THE ECONOMICS OF BULLYING

How to read the IMF's 2nd Quarter World Economic Outlook in a world according to Donald Trump.

By Bart Le Blanc

- *The IMF's World Economic Outlook July Update sketches a listless picture for the world economy. "Still Sluggish" in the title says it all!*
- *Trade conflicts lower world trade volumes and hurt the emerging economies most. Risks are predominantly on the downside.*
- *On the geo-political scene, aggressive shouting matches and bullying seem to have replaced international diplomacy.*
- *Not that there are major differences in ideologies or beliefs. Compared to the 20th century Cold War (democracy/market economy versus Soviet central planning), all major powers adhere today to the principles of market economics.*
- *However, current populists blame globalisation as the root cause of inequality and discontent.*
- *The Economics of Bullying urgently needs attention to better understand the causes and consequences of bullying tactics.*
- *Economic theory helps to understand the impact of bullying with lessons from Adam Smith and David Ricardo, via Milton Friedman and AW Phillips, to Douglass North and Paul Samuelson and recent insights from Gary Gereffi's study on global value chains. Very relevant today!*
- *The Economics of Bullying prove that trade conflicts will negatively impact on world economic growth and break-up value chains creating new inefficiencies.*
- *Influencing monetary policy and undermining central banks independence could lead to further inequalities and financial market volatility.*
- *Withdrawing support for multi-lateral cooperation fragilizes world peace and withdrawing from international treaties such as on Climate Change threatens the planet and future generations.*
- *Mobilising against bullies is vital for victims but also for bystanders (who may otherwise be the victims of tomorrow).*

1. "Still Sluggish"

These two words in the title of the July update of IMF's World Economic Outlook say it all. Trade conflicts depress world trade volumes and thereby global GDP. Investments and consumer demand is slowing down in view of uncertainty. The IMF sees risks of its outlook predominantly on the downside. The emerging economies are the hardest hit as the table below shows.

Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
			Projections		Difference from April 2019 WEO Projections 1/			Projections	
	2017	2018	2019	2020	2019	2020	2018	2019	2020
World Output	**3.8**	**3.6**	**3.2**	**3.5**	**–0.1**	**–0.1**	**3.3**	**3.4**	**3.5**
Advanced Economies	**2.4**	**2.2**	**1.9**	**1.7**	**0.1**	**0.0**	**2.0**	**1.8**	**1.8**
United States	2.2	2.9	2.6	1.9	0.3	0.0	3.0	2.3	1.9
Euro Area	2.4	1.9	1.3	1.6	0.0	0.1	1.2	1.6	1.5
Germany 3/	2.2	1.4	0.7	1.7	–0.1	0.3	0.6	1.2	1.2
France	2.3	1.7	1.3	1.4	0.0	0.0	1.2	1.3	1.4
Italy	1.7	0.9	0.1	0.8	0.0	–0.1	0.0	0.5	0.9
Spain	3.0	2.6	2.3	1.9	0.2	0.0	2.3	2.1	1.9
Japan	1.9	0.8	0.9	0.4	–0.1	–0.1	0.3	0.2	1.4
United Kingdom	1.8	1.4	1.3	1.4	0.1	0.0	1.4	1.2	1.6
Canada	3.0	1.9	1.5	1.9	0.0	0.0	1.6	1.8	1.7
Other Advanced Economies 4/	2.9	2.6	2.1	2.4	–0.1	–0.1	2.3	2.4	2.4
Emerging Market and Developing Economies	**4.8**	**4.5**	**4.1**	**4.7**	**–0.3**	**–0.1**	**4.5**	**4.8**	**4.9**
Commonwealth of Independent States	2.2	2.7	1.9	2.4	–0.3	0.1	3.1	2.2	1.4
Russia	1.6	2.3	1.2	1.9	–0.4	0.2	2.9	2.0	1.0
Excluding Russia	3.5	3.9	3.5	3.7	0.0	0.0	. . .	. . .	. . .
Emerging and Developing Asia	6.6	6.4	6.2	6.2	–0.1	–0.1	6.0	6.3	6.1
China	6.8	6.6	6.2	6.0	–0.1	–0.1	6.4	6.1	5.9
India 5/	7.2	6.8	7.0	7.2	–0.3	–0.3	5.8	7.7	7.1
ASEAN-5 6/	5.3	5.2	5.0	5.1	–0.1	–0.1	5.2	5.0	5.3
Emerging and Developing Europe	6.1	3.6	1.0	2.3	0.2	–0.5	0.7	1.4	3.3
Latin America and the Caribbean	1.2	1.0	0.6	2.3	–0.8	–0.1	0.3	1.0	2.1
Brazil	1.1	1.1	0.8	2.4	–1.3	–0.1	1.1	1.3	2.5
Mexico	2.1	2.0	0.9	1.9	–0.7	0.0	1.6	1.3	1.6
Middle East, North Africa, Afghanistan, and Pakistan	2.1	1.6	1.0	3.0	–0.5	–0.2	. . .	. . .	. . .
Saudi Arabia	–0.7	2.2	1.9	3.0	0.1	0.9	3.6	2.4	2.8
Sub-Saharan Africa	2.9	3.1	3.4	3.6	–0.1	–0.1	. . .	. . .	. . .
Nigeria	0.8	1.9	2.3	2.6	0.2	0.1	. . .	. . .	. . .
South Africa	1.4	0.8	0.7	1.1	–0.5	–0.4	0.2	1.0	0.3
Memorandum									
Low-Income Developing Countries	4.7	4.9	4.9	5.1	–0.1	0.0	. . .	. . .	. . .
World Growth Based on Market Exchange Rates	3.2	3.0	2.7	2.9	0.0	0.0	2.8	2.7	2.8
World Trade Volume (goods and services) 7/	**5.5**	**3.7**	**2.5**	**3.7**	**–0.9**	**–0.2**	**. . .**	**. . .**	**. . .**
Advanced Economies	4.4	3.1	2.2	3.1	–0.6	0.0	. . .	. . .	. . .
Emerging Market and Developing Economies	7.4	4.7	2.9	4.8	–1.4	–0.3	. . .	. . .	. . .
Commodity Prices (US dollars)									
Oil 8/	23.3	29.4	–4.1	–2.5	9.3	–2.3	9.5	4.3	–7.0
Nonfuel (average based on world commodity import weights)	6.4	1.6	–0.6	0.5	–0.4	–0.6	–1.8	2.5	0.6
Consumer Prices									
Advanced Economies	1.7	2.0	1.6	2.0	0.0	–0.1	1.9	1.9	1.8
Emerging Market and Developing Economies 9/	4.3	4.8	4.8	4.7	–0.1	0.0	4.2	4.1	4.0

Source: IMF World Economic Outlook Update July 2019

The last international economic summit 28/29 June meeting of the G20 countries in Osaka gave an example of rising geo-political tensions. President Putin of Russia espoused a troubling new maxim in a series of interviews before he left for the G20 meeting: “Liberalism is obsolete” and “it has outlived its purpose as an ideology underpinning Western democracies”. He further welcomed growing nationalist and populist movements in the West.

US President Trump excelled in showmanship with a re-launch of the US-China trade negotiations including a U-turn on an earlier ban of Huawei for US technology manufacturing. He then crowned his performance on the international stage by an impromptu follow-up meeting with North Korean Leader Kim Jong Un, gingerly setting foot on North Korean soil, like a latter-day Neil Armstrong.

President Xi bucked the trend, and behaved more like an international statesman, by stating: "China and the US have highly integrated interests and extensive co-operation areas and they should not fall into so-called traps of conflict and confrontation."
Meanwhile in the fringes of the G20 meetings, European Union leaders were quietly happy to sign new international trade agreements with the MERCOSUR countries, as well as with Vietnam.

Taking stock of these developments, it’s no wonder that the final G20 communiqué strikes a sober tone on the current economic outlook: “Growth remains low and risks remain tilted to the downside. Most importantly, trade and geopolitical tensions have intensified. “
They clearly wrote the script for IMF’s latest Update.

2. New diplomacy: different views, war of words, threats and fears

For centuries it was thought that international trade and cooperation is good and will enhance the "wealth of nations", bettering the position of people. The economic theory on trade and international relations can trace its origin back to the late 18th/early 19th century contributions of the "fathers of economics": Adam Smith, and David Ricardo and has since been much developed on.

Today however one feels that there is not much support for the Smith-Ricardo line of thinking. President Trump, the leader of the world's largest economy, has ruffled feathers with all major economic powers including China, the European Union, with neighbouring Mexico and Canada, with Russia, Venezuela and Iran. Given the ferocity of his attacks (mostly by Twitter), it has certainly raised the question whether policy differences between the big economic powers are really that significant.

