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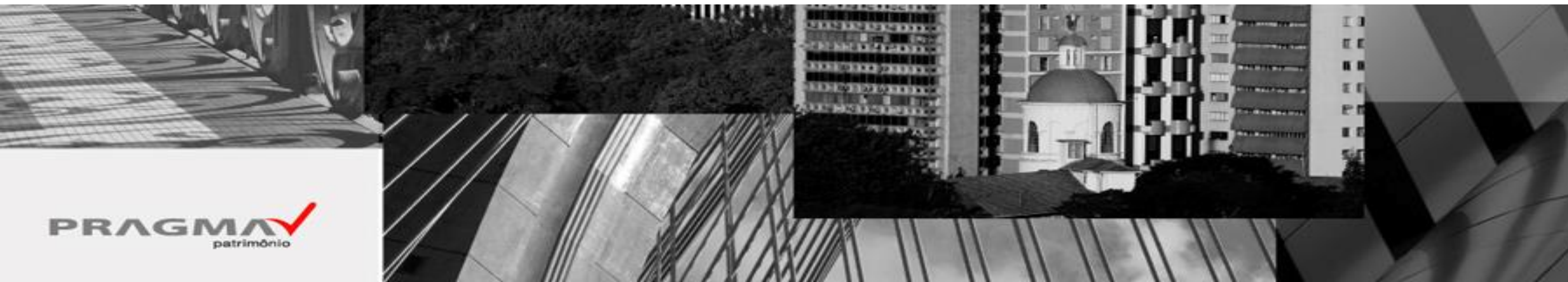

Populist Plutocracy and the Future of America (Nouriel Roubini – 11/12/2017)

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

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Donald Trump won the US presidency with the backing of working-class and socially conservative white voters on a populist platform of economic nationalism. Trump rejected the Republican Party's traditional pro-business, pro-trade agenda, and, like Bernie Sanders on the left, appealed to Americans who have been harmed by disruptive technologies and "globalist" policies promoting free trade and migration.

But while Trump ran as a populist, he has governed as a plutocrat, most recently by endorsing the discredited supply-side theory of taxation that most Republicans still cling to. Trump also ran as someone who would "drain the swamp" in Washington, DC, and on Wall Street. Yet he has stacked his administration with billionaires (not just millionaires) and Goldman Sachs alumni, while letting the swamp of business lobbyists rise higher than ever.

Trump and the Republicans' plan to repeal the 2010 Affordable Care Act (Obamacare) would have left 24 million Americans – mostly poor or middle class, many of whom voted for him – without health care. His deregulatory policies are blatantly biased against workers and unions. And the Republican tax-reform plan that he has endorsed would overwhelmingly favor multinational corporations and the top 1% of households, many of which stand to benefit especially from the repeal of the estate tax.

Trump has also abandoned his base in the area of trade, where he has offered rhetoric but not concrete action. Yes, he scrapped the Trans-Pacific Partnership (TPP), but Hillary Clinton would have done the same. He has mused about abandoning the North American Free Trade Act (NAFTA), but that may be just a negotiating tactic. He has threatened to impose a 50% tariff on goods from China, Mexico, and other US trade partners, but no such measures have materialized. And proposals for a border adjustment tax have been all but forgotten.

Trump's bullying tweets against US firms that move production offshore or undertake tax inversions have been no more than cheap talk, and business leaders know it. Manufacturers who fooled Trump into thinking they would keep production in the US have continued to transfer operations quietly to Mexico, China, and elsewhere. Moreover, international provisions in the pending tax legislation will give US multinationals an even greater incentive to invest, hire, and produce abroad, while using transfer pricing and other schemes to salt away profits in low-tax jurisdictions.

Likewise, despite Trump's aggressive rhetoric on immigration, his policies have been relatively moderate, perhaps because many of the businesspeople who supported his campaign actually favor a milder approach. The "Muslim ban" doesn't affect the supply of labor in the US. Although deportations have accelerated under Trump, it's worth remembering that millions of undocumented immigrants were deported under Barack Obama, too. The border wall that Trump was going to force Mexico to pay for remains an unfunded dream. And even the administration's plan to favor skilled over unskilled workers will not necessarily reduce the number of legal migrants in the country.

All told, Trump has governed like a plutocrat in populist clothes – that is, a pluto-populist. But why has his base let him get away with pursuing policies that mostly hurt them? According to one view, he is betting that social conservatives and white blue-collar supporters in rural areas will vote on the basis of nationalist and religious sentiment and antipathy toward secular coastal elites, rather than for their own financial interests.

But how long can anyone be expected to support "God and guns" at the expense of "bread and butter"? The pluto-populists who presided over the Roman Empire knew that keeping the populist mob at bay required substance as well as diversion: panem et circenses – "bread and circuses." Raging tweets are meaningless to people who can scarcely afford a dignified living, let alone tickets to the modern-day Colosseum to watch football.

