

The Global Recession

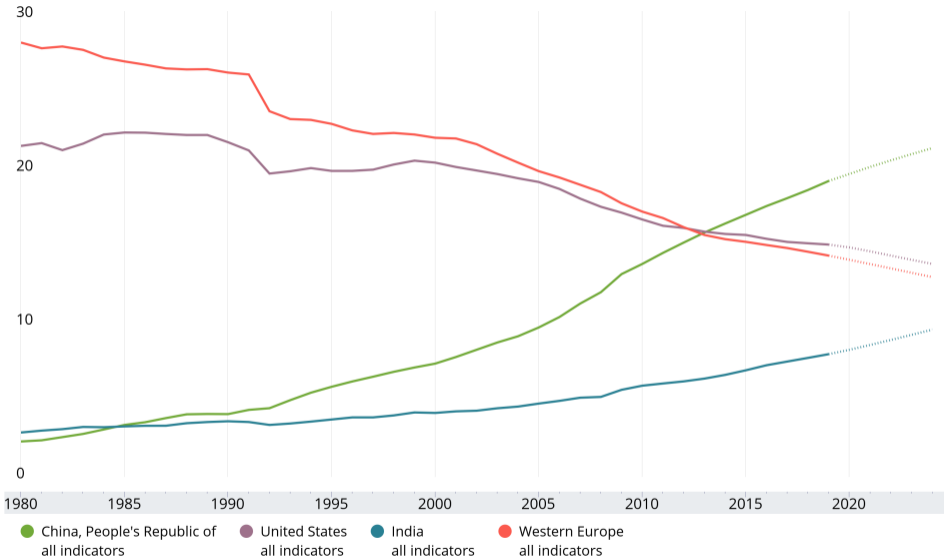
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A changing world: Globalization

- On or around 1972, the world changed:
 1. Visit of Nixon to China.
 2. Old Bretton Woods system collapsed.
 3. Oil shocks.
 4. Soviet bloc stagnates.
- Bigger picture: globalization started to re-arrange the world.



The impact

- Combined with new IT and lower transportation costs, dramatically changed the size of world labor force.
- Effects:
 1. International trade.
 2. Capital flows.
 3. To a smaller degree, emigration.

Figure 2.4: World Trade, Growth Rates

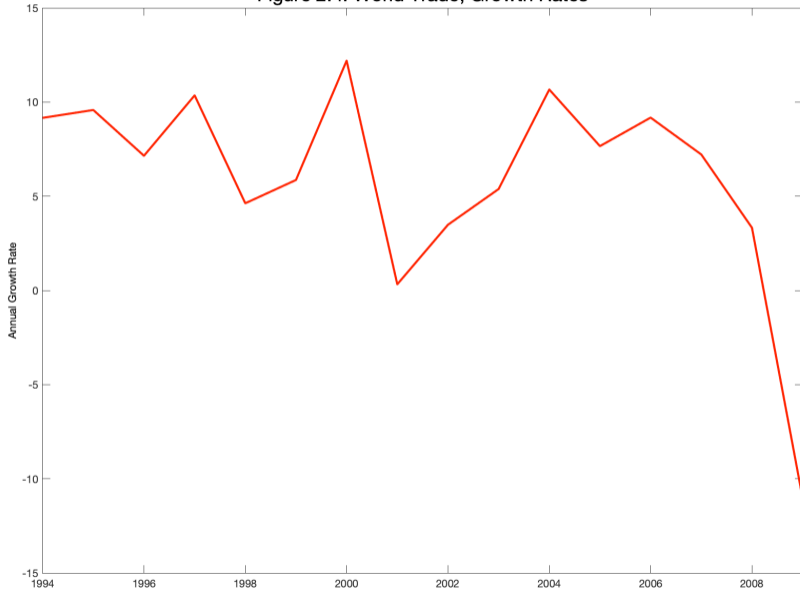
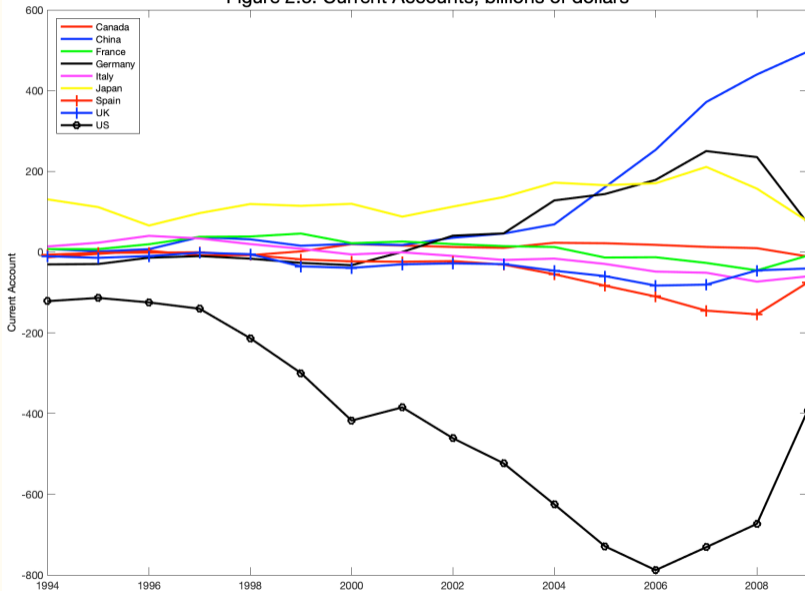


