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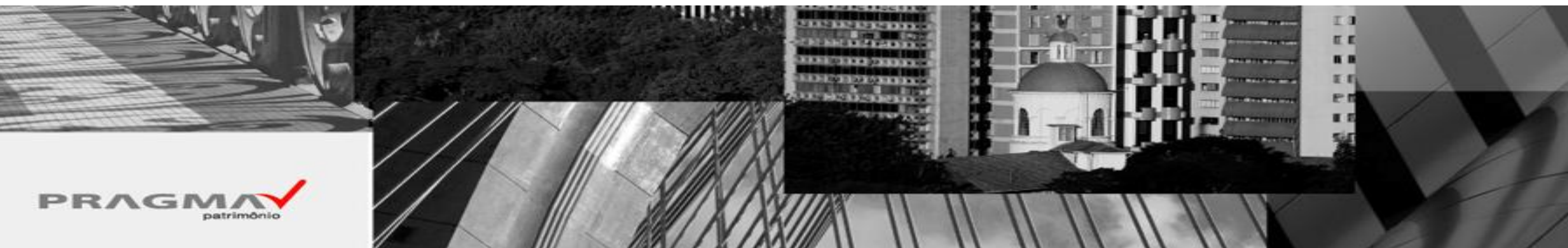

Trumpism Down Under (Chris Patten – 21/12/2017)

Chris Patten, the last British governor of Hong Kong and a former EU commissioner for external affairs, is Chancellor of the University of Oxford.

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Thirty years ago, a colleague of mine in the British government who had ministerial responsibilities in Africa and Asia hung the world map in his office upside down. Placing what was then called the Third World at the top, he claimed, improved his understanding of those countries' problems and perspectives. But, for the British, the real "down under" – the country you would reach if you turned the world on its head – is Australia.

Schoolchildren used to be taught that, if you dug a straight tunnel through the planet, Australia is where you would end up. Their seasons were the opposite of ours, as were the days – a point that was driven home when, in the early morning hours, we listened to cricket commentaries from Brisbane or Adelaide. While Britain slept, the Aussies played in the sunshine.

Australia is a beautiful and prosperous country, with a grand landscape and fine cities, most notably Sydney and Melbourne. It is a rumbustious democracy with a profound appreciation of the rule of law, a free and open society that has provided a haven for immigrants and refugees from all over the world. While its past treatment of its indigenous population has undoubtedly been problematic, it has had the courage and maturity to acknowledge unpleasant truths.

Yet this admirable country now faces an existential challenge. As Australia's relationship with the United States comes under increasing strain, its political dynamics are becoming increasingly complex and perilous.

For decades, Australia has had a close partnership with the US, not least in security terms. But, in his year since taking office, President Donald Trump has not only challenged ties with many of America's traditional allies; he has also worked actively to undermine the systems of global and regional cooperation that the US itself spearheaded and underwrote. He has reversed his predecessors' hard-won progress in building relationships and striking mutually beneficial deals, including the Iran nuclear agreement, the Trans-Pacific Partnership trade deal, and the Paris climate agreement.

Contrary to Trump's claims that his policies will "Make America Great Again," he is deeply compromising his country's role in the world. Long-standing allies regret that the US, a country they have long admired, is now being steered by a mendacious, untrustworthy diplomatic arsonist.

This is bad news for Australia, which would clearly like to build a stronger partnership with regional powers that share its democratic values and interests, including India, Japan, and the US. Such an alliance would not seek to contain China, but to ensure that it does not abuse its power and stoke regional tensions and instability.

Without a reliable regional counterweight, that is exactly what China seems eager to do. Like Trump, Chinese President Xi Jinping has reversed many of his predecessors' policies, including some of the market-oriented reforms pushed through by Deng Xiaoping. Having cultivated a Mao-style cult of personality, Xi proclaims that the time has come to Make China Great Again.

So foreign-policy restraint has gone out the window, and Xi has enabled the Communist Party of China to reassert its control over the economy. Free enterprise is now once again subordinated to the public sector. The "Communist united front" has been let off its leash.

Every Communist regime since the Russian Revolution of 1917 has sought to use the "united front" to extend the power of the party, both at home and abroad, in ways that may be subtle or overt, but are invariably underhanded. Today's Chinese united front is no exception, and Australia is one of the countries that is being targeted.

Australia has strong economic ties with China, which buys much of what it mines and grows. For its own part, China has exported money and people to Australia, from the business world to academia. Most Chinese in Australia, some of whom regard their new home as a haven from repression and corruption, have become enthusiastic Australians with a proud Chinese heritage.

But a few Chinese in Australia have allowed themselves to become foot soldiers of China's Leninist (not really communist) dictatorship, manipulated by Chinese diplomats and a few businessmen. The effects of their activities can be seen in the conduct of foreign policy and in attempts to mobilize votes against the government.

