

Uncertain Times: Emerging Risks in the Global Landscape

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The US is finally emerging from 2008 crisis

- Unemployment falling to 4.4% in April 2017
 - 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

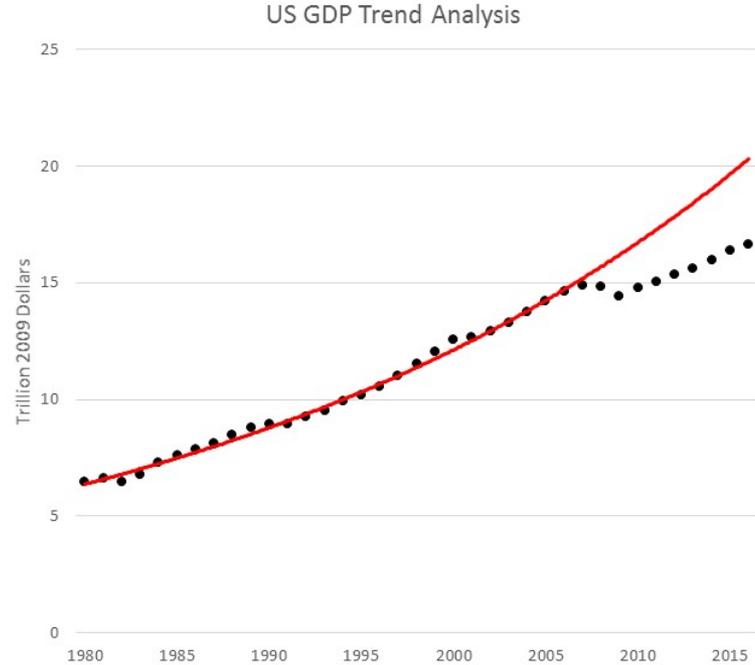
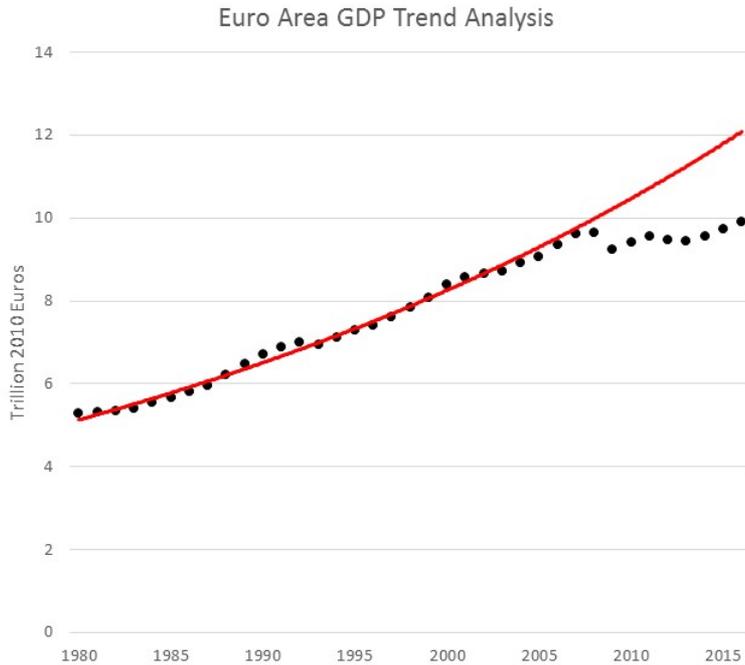
Many uncertainties remain

