECD chief economist. It suggests that relief is legitimate, but complacency definitely is not.

The OECD forecasts 3.6 per cent global growth this year, up from 3.1 per cent in 2016. Growth is forecast to reach 3.7 per cent in 2018, close to the 1990-2007 average. The only member of the Group of Seven big economies whose growth this year is not expected to be higher than in 2016 is the UK. China and India are setting the global pace. The OECD monitors 45 economies that generate 80 per cent of global output. Not one is forecast to contract in 2017, 2018 or 2019.

Yet we have reason to question the sustainability of this rate of growth. Throughout the G7, net investment rates are lower than before the financial crisis. The growth of labour productivity is forecast to improve somewhat, yet remain well below its average between 1995-2007. Above all, high indebtedness continues to menace the recovery.

In the high-income countries, the ratio of corporate debt to gross domestic product has stabilised since the crisis in some countries, but continues to rise in others (such as France). Over the longer term, corporate debt has grown faster than the productive capital stock in the US and eurozone. A part of such debt has been contracted in order to buy back shares and so raise their prices. Such financial engineering is a result of the tax advantages of debt and the fashionable link between executive pay and stock prices. Household debt remains high in many high-income economies, including the US and UK.

Emerging economies do not, at least, have high household debt. But many have accumulated substantial corporate indebtedness, much of it in foreign currencies. The ratio of corporate debt to GDP in China is now higher than in virtually all high-income economies. Not surprisingly, ratings of corporate bonds have deteriorated in both high-income and emerging countries.

So what are the risks associated with the persistently high and, in many countries, rising debt? One is that capital is locked up in zombie companies. Above all, beyond a certain point, more credit tends to lower growth and increase inequality. The more immediate risk is that higher interest rates might render currently manageable debt unmanageable. This might generate a second wave of crises. Those would not be so much new crises as a resurgence of the turmoil that hit US and European economies between 2007 and 2012.

One reason for believing this will not happen is the switch from bank lending to corporate bonds. The ability of highly leveraged intermediaries, such as banks, to bear losses is limited. A reduction in the importance of such institutions should make these highly leveraged economies more resilient. Nevertheless, the exposure of such institutions remains significant, not least their exposure to overvalued housing stocks.

A greater dependence on bonds creates its own risks. Emerging market economies are exposed to foreign currency risk. Moreover, if a substantial number of corporations were to tumble into bankruptcy, their banks would also be adversely affected. Large losses on bonds might trigger runs on bond funds and so a cessation of funding, including of needed rollovers. Thus, a transition from bank to bond financing also carries risks in highly indebted economies.

A crucial question is why interest rates might rise. A benign reason would be stronger growth, which should at least improve prospects for many indebted companies and households. A malign reason would be a surge in inflation. If central banks needed to tighten monetary policy sharply some debtors might fall into severe difficulties, as happened in the early 1980s. A tightening in response to surging inflation could trigger waves of defaults and an unexpectedly sharp slowdown. The opposite worry is that central banks might have insufficient room to respond. In all, high debt makes calibrating monetary policy more difficult.

Now that a recovery is under way, it is essential to deleverage economies. A crucial change is elimination of favourable tax treatment of debt. Stock-related pay encourages excessive borrowing: its treatment by the tax system must be reconsidered. More equity capital would make banks less fragile. Emerging economies should, in addition, discourage foreign currency borrowing.

Meanwhile, every effort must be made to raise public and private investment. One of the most important areas for increased investments is housing, though without stoking the sort of boom seen in Spain before the crisis. More broadly, it is important that the upswing be led by investment if it is to be sustained. Public investment will have to play a part in this, especially to improve infrastructure and support vital scientific and technological progress.

Low investment and high indebtedness are not the only constraints the world economy faces. Political risks are also high, as are threats to liberal trade. But raising investment and lowering debt are high priorities. As President John F Kennedy said in 1962, “the time to repair the roof is when the sun is shining”. It is essential to hack off the overhangs of unproductive private debt bequeathed by the crisis and its aftermath.

Fonte: Wall Street Journal