Below I have tried to "super-summarise" key policy differences between the US, China and the EU around a few central topics (with sincere apologies for crude over-simplification).

	United States	China	European Union
Growth/Jobs	*Theme:* *"Make America Great Again"* *Repatriate lost manufacturing jobs. Stimulate the economy through lower taxes and less government burden.* *Keep interest rates, low avoid strong dollar for better exports.* *GDP target above 3% p.a.*	*Theme:* *"Innovation driven, balancing, greening and sharing".* *Growth to cater for changing demands of population linking urban and rural China (one-nation China). Focus on "lean and green" innovative investments in cooperation with foreign investors.* *GDP target a "medium-high rate of growth" (6.5 % p.a.)*	*Theme:* *"Growth, Fairness and Democratic Change"* *Focus on growth through investments in the digital (AI and digital health) and green economy (energy and transport transformation).* *Strengthen and broaden single market, deepen economic and monetary union.* *GDP target 2.5-3% p.a.*
Government/ Public Finance	*Reign in government involvement in economy and society. De-regulate the economy.* *Taxation is to be low to foster private initiative; increased public sector deficits disappear through resulting growth.*	*Top down government/party rule in all aspects of life. Economic plans are centrally developed and implemented.* *"Uphold the principal position of the people" is a key goal, but leaves little room for individual freedoms and (western style) democracy.* *One Belt One Road (OBOR) is foreign but also economic policy (export overcapacity).*	*Clearly defined intervention for a fairer society, strong democratic union, fairness in taxation (special item: taxation of digital economy), economic fairness with social dimension.* *Europe strives to be a "Union of democratic change for good" based on fundamental human and workers' rights.*
International Relations/Trade	*Rebalance relations to regain US interests (trade, security, military, intellectual property rights). Equivalence in US partners to contributions (e.g. NATO). Withdraw from multi-lateral cooperation not serving US interests (e.g. Paris Climate Change Treaty, UNESCO, UNHRC). Critical of IMF, World bank, reform WTO.*	*Aspire to gain leading global influence based on non-interference and neutrality. More multi-lateral action. Hong Kong, Macau and Taiwan are not foreign policy issues. Climate Change Treaty is spear heading China's greening focus. One Belt One Road builds new alliances in Asia, Africa and Europe.*	*EU aims for a stronger global leadership role.* *New initiatives for Africa-EU cooperation incl. on investments and migration.* *Open trade to harness globalisation.* *Active support for multi-lateral initiatives e.g. international procurements standardisation.*

So what does this table highlight?
The first important conclusion to draw is that in comparison with the 20th century, today's differences do not seem very profound. Much of the 20th century was dominated by the competing ideologies of market based liberal economies spearheaded by the US and Western European countries, and the communist centrally planned Soviet economic system in Russia (and its Eastern European satellites), and China and some of its South East Asian neighbours.
This developed in the "Cold War" of the 1950s that lasted until the collapse of the Soviet system in the early nineties.

Today all the major economic powers adhere to the principles of market economics. China's worldview is explicitly non-ideological. The Western ideology is very much based on liberal values, civil society and the rule of law; no imperialist ambitions.
So any policy difference today seems more about implementation and not about political ideology or belief as such. Implementation however, does remain important, as it can create inequalities, and the feeling of discontent among (groups of) people.

The US policy under President Trump is not so much ideology driven, but more inspired by un-balances deriving from globalisation. It speaks about inequalities between different groups in society, about growing job insecurity, the impact of migration, about the lack of access to affordable housing and to health care, the fear of change and of other cultures and the inability of the governing elite to deal with the issues.
In a geo-political sense, this US sentiment is enhanced by the feeling that they have been taken for granted being the sole paymaster of the world for too long, always footing the bill for global initiatives, and waiting for others to chip in later (which in their view hardly ever happened). Hence it is time to put "America First" again!