Figure 2.5: Current Accounts, billions of dollars



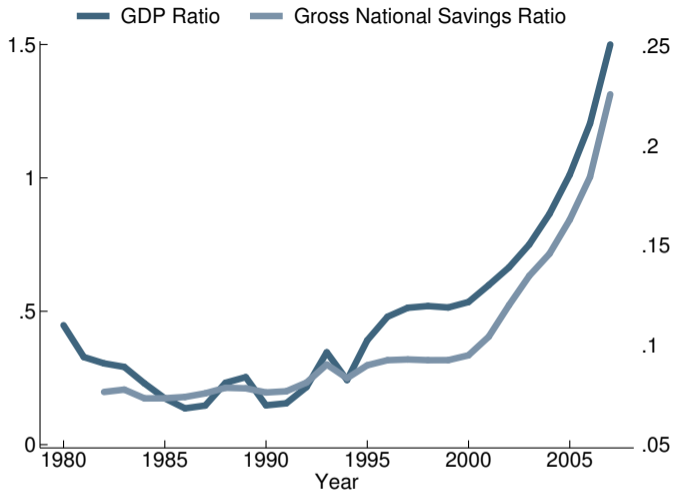
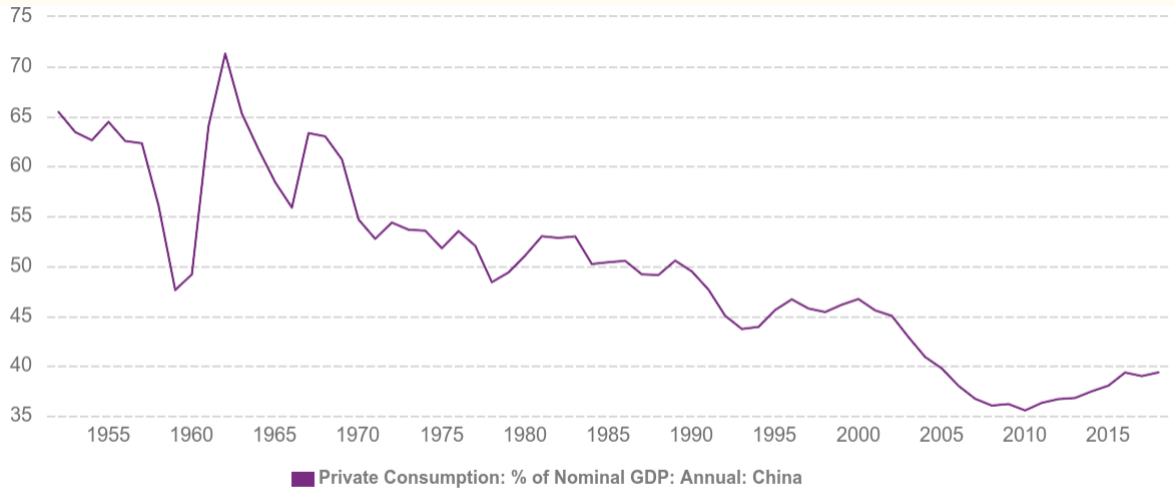


Figure 2: The ratios of China and US gross national savings (left scale) and nominal GDP (right scale). Source: Based on data from China National Bureau of Statistics and the BEA. National savings equals gross domestic investment plus the current-account balance.

