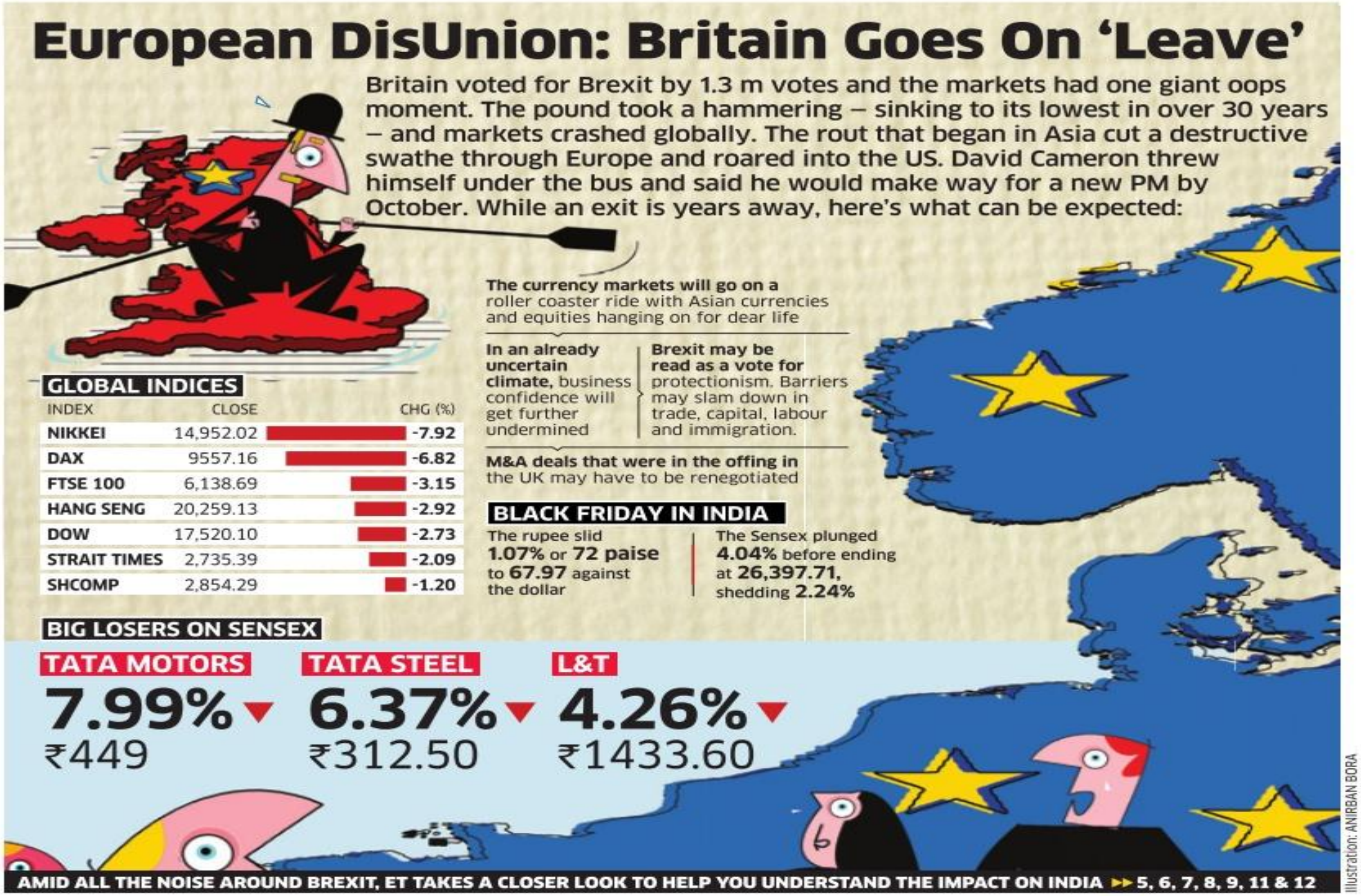


European DisUnion: Britain Goes On 'Leave'

Britain voted for Brexit by 1.3 m votes and the markets had one giant oops moment. The pound took a hammering – sinking to its lowest in over 30 years – and markets crashed globally. The rout that began in Asia cut a destructive swathe through Europe and roared into the US. David Cameron threw himself under the bus and said he would make way for a new PM by October. While an exit is years away, here's what can be expected:

The currency markets will go on a roller coaster ride with Asian currencies and equities hanging on for dear life

In an already uncertain climate, business confidence will get further undermined

Brexit may be read as a vote for protectionism. Barriers may slam down in trade, capital, labour and immigration.

M&A deals that were in the offing in the UK may have to be renegotiated

GLOBAL INDICES

INDEX	CLOSE	CHG (%)
NIKKEI	14,952.02	-7.92
DAX	9557.16	-6.82
FTSE 100	6,138.69	-3.15
HANG SENG	20,259.13	-2.92
DOW	17,520.10	-2.73
STRAIT TIMES	2,735.39	-2.09
SHCOMP	2,854.29	-1.20

BLACK FRIDAY IN INDIA

The rupee slid 1.07% or 72 paise to 67.97 against the dollar

The Sensex plunged 4.04% before ending at 26,397.71, shedding 2.24%

BIG LOSERS ON SENSEX

TATA MOTORS 7.99% ▼ ₹449

TATA STEEL 6.37% ▼ ₹312.50

L&T 4.26% ▼ ₹1433.60

AMID ALL THE NOISE AROUND BREXIT, ET TAKES A CLOSER LOOK TO HELP YOU UNDERSTAND THE IMPACT ON INDIA ▸▸ 5, 6, 7, 8, 9, 11 & 12

CONTENT

Jun 25 2016 : The Economic Times (Delhi)

EUOOOOOOOPS - Centre Has Failed, So Bye Liberalism & Hello Jingoism

SWAMINATHAN S ANKLESARIA AIYAR

Brexit may mean end of globalisation. With xenophobes around, stormy days lie ahead

Brexit heralds not just Britain's exit from the European Union but the decline and maybe fall of the 20th century ideal of a liberal, globalised world. It heralds a 21st century ethos based on ultra-nationalism and racist xenophobia, blaming foreigners and minorities for all ills, and claiming against all logic and humanism that turning your back on the world will somehow bring back a golden past.