The tax legislation that Republicans have rushed through Congress could prove especially dangerous, given that millions of middle-class and low-income households will not only get little out of it, but will actually pay more when income-tax cuts are phased out over time. Moreover, the Republican plan would repeal the Obamacare individual mandate. According to the nonpartisan Congressional Budget Office, this will cause 13 million people to lose health insurance, and insurance premiums to rise by 10%, over the next decade. Not surprisingly, a recent Quinnipiac poll found that a mere 29% of Americans support the Republican plan.

Nevertheless, Trump and the Republicans seem willing to risk it. After all, by pushing the middle-class tax hikes to a later date, they have designed their plan to get them through the 2018 midterm elections and the 2020 general election. Between now and the midterms, they can brag about cutting taxes on most households. And they can expect to see the economic-stimulus effects of tax cuts peak in 2019, just before the next presidential election – and long before the bill comes due.

Moreover, the final legislation will likely lower the federal deduction for mortgage interest and eliminate deductibility for state and local taxes. This will hit households in Democratic-leaning states such as New York, New Jersey, and California much harder than households in Republican-leaning states.

Another part of the Republican strategy (known as "starve the beast") will be to use the higher deficits from tax cuts to argue for cuts in so-called entitlement spending, such as Medicare, Medicaid, food stamps, and Social Security. Again, this is a risky proposition, given that elderly, middle-class, and low-income Americans rely heavily on these programs. Yes, the working and non-working poor who receive welfare payments or food stamps include minorities who tend to vote for Democrats. But millions of the blue-collar, socially conservative whites who voted for Trump also rely on these and similar programs.

With the global economy expanding, Trump is probably hoping that tax cuts and deregulation will spur enough growth and create enough jobs that he will have something to brag about. A potential growth rate of 2% won't necessarily do much to help his blue-collar base, but at least it could push the stock market up to its highest point ever. And, of course, Trump will still claim that the US economy can grow at a rate of 4%, even though all mainstream economists, including Republicans, agree that the potential growth rate will remain around 2%, regardless of his policies.

Whatever happens, Trump will continue to tweet maniacally, promote fake-news stories, and boast about the "biggest and best" economy ever. In doing so, he may even create a circus worthy of a Roman emperor. But if gassy rhetoric alone does not suffice, he may decide to go on the offensive, particularly in the international sphere. That could mean truly withdrawing from NAFTA, taking trade action against China and other trading partners, or doubling down on harsh immigration policies.

And if these measures do not satisfy his base, Trump will still have one last option, long used by Roman emperors and other assorted dictators during times of domestic difficulty. Namely, he can try to "wag the dog," by fabricating an external threat or embarking on foreign military adventures to distract his supporters from what he and congressional Republicans have been doing.

For example, following the "madman" approach to foreign policy, Trump could start a war with North Korea or Iran. Or he could post further inflammatory tweets about the evils of Islam, thereby driving disturbed and marginalized individuals into the arms of the Islamic State (ISIS) or other extremist groups. That would increase the likelihood of ISIS-inspired attacks – for example, "lone wolves" blowing themselves up or driving trucks through crowded pedestrian areas – within the US. With dozens, if not hundreds, slain, Trump could then wrap himself in the flag and say, "I told you so." And if things got bad enough, Trump and his generals could declare a state of emergency, suspend civil liberties, and transform America into a true pluto-populist authoritarian state.

You know it's time to worry when the conservative Republican chairman of the Senate Committee on Foreign Relations, Bob Corker, warns openly that Trump could start World War III. And if you're not convinced, consider the recent history of Russia or Turkey; or the history of the Roman Empire under Caligula or Nero. Pluto-populists have been turning democracies into autocracies with the same playbook for thousands of years. There's no reason to think they would stop now. The reign of Emperor Trump could be just around the corner.

Fonte: Project Syndicate

America's Broken System (J. Bradford Delong – 07/11/2017)

J. Bradford DeLong is Professor of Economics at the University of California at Berkeley and a research associate at the National Bureau of Economic Research. He was Deputy Assistant US Treasury Secretary during the Clinton Administration, where he was heavily involved in budget and trade negotiations. His role in designing the bailout of Mexico during the 1994 peso crisis placed him at the forefront of Latin America's transformation into a region of open economies, and cemented his stature as a leading voice in economic-policy debates.

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The tax bill that US Republicans have doggedly pushed through Congress is not as big a deal as many are portraying it to be. It is medium-size news. The big news – the much more weighty and ominous news – lies elsewhere.

Of course, medium-size is not nothing. If the tax bill does clear its final hurdle – a conference committee must reconcile the Senate-approved bill with that of the House of Representatives – and become law, it will complicate the tax system considerably, as it opens many loopholes. It won't have any impact on economic growth – positive or negative – but it would have an impact on the government's finances, causing revenues to decline by the equivalent of about 1% of national income.

The missing resources would most likely be transferred to the top 1% of earners, raising their share of total income from 22% to 23%. The top 0.01% would probably gain the most, with their share of income rising from 5.1% to 5.5%. In this sense, the tax plan would be another brick – not a huge brick, but a medium-size brick – in the increasingly impregnable fortress of American plutocracy.

