

Seminar: Current Topics on International Macroeconomics

Prof. Dr. Helge Berger, IMF and FU Berlin

Topics: The seminar will cover current issues in the broader area of macroeconomic policymaking—the topics and relevant literature are laid out below.

Date & location: Participants will come together for a 2-day Blockseminar on Monday and Tuesday December 5th and 6th, 2016. Sessions will be held on FU premises and last approximately from 9 am to 5 pm, including a lunch break.

On Monday, December 5th the seminar will take place in Room 315 (Garystr. 21), and on Tuesday December 6th in the conference room K1 (Henry Ford Bau).

Requirements:

- The seminar will be conducted in English, including presentations, group discussions, and the expected written paper.
- Interested students will indicate their 3 most preferred paper topics by October 21st, 2016 in an email to Pablo Anaya (pablo.anaya@fu-berlin.de), cc'ing Prof. Berger (macropolicy.fuberlin@gmail.com). Prof. Berger will be happy to address any specific questions on the seminar topics under the same email address.
- Expectations for the seminar include:
 - *Presentation slides* submitted by Friday, November 25th, 2016. They will be shared with all participants to facilitate the discussion.
 - Active engagement in the *discussion* of presentations.
 - Preparation and submission of *a seminar paper* by March 31st, 2017.

Topics:

Part 1: Growth

1. **Do large recessions leave permanent scars in the economy and what does this mean for policymakers?**

The paper will review the existing empirical literature on the impact of lasting recessions on the labor market (“hysteresis”) and investment and discuss the principle policy implications—including whether it is time to re-evaluate the call for supportive demand policies.

2. **Are we facing a threat of "secular stagnation" and what can be done about it? The case *for* Lawrence Summers.**

Are we facing a threat of "secular stagnation" and what can be done about it? The case *against* Lawrence Summers.

The paper will lay out and discuss the merits of Larry Summers' arguments the limits of monetary policy in an environment of very low inflation, with an eye on the relevant empirical evidence.

3. **Productivity growth in advanced economies has been slowing since before the crisis—or are we just mis-measuring GDP?**

The paper will look at the debate between those who see the roots of disappointing

growth in fading innovation and others, who blame lower productivity mostly on a possible failure to measure all of GDP properly in the age of the digital economy.

Part 2: Macroeconomic policy issues

4. a) Is it time to raise interest rates for the ECB? The case *for waiting longer*.

b) Is it time to raise interest rates for the ECB? The case *for acting soon*.

On the one hand, inflation is still significantly below target and in many euro area countries demand seems to be falling short of supply. On the other, there are concerns that monetary policy might be losing effectiveness and that low interest rates have negative repercussions. The paper will lay out and weigh the relevant arguments.

5. a) The economic impact of "Brexit:" The case why United Kingdom and/or European Union policymakers should *worry*.

b) The economic impact of "Brexit:" The case why United Kingdom and/or European Union policymakers should *stay calm*.

While it seems that financial markets have recuperated quickly from the immediate aftermath of the referendum, there is much uncertainty about the longer-term effects. The paper will describe and compare the different empirical approaches to estimate the impact of "Brexit" taken and discuss the implications on for economic policy.

Part 3: Globalization and trade

6. Why is global trade slowing down and should policymakers care?

The paper will document the evolution of trade since the 1970s and discuss explanations for the slowdown since the financial crisis. It will evaluate possible implications for growth going forward and review applicable policy options.

7. Is globalization lowering wages and increasing inequality in advanced economies?

This is a topical and controversial question in the United States and Europe. The paper will discuss the possible economic mechanisms at work (e.g., the Ricardo and Samuelson/Stolper models) and give an overview over the empirical literature trying to provide an answer.

8. Is globalization ending global poverty and fostering income convergence between countries?

The paper will discuss the impact of increasing trade integration on poverty and average income in emerging and developing countries, as well as on the relative distance of income between these economies and advanced economies.

Part 4: The macroeconomics of migration

9. Does immigration make advanced economies better off in the longer term?

The answer is far from trivial and will depend, among other things, on the type of immigration, the effectiveness and speed of labor market integration, and the transfer-benefit systems in place. The paper will lay out the principle factors at work and review the available empirical literature.

10. **Does economic migration hurt sending countries?**

The paper will provide an overview of the ongoing discussion about the costs of "brain drain" and discuss possible remedies.

Part 5: Euro area with or without "fiscal union"?

11. **What are the arguments for a fiscal union in the euro area?**

The paper will discuss and evaluate the economic arguments in favor of "fiscal risk sharing" and review the options currently being discussed to implement it (e.g., in the "Five Presidents Report").

12. **a) What arguments speak against more "fiscal risk sharing" in the euro area?**

b) How do other currency areas (such as the United States, Germany or Switzerland) organize "fiscal risk sharing" and what does this mean for the euro area?

The paper will lay out the principle arguments against it and review the workings of more market-based alternatives such as sovereign bankruptcy mechanisms or "Esbie"-style Eurobonds.

Literature & sources by paper topic:

(Note: The material listed here is meant to provide a starting point. Within each part, some papers might be relevant for multiple topics.)