Politicians of the centre have failed to deliver ever-rising living standards, and have lost credibility with most Western voters. Leftist and rightist ideologues have filled the vacuum, like Donald Trump and Bernie Sanders in the US and Nigel Farage and Jeremy Corbyn in the UK.

Brexit has caused a crash in stocks and currencies, especially in emerging markets such as India. Billions of dollars will flow out of India into safe havens like the US dollar.

Far more important will be the political repercussions. The Scots voted massively to remain in the EU, and the Scottish Nationalist Party may want a new referendum to split from the UK. Donald Trump's presidential campaign will be boosted by the very jingoist, racist xenophobia that fuelled Brexit. Prospects of a Trump presidential victory can hit markets much harder than Brexit.

Fears are rising of Frexit, the exit of France from the European Union. France was once the very core of European unity . But the French voted down the proposed EU constitution in 2005. A recent Pew poll found that 61% of French voters had an unfavourable view of the EU, against 48% in the UK. In Italy, the xenophobic Northern League and populist Five Star Movement have got a shot in the arm. Right-wing nationalism is already mainstream in Hungary and Austria. Angela Merkel, once cheered by Germans for welcoming Syrian refugees, is now in political danger. Middle-East troubles will keep fuelling ultra-nationalist jingoism. The nationalist right will try to stem the inflow of not just immigrants but foreign goods, in a protectionist race to the bottom. During the Great Depression of the 1930s, all countries raised import barriers, hoping to cut imports and raise exports. But since one country's imports are another's exports, the net effect was to shrink all international trade. But Western voters increasingly seem uninterested in expert advice against protectionism. They see experts and centrist politicians who promoted globalisation for five decades as villains causing unemployment and stagnant wages who should not be listened to.

In India too, xenophobic jingoism is rising, as exemplified by Subramanian Swamy's onslaughts on Raghuram Rajan and Arvind Subramanian, trolls on the Internet sneering at liberal goals and “sickularism“. Stormy days lie ahead on the economic and political front.

Jun 25 2016 : The Economic Times (Delhi)

Brexit: Losers All, Save the Populists

India fairly insulated from collateral damage

Britons voted to leave the European Union, and perhaps, to dismember itself, with the leader of the Scottish Nationalist Party raising the possibility of a second referendum on Scottish independence and the first deputy minister of Northern Ireland mooting union with the Irish republic. The pound has tumbled, as has the euro, since it is a blow for the EU and for the European project in general. The yen and the Swiss franc strengthened but the dollar is the currency that is likely to gain the most as a result of funds moving out of the pound and the euro. That would push up the rupee value of oil and other imports and feed into upward inflationary pressures in India, if the rupee falls in proportion to the dollar's rise.

Younger Britons voted to stay in the EU, those of them who chose to vote, dragging themselves away from college vacations and dos like the Glastonbury festival. But the elderly turned out in large numbers and voted to leave. They were swayed by the populist rhetoric against immigrants and Britain losing its so vereignty to bureaucrats in Brussels.

Brexit tells us not just about Britain and the EU but about the process of globalisation itself. Rapid change in how things are done as the world in tegrates produces not just winners and losers in an economic sense but also cultural collisions that politically correct talk about multiculturalism does not quite cushion. Unless sensible politicians tackle these problems head on, they leave the field to populists who offer simplistic solutions that are easy to grasp even if altogether wrong.

Indian companies that have invested in Britain as a gateway to Europe will face a setback. But Britain will take two years to leave the EU, which gives time for adjustment. A weaker pound and a stronger dollar and yen, along with uncertainty about EU coherence, will dampen growth in the euro area, the US and Japan. Janet Yellen at the Fed will hold her hand further on raising interest rates. India's market turmoil should blow over and the rupee might not suffer overmuch. But slower world growth and uncertainty are not good news.

Jun 25 2016 : The Economic Times (Delhi)

Cursor - Wages of Populist Politics

TK ARUN

Britain will take a couple of years to disengage from the EU. But the destabilising effects will be felt immediately

Britain seems to have voted to leave the European Union. This is bad for London as a financial centre, Britain in general, the European Union, the world economy and currency stability. Indian companies that have invested in Britain, to use it as the gateway to Europe, will take a beating, both in the short term, on the stock market, and in the longer term, after the turmoil on currency and stock markets has settled down.

The wages of sin, we have been told, are death. The wages of populist politics can be pretty much damaging, too. Populist politics underlies Euroscepticism and prompted British Prime Minister David Cameron to promise a referendum on leaving the European Union. The mood is populist across America and Europe. Let us not rule out a Trump presidency in the US either.