But the bill may well not become law at all. Consider the Republicans' efforts earlier this year to repeal and replace the Affordable Care Act ("Obamacare") – an effort that, it now seems clear, was pure Dingbat Kabuki.

The Republicans didn't actually want to take responsibility for changing the health-care financing system, much less strip their own constituents of health care. But the party's propaganda arm had worked so hard to convince its base that Obamacare represented a clear and present danger to the country that its leaders had to act as if they were making a serious effort to fulfill their promise to repeal and replace it.

So a majority of Republicans in the House of Representatives voted for the bill, expecting, with reasonable confidence, that it would be blocked in the 100-member Senate, where fewer than 40 of the 52 Republicans actually wanted it to pass. Had any of the three Republican senators who voted against the bill – John McCain of Arizona, Susan Collins of Maine, or Lisa Murkowski of Alaska – made a different choice, there were probably about five more who would have stepped in to nix it.

The same thing may be happening with the tax reform. It depends on whether at least three of the ten Republican senators who have raised objections are serious, or are playing a different game of Dingbat Kabuki: seeking to trick their constituents into thinking that they went the extra mile to try to help them, and are not puppets of Senate Majority Leader Mitch McConnell.

But, regardless of whether the tax bill survives the reconciliation process and becomes law, the big news won't change: the Anglo-Saxon model of representative government is in serious trouble. And there is no solution in sight.

For some 400 years, the Anglo-Saxon governance model – exemplified by the republican semi-principality of the Netherlands, the constitutional monarchy of the United Kingdom, and the constitutional republic of the United States of America – was widely regarded as having hit the sweet spot of liberty, security, and prosperity. The greater the divergence from that model, historical experience seemed to confirm, the higher the likelihood of repression, insecurity, and poverty. So countries were frequently and strongly advised to emulate those institutions.

Nobody would dare offer that same advice today. The UK, having been thrown into devastating austerity by Conservative and Liberal leaders after the global economic crisis, is now being led by the Conservatives toward a messy and damaging Brexit. And, in the US, the election of President Donald Trump heralded the age of "alternative facts" and "governance by tweet," overseen by an erratic and ignorant leader who is clearly in over his head.

When Trump was first elected, some argued that it did not have to be a disaster. After all, the optimists pointed out, President Ronald Reagan had been more a "chief of state" than a "chief executive," as had George W. Bush.

As divisive as Chief of State Trump would be, according to this view, he wouldn't derail policy, because electing a Republican president is more like electing the Republican Party establishment. And that bench was very deep and very competent, despite its weakening in recent years.

The optimists were wrong. After nearly a year in control of both houses of Congress and the White House, the Republicans haven't achieved any of their four policy goals: repeal and replacement of Obamacare, infrastructure development, trade-policy reform, or even tax reform. This points to a broken system of politics and governance, one that Americans seem to have no idea how to fix.

The US remains the world's preeminent superpower. But doubts are intensifying over whether it's still up to the job. In this context, the Republicans' tax reform, however economically indefensible and blatantly unfair it is, is far from America's biggest concern.

Fonte: Project Syndicate

Can Europe Sustain the Macron Moment? (Carl Bildt – 13/11/2017)

Carl Bildt was Sweden's foreign minister from 2006 to October 2014 and Prime Minister from 1991 to 1994, when he negotiated Sweden's EU accession. A renowned international diplomat, he served as EU Special Envoy to the Former Yugoslavia, High Representative for Bosnia and Herzegovina, UN Special Envoy to the Balkans, and Co-Chairman of the Dayton Peace Conference. He is Chair of the Global Commission on Internet Governance and a member of the World Economic Forum's Global Agenda Council on Europe.

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At the start of 2017, many feared that the European project would experience a near-breakdown within the next year. The United Kingdom had decided to leave the European Union, the United States had elected a president who cheered the Brexiteers on, and populists running in the French and German elections posed a clear danger to European integration.

As we approach the start of 2018, the picture is very different. The European project has not only survived, but may be gaining new momentum. At least within the bubble of EU institutions in Brussels, one senses a newfound confidence.

More than anyone else, French President Emmanuel Macron is at the center of this turnaround. His post-election victory speech in May was accompanied by the EU anthem, Beethoven’s “Ode to Joy” – a strong symbolic gesture. Since then, Macron has launched or proposed one initiative after another to strengthen EU institutions, while taking a lead in European foreign policy. With German Chancellor Angela Merkel struggling to form a government after September’s general election, all eyes are now on Macron.

The changing mood in Europe over the past year has been influenced by three factors in particular. The first is Brexit, which is undeniably causing problems for the British – and in turn causing most Europeans to begin to understand the extent to which their economies and societies are intertwined. The once-glorious country of Great Britain is now in a state of political agony as it tries to sort out the politics, economics, and logistics of leaving the bloc. It is unlikely that voters in any other member state will envy the British experience.

The second factor is Donald Trump, whose US administration has a lower standing in Europe than any other in recorded history. According to one recent poll, Germans now regard Trump as a greater threat to their country’s interests abroad than Russian President Vladimir Putin or North Korean dictator Kim Jong-un. In a true race to the bottom, Trump is ahead.

