

ECON 5450 Course Calendar Spring 2020

Last update 4/8/2020 7:41:41 PM

Office hours: see my web page for the most up to day office hours Wednesday 9:30-10:30pm (in E-530 Dealy) or Monday 4-5pm or by appointment in E527 Dealy Hall. Please confirm appointments via mcleod@fordham.edu put ECON 5450 the subject line of your email; or send a text to 914-661-6998. We use will use blackboard to submit assignments online. Most course readings are online, **but see the ftp reader info below**. If you find a url that does not work, please send me an email so I can fix it. See the course [syllabus for readings](#) and the course requirements. Most readings are on or let me know if you find a www.fordham.edu url most readings should start with www.gdsnet.org/

This course and our lives now have AC and BC, after COVID-19. Here we go, perhaps the most dramatic global shutdown (literally) ever witnessed, mainly to stop the spread of a very nasty virus, SARS-COV-2. Fortunately, multilaterals went to school with EBOLA and HIV-Aids and know what to do (and who to blame). The Asian countries also had SARS and MERs which helped them respond very quickly to these crises (see Vietnam, South Korea, China and Taiwan and Hongkong). The [IMF says it has a lot of firepower \(\\$1T\)](#) and a G-20 leadership even more aggressive than during the GFC (when the IMF did what?). Next week are the IMF-WB meetings (April 15th) but we already have five [Pandemic Charts and](#) amazing new [data from Google](#) and a [UNICEF report on Child Poverty](#) see presentation on economic impacts of crisis and the Markel et al. paper on the 2018 Spanish Flu. We even have Reinhart and Rogoff and Stiglitz and Sachs weighing in on different aspects of the crisis ([mainly on Project Syndicate](#)).

www.gdsnet.org/COVID19Lecture3GlobalSARSimfact.pdf

www.gdsnet.org/GuerrierriLorenzoniStraubCovid19_supply_demand.pdf

www.gdsnet.org/HowardMarkelNonPharmInterventions1918_1919.pdf

<https://blogs.imf.org/2020/04/06/an-early-view-of-the-economic-impact-of-the-pandemic-in-5-charts/>

Our 2010 Final exam (middle of the GFC crisis looks good) but we have these new questions FE-1 to FE-5 to address (see my email

Pre COVID-19 AbEconomics Readings (2014) [Milken Review on Japan, 2014](#) [Three Arrows of Abeconomics](#)
[The new IMF? \(whales?\)](#)

LDQ 1.1 Both the United States and Argentina may approaching debt to GDP ratios of 90%, roughly the “threat to growth” ratio identified in the classic 2010 Reinhart-Rogoff paper (3000+ citations and counting). Use Barry Eichengreen and Ricardo Hausmann;s “Pain of original sin” to discuss the important difference between Argentina and Japan (and the U.S.). As an illustration, find the sustainable CA formula that works for Argentina the U.S., why are they different? What happens to Argentina’s sustainable deficit when its real exchange rate depreciates?

LDQ 1.2 How active is the Asian Infrastructure Investment Bank (see Milanovic, Branko. Capitalism, Alone (p. 127). HUP see Kindle Edition pages pasted below). Is it an alternative to the IMF or the World Bank? How is the Belt and Road policy affecting Africa and developing countries in Asia. According to Milanovic, 2019 Zimbabwe was China’s first major foreign policy coup d’etat (literally). What is China’s role in Zimbabwe right now? Compare to Russia’s role in Venezuela.

LDQ 1.3 Currency depreciation is an option open to “small open economies” including most emerging market countries but not to large countries (Germany, China, Japan and the U.S.). Why not? Use the arrows of Abe Economics to clarify why Japan cannot simply depreciate the Yen to end its long deflation-slow growth crisis. Yet it does have inflation or at least not deflation now, no? How did AbEconomics help it be a “good neighbor.” Certainly, Brazil is potentially a “bad neighbor” for Argentina. What is the Real today? Is it deliberately letting its currency depreciate? (as it did in 1998). How did this depreciation affect Argentina and IMF heading into Argentina’s late 2001 crisis? What is [happening to the Real nominal fx rate now?](#)

[LDQ 1.4](#)

XE Currency Charts: USD to BRL

17 Feb 2019 00:00 UTC - 17 Feb 2020 22:55 UTC USD/BRL close:4.32821 low:3.70119 high:4.37770



References:

Cassidy, John (2013) [The Reinhart and Rogoff Controversy: A Summing Up](#), New Yorker Magazine, April 26th

Chang, Roberto & Velasco, Andres. (2001). [A Model Of Financial Crises In Emerging Markets](#). The Quarterly Journal of Economics. 116. 489-517.

Davadas, Sharmila and Norman Loayza (2018) [When Is a Current Account Deficit Bad?](#), World Bank Malaysia Hub, no. 17, October

Eichengreen, Barry J., Ricardo Hausmann, and Ugo Panizza.(2003) [Original sin: the pain, the mystery, and the road to redemption.](#)

Eichengreen, B., Hausmann, R., & Panizza, U. (2003). [Currency mismatches, debt intolerance](#) and original sin: why they are not the same and why it matters (No. w10036). National Bureau of Economic Research.

Eichengreen, Barry, Ricardo Hausmann, and Ugo Panizza (2005) "The pain of original sin." *Other people's money: Debt denomination and financial instability in emerging market economies*: 13-47.

Reinhart and Rogoff (2010) [Growth in a Time of Debt](#) American Economic Review: Papers & Proceedings 100 (May): 573–578 <http://www.aeaweb.org/articles.php?doi=10.1257/aer.100.2.573> Cited by 3273 -

[Argentina Debt Restructuring How Much debt is too much?](#) [Grabel Chapter 5](#)

Hector Torres [Restructuring Argentina's Debt will require IMF support](#) (FT Feb 5th more or less, check please)

[Macri's Macro: The Meandering Road to Stability and Growth](#)

[Dollarization will not save Argentina \(FT date?\)](#)

Buenos Aires province to begin restructuring its debt burden

Negotiations had been seen as a bellwether for discussions over Argentina's \$100bn debt pile



Axel Kicillof, the governor of Argentina's most populous province, said officials 'did not want a disorderly situation' recalling Argentina's historic default in 2001 © Reuters

[Things Don't Fall apart Chapter 5](#)

[Coping with volatile Capital Flows](#)

[Argentina Case Study \(Catalina Jack\)](#)

[Macroeconomics of Aid](#)

[Graduation Handout](#)

[Understanding Secular Stagnation](#) [Who's Afraid of Budget Deficits](#) (answer It's mostly fiscal, aka the IMF).