Now Australian Prime Minister Malcolm Turnbull's administration has responded to this activity, introducing legislation that bans foreign donations to political parties and activist groups, including some charities, and requires former politicians, lobbyists, and executives working for foreign interests to register if they are to be involved in Australian politics. The move is explicitly intended to prevent foreign – and, specifically, Chinese – interference in Australia's democratic life.

Turnbull's crackdown on foreign interference in domestic politics amounts to a bold attempt to strengthen Australia's position in the global South. The country, Turnbull is making clear, is prepared to be a friend to China, but it will not be bullied or manipulated.

A united front of democracies would certainly help get that point across. But, beyond failing to support Australia, Trump's antics are actually undermining Turnbull's effort. Australia, like so many other traditional allies, surely yearns for the day when Trump, with his crude and self-defeating nationalism, can no longer harm his own country and others.

Fonte: Project Syndicate

A New Growth Model for Europe's Neighborhood (Sergei Guriev – 18/12/2017)

Sergei Guriev is Chief Economist at the European Bank for Reconstruction and Development.

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More than ten years after the global financial crisis, the world economy is finally enjoying a broad-based recovery. Europe and its broader neighborhood are no exception: economic growth in almost every country in Central and Eastern Europe, Central Asia, the Middle East, and North Africa, as well as in Russia and Turkey, has accelerated in the last year, and is projected to remain robust. Yet new challenges loom. If not addressed, these regions' prospects will dim.

As the European Bank for Reconstruction and Development's new Transition Report shows, before the Great Recession, the countries of Europe and its broader neighborhood were outperforming comparable emerging economies elsewhere. In recent years, however, the tables have turned – and the gap is growing.

The explanation is straightforward. Previously, Europe and its broader neighborhood enjoyed high total factor productivity (TFP) growth. By eliminating many of the inefficiencies inherited from their socialist or otherwise dirigiste pasts, these countries were putting their capital and labor to increasingly good use.

Yet, by 2009, the low-hanging fruit had been picked, and investment in fixed capital had fallen below the levels in emerging economies elsewhere. Faced with the large amounts of non-performing loans inherited from the crisis, countries shifted their attention to deleveraging, leaving investment and TFP growth to stall.

Countries in Europe and its broader neighborhood – even those whose economies are less developed – cannot base long-term growth on a low-wage comparative advantage. Instead, they must lay the foundations of future-oriented growth models, underpinned by stronger human capital and innovation.

This demands, first and foremost, deeper integration into the global economy. Nowadays, access to larger markets is vital to generating incentives for innovation and productivity growth. European Union countries obviously benefit from the single market. For emerging Europe and the countries of the Middle East and North Africa (MENA), however, taking advantage of economies of scale will require reduced trade barriers and better connectivity.

In concrete terms, this means that emerging Europe and the MENA region need to invest more in infrastructure. And, in fact, according to the Transition Report's estimates, these regions' infrastructure investment requirements amount to about €2.2 trillion ($2.6 trillion). To meet this need, fiscally constrained countries will have to mobilize private resources, via private-public partnerships.

Developed-country actors often worry that infrastructure investments in emerging economies may result in "roads to nowhere," with money being channeled toward remote regions where nobody lives or from which existing residents are eager to leave, using those shiny new roads. But this does not have to be the case.

Turkey is a case in point. In 2002, the country launched a major effort to turn 25% of its road network into dual carriageways over the course of about ten years. The EBRD's Transition Report's analysis shows that this investment has had a major impact on domestic trade and created jobs in the country's previously underdeveloped eastern regions. As countries attempt to attract financing for their own infrastructure projects, they should learn from – and highlight for potential donors – such successes.

Designing effective strategies for long-term infrastructure investment requires attention to another key area: the environment. Countries must anticipate the regulatory changes that will arise, as they attempt, say, to meet their commitments under the Paris climate agreement.

This approach is in line with the market consensus. Using the FTSE Russell Low Carbon Economy database, the ERBD found that while greener firms remain less profitable than their less sustainable counterparts – they are, after all, largely younger and smaller – they are growing faster.

Perhaps more important, we found that firms with a higher share of green revenues have higher stock-market valuations (price-to-earnings ratios), even if their current return on equity is lower than that of their non-green peers. This suggests that investors expect stronger growth in greener market segments, or at least attach more value to supporting greener firms.

In places where fossil fuels are adequately priced, firms themselves also recognize the benefits of greener, more energy-efficient technologies. Unfortunately, many countries still have in place substantial energy subsidies, which must be phased out to propel the shift toward a green economy. To ensure that the neediest households do not suffer, the removal of subsidies can be offset by targeted assistance, as has been done recently in Belarus, Egypt, and Ukraine.

A new growth model for Europe's neighborhood must also involve a rebalancing of the financial system. Given the Great Recession's legacy of non-performing loans, financing for new investment is more likely to come from equity than from debt. Fortunately, equity investors are also oriented toward the long term, and are increasingly willing to buy greener assets.