Over the past year, European leaders have accepted that Europe will have to take more responsibility for its own affairs. After a vexing encounter with Trump at the G7 summit in Italy in May, Merkel summed up a sentiment that most other European leaders now share. “We Europeans must fight for our own future and destiny,” she said in an unscripted outburst at a campaign stop. “We Europeans truly have to take our fate into our own hands.”

The third factor is Putin’s Russia, which has continued to meddle in Western elections and act aggressively in Ukraine. All told, the “BTP effect” – Brexit, Trump, Putin – has convinced even skeptical Europeans that EU-level cooperation is necessary.

But, in addition to the impetus of the BTP effect, Europe is being propelled by stronger economic growth. The dark days of the euro crisis have begun to fade into memory, as has the refugee crisis of late 2015, which had a profound political effect on Germany, Sweden, and other countries. Although the huge task of deepening EU integration remains unfinished, the political and economic conditions for seeing that process through have improved.

At the same time, the EU has suddenly emerged as the preserver of the liberal world order. In September, the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada entered into force. And, since then, the EU has moved closer to finalizing an even more important trade agreement with Japan, and, separately, with the founding countries of Mercosur – Argentina, Brazil, Paraguay, and Uruguay. Britain may be leaving, but the rest of the world seems to be lining up to make deals with the EU.

Still, there is no room for complacency. Despite many positive developments, governance is becoming more complicated within certain European countries, owing to an increasingly fractured political landscape. In Germany, forming a new government after an election used to be a straightforward affair. But now the country could be under a caretaker government until March, with little clarity about what sort of government will emerge. In the meantime, Germany can hardly play its customary role as Europe’s anchor of stability.

In the Danubian lands of Hungary, Austria, and Bavaria, nationalism is on the rise. And in Italy, few would dare to offer any solid predictions of what will happen in the next general election, which must be held before May 20, 2018.

Moreover, Europeans cannot rely indefinitely on the low interest rates that have contributed to the current recovery. EU leaders will need to push much harder for structural reforms than they have so far. Although Spain has revived its economy with important reforms, and Macron has tackled France’s notoriously Byzantine labor code, the EU is still struggling on many fronts. For example, despite Estonia’s heroic efforts to create a digital-reform agenda during its presidency of the Council of the EU, far more needs to be done in that area.

Next year will be the last chance to pursue EU-level reforms before a fateful year of reckoning begins. In March 2019, Britain will leave the EU, with or without a divorce agreement. Then, in May, come elections to the European Parliament, and new leaders will be appointed for the EU's core institutions. Before we know it, Jean-Claude Juncker's presidency of the European Commission will be over.

Macron is anxiously awaiting a new government in Berlin. As things stand, it is far from clear that the next German coalition will support his EU-reform agenda. And, with each passing day, the European Commission will be running out of time to pursue any new initiatives that could realistically be finalized before 2019.

So, while the gloom and doom of 2016 may have receded, it could all too easily return. Sustaining the momentum generated by Macron's election in France and realizing the promise that it holds will require decisive action in the months ahead.

Fonte: Project Syndicate

Does Europe Really Need Fiscal and Political Union? (Dani Rodrik – 11/12/2017)

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, Economics Rules: The Rights and Wrongs of the Dismal Science, and, most recently, Straight Talk on Trade: Ideas for a Sane World Economy.

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Greece's combative former finance minister, Yanis Varoufakis, and his nemesis, former German finance minister Wolfgang Schäuble, were at loggerheads on Greek debt throughout Varoufakis's term in office. But they were in full agreement when it came to the central question of the eurozone's future. Monetary union required political union. No middle way was possible.

This is one of the interesting revelations in Varoufakis's fascinating account of his tenure as finance minister. "You are probably the one [in the Eurogroup] who understands that the eurozone is unsustainable," Varoufakis quotes Schäuble as telling him. "The eurozone is constructed wrongly. We should have a political union, there is no doubt about it."

Of course, Schäuble and Varoufakis had different ideas regarding the ends that political union would serve. Schäuble saw political union as a means to impose strong fiscal discipline on member states from the center, tying their hands and preventing "irresponsible" economic policies. Varoufakis thought political union would relax creditors' stranglehold on his economy and create room for progressive politics across Europe.

Nevertheless, it is remarkable that these two officials from opposite ends of the political spectrum arrived at an identical diagnosis about the euro. The convergence is indicative of the growing sense of the need for fiscal and eventual political union if the euro is to be maintained without damage to economic performance or democratic values. French President Emmanuel Macron has advanced similar ideas. And the leader of Germany's Social Democrats, Martin Schulz, has also thrown his weight behind a "United States of Europe" in recent days.

But there is also an alternative, much less ambitious view, according to which neither fiscal nor political union is needed. What needs to be done instead is to de-link private finance from public finance, insulating each from the malfeasance of the other.