[Brad Setser on Argentina \(cited by PK\)](#)

[Prasad Eswar \(author\) NYT times](#)

[ECON 5450 2018 Calendar](#)

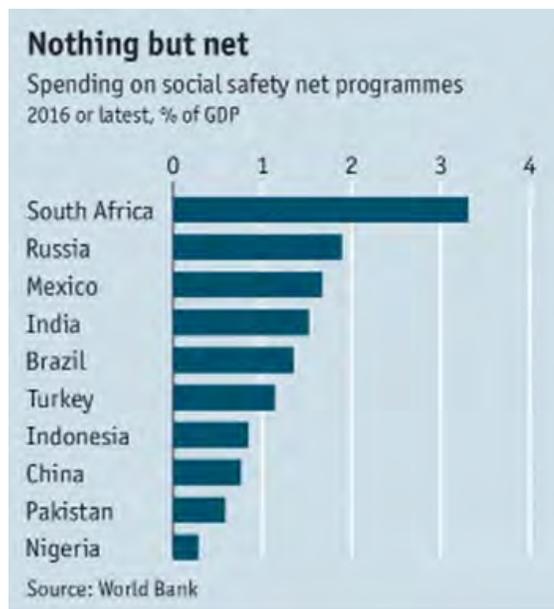


	Table CH-1 Savings and Investment Shares for China			Change	
	2000	2007	2008	2000-08	2000-07
GCF Gross Capital Formation	34	42	43	9.0	7.2
GDS Gross Domestic Savings	37	51	50	13	14
	2.9	9.2	7.1	4.3	6.4

Source WDI interactive figures posted here: <http://darrylmcleod.com/interactive-figures/>

[Case Study Final-presentations Questions](#) [Formatting Guidelines](#)

According to [Friday's WSJ Argentina](#) has hit a rough patch (same with Turkey). The peso [fell more than 10% Friday](#) even as the Central Bank raised the policy interest rate to 40%, trying to restore confidence in both its currency and its 15% inflation target. Don't forget Argentina just switched to a officially floating exchange rate regime when Macri took office in December of 2015. Referring to Figure AR-1 when did Argentina

Updated data: Poverty & [middle class ZAR](#) [Russia](#), [Peru](#) [COL](#)

[Nominal Exchange Rates SSA and LatAM](#) [BIS RER data](#)

[WEO Data \(inflation, growth, unemployment, CAB for SSA, LatAm ZMB ZAR \)](#)

April 25th: [Case Study Final-presentations Questions](#) with links to most data you will need. Here is the updated [Fred BIS demo\(v2\)](#) [IMF-WB Meetings](#) [Debt and Growth MM Cardenas Minute 47](#).

[Dark Matter 2018 Ricardo Hausmann](#) [USDA RERs](#)
[Economist](#) & [World Bank The State of Social Safety Nets 2018](#)

Stopping High Inflations:

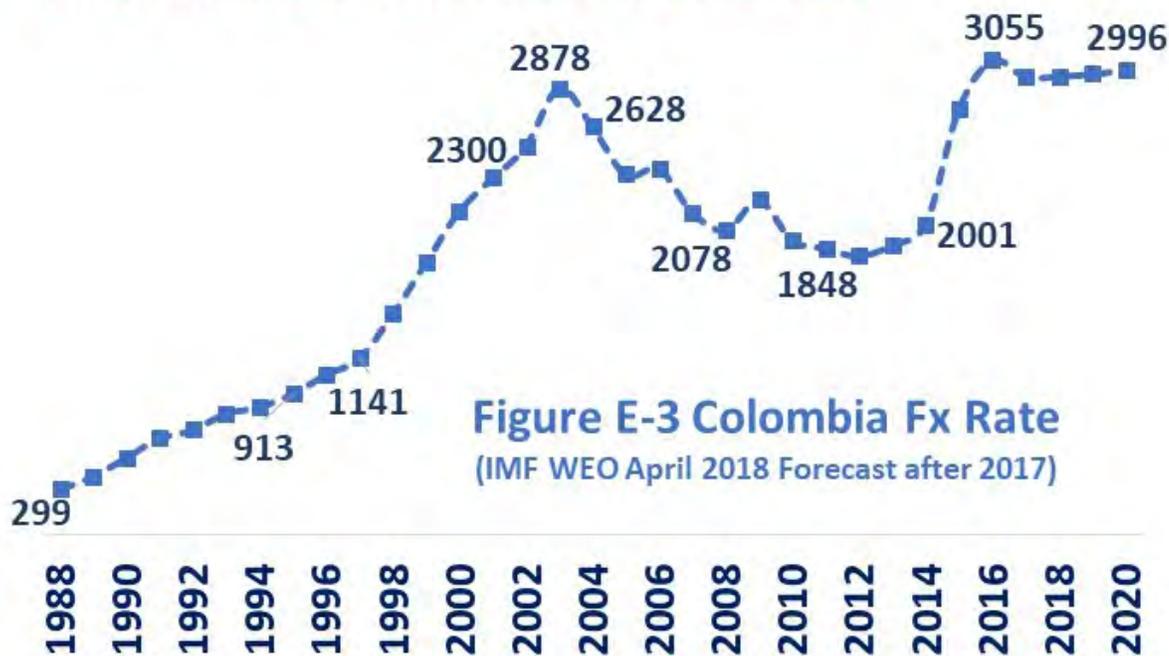
Kiguel, M. A., Liviatan, N. (1995). Stopping three big inflations: Argentina, Brazil, and Peru. In [Reform, recovery, and growth: Latin America & Israel?](#) 369-414 Univ of Chicago Press [62].

Calvo, Guillermo A., and Carlos A. Végh. "Inflation stabilization and BOP crises in developing countries." [Handbook of macroeconomics](#) 1 (1999): 1531-1614.

[Handout: Alternative High Inflation Programs](#) Calvo, Guillermo A.& Carlos A. Végh (1994)"[Inflation stabilization and nominal anchors.](#)" [Contemporary Economic Policy](#) 12, #2:35-45 [Chile Data is here](#)

Fiscal Space: Measuring Fiscal and Monetary Space: Romer, C. D., & Romer, D. H. (2017). Why some times are different: Macroeconomic policy and the aftermath of financial crises (No. w23931). National Bureau of Economic Research.

When did fear of floating end for Colombia?



See the [Macroeconomics of Aid](#) references including Gupta 2005 and the new [graduation handout\(v3\)](#).