Yet greater reliance on equity finance will require better state and corporate governance, underpinned by the rule of law. Achieving that will be no easy feat. But EBRD research implies that, at least in the European neighborhood, progress would benefit not just the economy – including by promoting investment and innovation – but also the environment and society as a whole. That is an investment worth making.

Fonte: Project Syndicate

China's Creditor Imperialism (Brahma Chellaney – 20/12/2017)

Brahma Chellaney, Professor of Strategic Studies at the New Delhi-based Center for Policy Research and Fellow at the Robert Bosch Academy in Berlin, is the author of nine books, including Asian Juggernaut, Water: Asia's New Battleground, and Water, Peace, and War: Confronting the Global Water Crisis.

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This month, Sri Lanka, unable to pay the onerous debt to China it has accumulated, formally handed over its strategically located Hambantota port to the Asian giant. It was a major acquisition for China's Belt and Road Initiative (BRI) – which President Xi Jinping calls the "project of the century" – and proof of just how effective China's debt-trap diplomacy can be.

Unlike International Monetary Fund and World Bank lending, Chinese loans are collateralized by strategically important natural assets with high long-term value (even if they lack short-term commercial viability). Hambantota, for example, straddles Indian Ocean trade routes linking Europe, Africa, and the Middle East to Asia. In exchange for financing and building the infrastructure that poorer countries need, China demands favorable access to their natural assets, from mineral resources to ports.

Moreover, as Sri Lanka's experience starkly illustrates, Chinese financing can shackle its "partner" countries. Rather than offering grants or concessionary loans, China provides huge project-related loans at market-based rates, without transparency, much less environmental- or social-impact assessments. As US Secretary of State Rex Tillerson put it recently, with the BRI, China is aiming to define "its own rules and norms."

To strengthen its position further, China has encouraged its companies to bid for outright purchase of strategic ports, where possible. The Mediterranean port of Piraeus, which a Chinese firm acquired for $436 million from cash-strapped Greece last year, will serve as the BRI's "dragon head" in Europe.

By wielding its financial clout in this manner, China seeks to kill two birds with one stone. First, it wants to address overcapacity at home by boosting exports. And, second, it hopes to advance its strategic interests, including expanding its diplomatic influence, securing natural resources, promoting the international use of its currency, and gaining a relative advantage over other powers.

China's predatory approach – and its gloating over securing Hambantota – is ironic, to say the least. In its relationships with smaller countries like Sri Lanka, China is replicating the practices used against it in the European-colonial period, which began with the 1839-1860 Opium Wars and ended with the 1949 communist takeover – a period that China bitterly refers to as its "century of humiliation."

China portrayed the 1997 restoration of its sovereignty over Hong Kong, following more than a century of British administration, as righting a historic injustice. Yet, as Hambantota shows, China is now establishing its own Hong Kong-style neocolonial arrangements. Apparently Xi's promise of the "great rejuvenation of the Chinese nation" is inextricable from the erosion of smaller states' sovereignty.4

Just as European imperial powers employed gunboat diplomacy to open new markets and colonial outposts, China uses sovereign debt to bend other states to its will, without having to fire a single shot. Like the opium the British exported to China, the easy loans China offers are addictive. And, because China chooses its projects according to their long-term strategic value, they may yield short-term returns that are insufficient for countries to repay their debts. This gives China added leverage, which it can use, say, to force borrowers to swap debt for equity, thereby expanding China's global footprint by trapping a growing number of countries in debt servitude.

Even the terms of the 99-year Hambantota port lease echo those used to force China to lease its own ports to Western colonial powers. Britain leased the New Territories from China for 99 years in 1898, causing Hong Kong's landmass to expand by 90%. Yet the 99-year term was fixed merely to help China's ethnic-Manchu Qing Dynasty save face; the reality was that all acquisitions were believed to be permanent.

Now, China is applying the imperial 99-year lease concept in distant lands. China's lease agreement over Hambantota, concluded this summer, included a promise that China would shave $1.1 billion off Sri Lanka's debt. In 2015, a Chinese firm took out a 99-year lease on Australia's deep-water port of Darwin – home to more than 1,000 US Marines – for $388 million.

Similarly, after lending billions of dollars to heavily indebted Djibouti, China established its first overseas military base this year in that tiny but strategic state, just a few miles from a US naval base – the only permanent American military facility in Africa. Trapped in a debt crisis, Djibouti had no choice but to lease land to China for $20 million per year. China has also used its leverage over Turkmenistan to secure natural gas by pipeline largely on Chinese terms.

Several other countries, from Argentina to Namibia to Laos, have been ensnared in a Chinese debt trap, forcing them to confront agonizing choices in order to stave off default. Kenya's crushing debt to China now threatens to turn its busy port of Mombasa – the gateway to East Africa – into another Hambantota.