Capital flows from China

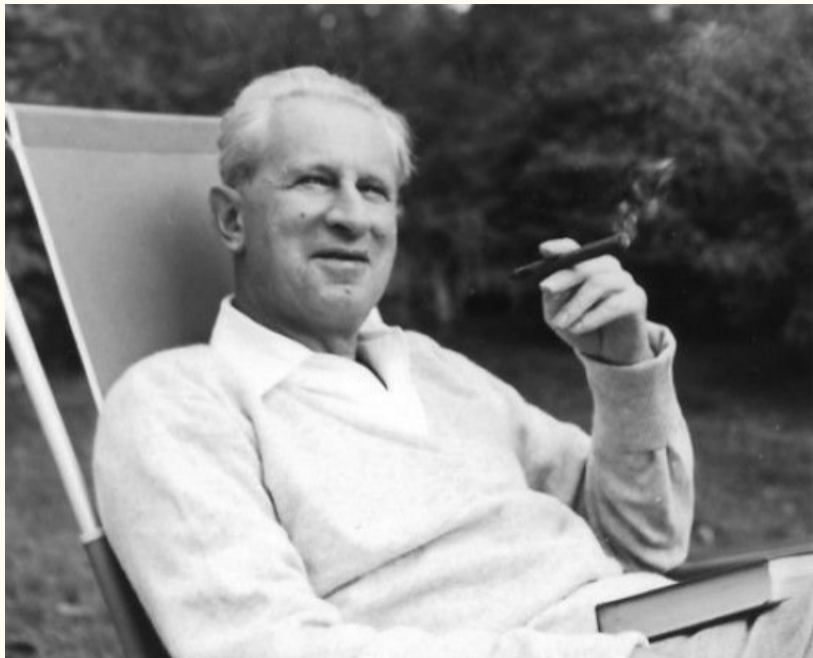
- China saved even more than it invested.
- This seems odd: basic intuition.
- However:
 1. Absence of a social insurance network.
 2. Inadequate financial markets and poor financial contract enforcement.
- This leads to over-savings.



SOURCE: WWW.CEICDATA.COM | CEIC Data

Additional force

- Chinese government kept Yuan from appreciating in the currency markets.
- Large accumulation of foreign reserves.
- Why?
 1. Buffer stock (1997 Asian Financial Crisis).
 2. Instrument of national security.
 3. City-biased policy. CPC has read Marcuse.



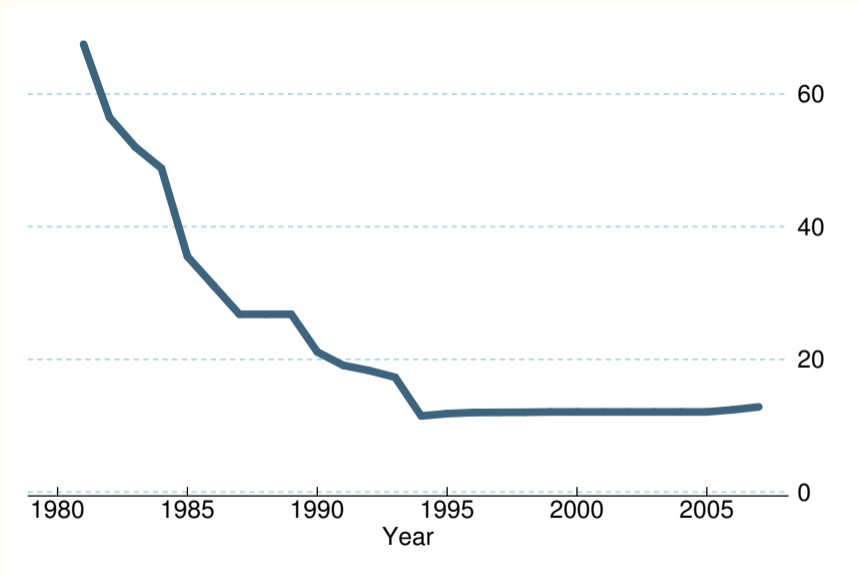
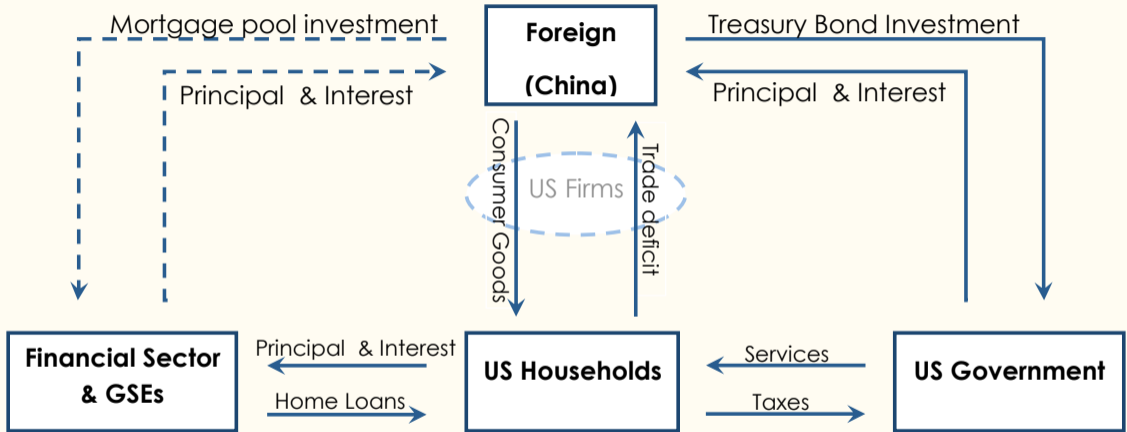


Figure 7: Foreign exchange rate (Yuan/US\$) as of January 1 each year Source: FRB St. Louis 11

Capital flows in international markets I

- Pressure on interest rates.
- Flawed regulations in Basel II.
- Financial institutions, particularly in the U.S., started to invent new instruments to satisfy world demand for highly-rated yet high-yield securities.
- Mortgage-Backed Securities (MBS).
- Tranches.