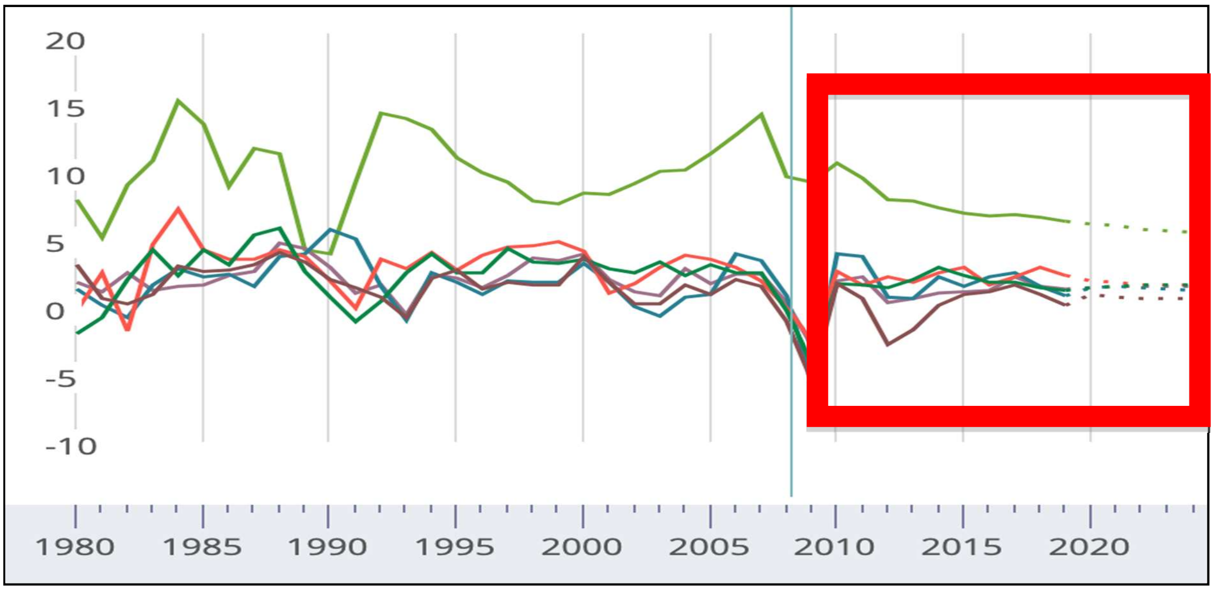
There may also be another geo-political issue at stake: the march of China towards the Number One position in the world. After replacing Japan as number 2 in 2010, it is now expected that in the coming decade China will push the US from its current pole position. The need to adjust to this new reality is hurting American pride.

Economic impact of different policies

Have the described different policy approaches had any tangible impact on the recent economic performance of the major economic powers?

The graph below shows that GDP development of the major blocks of economic powers, since the financial crisis of 2008/09. Since the financial crisis of 2008/09 the US and most of the European economies experienced a similar pattern of initial recovery followed by sluggish growth with the exception of Italy, which fared much worse. The Chinese economy continuously outperformed both the US and Europe although the gap seems to be gradually narrowing.

GDP growth in selected countries
(China: green, US: red and EU proxies German: blue, France: purple and Italy: brown)



Source: IMF

The graph hides longer term “trends” and short term “deviations”.
The continuing differences in GDP development between China and the West are expected to gradually disappear. This is a “natural” development: China growth rates should be seen levelling off as more and more people are lifted out of poverty
The newly emerging Chinese middle-classes will spend money on other goods than daily nutrition such as luxury goods, and can even start saving money for later.

Focussing on the recent years, (inside the red box) and zooming in on the US and European economies we may also see a deviation: the tax reform/fiscal stimulus of President Trump has made an impact on consumer and corporate spending and has boosted domestic demand but not (yet) corporate investments. This has lifted GDP growth to slightly higher levels than in Europe. On the other hand the unfunded tax reforms have clearly resulted in rising US public debt. The IMF warning is clear: the tax cuts have led to bigger demand but its impact may well peter out in the coming years, and could even turn negative if public deficits remain higher for which future generations need to pay (see dotted red line for 2020 onwards in the graph).

A recent column by Martin Wolf in the Financial Times is aptly titled *Donald Trump’s boom will prove to be hot air (see FT of 9 July 2019. The article concludes: “this could end in tears, with higher inflation and interest rates and damaged fiscal and monetary credibility”.*

3. The Economics of Bullying

Any major differences in policy views between the major powers would traditionally have been discussed at the meeting tables of IMF/World Bank, OECD, G20, G7 (or 8), NATO and many other regional or bilateral heads of state or government summits.