These experiences should serve as a warning that the BRI is essentially an imperial project that aims to bring to fruition the mythical Middle Kingdom. States caught in debt bondage to China risk losing both their most valuable natural assets and their very sovereignty. The new imperial giant's velvet glove cloaks an iron fist – one with the strength to squeeze the vitality out of smaller countries.

Fonte: Project Syndicate

The World Economy in 2018 (Michael Boskin – 21/12/2017)

Michael J. Boskin is Professor of Economics at Stanford University and Senior Fellow at the Hoover Institution. He was Chairman of George H. W. Bush's Council of Economic Advisers from 1989 to 1993, and headed the so-called Boskin Commission, a congressional advisory body that highlighted errors in official US inflation estimates.

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All major macroeconomic indicators – growth, unemployment, and inflation – suggest that 2017 will be the American economy's best year in a decade. And the global economy is enjoying broad, synchronized growth beyond what anyone expected. The question now is whether this strong performance will continue in 2018.

The answer, of course, will depend on monetary, fiscal, trade, and related policies in the United States and around the world. And yet it is hard to predict what policy proposals will emerge in 2018. There are relatively new heads of state in the US, France, and the United Kingdom; German leaders still have not formed a governing coalition since the general election in September; and the US Federal Reserve has a new chair awaiting confirmation. Moreover, major changes in important developing economies such as Argentina, Saudi Arabia, and Brazil have made the future outlook even murkier.

Still, we should hope for the best. First and foremost, we should hope that synchronized global growth at a rate of just under 4% will continue in 2018, as the International Monetary Fund projected in October. Growth not only raises incomes, but also makes vexing problems such as bad bank loans and budget deficits more manageable. As former US President John F. Kennedy famously said in an October 1963 speech in which he promoted his proposed corporate and personal tax reductions, "a rising tide lifts all boats."

For my part, I predict that the global recovery will continue, but at a slightly slower growth rate of around 3.5%. The two most obvious risks to keep an eye on will be Europe, where a cyclical upturn could stall, and the oil-rich Middle East, where tensions could flare up once again.

Second, let us hope that the Fed, guided by the steady hand of its new chair, Jerome "Jay" Powell, will continue or even accelerate its monetary-policy normalization, both by raising its benchmark federal funds rate, and by shrinking its engorged balance sheet. And we should hope that economic conditions allow the other major central banks, especially the European Central Bank, to follow suit.

On this front, I predict that the major central banks will continue to normalize monetary policies more gradually than is necessary. The biggest risk here is that markets may try to test the Fed under its new leadership, for example, if inflation rises faster than anticipated.

Third, let us hope that the Republican tax package will, if enacted, deliver on its promise of increased investment, output, productivity, and wages over the coming decade. Here, I predict that the legislation will pass, and that investment in the US over the next few years will be relatively higher than if no action had been taken.

To be sure, whether investment will rise from its currently subdued level will depend on many other factors than the corporate-tax rate. But the tax package can still be expected to boost output, productivity, and wages. The question is not if, but when.

If the full effects of the legislation are not felt before the 2018 or 2020 elections, that lag could prove politically consequential. The biggest danger is that its benefits will be delayed, and that its key provisions will be reversed whenever the Democrats are back in power.

Fourth, let us hope that governments everywhere begin to address the looming crisis in public-pension and health-care costs, which have been rising for decades. As social programs become costlier, they crowd out government expenditures on necessities such as defense, while generating ever more pressure to impose higher growth-suppressing taxes.

Europe, in particular, must not let its cyclical rebound lull it into complacency. Many European Union member states still need to reduce their government debt, and the eurozone needs to resolve its "zombie bank" crisis. Beyond that, structural labor-market reforms of the kind French President Emmanuel Macron is pursuing would be most welcome.

Unfortunately, I'm afraid that progress on structural reforms will be sporadic, at best. The danger is that slow growth will not lead to sufficient wage gains and job creation to defuse the ticking time bomb of high youth unemployment in many countries. Another risk is that reform attempts could provoke a political backlash that would be harmful to long-term investment.

Fifth, let us hope that the eurozone can avoid a currency crisis. This will depend largely on whether German Chancellor Angela Merkel can form a coalition government and restore political stability to Europe's largest economy.

Sixth, we should hope that the EU and the UK can agree on a reasonable Brexit deal that will preserve fairly strong trade relations. The main risk here is that localized declines in trade could spill over and cause broader harm.

And, beyond Europe, let us hope that negotiations between the US, Canada, and Mexico over the North American Free Trade Agreement (NAFTA) will result in an arrangement that still facilitates continental trade. For trade generally, the biggest risk is that the Trump administration could start a lose-lose trade dispute, owing to its understandable eagerness to help American manufacturing workers.

Seventh, let us hope that new policies targeting information and communication technology (ICT) strike the right balance among all stakeholders' competing and legitimate concerns. On one hand, there is reason to worry about certain Internet companies' concentration of market power, particularly in online content and distribution, and about the effects of new technologies on personal privacy, law enforcement, and national security. On the other hand, new technological advances could deliver immense economic gains.