- 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

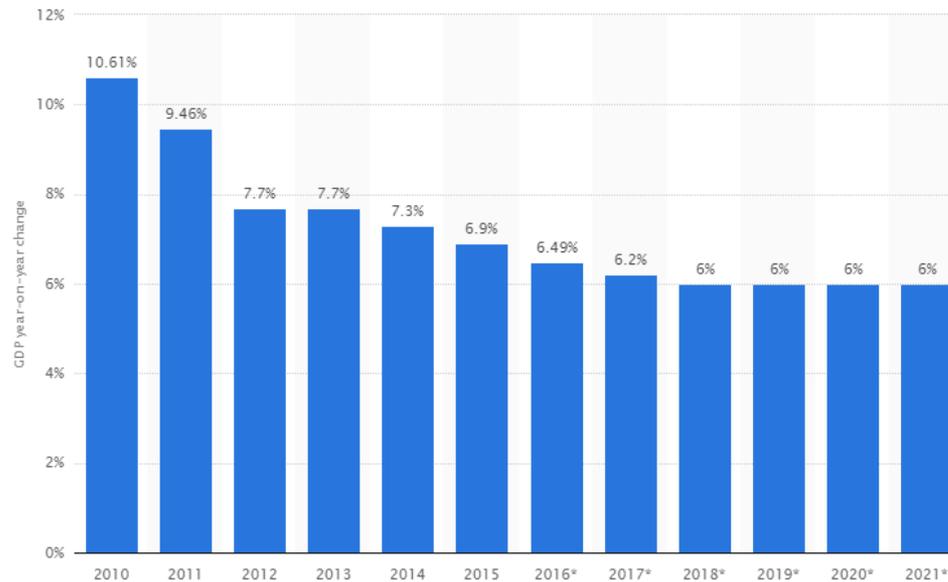


● Real GDP — Exponential trend based on 1980-98

China's growth will remain moderate

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

China: growth rate of real gross domestic product (GDP) from 2010 to 2021



Additional Information:
China; IMF; 2010 to 2015

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Source:
IMF

* IMF Estimate
Source: IMF Statista.