With this separation, private finance can be fully integrated at the European level, while public finance is left to individual member states. This way, countries can reap the full benefit of financial integration while national political authorities are left free to manage their own economies. Brussels would no longer be the bogeyman, insisting on fiscal austerity and drawing the ire of countries with high unemployment and low growth.

Martin Sandbu of the Financial Times has been a strong proponent of the view that a workable monetary and financial union does not require fiscal integration. He believes the critical reform is to prevent bank bailouts by public authorities. The price of bank failures should be paid by the banks' owners and creditors; we should have bail-ins rather than bailouts.

Sandbu argues that this would not only insulate public finance from the follies of banks; it would also lead to an equilibrium that mimics fiscal risk-sharing between countries that are net borrowers and countries that are net lenders. When banks in the former fail, it is creditors in the latter that would bear the cost. "With banking union, there is no need for fiscal union," he argues.

In a forthcoming book, the University of California, Berkeley, economist Barry Eichengreen also makes the case for re-nationalizing fiscal policy, which he views as essential to stemming the tide of European populism. Eichengreen thinks returning fiscal policy to national authorities would require preventing banks from holding too much government debt, in order to minimize the risk that national fiscal mismanagement topples the banking system. Governments that go bust would have to restructure their debts rather than get bailouts from other EU states.

Advocates of cutting the Gordian knot between private and public finance recognize that governments' approach to banks must change radically if this separation is to work. But it is not clear that their proposed remedies would work. As long as economic policy remains the province of national governments, sovereign risk will likely continue to distort the operation of cross-border finance. Sovereign states can always change the rules ex post, which means full financial integration is impossible. And the costs of local financial shocks cannot be diversified away as easily.

Consider what happens when a large bank goes bankrupt in the US – an economic union where the Sandbu and Eichengreen rules already apply. The regional economic spillovers are limited by the fact that other borrowers can continue to function normally: creditworthiness is determined by a borrower's fundamentals and not its state of residence. No one expects a state government to interfere in inter-state payments, rewrite bankruptcy rules, or issue its own currency in case of extreme distress.

State governments in the US exercise little sovereignty in large part because they have less need of it: their residents receive transfers from the center and send their representatives to Washington, DC, to help make federal policy.

But EU member states are in a very different position vis-à-vis the EU institutions in Brussels. Because they retain sovereignty, they cannot make similarly credible commitments not to interfere with financial markets. So the risk remains that a severe enough financial shock in the EU will affect all other borrowers in the same country in a self-fulfilling manner. Pretending that we can separate private from public finance may exacerbate, rather than moderate, financial boom-and-bust cycles.

In contemporary societies, finance must serve a public purpose beyond the logic of financial market profitability. So it is irrevocably politicized – for good as well as bad reasons. It appears that conservative and progressive policymakers alike are resigning themselves to this reality.

Fonte: Project Syndicate

Two Myths About Automation (Barry Eichengreen - 12/12/2017)

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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Robots, machine learning, and artificial intelligence promise to change fundamentally the nature of work. Everyone knows this. Or at least they think they do.

Specifically, they think they know two things. First, more jobs than ever are threatened. “Forrester Predicts that AI-enabled Automation will Eliminate 9% of US Jobs in 2018,” declares one headline. “McKinsey: One-third of US workers could be jobless by 2030 due to automation,” seconds another.

Reports like these leave the impression that technological progress and job destruction are accelerating dramatically. But there is no evidence of either trend. In reality, total factor productivity, the best summary measure of the pace of technical change, has been stagnating since 2005 in the United States and across the advanced-country world.

Moreover, as the economist Timothy Taylor recently pointed out, the rate of change of the occupational structure, defined as the absolute value of jobs added in growing occupations and jobs lost in declining occupations, has been slowing, not accelerating, since the 1980s. This is not to deny that the occupational structure is changing. But it calls into question the widely held view that the pace of change is quickening.

The second thing everyone thinks they know is that previously safe jobs are now at risk. Once upon a time, it was possible to argue that robots would displace workers engaged in routine tasks, but not the highly skilled and educated – not the doctors, lawyers and, dare one say, professors. In particular, machines, it was said, are not capable of tasks in which empathy, compassion, intuition, interpersonal interaction, and communication are central.

Now, however, these distinctions are breaking down. Amazon’s Alexa can communicate. Crowd-sourcing, together with one’s digital history, can intuit buying habits. Artificial intelligence can be used to read x-rays and diagnose medical conditions. As a result, all jobs, even those of doctors, lawyers, and professors, are being transformed.

But transformed is not the same as threatened. Machines, it is true, are already more efficient than legal associates at searching for precedents. But an attorney attuned to the personality of her client still plays an indispensable role in advising someone contemplating a messy divorce whether to negotiate, mediate, or go to court. Likewise, an attorney’s knowledge of the personalities of the principals in a civil suit or a criminal case can be combined with big data and analytics when the time comes for jury selection. The job is changing, not disappearing.

These observations point to what is really happening in the labor market. It’s not that nurses’ aides are being replaced by health-care robots; rather, what nurses’ aides do is being redefined. And what they do will continue to be redefined as those robots’ capabilities evolve from getting patients out of bed to giving physical therapy sessions and providing emotional succor to the depressed and disabled.