[IMF Blog Migrant buffers shocks](#) [Best Buffer for Climate Shocks?](#) (IMF, WEO, Oct 2017)

Lessons for [exchange rate management...in Africa?](#)

[Alesina et al. 2018 on "Expansionary Austerity"](#) ([Climbing out of Debt, pdf](#))

Case Study Data Resources HW#2 is a preliminary data inventory for your country due Thursday on BB if possible (you can revise it if you find more data). This is PDF version (check for frequent updates). For the word template check

the BB assignment 2 (HW2). I will post the first Problem Set tomorrow before class, it will be due a week from today (Feb. 27th). I will post the midterm March 6th more or less two weeks before Spring Break starts on March 21st

[Sustainable Debt](#) [Graduation Handout](#) [PS1 Now Japan Only](#) [PS2 Mexico and Chile](#)

Lecture Notes: [Krugman Paroling the Spanish Prisoner \(Wonkish\)](#) [Heller: Fund supported programs & the poor](#)
[Sustainable CA Deficits](#) [PS3_2015](#) [Paul Krugman on Spain's sacrifice](#)

Midterm review: [MABP Traditional Approaches to CA Adjustment](#) [The Australian on TNT Model](#) (see Chapt 21)
[Review TNT model](#) [Modern Approaches to CA Adjustment](#)

Lecture Notes: [Macroeconomics of Aid](#) [Stabilization & Income Distribution](#)

Lecture Abeconomics [LDQ 1.1 \(see BB\)](#) for word template & due date. [Answers](#) Thank you for: [CFR Abeconomics](#)¹
[Sample answers from 2015](#) [Formatting guidelines](#) [Traditional and Modern Approaches Sp 2018](#) [MABP](#)
[TNT Model with Sachs and Larraine](#) [Dutch Disease LatAM](#) [Sachs and Larraine](#) [Chapt 21 color](#) [Chapter 6](#)

Post Midterm Goals: Post Midterm including CS question (your country) [Review TNT model](#) Terms for Review:
Graduation, Redemption, original Sin, debt to GDP tipping point (sustainable debt level); twin deficits, Depression
Economics (DE: in this course), Internal vs. External Devaluation, BRICs IMF?, [Chile's Fiscal Rule](#),

Fleming, Michael J., and Nicholas Klagge. "[The Federal Reserve's foreign exchange swap lines](#)." (2010).

Jeffrey Frankel, 2011. "[A Solution to Fiscal Procyclicality: the Structural Budget Institutions Pioneered by Chile](#)," Journal
Economía Chilena (Chilean Economy), CB of Chile, vol. 14(2), 39-78, August [NBER paper 16945](#)

Frankel, Jeffrey A. 2012. The Natural Resource Curse: [A Survey of Diagnoses and Some Prescriptions](#). HKS Faculty
Research Working Paper Series RWP12-014, John F. Kennedy School of Government, Harvard Univ

Lecture ABECONMICS: [How to be a good neighbor](#) [Argentina Presentation 2014](#) [Nigeria 2009](#)
[The Australian on TNT Model](#) (see Chapter 21) [Revisiting the Paradox \(voxeu\)](#) [Coping with Capital Flows](#)
[Adjustment Approaches](#) [Post conflict recovery and Aid Surges](#) [DeVries chapter 1](#)

Volatility returns: Check your country re Feb 6th Mexico [Thailand](#) [Indonesia](#) [India](#) [South Africa](#) [Poland](#) [Project](#)
[Nominal Exchange rates](#) [Introduction Lecture Notes](#) [Vegh Road to Redemption](#) [Crises and Recovery](#)
[Aid and Recovery](#) [CBN Presentation Nigeria](#), [UNDP 2008 Chapter 4](#) [Argentina 2001](#) [Greece v Puerto Rico](#)

Lecture MABP: [Problem Set #1](#) Handouts: [Alternative Adjustment strategies](#) [Monetary Approach to the B of P](#)

Lecture notes: [Abe Economics 3 Arrows, 2014](#) Today's Paul Krugman [Inflation Derp column](#) today is helpful and
relevant to our "Is Austerity Necessary?" hypothesis, see also chapters of "End this recession Now" posted on BB. Please
read [Sachs and Larraine, Chapter 21](#) through page 669 especially Table 21-1 showing Chile's "neo-conservative"
stabilization program 1979-85 which crashed in 1981 raising unemployment to nearly 20% in 1982, one of three over
20% unemployment spells that changed mainstream thinking about stabilization policy (the others were Argentina during
the late 1990s and Greece after 2008). Which of these three infamous episodes involved internal devaluation, which
involved a sharp (involuntary) external devaluation*? As usual we have to get to work and return to the nice austerity
arguments later, but see also Chile and Israel's famous adjustment programs in Calvo and Vegh, 1997 [Table 1 and Table 3](#)
and in the shorter "nominal anchors" overview by Calvo and Vegh, 1994 Tables 1-4 (see class handout and [Heterodox](#)
[summary](#)). Why did "orthodox" money-based programs often result in sharp exchange rate appreciation? How did these
programs often fail (the most important example being Caracazo in 1989, launching the career of one of the most
important leaders in Latin America... What did the IMF learn from these "IMF riots" (according to Stanley Fisher).

Lecture 1: Introduction: [Is Austerity Necessary?*](#): Thought experiment using the market for dollars (MFD) diagram
below. This looks like a supply and demand diagram, but it really is not a normal market in that...what? Discuss the
three arrows of AbEconomics? Why are three arrows better than one (according to an ancient Japanese myth). How does

an ancient sign discovered after the devastating Tsunami that shut down Japan's nuclear power industry remind us of how much Japan appreciates running a trade surplus. China is much less vulnerable to climate shocks, so why did it accumulate over three trillion dollars in reserves, held mainly in U.S. bonds... though less so now. Why is China running down its reserves during the past two years? Jeff Sachs believes this is a tragic mistake, in fact the same mistake Japan made in accepting the Plaza Accord. Explain. How would the end of NAFTA affect Mexico? In what sense has Mexico been too successful post NAFTA? (hint: where do most of its dollar earnings come from? Hint: see the opening scenes of Specter, very much fiction, so what did the Mexican government do about this? What can be done about the Venezuela tragedy [Real Exchange Rates and adjustment](#)

Disaster Capitalism and Naomi Klein's Shock Doctrine attributed to Milton Friedman (and free markets): revisiting "heterodox" policies. The Tablita programs or mainly "exchange rate based" programs were an important transition in moving away from money targets to modern "managed expectations" approaches to monetary policy (the past decade for example has

Is Austerity Necessary? Three developments suggest stabilization policy has become less necessary in middle income and developing countries. One is the success of "heterodox" policies in bringing down inflation

Do the Chinese characters for crisis imply danger and opportunity* No just a favorite consultant's cliché, according to Brookings we should blame JFK...but then how can we, he is our hero... recall the Kennedy tax cuts.