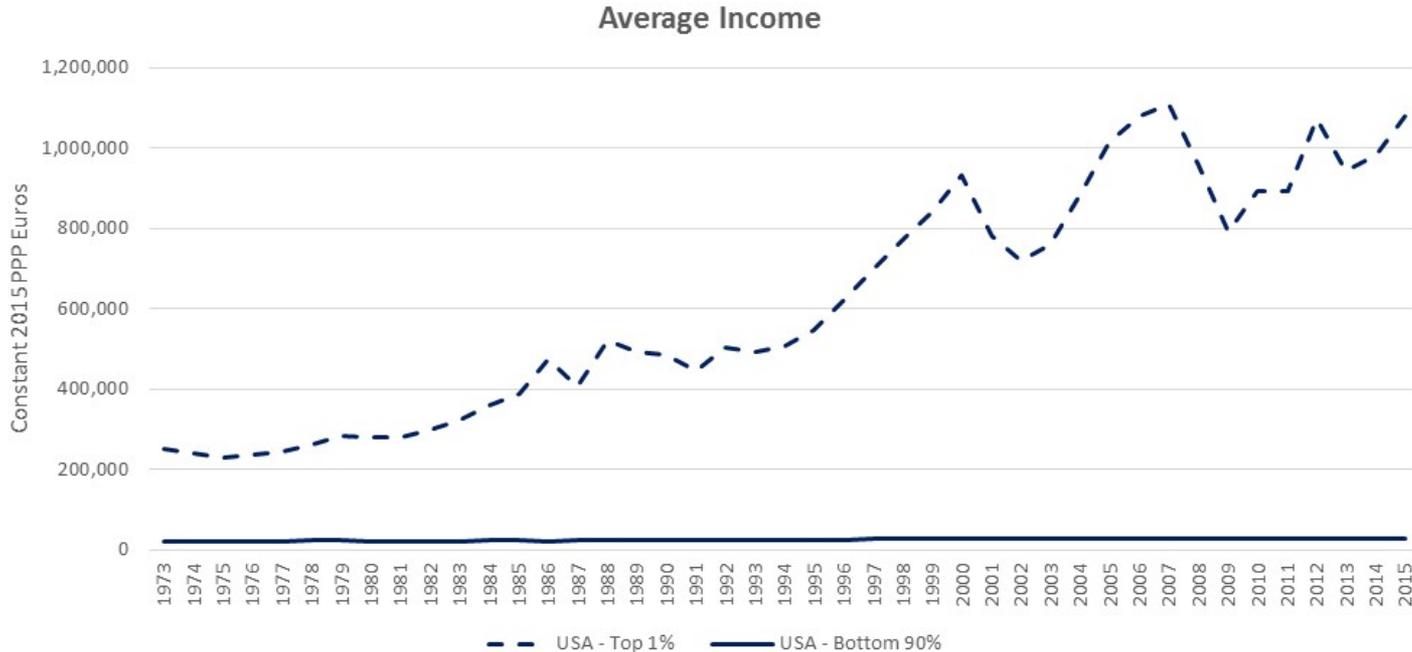
Global risks from US monetary policy

- 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

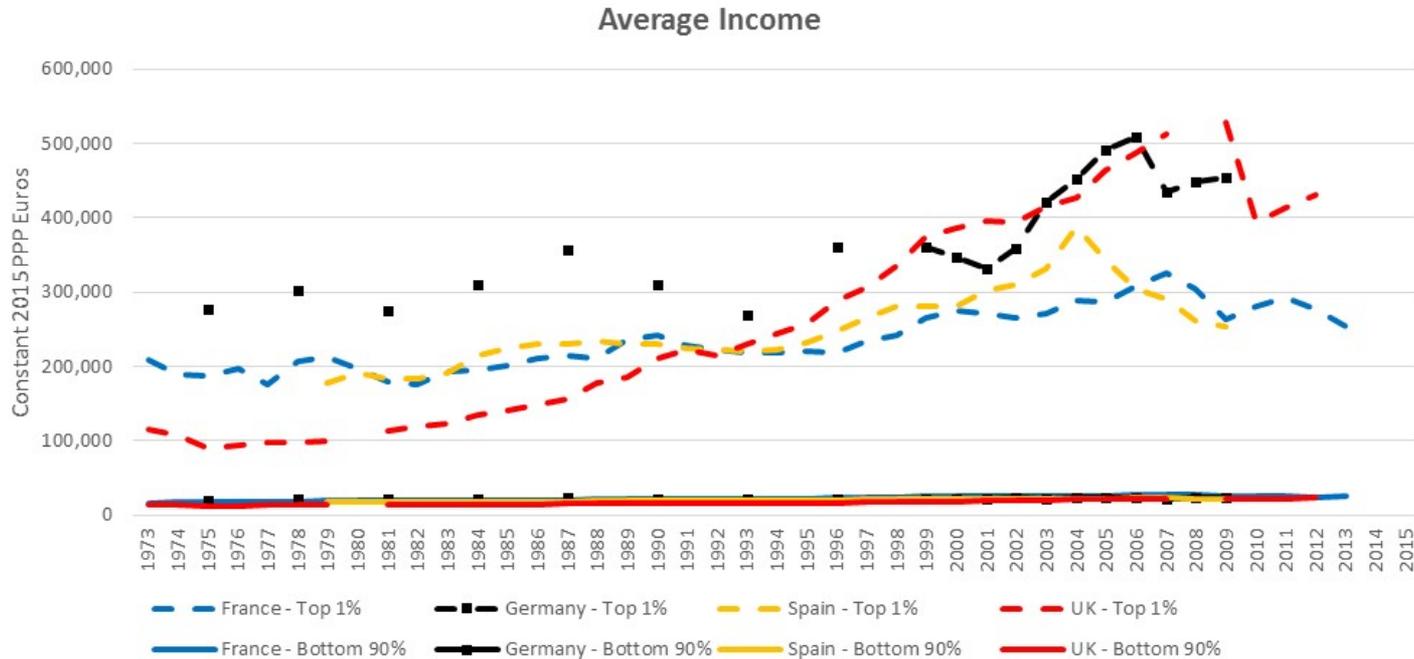
- For past third of a century, most of growth in most countries has gone to a few
- Increasing anger—globalization has been blamed
- US represents worse case—near stagnation for bottom 90%, worse for males who have not gone to college