Margaret Thatcher it was who had led Britain into the European Common market. While Britain never joined the euro - it left the euro's precursor, allowing speculator George Soros to make a pile betting against Britain staying -nor the Shengen arrangement, it has been a full member of the European Union, allowing free movement of citizens of other members of the Union, allowing banks regulated and capitalised in other EU countries to operate in Britain and complying with EU standards and regulation. For India, the immediate impact will stem from the impact on stock markets and exchange rates. The pound has taken, well, a pounding. The dollar will soar again, make all imports more expensive and feed into inflation that refuses to remain tamed on a sustainable fashion.

Britain will take a couple of years to disengage from the European Union.But the destabilising effects of dynamic Britain leaving the Union will be felt immediately . The cohesion of the remaining members of the EU cannot be taken for granted. A majority of Frenchmen and a sizeable pro portion of Italians are disgruntled with the EU. The people of Germany , while grumbling about a transfer union that takes from Germany and gives to southern European laggards, were okay with this great instrument of peace in a continent where Germans and the French have waged war for centuries, dragging other nations along into the strife. Yet, the influx of Middle Eastern refugees has turned the European experiment sour for an increasing number of Germans as well.

Border controls have reappeared.Expansion of the European project has ground to a halt, the Dutch having recently rejected, in a referendum, a proposal to give Ukraine closer association that eventually leads up to membership. Britain has been the champion, in the EU, of a liberal economy with light regulation and its departure could well strengthen the move towards greater bureaucratization, less competition and eventual economic sclerosis. This is bad news for the global economy .

Scotland has always been highly pro-EU. Brexit could well accelerate the move towards yet another referendum on Scottish independence. The Irish Republic will stay part of the EU while Northern Ireland, part of Britain, will now be out of it. The disruption this causes for commerce between the two parts of Ireland could be resolved by Northern Ireland also breaking away from Britain and either staying independent or merging with the Irish Republic.

The reconfiguration in Britain and Europe, the disruption of London as a financial centre and the weakening of the pound and the euro will all give a negative impetus to the world economy. A stronger dollar will hurt US exports and make import of dollar denominated goods and commodities, including oil and gas, more expensive around the world.

Brexti is bad news for all, save the populists. Populists around the world can derive considerable encouragement from the success of populist politics in Britain, which disdained experts and expertise, fed off on xenophobia among the less educated and indifference to politics among the better educated and capitalized on the tendency to compromise among politicians who knew better but took the path of least resistance, as Cameron did when he promised a referendum on Britain's continued membership of the EU.

Jun 25 2016 : The Economic Times (Delhi)

A DIVIDED KINGDOM BRITAIN WALKS OUT, PM QUITS

ROBERT HUTTON
Bloomberg

The vote widens fissures in the UK by raising the prospect of another push for Scottish independence

The UK voted to quit the European Union after more than four decades in a stunning rejection of the continent's post war political and economic order, prompting Prime Minister David Cameron to resign and sending shock waves around global markets.

The pound plunged to the lowest since 1985, Asian stocks tumbled and US treasuries surged in one of the most dramatic 24 hours in modern British history . The final tally, announced just after 7am London time, showed voters had backed `Leave' by 52% to 48%. The government's pro-EU campaign was defeated by more than 1 million ballots.

"The British people have made a very clear decision to take a different path, and as such, I think the country requires fresh leadership," Cameron said in an emotional statement to reporters outside his Downing Street residence in London on Friday . He said he'll stay on for the next three months with a new leader to be installed by October.

The result sets the UK up for years of bitter divorce talks with the first salvos likely to be fired at an EU leaders' summit next week. The UK must now count the economic and financial cost of an exit that Cameron warned would spark a recession. JPMorgan Chase and HSBC Holdings have said a so-called Brexit would lead them to move thousands of jobs out of London. The outcome is a victory for Boris Johnson, the former mayor of London who broke with former schoolmate Cameron to help lead the “Out“ campaign and sets him up for a potential tilt at the premiership.

“This is the biggest shock to European politics since the fall of the Berlin Wall,“ said Rob Ford, professor of politics at Manchester University .

The vote widens fissures in the UK by raising the prospect of another push for Scottish independence. Beyond Britain's shores, it will fan speculation that more countries could withdraw from the EU and gives a fillip to populist insurgents such as Donald Trump and Marine Le Pen. Above all, the outcome shows just how disillusioned western voters have become with the political establishment for failing to deliver more inclusive economic growth in the era of globalisation.

“Hurrah for the British!“ tweeted Geert Wilders, the anti-EU, populist leader of the Dutch Freedom Party that leads in opinion polls ahead of elections in the Netherlands next spring. “Now it is our turn.“

The White House said that President Barack Obama had been briefed. In Europe, governments from Ireland to Malta convened emergency cabinet meetings to discuss the way forward.

A Road Map of What's to Come

Cameron will travel to Brussels next week to brief EU leaders who will want to know what sort of relationship the UK wants to have with the EU. Cameron said Friday he won't trigger the start of the secession process under Article 50 of the

EU treaty. That will be up to the country's next PM. Once Article 50 is set in motion, the UK formally has two years to negotiate its way out of the bloc. Analysts say more time may be needed to work out the more complex trading accords.

David Cameron with wife Samantha

A Road Map of What's to Come

Cameron will travel to Brussels next week to brief EU leaders who will want to know what sort of relationship the UK wants to have with the EU. Cameron said Friday he won't trigger the start of the secession process under Article 50 of the EU treaty. That will be up to the country's next PM. Once Article 50 is set in motion, the UK formally has two years to negotiate its way out of the bloc. Analysts say more time may be needed to work out the more complex trading accords.

Who Will Lead the Negotiations?

Cameron's successor is most likely to be one of the leaders of the Brexit campaign, such as former London mayor Boris Johnson or justice secretary Michael Gove. Their presence may harden the stance of other EU governments.