Very few economics courses have wonderful videos setting the stage for current debates. However, Democracies are fragile but remain our best ally in dealing with crises (cf. Tunisia and the Arab Spring). Commanding heights Episode is a 2001 documentary produced at the peak of post-cold war optimism (it does not anticipate the rise of left and now right populist political movements...). We will focus on initially on Latin America, Chile and Bolivia (now the Plurinational state of Bolivia). Chile and Bolivia became the poster children for "shock treatment": Watch the prologue in first four minutes of Episode 2 (the intro segment with J. Sachs and President Clinton...sounds strange I know). Then skip to [Chile and Bolivia at 19:38](#) where the mixed legacy of the Chicago boys is discussed (see also Naomi Klein on the human cost of the Shock Doctrine in Chile and Argentina...). At the end of the prologue the narrator and producer of this video, Daniel Yergin, says "This free-market revolution has really led to the new global economy. It excites some and terrifies others." The ongoing backlash against globalization is a little terrifying right now... if your roommate doesn't like loud music, see the [PBS transcript of this video](#) here (or turn on CC). The video benefits of focusing on crises continues with ten-minute videos produced by Visual Politics (in Spanish and English) focusing on [the crisis in Venezuela](#) (several [videos](#)) and new [threats to Mexico](#)... (on [Venezuela VOX](#) also has short video...1.6M views, the VOX video sets the stage from). How bad was it five years ago... see Krugman, Paul (2012) End This Depression now Chapter 1 and Chapters 10-12...

Is Austerity necessary? the enduring lessons of Chilean/Southern Cone & Asian Stabilization programs

In this course we argue that the main lesson of Chile and the early Southern Cone Stabilization experiments is that there is no need for shock treatment, even for ending hyperinflation. Chile paid a heavy price (twice) to end inflation, but this was largely for ideological reasons. Other Southern Cone countries used innovative "Heterodox Stabilization programs" to end inflation. The Chicago boys ignored nontraded goods prices (including real estate) so free trade and capital inflows did not stop inflation as planned. Instead the Chilean peso appreciated leading to a flood of cheap imports and a balance of payments crisis (see S&L 1993, [Sachs and Larraine, Chapter 21](#)). A number of Heterodox programs combined "unorthodox" wage and price controls with the Chilean born "Tablita" to bring down high inflation with an expansion not a recession, making the most severe form of "shock therapy" bad economics. For Chile and the infamous "Chicago Boys" the Shock Doctrine in Chile produced real changes, but ones that neither critics or supporters anticipated... Since 2000, Chile has alternated Left Social Democratic (Michelle Bachelet, two terms) and Center Right (President Sebastián Piñera and finance Minister Felipe Laraine) for 15+ years, with the Center Right just starting. In 2011 Chile saw prolonged and somewhat violent uprising against student debt (also a problem for North America).

References Lecture 1:

Figure 2: capital flows and the RER in a small open economy

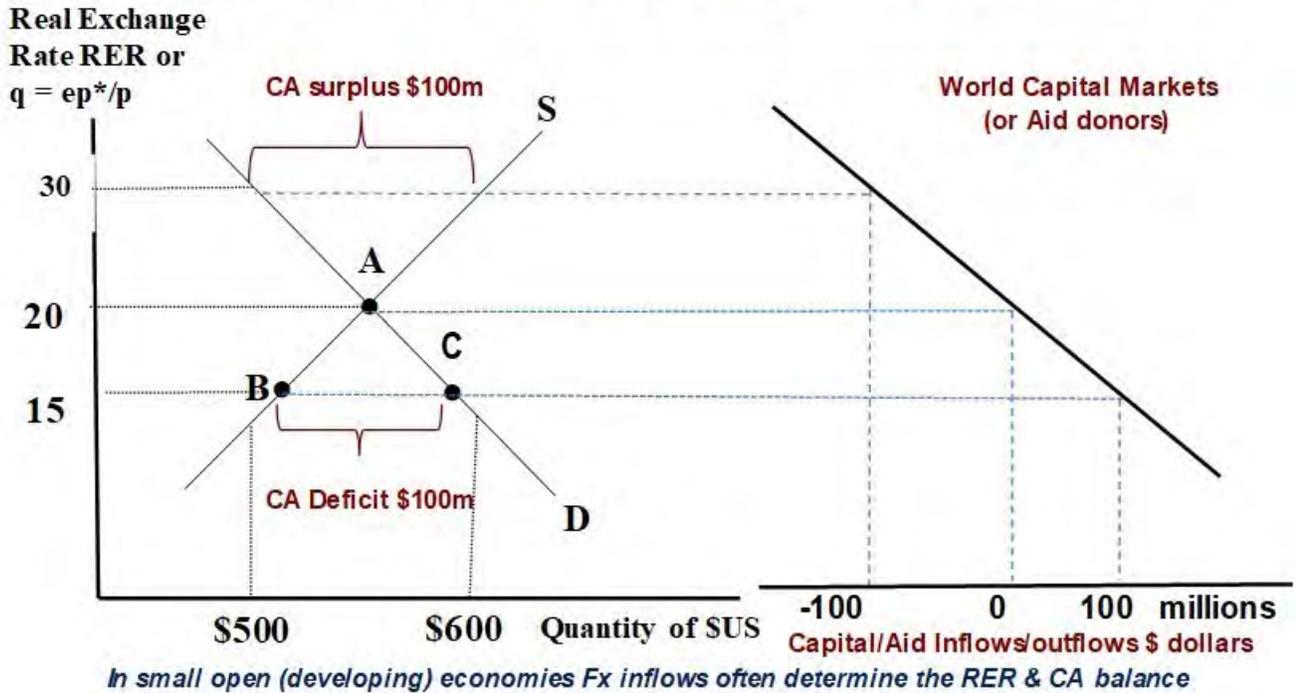
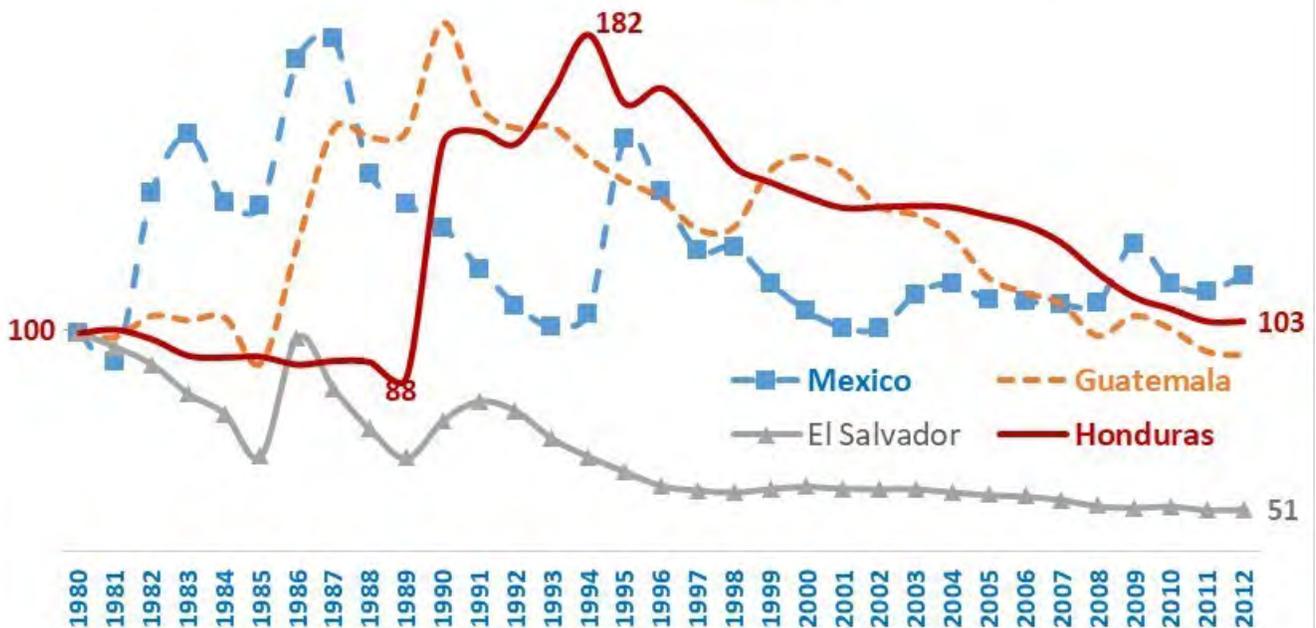