US: bottom 90% have seen little increase in income over last third of a century



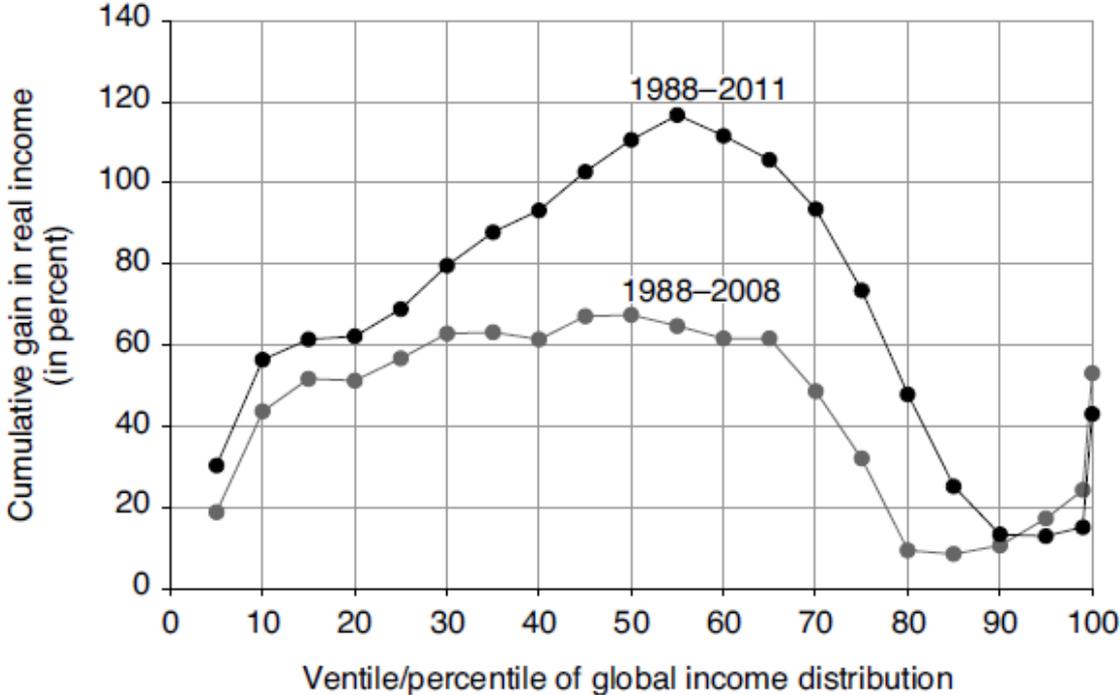
Source: World Wealth and Income Database

Europe: less increase in inequality in some countries than in others



Source: World Wealth and Income Database

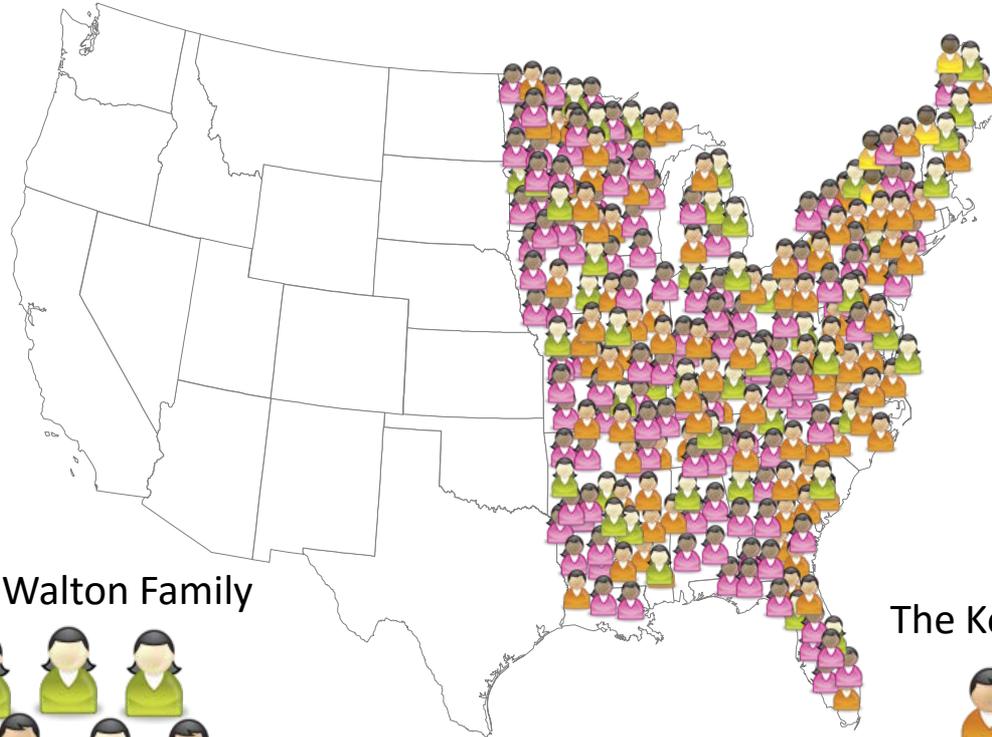
Global Income Growth by Percentile



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.