What Sort of Deal Does Britain Want?

Three issues: What new agreement will regulate the $575-billion of annual trade between Britain and EU? On what terms will UK cos be able to access EU's $13.6-trillion single market? And will banks domiciled in UK be able to do business in EU?

What Will the EU Offer?

Leaders may not want to give a favourable deal with extensive market access for UK as that would risk encouraging similar anti-EU movements in their own countries

Banks Want...

Passporting: It allows a bank in one EU country to do business in any other. Without it, global lenders may have to move substantial ops out of the UK.

Employers Want...

With the Leave campaign promising to end the free movement of European citizens "by the next election," the hospitality and retail sectors will have to find ways to attract British staff, perhaps by paying higher wages

Manufacturers Want...

Market access is the biggest question hanging over British manufacturers. Securing a comprehensive free-trade deal that keeps that flow moving in both directions without tariffs will be manufacturers' top priority.

What Do Farmers Want?

Farmers did better out of the EU than almost anyone. Roughly 40% of the bloc's budget goes to the complex subsidies of the Common Agricultural Policy. The Leave campaign has said "subsidies will continue" after Brexit. Bloomberg

Jun 25 2016 : The Economic Times (Delhi)

`Not a Lehman Moment'

The shock European Union referendum result in Britain pummelled stocks and currencies from Tokyo to Toronto on Friday and David Cameron became only the third British Prime Minister in the last 40 years to quit midway through his term as investor panic gripped global financial markets.

In scenes eerily reminiscent of the mayhem caused by the collapse of Lehman Brothers in 2008, investors dumped stocks and risky assets such as emerging market currencies and bonds and fled to safe haven assets like gold, the yen and the dollar. Indian stocks suffered too as the prospect of global financial market volatility and fears of the dollar's strength sapped investor confidence. The Nifty fell 182 points to end at 8,088 after falling initially by 343 points while the Sensex slumped 604 points, pulling back from a 1,100 point fall early in the day. The rupee fell 1% to 67.96 per dollar. Gold rose 4.28% to $1,310 an ounce while the US 10year yield rose to 1.56%. Commodities like oil rose on the back of the dollar rise. Finance Minister Arun Jaitley was quick to send out a message urging calm on Friday morning, saying that India would be able to weather any shocks. “We are well prepared to deal with short and medium-term consequences of Brexit,“ Jaitley said. “As investors look around the world for safe havens in these turbulent times, India stands out both in terms of stability and of growth. Our macroeconomic fundamentals are sound with a very comfortable external position, a rock solid commitment to fiscal discipline, and declining inflation.“ Britons voted in large numbers in Thursday's referendum but a slight majority decided that the country would be better off outside the EU, catching financial markets completely by surprise.

Lulled into a false sense of security by a spate of last-minute opinion polls and betting markets predicting a `Remain' win, investors got a rude shock on Friday morning as one major centre after another decide to vote in favour of leaving the Union. The Remain campaign led by David Cameron won in important places like Scotland, Northern Ireland and the capital city of London but it was not enough to overturn the Leave campaign's votes.

Cameron announced he would be making way for a successor in three months in a day of unprecedented, fast-moving developments. Britain is the first and only country so far to exit the EU in a formal referendum. The union, which has been grappling with many internal crises in the past few years, entered uncharted waters with this result. A meeting of EU leaders issued a terse warning to the UK later in the day asking it to start negotiations on an exit and warning that there would be no renegotiation.

Cameron said negotiations to exit the EU will have to be undertaken by a new leader and said that he will be around till October to oversee the transition. Cameron is the third British prime minister after 1974 (one year before the first UKwide referendum that admitted Britain into the EU) to leave office midway. Stocks were toppled from their high perches all across the world. The MSCI Euro Stock Index fell 7.77%, its second-biggest fall since June 2008. The MSCI EM index slipped 3.26%, its worst performance since January, while the MSCI World fell 2.88% to a 10month low. Global leaders and central bankers quickly stepped into the breach to try and calm markets.Bank of England governor Mark Carney announced that the bank was ready to inject 250 billion pounds into the financial system to keep the economy going and prevent any untoward crisis.

Reserve Bank of India Governor Raghuram Rajan said that there was no reason for panic and that the country had enough reserves to handle any volatility.

He said that the RBI was in touch with global central banks to coordinate policy action and added that investors may come back to the market after the initial bout of volatility gets over.

Minister of State for Finance Jayant Sinha and Economic Affairs Secretary Shaktikanta Das also tried to calm investors by saying that the country was well prepared. The rupee bounced off initial lows of 68.21per dollar after the statements while the stock markets also pulled back a little.

“We are watching various markets including the currency markets and in touch with other authorities. I am hopeful that we can mitigate the shock,“ Rajan said in an interview to ET NOW.