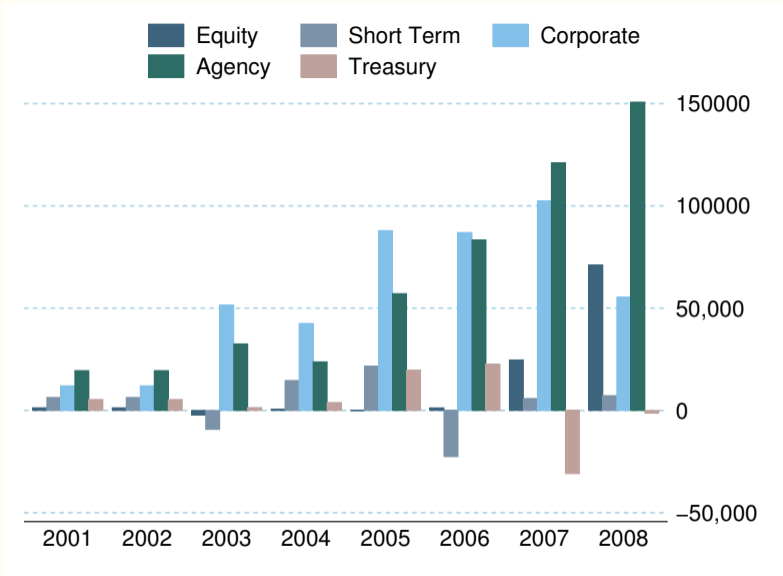


Figure 9: Change in Chinese holdings of US assets by asset class in US \$M.

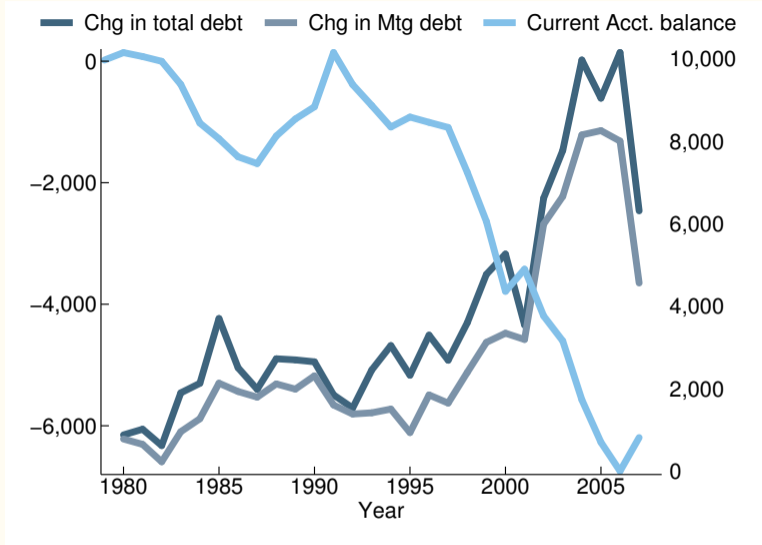


Figure 10: Current account balance and change in household indebtedness. All numbers are in US\$ per household. Source: Treasury