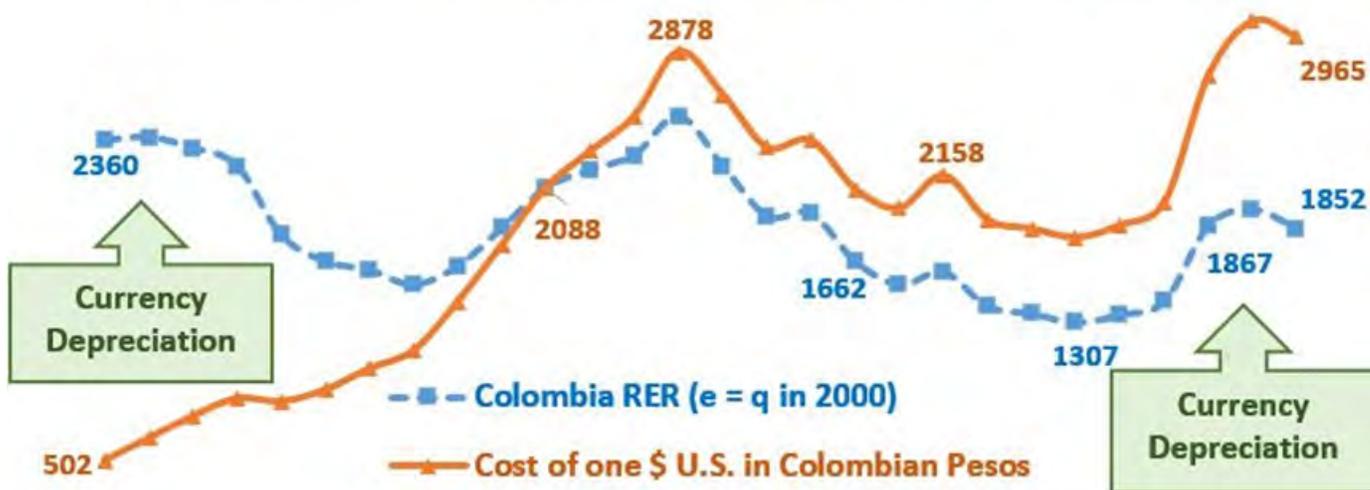
Figure R-3: Real Exchange Rate for CAFTA-NAFTA Countries

Source: USDA 8-29-2017 1980 = 100



Source: USDA ERS Annual Real Exchange Rates, 8-29-2017 update, Karl Heerman, 202 694-5250

Fig RER-6 Colombia Real & Nominal Exchange Rate (USDA-ERS)