It is easy to envision a scenario of too much regulation, or of too little. It is also easy to envision a large-scale public backlash against the major technology companies, particularly if poor self-policing or a refusal to cooperate with law enforcement leads to some horrible event.

Here, I predict that achieving an appropriate policy balance will take years. If some future event strikes an emotional chord, the public's mood could swing dramatically. Ultimately, however, I suspect that competition and innovation will survive the forthcoming regulations.

Finally, and most important, let us hope that terrorism is thwarted everywhere, conflicts subside, democracy and capitalism regain some momentum, and greater civility and honest dialogue return to the public domain. Should that happen in 2018, it will be a very good year indeed.

Fonte: Project Syndicate

The Economic Consequences of Mr. Osborne (Howard Davies – 21/12/2017)

Howard Davies, the first chairman of the United Kingdom's Financial Services Authority (1997-2003), is Chairman of the Royal Bank of Scotland. He was Director of the London School of Economics (2003-11) and served as Deputy Governor of the Bank of England and Director-General of the Confederation of British Industry.

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After long and sometimes painful negotiations, which stress-tested the personal relationships between many countries' central bankers and regulators to the limit, the Basel Committee laid a long-expected egg in December. Described as a package that finalizes the post-2008 reforms to the global regime for bank capital, it brings to an end the process known as Basel 3.

Bankers have dubbed the result "Basel 4," arguing that the final package contains many new and more burdensome requirements. But the Committee is adamant that the new rules should be regarded as part and parcel of the reform program begun in 2009, in the wake of the global financial crisis. Basel 4 may come one day, but this is not it, they insist.

What problem does the new package seek to resolve? In the preamble, the regulators refer to "a worrying degree of variability in banks' calculations of [risk-weighted assets]." They have found that applying the major banks' different internal models to the same portfolio of loans can produce very different numbers, meaning that some banks would be carrying significantly less capital than others for the same quantum of assumed risk.

The logical answer to that problem, one might think, is to interrogate the models closely, to see what is driving the differences, and demand calibration changes where the resultant asset reductions are deemed excessive. But the regulators clearly doubt their capacity to penetrate the dark recesses of banks' internal models; so, instead, they have imposed a so-called "output floor." In other words, however much your model reduces risk-weighted assets, you cannot take credit for more than a 27.5% cut.

The output floor is expressed as a net figure, of 72.5%, below which you cannot go. Why the unusually precise figure of 72.5%? The answer is obvious. It is half way between 75%, which was the final US bid, and 70%, which was the French offer. They agreed to split the difference.

Although this may make no sense, even affected banks had come to the view that some kind of agreement was better than none. Continuing uncertainty made capital planning very difficult. So bankers favored a deal, and will live with the outcome, if it is genuinely the end of the program.

Unfortunately, this new agreement is unlikely to draw a line under the capital debate. Even though senior central bankers like Mark Carney, the Governor of the

Bank of England and Chair of the Financial Stability Board, think there is now enough capital in the banking system, many do not share his view.

Anat Admati of Stanford would like capital ratios well above 20%. Martin Wolf of the Financial Times makes a similar case. He thinks banks are still dangerously unstable. Andy Haldane of the Bank of England points out that, given the low pricing of bank equity, on a market-adjusted basis banks are not as strong as they seem.

Bankers, by contrast, point to the high cost of equity and argue that forcing banks to raise even more will increase the cost and decrease the availability of credit. In Europe, around half of the improvement in capital ratios has come from reducing lending rather than raising new equity. There is little meeting of minds between the two camps.

So it was a relief to encounter William Cline's book The Right Balance for Banks, which attempts to produce a rationale for the appropriate level of bank capital. Drawing on a wide range of research and market analysis, Cline argues that requiring banks to hold more capital does indeed increase the cost of credit to some extent. Although there is some evidence that bank debt is cheaper if equity backing is high, which one would expect, the reduction is not one for one. And an increase in the cost of credit is likely to depress growth and generate welfare losses.

On the other hand, higher equity for banks will reduce the incidence of bank failures, which impose high costs on the economy and on individuals. Reducing the number and severity of crises is evidently desirable. So Cline attempts to calculate where the optimal balance might lie, recognizing that to reduce the risk of bank failure to zero might carry irrationally high costs. Cline's conclusion is that "the optimal capital ratio is 7% to 8% of total assets, corresponding to 12% to 14% of risk-weighted assets (using the ratio of risk-weighted assets to total assets in euro area and US banks)."

These figures are, in fact, quite close to the numbers underlying the new Basel requirements as implemented by national regulators. Most British banks, for example, are now targeting a requirement of 13%, and typically carry a bit more "for luck."