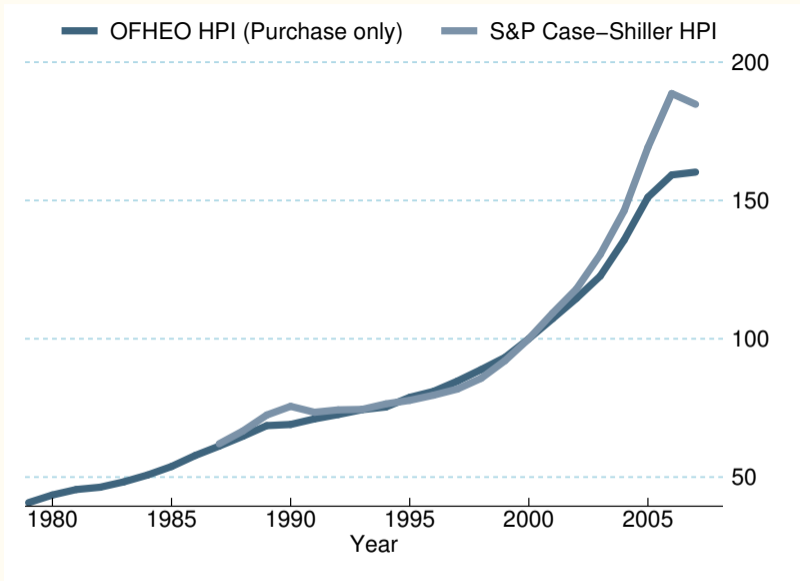


Figure 13: Home Price Indexes. Sources: FHFA and Standard & Poors

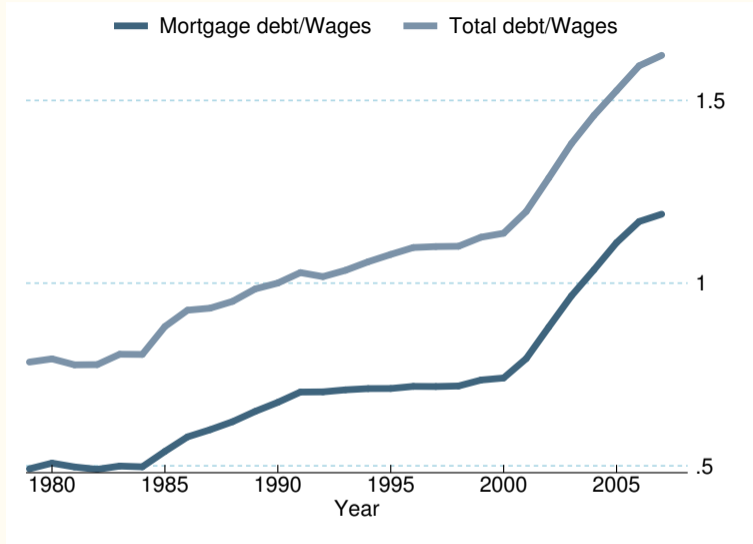


Figure 15: Average US household residential leverage computed as total residential mortgage debt divided by residential home values (primary residence only). Source: FHFA, OFHEO

Capital flows in international markets II

- While housing prices in Western countries increased, everything seemed fine.
- Of course, eventually housing prices started to fall.
- Institutions most involved in the trading of MBS and related instruments collapsed.
- We did not know how to properly handle huge capital inflows.
- A first warning because...

Situation in China

- Communist Party of China (CPC) lacks legitimacy.
- Old memories from SWW and Civil War quickly fading out
- Bottom line of party to the people: *Après moi le déluge*.
- Lieux de Mémoire (Pierre Nora):
 1. The Century of National Humiliation.
 2. Imperialist powers jumping over China.
 3. War lords.
- Extreme nationalism of urban middle class.







A changing world: the collapse of Bretton Woods

- Bretton Woods was one of the pillars of the reconstruction of the world economic order after the WWII.
- U.S. and U.K. were keenly aware that they could not repeat the mistakes of 1919-1939.
- System of governance of capital flows.
- System of financial regulation.

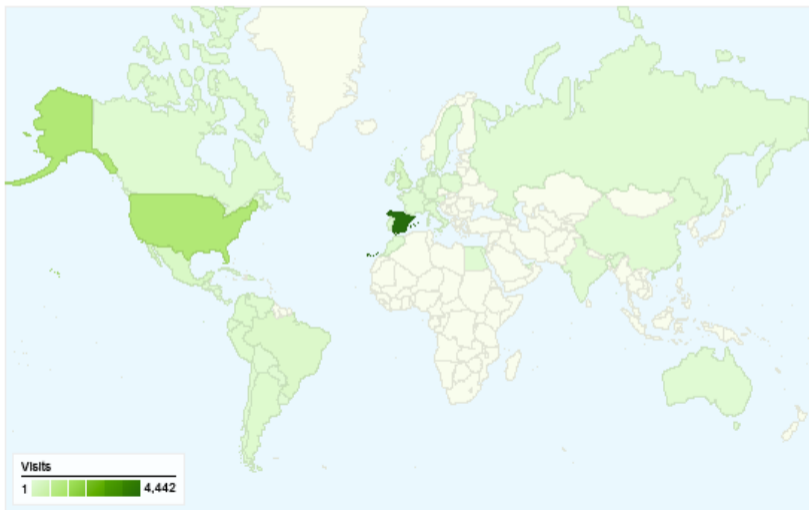


- We still do not know how to regulate our international financial sector.
- What is really the role of the IMF?
- Are meetings such as G-20 effective?
- Issues have become even more salient.