Part 1:

[1] Cerra, Valerie, & Saxena, Sweta C. (2008). Growth dynamics: the myth of economic recovery. *The American Economic Review*, 98(1), 439-457.

[1] Furceri, Davide and Annabelle Mourougane (2012), The effect of financial crises on potential output: New empirical evidence from OECD countries, *Journal of Macroeconomics*, Volume 34, Issue 3, September, 822–832.

[1] Ball, L. M. (2014). Long-term damage from the Great Recession in OECD countries (No. w20185). National Bureau of Economic Research.

[1] Crafts, Nicholas (2013), Long-Term Growth in Europe: What Difference Does the Crisis Make? *National Institute Economic Review*, May vol. 224 no. 1, R14-R28.

[2] Summers, Lawrence (2014), U.S. economic prospects: secular stagnation, hysteresis and the zero lower bound, *Business Economics*, 49(2), 65-73.

[2] Bernanke, Ben (2015) Why are interest rates so low, part 2: secular stagnation, *Brookings Blog*: <http://www.brookings.edu/blogs/ben-bernanke/posts/2015/03/31-why-interest-rates-low-secular-stagnation>.

[2] Lo, Stephanie and Kenneth Rogoff (2015), Secular stagnation, debt overhang and other rationales for sluggish growth, six years on, *BIS Working Papers No 482*, January.

[3] Goldman Sachs, Picking part the productivity paradox. *Global Macro Research, Top of Mind*, 39 (<http://www.goldmansachs.com/our-thinking/pages/macroeconomic-insights-folder/the-productivity-paradox/report.pdf>)

[3] Baily, Martin and Nicholas Montalbano (2016), Why is US productivity growth so slow? Possible explanations and policy responses, Brookings, Hutchinson Center Working Paper 22.

[3] Cetto, G., Fernald, J., & Mojon, B. (2016). The pre-Great Recession slowdown in productivity, Federal Reserve bank of San Francisco Working Paper, 2016-08 (forthcoming European Economic Review).

[3] IMF (2015), World Economic Outlook April, Chapter 3. Where Are We Headed? Perspectives on Potential Output.

[3] Van Ark, Bart, Mary O'Mahony, and Marcal Timmer (2012). Europe's Productivity Performance in Comparative Perspective: Trends, Causes and Recent Developments, in: Matilde Mas and Robert Stehrer (eds.), Industrial Productivity in Europe: Growth and Crisis, Edward Elgar, 65-90.

Part 2:

[4] European Central Bank (2016), Monetary policy decisions 2016 (<https://www.ecb.europa.eu/press/govcdec/mopo/2016/html/index.en.html>).

[4] European Central Bank (2015), The transmission of the recent ECB's recent non-standard monetary policy measures, Economic Bulletin 7, April (https://www.ecb.europa.eu/pub/pdf/other/eb201507_article01.en.pdf).

[4] Weidman, Jens (2016), A look at the euro area from a central bank perspective, Keynote @ Second Finance Forum Liechtenstein (https://www.bundesbank.de/Redaktion/EN/Reden/2016/2016_03_23_weidmann.html)

[4] Draghi, Mario (2016), Addressing the causes of low interest rates, Speech @ Asian Development Bank (<https://www.ecb.europa.eu/press/key/date/2016/html/sp160502.en.html>).

[4] Gilbert, Mark (2016), With All Else Failing, Try Rate Hikes to Rescue the Economy, Bloomberg (<https://www.bloomberg.com/view/articles/2016-06-21/maybe-the-fed-the-ecb-and-their-peers-should-raise-rates>)

[5] Dhingra, S., Ottaviano, G. I., Sampson, T., & Reenen, J. V. (2016). The consequences of Brexit for UK trade and living standards, CEP BREXIT Analysis No.2, LSE (http://eprints.lse.ac.uk/66144/1/_lse.ac.uk_storage_LIBRARY_Secondary_libfile_shared_repository_Content_LSE%20BrexitVote%20blog_brexit02.pdf).

[5] IMF (2016), Macroeconomic implications of the United Kingdom leaving the European Union, Selected Issues, Country Report 16/149 (<https://www.imf.org/external/pubs/ft/scr/2016/cr16169.pdf>).

[5] The Economist (2016), Fact and fiction—the economy since the Brexit referendum, September, (<http://www.economist.com/news/britain/21706348-dire-prophecies-doom-have-not-come-trueyet-economy-slowing-fact-and-fiction>).

Part 3:

[6] IMF (2016), "Global trade: what's behind the slowdown?," World Economic Outlook, October (forthcoming online on September 27th).

[6] Hoekman, Bernard (ed.) (2015), The Global Trade Slowdown: A New Normal? Vox EU E- book. London: Center for Economic and Policy Research Press (http://voxeu.org/sites/default/files/file/Global%20Trade%20Slowdown_nocover.pdf).

[6] Goldberg, Pinelopi, and Nina Pavcnik (2016), "The Effects of Trade Policy," Chapter 3 in: Handbook of Commercial Policy, edited by Kyle Bagwell and Robert W. Staiger. New York: Elsevier North Holland.