Cline's approach is intuitively appealing. He recognizes that the ratio might reasonably be shaded up for systemically important banks, those famously dubbed "too big to fail." In the regulatory school where I was trained – the Bank of England – we were told never to use that fatal phrase, for fear of generating precisely the moral hazard we wished to avoid. But there is no getting away from it in the post-crisis world.

Will Cline's hard work end the debate? I doubt it. Even now, I hear axes being ground, and statistical models being recalculated. And there are still no votes in taking the pressure off big banks. The central bankers will need to hold their nerve, and the bankers themselves to behave, or a genuine Basel 4 may hove into view on the banks of the Rhine.

Fonte: Project Syndicate

Is Another Debt Crisis On the Way? (Kemal Dervis – 18/12/2017)

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

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Economic growth is accelerating across most of the world. Yet the world's total gross debt-to-GDP ratio has reached nearly 250%, up from 210% before the global economic crisis nearly a decade ago, despite post-crisis efforts by regulators in many important economies to drive the banking sector to deleverage. This has raised doubts about the sustainability of the recovery, with some arguing that a rise in interest rates could trigger another global crisis. But how likely is that to happen?

To answer this question, one must recall that debt is both a liability and an asset. In a closed economy – and we don't owe anything to non-Earthlings – overall debt and the corresponding assets necessarily cancel each other out. So what really matters is the composition of debts and liabilities – or, to put it simply, who owes what to whom.

High public-sector debt, for example, signals the possible need for tax increases – the opposite of the tax legislation being advanced by Republican legislators in the United States – and/or higher interest rates (real or nominal, depending on monetary policy and inflation). If debt is owed largely to foreign lenders, interest-rate risk is compounded by exchange-rate risk.

For private-sector debt, much depends on its type: the hedging sort, where a debtor's cash flow covers all obligations; the speculative type, where cash flow covers interest only; or the Ponzi kind, where cash flow does not even cover that. As the late American economist Hyman Minsky explained, the higher the share of debt that falls into the speculative or Ponzi categories, the higher the risk that a confidence shock will trigger a sudden wave of deleveraging that quickly morphs into a full-blown financial crisis.

For both public- and private-sector debt, maturities also play an important role. Longer maturities leave more time for adjustment, lowering the risk of a confidence shock.

Yet while it makes little sense to focus on simple aggregate figures, both public institutions and private researchers tend to do precisely that. Consider the coverage of the Greek debt crisis. Headlines tracked the debt-to-GDP ratio's climb from 100% in 2007 to 180% this year, yet little attention was paid to private-sector debt. And, in fact, as foreign public creditors replaced private debt holders and interest rates were lowered, Greece's overall debt, while still high, became more sustainable. Its continued sustainability will depend partly on the trajectory of Greece's GDP – the denominator in the debt ratio.

A similar mistake is made in assessing China's debts, about which the world is most concerned. The figures are certainly daunting: China's debt-to-GDP ratio now stands at about 250%, with private-sector debt amounting to about 210% of GDP. But about two-thirds of the private-sector debt that is defined as bank loans and corporate bonds is actually held by state-owned enterprises and local-government entities. The central government has considerable control over both.

For China, the biggest risk probably lies in the shadow banking sector, on which reliable data are not available. On the other hand, a significant share of the growth in private debt ratios in recent years may be a result of the "formalization" of parts of the shadow banking system – a trend that would bode well for economic stability.

And there is more good news for China. Most Chinese debt is held in renminbi; the country possesses massive foreign-exchange reserves of close to $3 trillion; and capital controls are still effective, despite having been eased in recent years. The country's leaders thus have a public-policy war chest that they can use to cushion against financial turmoil.

Among the rest of the emerging economies, there are some sources of concern. But, overall, the situation is relatively stable. Though private-sector debt has lately been rising, its levels remain tolerable. And public-sector debt has been growing only moderately, relative to GDP.

As for the advanced economies, there is little reason to believe that a debt crisis is around the corner in Japan. In the US, public debt is set to increase, thanks to the impending tax overhaul; but the blow will be cushioned, at least for the next year or two, by continued growth acceleration. And though low-quality assets held by the banking system are likely to impede Europe's recovery, they are unlikely to spark a financial crisis.

In short, the world does not seem to face much risk of a debt crisis in the short term. On the contrary, the stage seems to be set for continued increases in asset valuations and demand-driven growth.

That said, geopolitical risks should not be discounted. While markets tend to shrug off localized political crises and even larger geopolitical challenges, some dramas may be set to spin out of control. In particular, the North Korean nuclear threat remains acute, with the possibility of a sudden escalation raising the risk of conflict between the US and China.

The Middle East remains another source of serious instability, with tensions in the Gulf having intensified to the point that hostilities between Iran and Saudi Arabia and/or turmoil within Saudi Arabia are not unthinkable. In this case, it is Russia that might end up clashing with the US.