But globalization is still leaving many countries behind

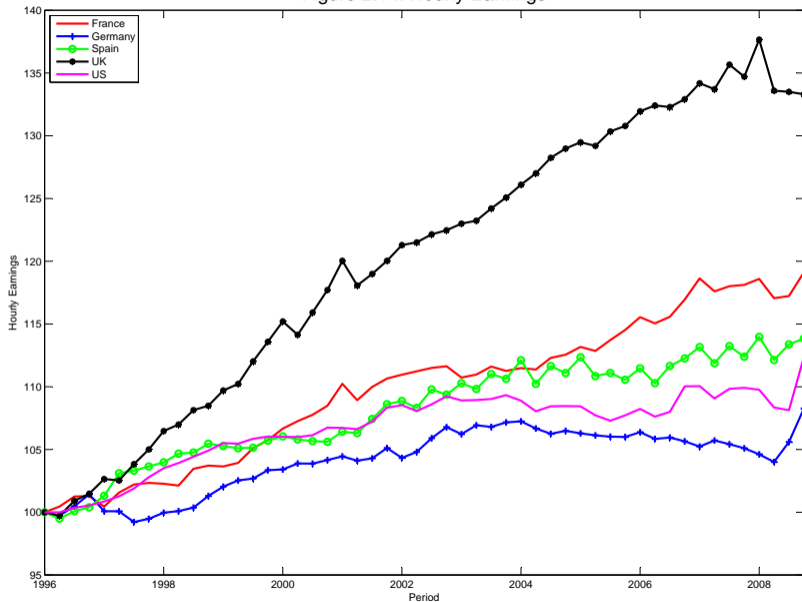
- Two main areas:
 1. Most of the Muslim world.
 2. Africa.
- Tensions for the future.
- Role of oil and other commodities.
- Demographic pressures.



Meanwhile, in the western economies

- Median incomes stagnated in many countries.
- Income inequality has grown.
- Educational systems losing their role as a means of social mobility.
- Many privatizations processes only meant the substitution of a public monopoly for a private one.
- Scandals of corporate governance.
- Demographic change.
- Health costs.
- Large immigration flows.

Figure 2.14: Hourly Earnings



- Big changes in relative wages.
- More true in Anglo-Saxon countries than in continental Europe (but perhaps no!).
- Possible reasons:
 1. International trade.
 2. Skill-biased technological change.
 3. Erosion of rents (decline of unions?).