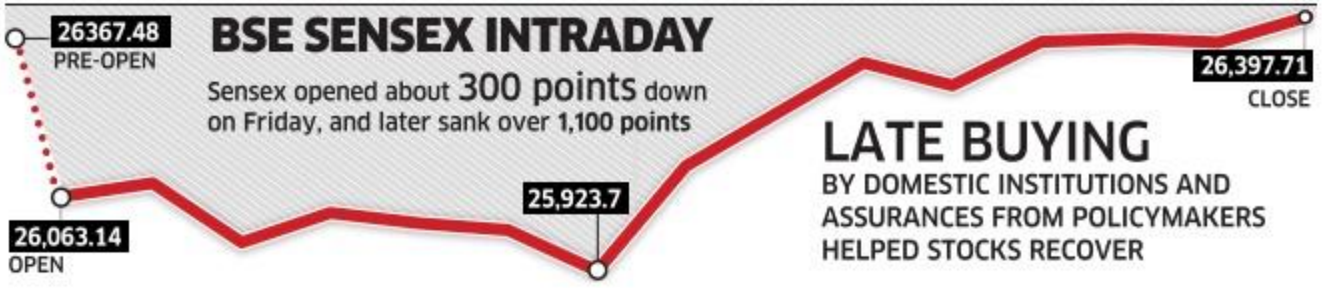
Many investors and experts now believe that Brexit has dashed all hopes of an early US interest rate increase. The Dow was down 2.73% at the time of going to press and the probability of a rate hike this year and the next has now fallen to zero, a stunning turnaround from January when markets were betting on three or four hikes.

“The good news is that it is not a Lehman moment,“ Mohammed ElErian, chief economic advisor of Allianz said in an exclusive interview to ET NOW. “What do I mean by Lehman moment? It is when the payments and settlement system almost came to a sudden stop. Back in Lehman, banks did not trust each other anymore. This is not the situation today . The banking system is in much better shape. The less good news is if the financial volatility continues this will show on global GDP and will make the chance of a recession in Europe much higher.“

Stocks with major exposure to Europe and the UK fell on the result.Tata Motors ended down 8% at ` . 449 after falling as much as 13% intraday, while Motherson Sumi Systems ended down 8%, off its day's low of 12%. Tata Steel, which has interests in the UK steel industry , ended 6% lower at ` . 312.50, off its day's low of 11%.

The direction of Indian markets will depend on whether the risk-off sentiment in global markets persists but call writing at 8,100 and 8,200 strikes on Nifty options would also keep the upside limited, money managers and equity strategists said. “Economic impact of Brexit will be limited but impact on the equity market will depend on (whether) conditions in global markets worsen or stabilise,“ said Prabhat Awasthi, managing director, Nomura India.

Global leaders and central bankers stepped in to try and calm markets



Jul 01 2016 : The Economic Times (Delhi)

The Skeptic - Are We Out of the Clear and Present Danger?

MC GOVARDHANA RANGAN

When the US President says his men are working to ensure the stability of financial system, it is a good enough confirmation that it has turned wobbly .

The event is last week's British vote to leave the European Union.After an immediate selloff in global equities and currency markets, prices have bounced back, barring the British pound. The FTSE100 is up 0.7% since the Brexit vote and so are Indian equities.

One explanation is Brexit is not a Lehman moment. The argument is that the exit of the UK, if at all it happensmany believe it still won't will have 0.1% to 3% impact on the gross domestic product of various countries it deals with depending on which analyst you pick. Real economic effect may play out over many years, but what about financial markets.

Unlike during Lehman, no financial institution is yet trembling and the regulations since the credit crisis have strengthened the financial system. Yes, this is not a Lehman moment. Even the Lehman moment was not created by Lehman, it was a victim of the crisis. The week when the investment bank filed for the biggest bankruptcy in history , the S&P ended about 0.3% higher.

Experts said life would move on.Six months before that Bear Stearns collapsed. Prior to that, some funds shuttered. Subsequent speculation whether Morgan, Goldman, Citi and others would face the same fate forced the Fed to open the liquidity spigot.

“A globally coordinated central bank response to a global financial market meltdown is quite likely , such as liquidity support through FX swap arrangements and possible FX intervention, but with policy credibility at such a low it is unclear how successful these emergency measures would ultimately be when there is extreme market risk aversion," Nomura's Rob Subbaraman and colleagues wrote in a report.

So far no institution is showing signs of strain, at least publicly .But shares in Barclays, Royal Bank of Scotland and many European banks tumbled. Given that a majority in the financial world were betting on `Remain', losses could be significant when they are disclosed. Like in every financial market crisis, it is not the collapse of one institution that leads to a crisis, but doubts about the existing ones after that.Perceived weak institutions will be shut out of the market.

While the value of merchandise exports from the rest of the EU to the UK is just 3% of the rest of the EU's GDP , the UK's position as a global financial hub where the UK financial sector assets account for more than 8 times its GDP, leaves the rest of the EU much more exposed to the UK in terms of financial and investment linkages, says Nomura.One-third of the UK's financial and insurance services exports are to the EU; more than half of the UK banking sector's crossborder lending is directed to the EU; half of the foreign direct investment received by the UK comes from the EU.

United Overseas Bank Ltd of Singapore said it will temporarily halt loans for property purchases in London, due to the uncertainty caused by the UK vote to leave the European Union, Bloomberg News reported.

The risk here is not just the one coming from Brexit. As RBI governor Raghuram Rajan says, it is the `convergence of risks' which matters here.

Look around: The Italian government is trying to exploit the situation to save its banks with $44-billion capital circumventing the EU rules. Chancellor Angela Merkel is quick to spike the plan.That may be the next domino.

Worries about China have not gone away . It is using the moment to do its bit to bolster its position by depreciating its currency which has been largely ignored in the Brexit noise. Remember the International Monetary Fund in April Global Financial Stability report said that 14% ($392 billion) of 2,871 nonfinancial companies analysed, (total borrowing of $2.77 trillion) are not able to cover interest expenses with earnings.

Across the Pacific in Brazil it is not just the political chaos, even the businesses are going bust. Oi SA, a wireless firm, filed for bankruptcy protection on $19 billion in debt. Some believe it may not be the last big one to do so.