Even barring such a major geopolitical upheaval, which would severely damage the global economy's prospects in the short run, serious medium- and long-term risks loom. Rising income inequality, exacerbated by the mismatch between skills and jobs in the digital age, will impede growth, unless a wide array of difficult structural reforms are implemented, including reforms aimed at constraining climate change.

As long as the geopolitical situation remains manageable, policymakers should have time to implement the needed structural reforms. But the window of opportunity will not stay open forever. If policymakers waste time on trickle-down sophistry, as is happening in the US, the world may be headed for severe economic distress.

Fonte: Project Syndicate

Inequality is a threat to our democracies (Martin Wolf – 19/12/2017)

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

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Between 1980 and 2016, the top 1 per cent captured 28 per cent of the aggregate increase in real incomes in the US, Canada and western Europe, while the bottom 50 per cent captured just 9 per cent of it. But these aggregates conceal huge differences: in western Europe, the top 1 per cent captured "only" as much as the bottom 51 per cent. In North America, however, the top 1 per cent captured as much as the bottom 88 per cent. These extraordinary facts prove that aggregate growth itself tells us very little — indeed, in the case of the US, virtually nothing — about the scale of improvements in economic welfare for the population as a whole.

These striking data come from the World Inequality Lab's recently released World Inequality Report 2018. The broad picture is one of convergence among countries and divergence within them. But the latter has not happened to the same extent everywhere. Thus, "since 1980, income inequality has increased rapidly in North America and Asia, grown moderately in Europe, and stabilised at an extremely high level in the Middle East, sub-Saharan Africa, and Brazil." The report also shows that, after the second world war, shares of the top 1 per cent were relatively low, at least by prewar standards, across the west. But, since then, these shares have jumped in the anglophone countries, especially in the US, but little in France, Germany or Italy.

Walter Scheidel, a historian of the ancient world and author of the The Great Leveler, would say that rising inequality is just what one should expect. In this remarkable study, he argues that after agriculture (and the agrarian state) was invented, elites were amazingly successful in extracting all the surplus the economy created.

The limit on predation was set by the need to let the producers survive. Remarkably, many desperately poor agrarian societies approached this limit, the Roman and Byzantine empires among them. In times of peace and tranquility, argues Mr Scheidel, powerful interests so manipulated society as to enlarge their share (and that of descendants) of the pie. Power creates wealth and wealth creates power. Can anything halt this process? Yes indeed, argues the book: the four horsemen of catastrophe — war, revolution, plague, and famine.

Total income growth percentile in US-Canada and Western Europe (1980-2016)

Some will argue that the past was not quite as grim as the book suggests. When states relied on military mobilisation, for instance, they had to take some account of the prosperity of the people. But, in all, the inequality in premodern societies was often staggering.

What has this to do with today's far wealthier, post-industrial societies? More, it appears, than we might like. Again, in the 20th century, revolutions (in the Soviet Union and China, for example) and the two world wars reduced inequality dramatically. But, when revolutionary regimes softened (or collapsed) or the exigencies of war faded from memory, quite similar processes to those of the old agrarian states took hold. Vastly wealthy new elites emerged, gained political power, and again used it for their own ends. Those who doubt this should look closely at the politics and economics of the tax bill now going through the US Congress.

The implication of this parallel would be that, barring some catastrophic event, we are now on the way back to ever-rising inequality. Global thermonuclear war would be equalising. But catastrophe is not a policy.

Yet we have three more appealing reasons for being relatively optimistic. The first is that our societies are far less unequal than they might be: our poor are relatively poor, but not on the margins of subsistence. The second is that high-income countries do not all share the same tendency towards high and growing inequality. The last is that states now possess a range of policy tools with which to ameliorate income and wealth inequality, should they wish to do so. A comparison between the distribution of market and disposable incomes in significant high-income countries (Canada, France, Germany, Italy, Spain, the UK and US) demonstrates the last point well. In all these cases, taxes and public spending reduce inequality substantially. But the extent to which they do so varies significantly, from the US, the least active, to Germany the most.

The big question, however, is whether the pressures for inequality will go on rising and the willingness to offset them generally decline. On the former, it is quite hard to be optimistic. The market value of the work of relatively unskilled people in high-income countries seems very unlikely to rise. On the latter, one can point, optimistically, to a desire to enjoy some degree of social harmony and the material abundance of modern economies, as reasons to believe the wealthy might be prepared to share their abundance. Nevertheless, as the military mobilisation of the early to mid-20th century and the egalitarian ideologies that accompanied industrialisation and mass warfare fade away and individualism becomes ever stronger, elites may become more determined to seize whatever they can for themselves.

If so, that would augur badly, not just for social peace, but even for the survival of the stable universal-suffrage democracies that emerged in today's high-income countries in the 19th and 20th centuries. One possible development is the sort of "plutocratic populism" that has become such a signal feature of the contemporary US — the country that did, we should recall, ensure the survival of liberal democracy during the turmoil of the previous century. The future could then consist of a stable plutocracy, which manages to keep the mass of the people divided and docile. The alternative might be emergence of a dictator, who rides to power on the back of a faux opposition to just such elites.

