Uncertain Times: Emerging Risks in the Global Landscape

Joseph E. Stiglitz
The US is finally emerging from 2008 crisis

- Unemployment falling to 4.4% in April 207
  - Though there is some precariousness
    - First quarter growth at an annual rate of only 0.7%
    - Global uncertainties may put a damper on investment
    - As well as national uncertainties—risks associated with “reform” of health care
    - Labor force participation still very low, at only 62.9%
    - Some groups (African-Americans, youth) have very high unemployment rate

- Still, should be cause of celebration
  - Eleven years after breaking of housing bubble
  - Nine years after collapse of Lehman Brothers
  - Slowest recovery since Great Depression

- But good reason for worry
Trump has up-ended the global system

- US was at the center of creating the rules based system which has worked so well in promoting peace and stability since World War II
- Campaign rhetoric suggested new protectionism, renegotiating trade agreements, rethinking alliances
  - Protectionism appealed not just to those who had lost their jobs but to wider sense of anxiety
- What has happened since in some ways has been more moderate
  - Changes demanded in NAFTA so far appear minor
  - Traditional trade measures (dumping duties) against China, rather than cross the border high tariffs
  - Reaffirmed importance of NATO
- But still remains erratic and unpredictable
  - With potential explosive consequences
- With uncertain relations with Congress, especially Senate
  - And lack of command of key policy complexities deeply disturbing
- What is clear is that US will not play the traditional leadership role that was critical
Legislative agenda uncertain

- Will there be health care reform?
  - Bill passed by House unlikely to pass Senate
  - Will Senate be able to reach a compromise?
  - And if so, will Senate Bill pass House?
- Will there be tax cuts?
  - Proposed cuts create enormous deficit
  - Likely to be pared down
- Will there be increases in infrastructure investment?
  - Likely to be pared down even more—and postponed
- Will there be major deregulation?
  - Current legislation already calls for careful cost benefit analysis
  - Net benefits from recent regulations very large (2 to 11 times costs)
- Impacts on macro-economy will be largely offset by Fed
But global protectionist wave seems to have been arrested

• With election of Macron in France and defeat of Wilders in Netherlands

• Even in US, strong opposition to Trump evident

• Old treaties will need to be renegotiated—didn’t take on board adequately changing global landscape
  • But idea that US got snookered in trade negotiations (NAFTA was “the worst trade deal ever”) is laughable
  • US got most of what it wanted—if there is a problem, it is with what it wanted

• But it would be wrong to conclude that dangers of protectionism are over
Many uncertainties remain

- Will the US pull out of Paris climate change agreement?
- If it does, what will be the consequences?
  - Most important states will go ahead with measures
  - But other countries may respond with cross-border carbon adjustments so as not to give American firms advantages in carbon intensive industries
    - Will that happen?
    - And could it launch a global trade war?
The US recovery is out of sync with the rest of the world

- Europe’s recovery has been very anemic
  - Partly caused by inherent problems in the euro
  - Disaffection by large parts of population
  - Feeding extremism and separatism in many countries
  - And giving rise to political gridlock
- Even Germany’s growth is poor—only looks good by comparison
  - And is at risk as China moves into the production of more complex capital goods
- Europe has created unsustainable surpluses
- Brexit has created another source of uncertainty
  - Negotiations are not off to a good start
  - But economic effects are likely to be less than widely anticipated
  - Real consequences are political
Euro area has performed much more poorly than the US—even though the crisis originated in US
China’s growth will remain moderate

- Very strong by historical standards
- But slow down affects global growth, including prices of natural resources

* IMF Estimate

Source: IMF Statista.
Global risks from US monetary policy

• US set to raise interest rates
• Increasing value of dollar—moderating US economic growth
• Real risk: emerging markets who have borrowed in dollars to make local investments
• How will Europe respond?
  • Lower exchange rate will be boon to weak countries in Europe
  • Some will use this as an excuse to push end of QE, even though Europe’s economy remains weak
  • If Europe raises interest rates, could precipitate an economic crisis in Italy and other highly indebted countries
Underlying problem: inequalities

- For past third of a century, most of growth in most countries has gone to a few
- Increasing anger—globalization has been blamed
- US represents worse case—near stagnation for bottom 90%, worse for males who have not gone to college
US: bottom 90% have seen little increase in income over last third of a century

Source: World Wealth and Income Database
Europe: less increase in inequality in some countries than in others

Source: World Wealth and Income Database
Global Income Growth by Percentile

Source: Branko Milanovic.
The Walton Family and The Koch Brothers’ net worth = $230 billion

That’s the net worth of 150 million Americans or 44% of the country.
Global Inequality

Oxfam reports on wealth concentration at the top: how many of the richest people have as much wealth as bottom 50% (bottom 3.6 billion!)

- In 2014: 85
- In 2017: just 8 men

Big winners during last quarter century
- Global 1% and global middle class (middle class in China and India)

Big losers during last quarter century (not sharing in gains)
- Those at the bottom and the middle class in advanced countries
Even health and life expectancy is in decline

A Rising Toll
New research shows the increasing mortality rate among white Americans spans age groups and is most acute among the less-educated.

White deaths are rising...
Mortality rate by race, ages 50-54

...among all age groups of less-educated whites...
Mortality rate for whites with high school education or less, by age

...in contrast to elsewhere...
Mortality rate for all causes, ages 45-54

...due in part to increases in 'deaths of despair'.
Mortality rate due to alcohol, drugs and suicide, ages 50-54

Source: Anne Case and Angus Deaton of Princeton University, charts published in Wall Street Journal.
More Inequality is Associated with Less Mobility Across Generations

US: Disconnect Between Productivity and a Typical Worker’s Compensation, 1948-2015

Note: Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

Source: EPI analysis of data from the BEA and BLS (see technical appendix of Understanding the Historic Divergence Between Productivity and a Typical Worker’s Pay for more detailed information)
None of this is inevitable

• Laws of economics are universal—outcomes differ markedly
  • Showing that inequality is a “choice,” the result of policies
• Hopeful note: different policies can result in a reduction of inequality
  • But unless something is done, tensions will remain
• These political tensions cannot be separated from economics
  • Inequality leads to poorer economic performance
  • Political uncertainties will also weaken economic performance
Possibility of unprecedented shared prosperity

• Advances in technology offer prospect of unprecedented increases in standards of living
  • One of disturbing aspects of Trump policies is questioning of science—the bases of these advances

• There are policies which would enable this to be translated into shared prosperity for all
  • We know what needs to done
  • It is a matter of politics

• But unless these changes are made, the world will continue to face an uncertain future