Financial market linkages can inflict severe damage to economies in the short term than trade linkages and they can spread at the speed of lightning. Clouds are probably gathering.

“Financial markets, for their part, appear to be tethered more closely than ever to global events, and the real economy appears to dance to the tune of global financial developments, rather than the other way round," Hyun Song Shin, Economic Adviser at BIS said this month in a paper titled Global Liquidity and Procyclicality . “If you will excuse a rather extravagant metaphor, the financial tail appears to be wagging the real economy dog."

Jun 28 2016 : The Economic Times (Delhi)

The Smith Marx Solution?

Maitreesh Ghatak

Brexit suggests that focusing on trade and on inequality may not be antithetical after all

As much as the Fall of the Berlin Wall marked the symbolic end of socialism, we could well look at the Brexit vote and feel it marked the end of the high tide of globalisation. Advocates of globalisation argue that free flow of goods and services, of labour and capital, of skills and ideas will result in prosperity for all.

If we look around the world, the vision lies in tatters. The financial crisis of 2008, a long-term rise in inequality that the French economist Thomas Piketty has documented, and stagnating employment and wages in the Western economies have led to a rise in right-wing populism, xenophobia and isolationism.

If we extract the common denominator from Brexit voters and Donald Trump supporters, the discontent is over the effect of trade and capital flows, skill-biased technological change, and migration.

The jobs being outsourced to India and China have contributed to reduction in global poverty in the last few decades. But it has also created deindustrialisation and impoverishment in significant pockets of the Western world. These are precisely the kind of areas that heavily voted for Brexit on June 23, and are filling up Trump's rallies in large numbers.

A recent International Monetary Fund (IMF) report, Neoliberalism: Oversold?, states that without an ad equate safety net, openness and austerity are associated with increasing inequality and, as we saw with the Brexit vote, can undermine growth and openness, the very things that the neoliberal agenda is intent on boosting. It must be bad days for neo liberalism if even the IMF thinks it has gone too far.

In the Brexit referendum, the support for the `Remain' camp typically came from educated and higher-income individuals, while the supporters of `Leave' were less educated and had lower income. In other words, given the unequal spoils of globalisation, those who win voted in, those who lose voted out. There is no doubt that xenophobia and racism played a role in Brexit and plays a role behind Trump's rise. But these cannot be primary causes since in the last decade we have also had five years of Labour rule in Britain and two terms of Barack Obama's presidency in the US.

Closing Ranks

The spike in these seem more a symptom of the economic anxieties of a large part of the population. Economic dislocation caused by impersonal market forces inevitably results in a search for visible scapegoats. In a crowded bus, you tend to direct your rage at new passengers who keep on boarding, and want the bus to stop at as few stops as possible, but do not ask why there are so few buses.

Ethnic identity is visible while changes in the global economic landscape are much less so, and it is always easier to blame an identifiable group such as immigrants than the invisible hands of the market.

Clearly, the most important challenge is to reinvent the welfare state in the era of globalisation so that one can balance the gains that trade, markets and migration bring with the losses that some groups suffer. Otherwise, the growing inequality would lead more and more countries to vote for pulling up the drawbridge, as the Brexit vote. The result may be less inequality, but it will also be less prosperity for all. The voters in Cornwall, who voted `Leave', are now asking anxiously if they will continue to get the large subsidies that they were getting from the EU.

The other major lesson from the Brexit vote is that the new class divide is more by education than by wealth or privilege. The rising inequality in the West is to a large extent driven by the rising gap between skilled and unskilled wages.

Education is also a key driver of political support for certain key economic policies. There is a surprising convergence of views of the educated elite on certain core policies.

For example, on the Brexit vote, the pro-market liberals from the right and the social progressives from the left both supported `Remain'. Indeed, there was rare unanimity among economists on this issue, cutting across the usual left-right ideological divide. A similar pattern can be seen in the US regarding Trump.

This means the focus on redistributive policies should focus on higher spending on education and training, which expands equality of opportunity, what is often called pre-distribution policies. This would mitigate the clash of interests regarding the opportunities that globalisation brings.

Commerce as Education

Education also tends to produce a more socially tolerant worldview. And, Adam Smith not only extolled the virtues of the market as a source of wealth of nations, he also wrote about the civilising effect of commerce. A culture of cosmopolitanism and social liberalism fostered would help society protect itself from its worst instincts of xenophobia and racism.

Adam Smith's focus on trade and Karl Marx's focus on inequality are usually seen as completely antithetical. The policy challenges of the 21st century suggest they may not be so. The writer is professor of economics, London School of Economics

Jun 29 2016 : The Economic Times (Delhi)

EUROPEAN UNION - After Brexit, is it Eumise?

Anjana Menon

The writer is founder, Content Pixies

Britain's vote to exit the EU, now much regretted by several `Leave' campaigners themselves, may flatten the monetary union more than Britain. By voting to leave, many British people fear economic gloom and fragmentation. That's a likely scenario for the small island. For the EU, held together by nothing in common except a treaty , it is a reality . Countries and central banks, India included, must prepare for Eumise: the demise of the EU.

The discord within the EU, evident for a while, is in breakout mode. Hours after Britain's historic vote was announced on Friday , two of the seminal voices in the EU were singing different tunes. Angela Merkel, the head of Europe's most powerful economy Germany , the heavy-lifter in the EU, said there was “no need to be particularly nasty in any way“ while divorcing Britain and that while it “shouldn't take forever“, there was hardly a rush.