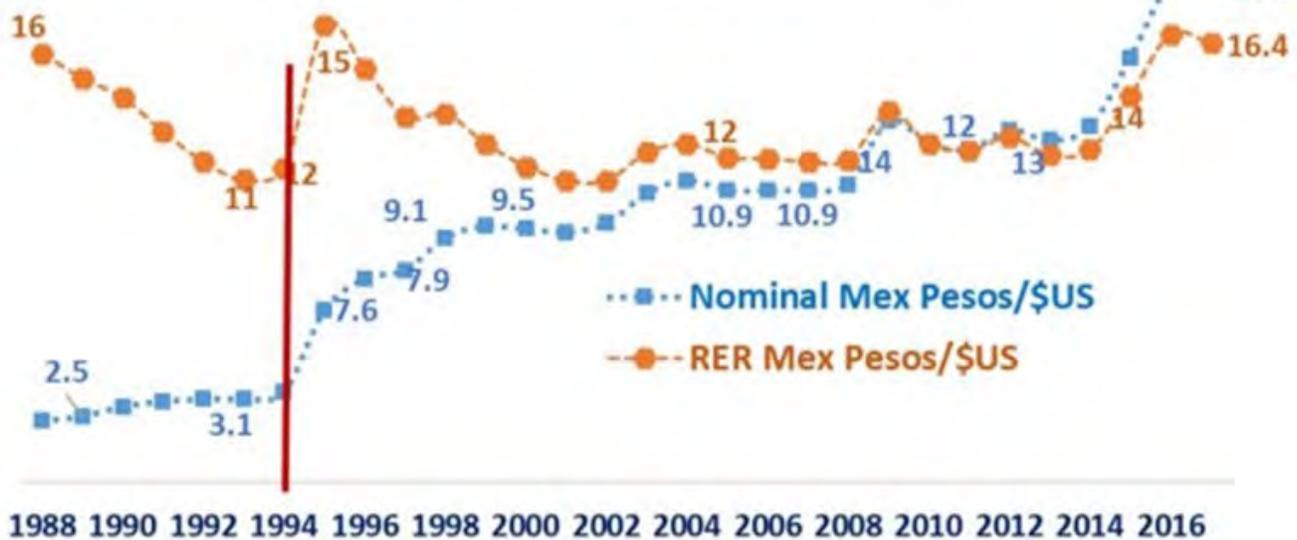


1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

Source: USDA ERS Real Exchange rate (2017 projected) updated 8-29-17

<https://www.ers.usda.gov/data-products/agricultural-exchange-rate-data-set/>

Figure RN-2 Mexico Real and Nominal Exchange Rate



Lustig, Nora, Albert Fishlow, and François Bourguignon. "Presidential Address: Crises and the Poor: [Socially Responsible Macroeconomics](#) [with Comments]." *Economia* 1, no. 1 (2000): 1-30.

Frankel, Jeffrey A., Carlos A. Vegh, and Guillermo Vuletin. "[On graduation from fiscal procyclicality.](#)" *Journal of Development Economics* 100, no. 1 (2013): 32-47 [pdf from Harvard](#)

Ortiz, Isabel, and Matthew Cummins (2013) "[The age of austerity: a review of public expenditures](#) and adjustment measures in 181 countries" [Social Justice in Global Development](#), UNICEF

Venezuela Ricardo Hausmann, [Overdosing on Heterodoxy](#) buy don't read [D-Day for Venezuela](#)

Brad de Long [Why Low Inflation is no Surprise](#)

McLeod and Welch on [Venezuela's Outlook October 1996](#)

MLK week reading and [JFK on crises as opportunities](#)

My [Senegal Sample Case Study](#) Figures The novel key idea that a fiscal policy rule funding a [Sovereign Wealth Fund \(SWF\)](#) can be a substitute for international capital flows and flexible exchange rates reminds us that fiscal policy and monetary policy can be substitutes and complements, (recall the three adjustment arrows). Chile and a few other countries have managed this (SWFs are more efficient than huge Reserves, though China is doing both). This was the theme of last [year's midterm "challenge"](#) (and likely will be on this year's too)

Lecture 2: The remarkable transformation of the IMF [IMF Christine Lagarde in Lima](#)
[Handout Stb Income distribution](#) [Nora Lustig Socially responsible Macroeconomics](#) [The Washington Consensus](#) [A damaged Brand](#) [How is Puerto Rico not Greece](#) [Latin American Inflation](#) returns? [Orthodox vs. Heterodox Programs](#)
 Our 1996 view of [Venezuela from Stabilization to Growth](#), [Venezuela last week](#)

Lecture Notes [RER Adjustment in the TNT Model](#) [Traditional Approaches to CA Adjustment](#)
[This time is different](#) [Elasticities Approach Notes 2015](#) [Graduation 2018 Handout](#)
[The Polak Model or MABP](#) [Handout: notes on the TNT model](#) [Aid Lecture notes](#) [Handout](#)

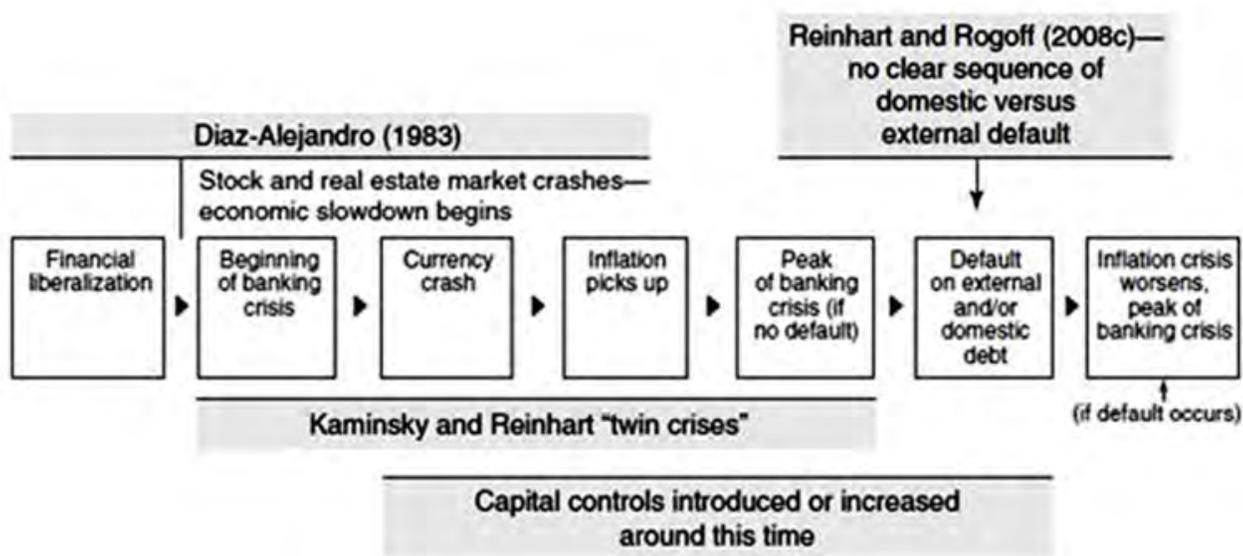
Videos: See how to use FTP below [How to make diagrams using templates](#) [How to use the snipping tool](#)
[Early Draft of Box 4.1 UNDP BCPR Chapter 4 Senegal Project](#) [Nominal Exchange rates](#) [Introduction Lecture Notes](#)
[Vegh Road to Redemption](#) [Crises and Recovery](#) [Aid and Recovery](#) [CBN Presentation Nigeria](#)

Baldwin, Richard and Francesco Giavazzi (2015) [The Eurozone Crisis A Consensus View of the Causes and a Few Possible Remedies](#) A [VoxEU.org eBook](#) CEPR Press, London 978-1-907142-88-8.

Terms for Review: Automatic vs. Managed Adjustment; the gold standard vs. floating exchange rates; competitive devaluation and inflation; good neighbor policies; **secular stagnation** post WWII and post 1990 Japan; Martin Wolf "managed depression"; the elasticities approach in small open economies; Sudden Stops; Good neighbors, large countries; the real exchange rate ($q = ep^*/p_a$); structural adjustment (e.g., the Hartz Reforms).