Figure 1

Top 1 percent share of after-tax national income

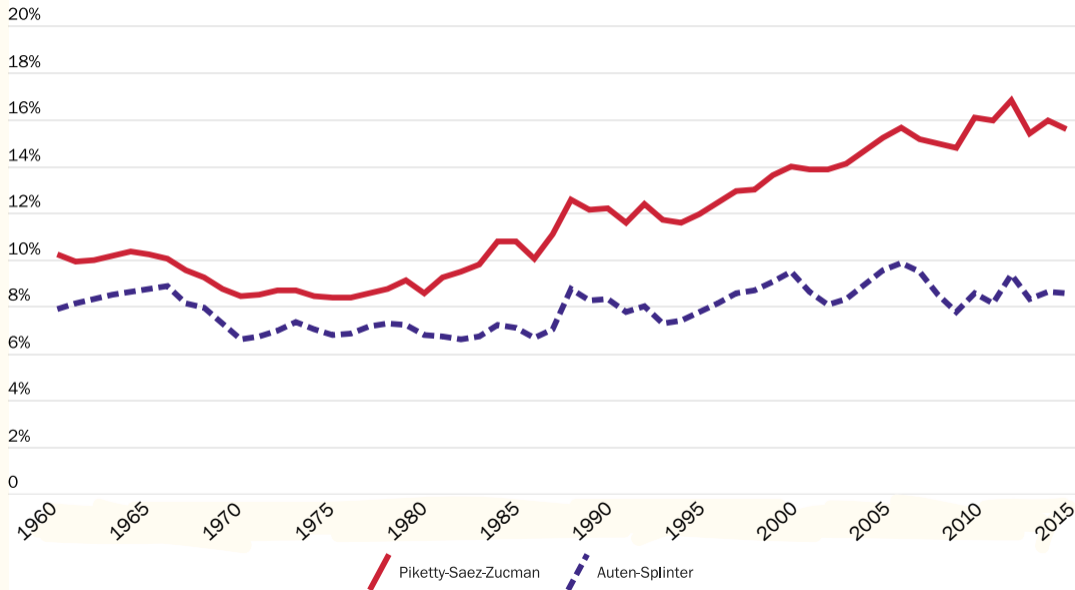


Figure 2

Top 1 percent share of U.S. wealth

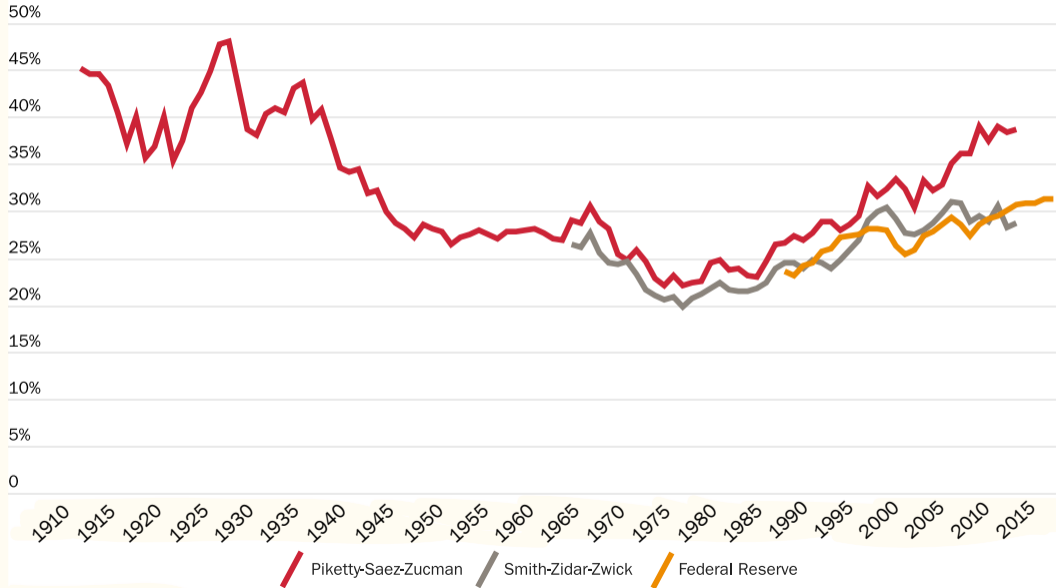
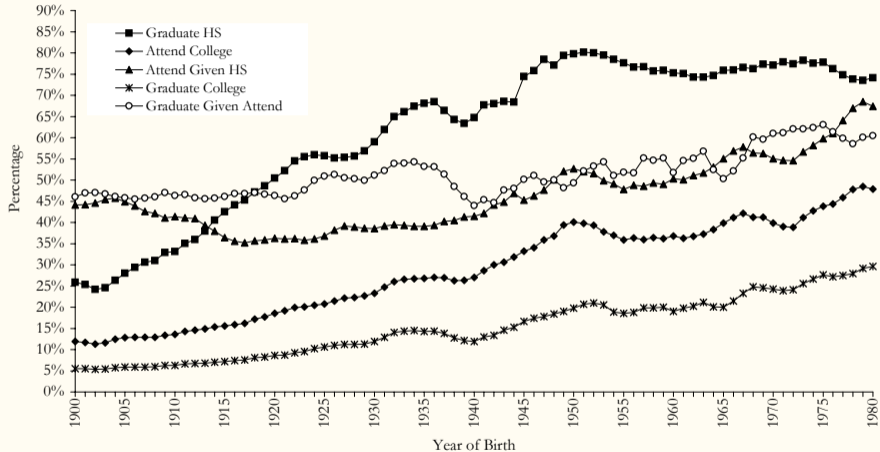


Figure V. Educational Attainment Decompositions, Males and Females 1900-1980 Birth Cohorts



Notes: 3-year moving averages based on CPS October, Census, CPS March and NCES data. HS graduates are those who obtained a regular public or private HS diploma (excluding GEDs) from the NCES. "Graduate HS" is the fraction of 8th grade enrollments for a given cohort who report a regular HS diploma. "Attend Given HS" is the fraction of recent HS graduates who report being enrolled the fall of the year following graduation. "Attend College" is college enrollments of recent HS graduates as a fraction of 18 year old cohort size. College graduates are those who report a BA or higher by age 25. "Graduate Given Attend" are those who obtained a four year degree as a fraction of the college enrollment total for that cohort. Two-year degrees are not included. "Graduate College" is the number of college graduates as a fraction of the 18 year old cohort size. Population estimates are from the Census P-20 reports. HS diplomas issued by sex are estimated from CPS October data after 1982.