The head of the European Commission, Jean-Claude Juncker, a more slighted spouse, simply asked Britain to get out and fast. Both leaders must have the same worry. Brexit, a campaign for a second referendum notwithstanding, will embolden other family members to cut loose. The domino exits will be underpinned by much the same reasons: poor prospects for the working class, and the widening disparity between the haves and have-nots.

To understand why there is a very real danger of a break-up, look at how far the disparate grouping is off course from its stated purpose. The EU was meant to guarantee a few things to its member-states, prosperity being key .At the heart of the treaty is the promise of a single market for the free movement of goods, people and services. It also has a single currency for those who want that.

In reality , the EU has functioned as some kind of giant machine where cranking up one part has led to the breakdown of the other. Its prosperity pledge to some 500 million citizens hasn't endured. In the pre-2008 days, several of the EU member-states that had access to cheap financing overspent, and recklessly so. The hangover, though, has turned ugly .

The average unemployment in the EU has hovered at double digits since the 2008 financial crisis, and the gap between the struggling south and the surging north is ever widening.

Unemployment levels in Greece are at 24%; Germany contains it at about 4%. Greece's public debt is at 177% of GDP , compared to Germany's 71%. So, two countries that share the same currency , lead two spectacularly unequal lives in the same monetary union.

This gap has grown wider all over Europe in the last decade. It's blighted the working class and hollowed their pockets. Nothing, ranging from low oil prices to helicopter money and negative interest rates, have helped kill economic malaise in Europe.

This lack of jobs has been whipped up by the far right as `immigrants taking jobs'. French leader Marine Le Pen has already called for a French referendum along the lines of Britain's. Other European countries will likely be polarised along similar lines.

Politically, the more robust members of the EU have been reluctant lenders, while those on life support have complained of excessive meddling by the union, imposing unrealistic austerity measures. Brussels has played both albatross and Noah's ark in one long drama. “[The] monetary union has created a conflict between a centralised elite on the one hand, and the forces of democracy at the national level on the other,“ says the former Bank of England governor Mervyn King in his book The End of Alchemy . “This is extraordinarily dangerous.“

To top this, Europe has handled the immigration crisis -the worst since World War 2 -clumsily . Millions of Syrians fleeing their homes have made their way to Europe, only to be greeted by barbed wires in a borderless EU. In a matter of months, European member-states ranging from Hungary to Sweden have introduced border controls, as Brussels watched helplessly . The promised porous borders have already ceased to be.

What started as a convivial gathering has turned into a squabbling family, where no one speaks the same language, eats the same food or wants the same guests. The EU is going to have a hard time keeping this house together.

Jun 29 2016 : The Economic Times (Delhi)

CURSOR - Brexit and UP Elections

T K Arun

Identity politics that blames another group for your ills egged on the Brexiters

What's common between Britain's exit from the European Union (EU) and elections early next year in India's largest state? Identity politics that distracts people from seeking real solutions to the problems they face and spirals them into debilitating hostility towards people culturally different from themselves.

Brexit is a revolt against globalisation. Mostly, the old voted to leave, the young voted to remain. Three quarters of those aged 18-24 voted to stay, according to one poll. Those in multicultural towns voted to remain, traditionalists upset by the ever-growing presence of foreigners in their midst, with their own customs, food, clothes and, in some cases, religion, voted to halt and reverse migration.

In a Globalising World

Those who lost their jobs to the advance of technology and global trade vented their resentment by voting out. Those who see their future in growing collaborations in research and the rise of new businesses and disruptive new companies that are transnational in their funding, workforce and markets, voted to stay .

Not coincidentally, the losers from globalisation are less educated and less prosperous than the winners produced by the growing interdependence of nations. The resentful losers proved to be more numerous than the winners who turned out to persist with globalisation.

For many Indians, globalisation is an abstraction with a negative ring. Want a reality check? Look, where else, into your phone. The mobile phone, which crunches into a slick brick you can hold in your hand equipment that 30 years ago could not have been crammed into a room, is globalisation in miniature.

Its processor, motherboard, display , keyboard, antenna, GPS, camera, microphone, speakers, assorted sensors, battery and enclosing cover of plastic and metal embody , in each case, a unique division of labour that spans the globe in research and development, design, adherence to common standards, capital, manufacture, marketing, shipping, distribution and recycling.

American or British chip technology providers, Taiwanese chip foundries, South Korean display makers, Swiss lens makers, Chinese factory workers, Swedish telecom technologists, US politicians who decided to throw open access to GPS signals, multinational workforces, rare earths from Afghan mountains, copper from African mines, power produced in China from Australian coal, Indian code writers who work for giant American tech firms -these are a fraction of the elements of globalisation that make your phone work. This applies, naturally, to every application that you run on the phone.

Globalisation is the extension of the framework of all kinds of human interaction away from village, town, province and nation to the world. It is the driving dynamic of the modern world. Particular results of disruption, pain and gain stem from particular ways in which nations integrate into the process. The point is not to resist it, but to control and shape it to derive benefit and lower harm.

Fusion or Fission ?

Globalisation does not just mean global markets, footloose capital and labour and collaborative research. It also means fast-spreading epidemics and cures, booms and busts, Punjabi rap and salmon cooked in dahi and mustard paste. Further, it means pooling national sovereignty to arrive at transnational rules, common standards and protocols, baby steps towards global governance.

Globalisation does not interact with you in the abstract. You experience it when you Google something, when you send a WhatsApp message or watch Jungle Book in Hindi eating nachos. You encounter it when foreigners are accused of eating beef in Madhya Pradesh, when someone you know goes off to the US for an `onshore' stint or the label on the shirt presented by your cousin from America says Made in Bangladesh.