That is not the style of the new nationalist/populist approach fashioned by President Trump and followed by others across different parts in different parts of the world (e.g. Maduro in Venezuela,

Putin in Russia, Erdogan in Turkey, Orban in Hungary, Bolsonaro in Brazil, Salvini in Italy, Brexiteers in the UK).
They tend to ignore the route of international discussion and cooperation, and prefer to rally popular support for policies aimed at regaining lost grounds and restore lost powers or positions. From time to time their style resembles schoolyard bullying rather than international debate, as I wrote in my column last year ("A World of Bullies, Copycats and Chickens", August 2018).

The number of psychological and sociological studies on the bullying phenomenon has grown enormously in recent years, particularly in the context of children in school environments (see for example "the economic cost of bullying in Australian schools", March 2018) and bullying at the work place.

However, the economic aspects of bullying in other areas of life remain under-explored.
As a layperson in the psychology/sociology field, I have been reading up on the "bullying" phenomena and may have found some relevant thoughts for the discussion on bullying in an economics context.
Let me start trying to define "bullying".
First, I learned that bullying is not about ideas or any specific ideologies; it is about behaviour, power, and the public visibility of it.
Bullying can be defined as unwanted aggressive behaviour towards others involving real or perceived power imbalances and is often repetitive. The ultimate purpose of the bully may not always seem logical or clear to understand. It is however, always aimed at gaining advantages, and "scoring", whether they are psychological or material in nature.
Psychological research shows that people who bully have usually complicated background with exposures to past stress or trauma, with low self-esteem, and are often themselves insecure in relationships.
The advantages of bullying for the bullies are generally short-term in nature, but the visibility of clear losers, losses, and hurt is essential.

Looking at today's international political and economic situation, there is undoubtedly a growing need to seriously study the economics of bullying. In the following sections I will elaborate some key issues retained from my research.

In the process, I was greatly inspired by a fantastic recent publication by the brilliant Linda Yueh, a fellow in economics at Oxford University, who has cleverly linked the great economists from Adam Smith onwards to the big issues of today (The Great Economists, how their ideas can help us today, Penguin 2019).

My "economics of bullying" look at the following four important economic relationships:

- *Trade and the impact on growth and jobs*
- *Monetary policies and the role of central banks*
- *The impact on financial markets*
- *The future of multi-lateral cooperation*

Bullying on Trade and the impact on growth and Jobs

Since David Ricardo in the early 19th century, economists have always argued that international trade is good for everyone. His theory of comparative advantages states that a country should produce and trade in what it is good at. As a result international trade will enhance the efficiencies of economies, and thus benefits everyone.

This classical economic theorem has recently been reinvigorated by the analysis on "global value chains". Phenomenal work has been done by Professor Gary Gereffi of Duke University and his colleagues (see: Global Value Chains in a post crisis world, 2010).
Today's international trade is not just exporting finished products. Countries have become part of a global manufacturing/services chain in which different countries contribute to an end product, which could in principle, be assembled anywhere.

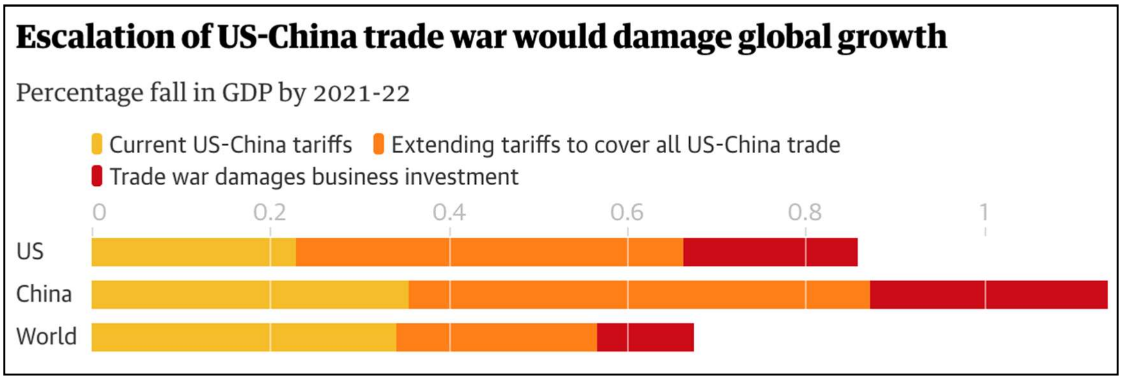
In defiance of these theories, Donald Trump presented a very different view while campaigning in the Rustbelt of Pennsylvania in June 2016:
"Our politicians have aggressively pursued a policy of globalization, moving our jobs, our wealth and our factories to Mexico and overseas.
For years, they watched on the sidelines as our jobs vanished and our communities were plunged into Depression-level unemployment. Many of these areas have never recovered and never will unless I become president. We will stand up to trade cheating. Cheating. Cheaters, that's what they are. Cheaters. We will stand up to trade cheating anywhere and everywhere it threatens the American job. On trade, on immigration, on foreign policy, we are going to put America first again. We are going to make America wealthy again."