PISA worldwide ranking

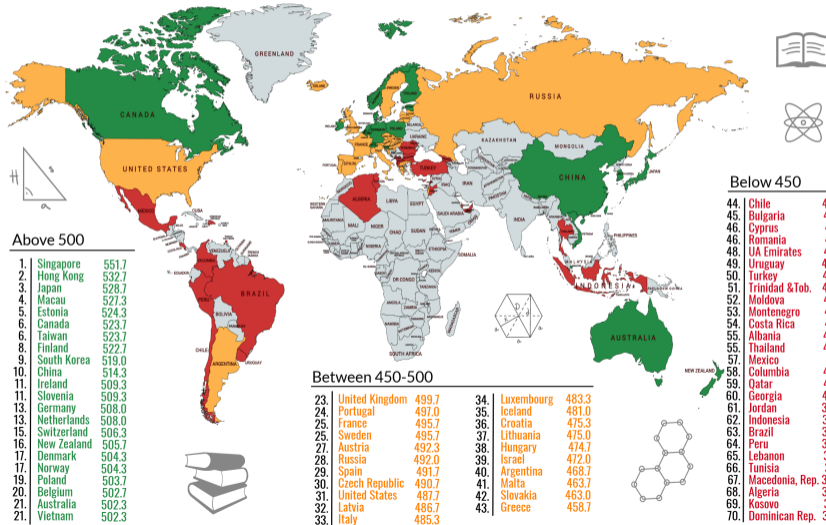
average score of math, science and reading

factsmaps.com

Source: OECD, 2015-2016

The Program for International Student Assessment (PISA) is a worldwide study by OECD in 70 nations of 15-year-old students' scholastic performance on mathematics, science and reading.

■ above 500
 ■ 450-500
 ■ below 450



Above 500

| | | |
|-----|-------------|-------|
| 1. | Singapore | 551.7 |
| 2. | Hong Kong | 532.7 |
| 3. | Japan | 528.7 |
| 4. | Macau | 527.3 |
| 5. | Estonia | 524.3 |
| 6. | Canada | 523.7 |
| 6. | Taiwan | 523.7 |
| 8. | Finland | 522.7 |
| 9. | South Korea | 519.0 |
| 10. | China | 514.3 |
| 11. | Ireland | 509.3 |
| 11. | Slovenia | 509.3 |
| 13. | Germany | 508.0 |
| 13. | Netherlands | 508.0 |
| 15. | Switzerland | 506.3 |
| 16. | New Zealand | 505.7 |
| 17. | Denmark | 504.3 |
| 17. | Norway | 504.3 |
| 19. | Poland | 503.7 |
| 20. | Belgium | 502.7 |
| 21. | Australia | 502.3 |
| 21. | Vietnam | 502.3 |

Between 450-500

| | | |
|-----|----------------|-------|
| 23. | United Kingdom | 499.7 |
| 24. | Portugal | 497.0 |
| 25. | France | 495.7 |
| 25. | Sweden | 495.7 |
| 27. | Austria | 492.3 |
| 28. | Russia | 492.0 |
| 29. | Spain | 491.7 |
| 30. | Czech Republic | 490.7 |
| 31. | United States | 487.7 |
| 32. | Latvia | 486.7 |
| 33. | Italy | 485.3 |
| 34. | Luxembourg | 483.3 |
| 35. | Iceland | 481.0 |
| 36. | Croatia | 475.3 |
| 37. | Lithuania | 475.0 |
| 38. | Hungary | 474.7 |
| 39. | Israel | 472.0 |
| 40. | Argentina | 468.7 |
| 41. | Malta | 463.7 |
| 42. | Slovakia | 463.0 |
| 43. | Greece | 458.7 |

Below 450

| | | |
|-----|-----------------|-------|
| 44. | Chile | 443.0 |
| 45. | Bulgaria | 439.7 |
| 46. | Cyprus | 437.7 |
| 46. | Romania | 437.7 |
| 48. | UA Emirates | 432.7 |
| 49. | Uruguay | 430.0 |
| 50. | Turkey | 424.3 |
| 51. | Trinidad & Tob. | 423.0 |
| 52. | Moldova | 421.3 |
| 53. | Montenegro | 418.7 |
| 54. | Costa Rica | 415.7 |
| 55. | Albania | 415.0 |
| 55. | Thailand | 415.0 |
| 57. | Mexico | 411.7 |
| 58. | Columbia | 410.3 |
| 59. | Qatar | 407.3 |
| 60. | Georgia | 405.3 |
| 61. | Jordan | 399.0 |
| 62. | Indonesia | 395.3 |
| 63. | Brazil | 395.0 |
| 64. | Peru | 394.0 |
| 65. | Lebanon | 376.3 |
| 66. | Tunisia | 371.3 |
| 67. | Macedonia, Rep. | 369.0 |
| 68. | Algeria | 362.0 |
| 69. | Kosovo | 355.7 |
| 70. | Dominican Rep. | 339.3 |

Challenges for the future

- Manage arrival of new countries to world stage.
- Achieve international cooperation to handle collective action problems.
- In particular, financial and corporate governance.
- Convince middle classes that they have a “stake” on the right policies.
- A “pro-market agenda” is not a “pro-business agenda”
- Decline of *Volkspartei*.