[Senegal Project](#) [Nominal Exchange rates](#) [Introduction Lecture Notes](#) [Vegh Road to Redemption](#) [Crises and Recovery](#) [Aid and Recovery](#) [CBN Presentation Nigeria](#)

Terms/concepts: Bretton Woods Agreement; Contagion; the role of the IMF in Europe; Original Sin; Redemption; graduation; pro vs counter cyclical fiscal policy; IMF Austerity (adjustment); default vs. debt overhang; debt service vs. Debt overhang, Mario Dragi "whatever it takes and the OMT July-Sept 2012; AbeEconomics (3 arrows); Quantitative easing; Taper Tantrum (May 2013);



LDQ 1.1 Did the IMF cause the Ebola crisis? The BBC and Lancet blame the IMF for the spread of Ebola in West Africa. Is the BBC correct? See also [Sangeev Gupta's reply](#) to the Lancet Article (which refers to similar controversy [focusing on HIV/Aids in 2007](#) initiated [by the CGD.](#))

LDQ 1.2. Why are these BRICS leaders so happy? ([hint: BRICS NDB turns 2](#)) Is this the beginning of the end of the IMF? (look at the most recent [IMF lending map](#)) Which two countries held the IMF's future in their hands but chose to save it?

B) Are these new [BRIC institutions a dream come true?](#) [AbeEconomics slides](#)



1.6 Dealing with huge debts: As those of you who have seen (or read) Hamilton know, dealing with large national debts is difficult but crucial to the fate of nations. A) In 2010 the U.S. had a debt scare (in the WSJ mainly). Below is a scary forecast from the CBO published in the WSJ during 2010 (see notes on [debt and growth: a U.S. California case study](#)).

[Vegh Road to Redemption](#) My 2008 [CBN Presentation Nigeria](#) Japan's [Abe Economics ramped up](#) [PK's apology: EU makes Japan](#) look great...as does his 1998 seminal and prescient BPEA article "It's Baaack: [Japan's Slump and the Return of the Liquidity Trap](#)" validated by events here and in Japan and Europe. Surprisingly, starting about page 160 Krugman argues fiscal policy may not be needed, that monetary policy can do the job, this would be great, the U.S. has relied mainly on monetary policy, and the EU has none (especially if Germany will not expand). It is nice to have three arrows in your toolkit, but if one is enough to stimulate recovery, we'll take it...

Final exam: You are welcome to present your case study to the class on May 2nd (and avoid writing it up on the final exam, provided you agree to update it after you present it, if necessary). Thank you to Victoriia and Natcha they set a high bar for all of us.

The ECON 5450 FTP reader has been replaced by USB drive (ask for one):

References

Luigi Guiso, Paola Sapienza and Luigi Zingales (2014) "Monnet's Error?" [Final Conference Draft](#) to be presented at the Fall 2014 BPEA ([Brookings Panel on Economic Activity](#)) September 11-12, Wash DC.

Nasar, S. (2011). *Grand pursuit: The story of economic genius*. Simon and Schuster ([pdf in Russian](#))

Piketty, Thomas (2014). *Capital in the Twenty-First Century* (p. 53). Harvard University Press.

www.gdsnet.org/ECON5450Spring2020_Calendar.pdf

www.gdsnet.org/ECON5450Spring2020_Syllabusv1.pdf

www.gdsnet.org/ECON5450ChangingAttitudeTowardDebtCalifornia.pdf

www.gdsnet.org/ECON5450_Spring2020_CopingCapitalFlowsAdjustmentApproaches.pdf

www.gdsnet.org/Grabel2017WhenThingsDontFallApartChapter5.pdf

www.gdsnet.org/ECON5450_OnGraduationHandout2018.pdf

www.gdsnet.org/ECON5450MacroeconomicsofAidHandoutSpring2018v2.pdf

www.gdsnet.org/ECON5450Spring2018_Calendar.pdf

www.gdsnet.org/ECON5450Spring2020_Calendar.docx

www.gdsnet.org/ECON3235_v3ArgentinaCaseStudy_CatalinaJackUpdated2019DLM.pdf

[ECON3235_v3ArgentinaCaseStudy_CatalinaJackUpdated2019DLM.pdf](http://www.gdsnet.org/ECON3235_v3ArgentinaCaseStudy_CatalinaJackUpdated2019DLM.pdf)

https://www.files.ethz.ch/isn/123780/2010_11_PDG%20on%20debt%20default%20mechanism.pdf

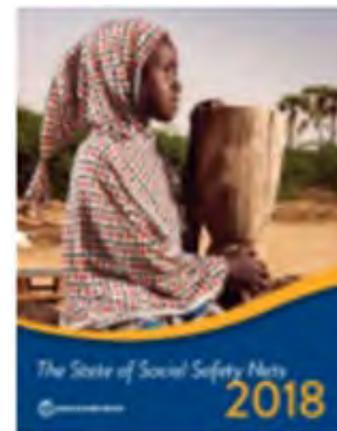
<https://www.project-syndicate.org/commentary/united-states-has-no-external-deficit-by-ricardo-hausmann-2018-03>

De Grauwe, P., 2010. [A Mechanism of Self-destruction of the Eurozone](#). *CEPS commentary*, 9(9), p.2010.

www.gdsnet.org/WSJTooMuchDebtEconomistsCantAgreeWSJFeb16th2020.pdf

www.gdsnet.org/RestructuringArgentinaDebtwillrequireIMFsupportFinancialTimes.pdf

www.gdsnet.org/Spring2018_ECON5450_PS1.pdf



Third, China under Xi (and probably more broadly, because the policies associated with him have much broader resonance) seems ready to take on a more active international role and to “sell” its own success and experience worldwide. A number of recent initiatives make that apparent. The most important is the increasing role that China plays in Africa, and the overhaul of African development strategy that has resulted from it. It is not surprising that several of the countries with systems of political capitalism are in Africa, and that all of them have strong economic ties to China (see Table 3.1). It could even be argued that China proceeded for the first time to a successful and discreet overthrow of a foreign government when it engineered the removal of Robert Mugabe from power in Zimbabwe in 2017. It was a signal success because of the bloodless way in which it was done, the behind-the-scenes role of China, and the worldwide support for the move, given how unpopular Mugabe’s regime had become both domestically and internationally. The success of that operation can be contrasted with the debacle of a similar Western operation in Libya, which resulted in a protracted civil war in the country and an almost total destruction of all accoutrements of modern society that shows no signs of abating or ending.*[dlm: but then Zimbabwe does not appear in Table 3.1 below, while nearby Botswana does?]