At one level, this is good news for those concerned about the prospects of incumbent workers: there will continue to be demand for workers in existing occupations. Not all nurses’ aides will have to become software engineers. The knowledge they acquire on the job – of how one interacts with patients, how one recognizes their moods, and how one acknowledges their needs – will remain pertinent and valued. They will use that knowledge to guide and cooperate with their robotic colleagues.

Thus, the coming technological transformation won’t entail occupational shifts on the scale of the Industrial Revolution, with its wholesale redistribution of labor between the agricultural and industrial sectors. After all, the vast majority of Americans already work in the service sector. But it will be more important than ever for people of all ages to update their skills and renew their training continuously, given how their occupations will continue to be reshaped by technology.

In countries like Germany, workers in a variety of sectors receive training as apprentices and then over the course of their working lives. Companies invest and reinvest in their workers, because the latter can insist on it, possessing as they do a seat in the boardroom as a result of the 1951 Codetermination Law. Employers’ associations join with strong trade unions to organize and run training schemes at the sectoral level. The schemes are effective, in part, because the federal government sets standards for training programs and issues uniform curricula for trainees.

In the US, board membership for workers' representatives, strong unions, and government regulation of private-sector training are not part of the prevailing institutional formula. As a result firms treat their workers as disposable parts, rather than investing in them. And government does nothing about it.

So here's an idea. Instead of a "tax reform" that allows firms to expense their capital outlays immediately, why not give companies tax credits for the cost of providing lifelong learning to their employees?

Fonte: Project Syndicate

Coming Clean in 2018 (Lucy P. Marcus – 12/12/2017)

Lucy P. Marcus, founder and CEO of Marcus Venture Consulting, Ltd., is Professor of Leadership and Governance at IE Business School and a non-executive board director of Atlantia SpA.

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It has been a bumper year for making the invisible visible. The last 12 months have overflowed with leaks, allegations, and other disclosures, not just of misconduct by individuals, business leaders, and politicians, but also of proactive schemes to prevent that misconduct from ever coming to light.

Last month, it came out that a 20-year-old hacker breached Uber's system in 2016 and accessed the information of about 57 million people, including some 600,000 of its drivers in the United States. Rather than admit to the security flaw, Uber quietly paid the culprit $100,000 to destroy the data, in the hope that the victims – and, perhaps more important to Uber, the company's investors – would never find out.

The Equifax data breach – in which hackers gained access to sensitive personal information, from birth dates to Social Security numbers, for about 143 million US customers – was not covered up to quite the same degree. But there was still a six-week period between discovery of the breach and disclosure to the public, during which three executives sold a small share of their stock, though they insist they had no knowledge of the breach at the time.

A security breach is frustrating, even infuriating, for customers and investors. But willful denial of such a breach decimates trust. If a company discloses a breach, at least customers know they can expect to be told what is happening with their information (and can keep watch for fraudulent activity on their accounts), and investors can assess business risk accurately.

If the truth comes out much later – as in the case of Uber, in particular – a story about a technical problem quickly becomes a story about corporate integrity. Consumers' fears about sharing personal information with companies – difficult to avoid in modern life – deepen, and business becomes an object of heightened skepticism.

But businesses have not just been covering up mistakes; they have also been hiding major crimes by senior figures. Nowhere is this more apparent than in the long-term patterns of sexual harassment and cover-ups that have been exposed in recent months.

At Fox News, leading personalities – from commentator Bill O'Reilly to the company's chair, Roger Ailes – were long protected by the network's parent company, 21st Century Fox, in the face of allegations of sexual harassment. Not only did 21st Century Fox help to keep quiet a $32 million settlement reached in January between O'Reilly and a frequent guest on his show (at least the fifth such settlement over O'Reilly's behavior); the company offered its star a highly lucrative new contract soon after.

O'Reilly was eventually pushed out, but only after the truth about the allegations and settlements were revealed to the public. The company followed essentially the same script with regard to Ailes during his 20-year tenure.

A similar machine protected the Hollywood heavyweight Harvey Weinstein during his decades of using his position of power to harass and assault women. As The New York Times recently documented, Weinstein received help from all sides. His brother and partner, Robert Weinstein, participated in the payoffs. His business associates were incentivized to look the other way. Reporters were tasked with discrediting accusers. Even the victims' own agents and managers were pressured or paid to advise their clients to stay quiet.

The good news is that when more powerful figures are held to account for their abusive behavior, more victims may gain the confidence to come forward. As power dynamics shift, victims overcome the belief that they must suffer in silence, and come to trust that enough people will actually listen to them.

In this sense, the acceleration in revelations of the last year is a culmination of a longer-term trend, in which larger-than-life power players and seemingly unshakable institutions have been brought down by their own misdeeds. In the aftermath of the global financial crisis, financial-sector executives may not have been held fully to account for their actions, but the outcry surely contributed to the "shareholder spring" that began in 2012, with investors rejecting executive pay packages and paying more attention to corporate governance issues.