[7] Stolper, Wolfgang F. and Paul A. Samuelson (1941, "Protection and Real Wages," The Review of Economic Studies, 9 (1): 58–73.

[7/8] Pavcnik, Nina (2011), "Globalization and within-country income inequality," in: Making globalization socially sustainable, Marc Bacchetta and Marion Jansen (editors), WTO & ILO (https://www.wto.org/english/res_e/booksp_e/glob_soc_sus_e.pdf#page=250): 233-260.

[7/8] Goldberg, Pinelopi, and Nina Pavcnik (2007), "Distributional Effects of Globalization in Developing Countries," Journal of Economic Literature 45 (1): 39–82.

[7] Fajgelbaum, Pablo and Amit Khandelwal (2016), "Measuring the Unequal Gains from Trade," Quarterly Journal of Economics, 2016.

[7] Autor, David, David Dorn, Gordon Hanson (2016), The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade, NBER Working Paper, February 2016.

[8] Ben-David, Dan (1993), "Equalizing Exchange: Trade Liberalization and Income Convergence," The Quarterly Journal of Economics, Vol. 108, No. 3 (Aug., 1993), pp. 653-679.

[8] Sala-i-Martin, X. (2006). "The World Distribution of Income: Falling Poverty and... Convergence, Period," Quarterly Journal of Economics, 121, May, 351-397.

Part 4:

[9/10] IMF (2016), "Spillovers from China's Transition and from Migration," World Economic Outlook, October (forthcoming online on September 27th).

[9] Aiyar, Shekhar and others (2016), "The Refugee Surge in Europe: Economic Challenges." IMF Staff Discussion Note 16/02, International Monetary Fund, Washington.

[9] Ortega, Francesc and Giovanni Peri (2009), "The Causes and Effects of International Migrations: Evidence from OECD Countries 1980–2005," NBER Working Paper 14833, National Bureau of Economic Research, Cambridge, Massachusetts.

[9] Peri, Giovanni (2014), Do Immigrant Workers Depress the Wages of Native Workers? IZA World of Labor, 2014: 42.

[10] Prachi, Mishra (2014), "Emigration and Wages in Source Countries: A Survey of the Empirical Literature," in: International Handbook of Migration and Economic Development, edited by Robert E. B. Lucas. Cheltenham, United Kingdom, and Northampton, Massachusetts: Edward Elgar.

[10] Gibson, John, and David McKenzie 2012. "The Economic Consequences of 'Brain Drain' of the Best and Brightest: Microeconomic Evidence from Five Countries," Economic Journal, 122 (560), 339–75.

[10] Atoyan, Ruben and others (2016), Emigration and Its Economic Impact on Eastern Europe, IMF Staff Discussion Note, 16/07, International Monetary Fund, Washington.

Part 5:

[11/12] Brunnermeier, Markus, Harold James, and Jean-Pierre Landau (2016), The euro and the battle of ideas, Princeton, Princeton University Press.

[11] Allard, Celine and others (2013), Towards a fiscal union for the euro area. IMF Staff Discussion Note 13/09. (Note the technical annex, including the work on fiscal policy in federations.) (<https://www.imf.org/external/pubs/cat/longres.aspx?sk=40784>)

[11] Demertzis, Maria and Guntram Wolff (2016), What are the prerequisites for a euro-area fiscal capacity, Policy Contributions no. 14, Bruegel.

[11] Bordo, Michael, Agnieszka Markiewicz, and Lars Jonung (2011), A Fiscal Union for the Euro: Some Lessons from History, NBER Working Paper 17380.

[11] Henning, Randall and Martin Kessler (2012), Fiscal federalism: US history for architects of Europe's fiscal union, Brussels, Bruegel. (<http://www.bruegel.org/publications/publication-detail/publication/669-fiscal-federalism-us-history-for-architects-of-europes-fiscal-union/>)

[12] Sachverständigenrat (2015), Sondergutachten 2015: Konsequenzen aus der Griechenland-Krise fuer einen stabilen Euroraum, Wiesbaden (http://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/gutachten/jg201516/wirtschafts-gutachten/jg15_anh.pdf).

[12] Dolls, Mathias and others (2016), "Reconciling insurance with market discipline: a blueprint for a European fiscal union," CESifo Economic studies, 62(2), 210-231.

[12] Andritzky, Jochen (2016), "A mechanism to regulate sovereign debt restructuring in the euro area," Sachverständigenrat, Juli (http://www.sachverstaendigenrat-wirtschaft.de/fileadmin/dateiablage/download/publikationen/arbeitspapier_04_2016.pdf).

[12] Hebous, Shafik and Alfons Weichenrieder (2016), "Toward a mutualization of European unemployment insurance? On limiting the downsides of a fiscal transfer system for the Eurozone," CESifo Economic studies, 62(2), 376-395.

[12] Reinhart, Carmen and Christoph Trebesch (2015), Sovereign Debt Relief and its Aftermath, CESIFO Working Paper 5422.

[12] Brunnermeier, Markus and others (2016), "The Sovereign-Banking Diabolic Loop and ESBies," American Economic Review Papers and Proceedings, 106(5), 508-512.