The Walton Family



The Koch Brothers



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

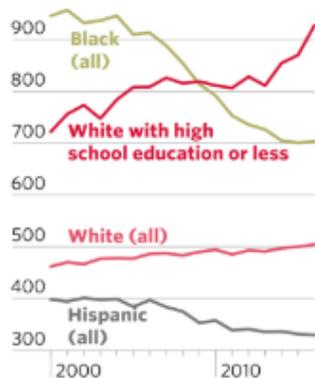
Even health and life expectancy is in decline

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

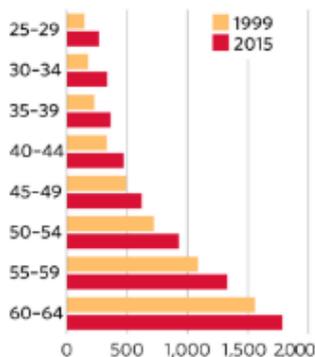


Mortality rate=deaths per 100,000

Anne Case and Angus Deaton of Princeton University

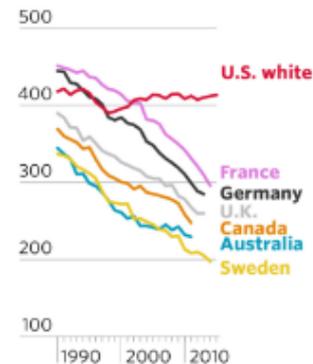
...among all age groups of less-educated whites...

Mortality rate for whites with high school education or less, by age



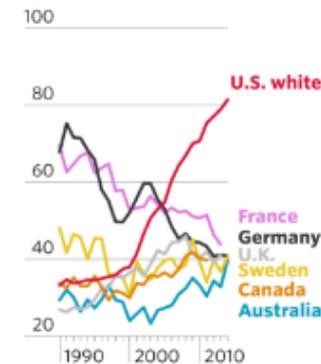
...in contrast to elsewhere...

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

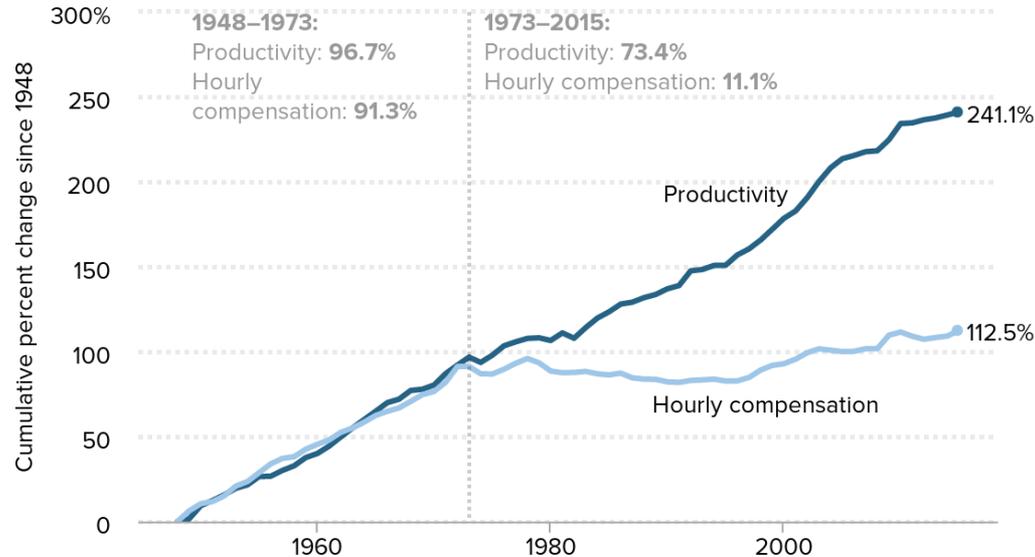


Source: Anne Case and Angus Deaton of Princeton University, charts published in Wall Street Journal.

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 be done
 - It is a matter of politics
- But unless these changes are made, the world will continue to face an uncertain future