In sport, numerous FIFA officials, including the international soccer organization's president Sepp Blatter, were brought down, after decades of match fixing, bribery, and other corrupt practices. And Russia has been banned from the coming Winter Olympic Games for using a complex system to circumvent the drug-testing regime at the 2014 Olympics in Sochi.

One area where the other shoe has yet to drop is in the big cover-up in US politics: the connection between members of Donald Trump's presidential campaign, including his son Donald Trump, Jr., and official Russian circles. The facts, which are gradually emerging, are damning enough. But the ham-fisted attempts to hide the truth are making the situation much worse for the Trump administration, and for US politics more broadly, not to mention the country's international standing.

If nothing else, recent revelations should drive home the maxim that the cover-up makes the original mistake ten times worse. President Richard Nixon and many of his aides learned that lesson during the Watergate scandal. In 2018, the Trump administration – and companies like Uber and 21st Century Fox – will ignore it at their peril.

Fonte: Project Syndicate

Complacency Will Be Tested in 2018 (Stephen S. Roach – 14/12/2017)

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After years of post-crisis despair, the broad consensus of forecasters is now quite upbeat about prospects for the global economy in 2018. World GDP growth is viewed as increasingly strong, synchronous, and inflation-free. Exuberant financial markets could hardly ask for more.

While I have great respect for the forecasting community and the collective wisdom of financial markets, I suspect that today's consensus of complacency will be seriously tested in 2018. The test might come from a shock – especially in view of the rising risk of a hot war (with North Korea) or a trade war (between the US and China) or a collapsing asset bubble (think Bitcoin). But I have a hunch it will turn out to be something far more systemic.

The world is set up for the unwinding of three mega-trends: unconventional monetary policy, the real economy's dependence on assets, and a potentially destabilizing global saving arbitrage. At risk are the very fundamentals that underpin current optimism. One or more of these pillars of complacency will, I suspect, crumble in 2018.

Unfortunately, the die has long been cast for this moment of reckoning. Afflicted by a profound sense of amnesia, central banks have repeated the same mistake they made in the pre-crisis froth of 2003-2007 – maintaining excessively accommodative monetary policies for too long. Misguided by inflation targeting in an inflationless world, monetary authorities have deferred policy normalization for far too long.

That now appears to be changing, but only grudgingly. If anything, central bankers are signaling that the coming normalization may even be more glacial than that of the mid-2000s. After all, with inflation still undershooting, goes the argument, what's the rush?

Alas, there is an important twist today that wasn't in play back then –central banks' swollen balance sheets. From 2008 to 2017, the combined asset holdings of central banks in the major advanced economies (the United States, the eurozone, and Japan) expanded by $8.3 trillion, according to the Bank for International Settlements. With nominal GDP in these same economies increasing by just $2.1 trillion over the same period, the remaining $6.2 trillion of excess liquidity has distorted asset prices around the world.

Therein lies the crux of the problem. Real economies have been artificially propped up by these distorted asset prices, and glacial normalization will only prolong this dependency. Yet when central banks' balance sheets finally start to shrink, asset-dependent economies will once again be in peril. And the risks are likely to be far more serious today than a decade ago, owing not only to the overhang of swollen central bank balance sheets, but also to the overvaluation of assets.

That is particularly true in the United States. According to Nobel laureate economist Robert J. Shiller, the cyclically adjusted price-earnings (CAPE) ratio of 31.3 is currently about 15% higher than it was in mid-2007, on the brink of the subprime crisis. In fact, the CAPE ratio has been higher than it is today only twice in its 135-plus year history – in 1929 and in 2000. Those are not comforting precedents.

As was evident in both 2000 and 2008, it doesn't take much for overvalued asset markets to fall sharply. That's where the third mega-trend could come into play – a wrenching adjustment in the global saving mix. In this case, it's all about China and the US – the polar extremes of the world's saving distribution.

China is now in a mode of saving absorption; its domestic saving rate has declined from a peak of 52% in 2010 to 46% in 2016, and appears headed to 42%, or lower, over the next five years. Chinese surplus saving is increasingly being directed inward to support emerging middle-class consumers – making less available to fund needy deficit savers elsewhere in the world.

By contrast, the US, the world's neediest deficit country, with a domestic saving rate of just 17%, is opting for a fiscal stimulus. That will push total national saving even lower – notwithstanding the vacuous self-funding assurances of supply-siders. As shock absorbers, overvalued financial markets are likely to be squeezed by the arbitrage between the world's largest surplus and deficit savers. And asset-dependent real economies won't be too far behind.

In this context, it's important to stress that the world economy may not be nearly as resilient as the consensus seems to believe – raising questions about whether it can withstand the challenges coming in 2018. IMF forecasts are typically a good proxy for the global consensus. The latest IMF projection looks encouraging on the surface – anticipating 3.7% global GDP growth over the 2017-18 period, an acceleration of 0.4 percentage points from the anemic 3.3% pace of the past two years.