For the Britons who voted to leave, globalisation meant doctors from India, farm workers from Romania, plumbers from Poland and rules from Brussels. They resented alien sounds, non-European clothes, nonChristian faiths and un-English cultural practices. They were egged on to act out their resentment by politicians who told them that Muslims from Turkey would soon join the wave of immigrants swarming Britain from EU and that Syrian refugees were potential terrorists.

Politicians are good at smelling out disaffection. That is a good thing: this is how problems get identified and addressed. The trouble is when the solutions they proffer simply manipulate prejudice and are out of place in a globalising world. And when those who oppose prejudice are not forthcoming with solutions on their own or lack credibility on account of their delay with those solutions.

When populism, simplistic solutions that people understand better than the complexity of the problems they seek to address and lying demagogues combine, the hurt caused by global integration can be transmuted into hatred towards those who are not like you. See Brexit. See the rise of Trump in the US. See divisive politics preparatory to UP elections.

Globalisation has benefits but also offers pain. When politics succeeds in pinning the blame on people who are different, people reject integration, turn divisive

Jul 01 2016 : The Economic Times (Delhi)

The 1930s All Over Again?

Chetan Ahya

Structural reforms boost growth, but activating fiscal policy is critical to crowd in private investment

This year will likely mark the fifth consecutive year of global growth below its 30 year average. Moreover, at the margin, inflation expectations in various key economies have slowed towards fresh lows, underlying trend in inflation data is subdued, private capex growth is slipping and productivity growth is weak.

The risk of a global recession remains elevated. Structural headwinds from the 3D challenge of debt, demographics and disinflation are key to why the global economy has remained weak. Of the top 10 developed markets (DMs) and emerging markets (EMs), 15 of them have a rising age dependency ratio, 14 have debt GDP close to or above 200%, and inflation is subdued in 16 of them.

Depression to Recession

The current macroeconomic environment has a number of significant similarities with the 1930s. The experiences then are particularly relevant today as a number of major economies had faced the 3D challenge then too. The unproductive build-up of debt caused the Great Depression of the 1930s and the Great Recession of 2008. Weaker demographic trends in a number of economies during both periods weighed on potential growth. The drop in private demand because of the subsequent debt deleveraging process created intense disinflationary pressures.

The critical similarity between the two cycles is that the financial shock and high debt changed private sector risk attitudes and led private companies to repair their balance sheets. The concurrent deleveraging of financial intermediaries exacerbated and prolonged the adjustment cycle. Meanwhile, the tighter macro prudential policies and regulatory environment were constraints, making the deleveraging process more complicated and leading to persistent deflationary pressure. Hence, private demand will likely stay weak for longer and inflation expectations will also remain subdued.

To address the demand deficiency and low inflation risks, monetary and fiscal policy should work in tandem. During the 1930s, the initial tight monetary policy stance prolonged the recession between 1929 and 1933.

However, strong monetary expansion and expansionary fiscal policy over 1933-36 led to a return to positive growth and inflation from 1934.

As the financial crisis broke in 2008, it seemed policymakers had heeded the lessons from the 1930s as they eased monetary policy to address the sharp fall in output. Rapid interest rate cuts and successive rounds of quantitative easing meant that the US Federal Reserve was able to keep real interest rates negative, helping to smooth deleveraging. Fiscal policy was deployed in the immediate aftermath of the global financial crisis, and the boost to public demand helped offset weak private demand.

However, premature tightening of macro policies means risks of a relapse. In 1936, the Fed doubled the reserve requirements for banks and the Treasury began to sterilise gold inflows, slowing the growth of high-powered money. Fiscal policy was tightened, with the fiscal deficit narrowing significantly from 5.1% of GDP in 1936 to 0.1% in 1938. The premature and sharp pace of tightening of policies led to a double-dip in the economy, resulting in a relapse into recession and deflation in 1938.

Similarly, in the current cycle, as growth recovered, policymakers began to worry about high public debt restraining longer-term economic growth prospects, and so tightened fiscal policy. The key DM economies have all taken up fiscal tightening in recent years and particularly so in the US, the euro area and Britain.

Monetary to Fiscal Policy

In the US, monetary policy support has also been withdrawn gradually , starting in 2013, when the Fed began to taper its quantitative easing programmes, and again in 2015, when it lifted nominal policy rates. Policy tightening has contributed to a slowdown in growth in recent quarters.

Now, the effective solution to prevent a relapse into recession would be to reactivate policy stimulus. Although there is some space for monetary policy, we are approaching the limits, and the effectiveness of monetary easing is waning. Fiscal policy can be employed to boost demand. But policymakers are hesitant or const rained by the political cycle to fully employ it as a countercyclical tool.

There is undue concern over running high fiscal deficits, particularly at a time when the need of the hour is to ensure that aggregate demand is supported via boosting public demand.

Activating fiscal policy, particularly when the monetary policy stance is still accommodative, could lead to a virtuous cycle in which the corporate sector takes up private investment, and sustains job creation and income growth. Structural reforms that boost productivity growth have an important role to play . But activating fiscal policy will be critical to crowd in private investment.

Policy support will have to remain in place until inflation expectations have stabilised, and there are signs that the private sector has shifted to risk-seeking again. For now, the evidence indicates a risk-averse private sector, which means the key factor determining the macro outlook is an effective policy response. But policy response remains hesitant.

In this environment, global growth will be below trend and the risks of the global economy relapsing into recession will also remain high.

The writer is chief Asia economist, Morgan Stanley

> Policy support will have to remain until inflation expectations have stabilised, and there are signs that the private sector has shifted to risk-seeking again