Another important, and even more ambitious, project is the Belt and Road Initiative (BRI), which is supposed to link several continents through improved, Chinese-financed infrastructure. Regular, large-scale deliveries of Chinese goods to continental Europe and the United Kingdom via the Eurasian land route (much faster than via sea) have already started to take place.⁵⁶ Not only does BRI represent an ideological challenge to the way the West has been handling economic development in the Global South, disregarding physical investments and focusing instead on “post-material” institution-building, but it will project Chinese influence far and wide and link BRI countries into what may be termed a Chinese sphere of influence. There are plans for any investment disputes that arise to be handled under the jurisdiction of a Chinese-created court (Economy 2018; Anthea Roberts, pers. comm.). This would be quite a reversal for a country whose “century of humiliations” was marked by foreigners in China not being subject to Chinese laws.

Many countries may welcome being part of BRI because of the tangible benefits that Chinese involvement will bring (roads, harbors, railways) and also because China is perceived as uninterested in influencing domestic politics and attaches no political strings to investments.⁵⁷ As Martin Jacques writes, unlike the United States, which emphasizes democracy within nations but imposes hierarchical relations internationally, China has no interest in the domestic policies of recipient nations; it does not practice what Joseph Schumpeter, in a critique of standard twentieth-century American policies, called “ethical imperialism.”⁵⁸ Instead, China emphasizes democracy between nation-states, that is, it insists on formal equality of treatment of all countries.⁵⁹ For many in smaller countries, both sides of this equation (noninterference in domestic politics and formal equal treatment) are attractive.

Justin Lin, one of the ideologues of the Belt and Road Initiative, sees another potential advantage of BRI for poorer countries (Lin and Monga 2017). China will be gradually “vacating” manufacturing jobs that should “naturally” be taken over by less-developed countries. However, without a reasonably good infrastructure, they will not be able to do it. In fact, one of China’s own development lessons has been that infrastructure is extremely important for attracting foreign investment, as the example of the special economic zones shows. The difference in developmental emphasis (infrastructure versus institution-building) precisely matches the distinction between political and liberal capitalisms: through their preferred development strategies, both try to play to their strong suit. The strong selling point of political capitalism is state efficiency—the fact that it can bring private actors to build something that improves peoples’ ordinary lives in tangible, material ways. The selling point of liberal capitalism is that the state is there to set the institutional framework within which private actors will decide on their own what (if anything) is the best thing to build. In the first case, the state is an active and direct actor; in the second case, the state is an “enabling” and passive actor. This reflects, of course, the ideal-typical role of the state in the two systems.

Finally, China, following again the same “constructivist” approach, has founded the Asian Infrastructure Investment Bank, which, as of mid-2018, has more than eighty countries as members and is headquartered in

Beijing. Its obvious objective is the projection of Chinese economic power in its Asian near abroad. China's creation of new international economic institutions parallels what was done under US leadership after World War II, through the foundation of the World Bank and the International Monetary Fund. There may be yet another (fourth) factor that might predispose China to be more active on the international stage. This factor links domestic and foreign policies. If China continues with a passive role where it does not advertise its own institutions, while the West continues advancing the values of liberal capitalism onto China, it is more likely that such Western institutions will become increasingly popular and supported by large swaths of the Chinese population. But if China is able to define what are the advantages of political capitalism, it will be able to resist foreign influence with some counter-influence of its own rather than with passivity. In that sense, being active internationally is a matter of domestic political survival and arises because of potential domestic weakness.

These are both the factors and the actual moves that seem to push China toward playing a much more active role in the "export" of political capitalism and the creation of a string of states with similar systems, even if it is difficult to see how such states may be linked in any formal alliance or arrangement with China. But it could also be that the informal influence may fit much better with Chinese history and preferences. Even with this kind of informal structure, China is bound to exercise increasing influence on world institutions that, in the past two centuries, have been built exclusively by Western states and were reflective of Western interests and history.⁶⁰ Now, this will no longer be the case. As Martin Jacques writes: "The emergence of China as a global power relativizes everything. The West is habituated to the idea that the world is its world; that the international community is its community, that international institutions are its institutions.... that universal values are its values.... This will no longer be the case" (2012, 560).

The viability of political capitalism as a successful model rests on (1) the ability to insulate politics from economics, which is intrinsically difficult because the state plays an important economic role, and (2) the ability to maintain a relatively uncorrupt centralized "backbone" that can enforce decisions that are in the national interest, not just in the narrow business interest. Point (2) is more easily realized in political regimes that have a revolutionary past and thus the required centralization, which is often a product of revolutionary struggle. But with the passage of time, maintaining an acceptable level of corruption becomes more difficult and can undo, or even overwhelm, the other advantages of the system. Note that both of the contradictions of the system identified in Section 3.3a have to do with corruption and corruption-generated inequality.

The export potential of political capitalism is limited because we can expect points (1) and (2), insulation of politics and relatively uncorrupt administration, to hold in only very few countries. Or to put it another way, the system can be exported or copied, but in many cases it might fail to be economically successful. This, in turn, will undermine its global attractiveness.

Milanovic, Branko. *Capitalism, Alone* (pp. 125-128). Harvard University Press. Kindle Edition.

TABLE 3.1. Countries that have systems of political capitalism

Country	Political system	Number of years in power (up to 2018)	Average GDP per capita growth rate between 1990 / 1991 and 2016	Corruption ranking in 2016 ⁴
China ¹	Single party rule since 1949	69	8.5	79
Vietnam ¹	Single party rule since 1945, extended in 1975 to South Vietnam	73	5.3	113
Malaysia	One party in power since 1957 (ended in May 2018)	61	3.7	55
Laos ¹	Single party rule since 1975	43	4.8	123
Singapore	One party in power since 1959	59	3.4	7
Algeria ¹	Single party rule since 1962	56	1.8 ²	108
Tanzania ¹	One party in power since 1962	56	3.5	116
Angola ¹	Single party rule since 1975	43	1.1	164
Botswana	One party in power since 1965	53	2.8	35
Ethiopia ¹	Single party rule since 1991	27	4.1	108
Rwanda	Single party rule since 1994	24	2.6 ³	50
<i>World</i>			2.0	88

1. Ruling party is communist or quasi-communist.

2. Calculated after the end of the civil war in 2002.

3. Calculated after the end of the civil war in 1993.

4. Countries are ranked from the least corrupt (number 1) to the most corrupt (number 176).

Note: "Single party rule" means that other parties do not exist or are irrelevant; "one party in power" means that the multiparty system exists but one party always wins elections. Data source: GDP data from World Bank World Development Indicators 2017. Corruption ranking from Transparency International, <https://www.transparency.org/>. This corruption index measures "perceived levels of public sector corruption according to experts and businesspeople."