However, it is a stretch to call this a vigorous global growth outcome. Not only is it little different from the post-1965 trend of 3.8% growth, but the expected gains over

2017-2018 follow an exceptionally weak recovery in the aftermath of the Great Recession. This takes on added significance for a global economy that slowed to just 1.4% average growth in 2008-2009 – an unprecedented shortfall from its longer-term trend.

The absence of a classic vigorous rebound means the global economy never recouped the growth lost in the worst downturn of modern times. Historically, such V-shaped recoveries have served the useful purpose of absorbing excess slack and providing a cushion to withstand the inevitable shocks that always seem to buffet the global economy. The absence of such a cushion highlights lingering vulnerability, rather than signaling newfound resilience – not exactly the rosy scenario embraced by today's smug consensus.

A quote often attributed to the Nobel laureate physicist Niels Bohr says it best: "Prediction is very difficult, especially if it's about the future." The outlook for 2018 is far from certain. But with tectonic shifts looming in the global macroeconomic landscape, this is no time for complacency.

Fonte: Project Syndicate

Financial Investors' Wish List for 2018 (Mohamed El-Erian – 13/12/2017)

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If financial investors were to write letters to Santa Claus this Christmas, they would probably be tempted to ask for the continuation of the unusual combination of factors that has dominated over the last year: ultra-low market volatility, booming financial-asset values, correlations that lower the cost of portfolio risk mitigation, and promising new opportunities (such as Bitcoin). But before making their wish list, investors should consider the longer-term risks associated with the decoupling of financial markets from economic and policy fundamentals.

Investors could be forgiven for hoping for more of the same. After all, with less than a month to go, 2017 is on course to be a hugely, if not historically rewarding year for them. As of December 12, global stock markets, and in particular the S&P index, had returned around 20% for the year – and this on top of an already-strong multi-year run. Add to that unusually low volatility – in the US, 2017 so far has shown the lowest daily loss in the entire history of the S&P 500 index – and there has been little to keep investors up at night.

Usually, such strong stock returns are accompanied by lower prices for government bonds – the so-called negative correlation between risky and safe assets. Not so in 2017. Despite the impressive equity rally, the price of longer-term US Treasury bills was higher at the beginning of December than at the start of the year.

And then there is the precipitous rise of the crypto-currency Bitcoin. With its price having surged by an eye-popping amount this year (from around $1,000 to over $16,000 as of December 12), even a small allocation of Bitcoin has made a material difference in investors' portfolios.

Five main factors have enabled this unusual situation.

· A synchronized pickup in global economic growth, which continues to strengthen.

· Progress in the United States on pro-growth policies.

· Skillful normalization of monetary policy (which is still ongoing) by the US Federal Reserve.

· Passive investment products attracting large inflows.

· Continued large liquidity injections from three big central banks – the Bank of Japan (BOJ), the European Central Bank (ECB), the People's Bank of China (PBOC) – which, together with cash-rich corporate balance sheets, have served to lower funding costs for a significant set of households and corporates.

Now for the less exuberant news: without continued economic and policy improvements, the factors that have delighted investors in 2017 risk generating an unpleasant reversal of fortune. This year's strong performance has, after all, been buoyed significantly by "borrowed" returns from future years.

With regard to mitigating portfolio risk, the increase in government bond prices leaves little room for this traditionally safe asset to compensate for a possible decline in stocks. Given how many value-at-risk-based models work, the persistence of low volatility has resulted in a crowded trade in a number of areas, which could turn out to be technically fragile.

As for Bitcoin, its vertiginous rise – fueled in part by the growing participation of institutional investors – may imply that it is on the path toward broad acceptance. But it may also turn out to be little more than a large financial bubble, implying serious damage when it inevitably collapses.

What, then, should investors really be hoping for in the coming year? In general, the top priority must be improvement in economic and policy fundamentals to the point that they better validate existing elevated asset prices, while laying a foundation for greater gains over time.

Achieving this would require, in the US, the expansion of pro-growth policies, which, as recently announced by Donald Trump's administration, would include adding an infrastructure plan to deregulation and tax measures. European countries should also pursue more focused pro-growth measures at the national level, while supporting stronger regional efforts, facilitated by a reinvigorated reform-minded Franco-German leadership and a relatively orderly Brexit process.

As for Japan, Prime Minister Shinzo Abe should take advantage of his commanding majority in the Diet, won in October's snap general election, to implement the third "arrow" of Abenomics: pro-growth structural reforms. Finally, to promote stable growth, all of the world's systemically important central banks – notably, the Fed, the BOJ, the ECB, and the PBOC – would need to continue coordinating their strategies, with a view to ensuring consistent monetary-policy stances.

Only with such efforts can the current pickup in global growth develop the structural roots that are needed to make it durable, balanced, and inclusive over the medium term. This is all the more critical at a time of fluid geopolitical risk and uncertain productivity, wage, and inflation dynamics.

However tempting it may be to focus our holiday wishes on our own immediate desires, it is imperative this year that investors' wish lists take into account the big economic and policy picture.

Fonte: Project Syndicate