Mr Scheidel suggests that inequality is sure to rise. We must prove him wrong. If we fail to do so, soaring inequality might slay democracy, too, in the end.

Fonte: Financial Times

Inequality in the Twenty-First Century (Kaushik Basu – 15/12/2017)

Kaushik Basu, former Chief Economist of the World Bank, is Professor of Economics at Cornell University and Nonresident Senior Fellow at the Brookings Institution.

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At the end of a low and dishonest year, reminiscent of the "low, dishonest decade" about which W.H. Auden wrote in his poem "September 1, 1939," the world's "clever hopes" are giving way to recognition that many severe problems must be tackled. And, among the severest, with the gravest long-term and even existential implications, is economic inequality.

The alarming level of economic inequality globally has been well documented by prominent economists, including Thomas Piketty, François Bourguignon, Branko Milanović, and Joseph E. Stiglitz, and well-known institutions, including OXFAM and the World Bank. And it is obvious even from a casual stroll through the streets of New York, New Delhi, Beijing, or Berlin.

Voices on the right often claim that this inequality is not only justifiable, but also appropriate: wealth is a just reward for hard work, while poverty is an earned punishment for laziness. This is a myth. The reality is that the poor, more often than not, must work extremely hard, often in difficult conditions, just to survive.

Moreover, if a wealthy person does have a particularly strong work ethic, it is likely attributable not just to their genetic predisposition, but also to their upbringing, including whatever privileges, values, and opportunities their background may have afforded them. So there is no real moral argument for outsize wealth amid widespread poverty.

This is not to say that there is no justification for any amount of inequality. After all, inequality can reflect differences in preferences: some people might consider the pursuit of material wealth more worthwhile than others. Moreover, differential rewards do indeed create incentives for people to learn, work, and innovate, activities that promote overall growth and advance poverty reduction.

But, at a certain point, inequality becomes so severe that it has the opposite effect. And we are far beyond that point.

Plenty of people – including many of the world's wealthy – recognize how unacceptable severe inequality is, both morally and economically. But if the rich speak out against it, they are often shut down and labeled hypocrites. Apparently, the desire to lessen inequality can be considered credible or genuine only by first sacrificing one's own wealth.

The truth, of course, is that the decision not to renounce, unilaterally, one's wealth does not discredit a preference for a more equitable society. To label a wealthy critic of extreme inequality as a hypocrite amounts to an ad hominem attack and a logical fallacy, intended to silence those whose voices could make a difference.

Fortunately, this tactic seems to be losing some of its potency. It is heartening to see wealthy individuals defying these attacks, not only by openly acknowledging the economic and social damage caused by extreme inequality, but also by criticizing a system that, despite enabling them to prosper, has left too many without opportunities.

In particular, some wealthy Americans are condemning the current tax legislation being pushed by Congressional Republicans and President Donald Trump's administration, which offers outsize cuts to the highest earners – people like them. As Jack Bogle, the founder of Vanguard Group and a certain beneficiary of the proposed cuts, put it, the plan – which is all but guaranteed to exacerbate inequality – is a "moral abomination."

Yet recognizing the flaws in current structures is just the beginning. The greater challenge is to create a viable blueprint for an equitable society. (It is the absence of such a blueprint that has led so many well-meaning movements in history to end in failure.) In this case, the focus must be on expanding profit-sharing arrangements, without stifling or centralizing market incentives that are crucial to drive growth.

A first step would be to give all of a country's residents the right to a certain share of the economy's profits. This idea has been advanced in various forms by Marty Weitzman, Hillel Steiner, Richard Freeman, and, just last month, Matt Bruenig. But it is particularly vital today, as the share of wages in national income declines, and the share of profits and rents rises – a trend that technological progress is accelerating.

There is another dimension to profit-sharing that has received little attention, related to monopolies and competition. With modern digital technology, the returns to scale are so large that it no longer makes sense to demand that, say, 1,000 firms produce versions of the same good, each meeting one-thousandth of total demand.

A more efficient approach would have 1,000 firms each creating one part of that good. So, when it comes to automobiles, for example, one firm would produce all of the gears, another producing all of the brake pads, and so on.

Traditional antitrust and pro-competition legislation – which began in 1890 with the Sherman Act in the US – prevents such an efficient system from taking hold. But a monopoly of production need not mean a monopoly of income, as long as the shares in each company are widely held. It is thus time for a radical change, one that replaces traditional anti-monopoly laws with legislation mandating a wider dispersal of shareholding within each company.3

These ideas are largely untested, so much work would need to be done before they could be made operational. But as the world lurches from one crisis to another, and inequality continues to deepen, we do not have the luxury of sticking to the status quo. Unless we confront the inequality challenge head on, social cohesion and democracy itself will come under growing threat.

Fonte: Project Syndicate