When he was elected President, Mr Trump did not wait long to launch a series of measures and threats against "cheating" by breaking open existing trade agreements (e.g. NAFTA), and re-negotiating them, by labelling China a "currency manipulator" and starting trade cases against the world's second biggest economy, whilst simultaneously threatening the EU, and in particular Germany, with the ever present threat of similar future attacks.
When announcing the first round of tariffs on Chinese imports in March 2019, President Trump repeated his conviction:
'We've lost, over a fairly short period of time, 60,000 factories in our country — closed, shuttered, gone. Six million jobs, at least, gone. And I will bring them back!"

The theory of comparative advantages argues that each country should manufacture and trade in what it can best produce (the). Imposing trade barriers or taxing imports will in the long term be unsustainable and make everyone poorer.
Breaking up complex global value chains in manufacturing and services will also increase costs and undermine competiveness and will reduce growth and employment.

The current IMF and OECD forecasting models are very much based on this theory enriched by centuries of empirical evidence that followed. We have seen the recent IMF assessment in the July World Economic Outlook at the start of this commentary.

The OECD also warned that further escalation of the US-China trade war would unleash significant damage for the US economy and the global economy as a whole. Further escalation between Washington and Beijing would likely knock as much as 0.7% off the level of global GDP by 2021-22 (see graph below) and hit the US and Chinese economies hardest.



Source: OECD

These outcomes seem to be in line with the many forecasts on the GDP impact of Brexit on the UK economy, where economists have predicted -depending on the different Brexit scenarios - that a drop in trade followed by reduced GDP growth levels could be significant.

In conclusion from an economic theory point of view, it is fair to assume that trade restrictions will reduce GDP growth for the countries directly involved but also for the world economy as a whole. If such policy will also lead to breaking up long-term, structural global value chains, further important value will be destroyed and economic efficiency undermined.
This will logically negatively affect employment, lead to job losses and will undermine job security. All that will have an economic knock-on effect on macro consumption levels. Then the economic negative spiral will lead to lower investment and further growth slow down.

Bullying on monetary policies: the role of central banks

For Milton Friedman as the father of monetary economics, the independence of central banks has been a core element of economic and monetary policy. As central banks regulate the money supply in the national economy, he always stipulated that such function needed to be independent from government and politics in order to avoid the central bank printing money for government budget and political funding.

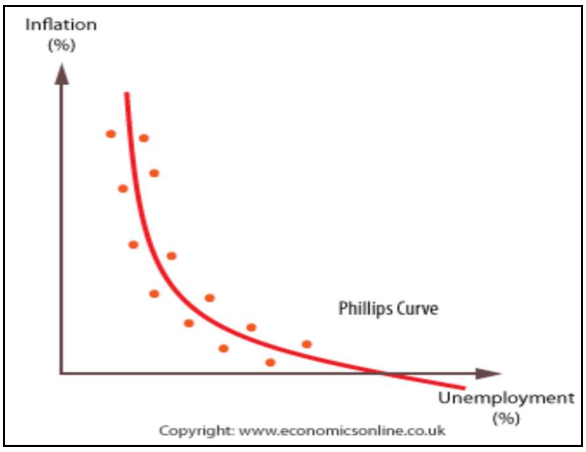
To read that President Erdogan of Turkey recently sacked the Governor of the Central Bank of Turkey would have brought tears to the eyes of Friedman. The reason for his dismissal seems to be his lack of response to the political pressure to lower the current high interest rates, which the President characterised as “the mother and father of all evil”.

This example seems inspired by President Trump’s series of attacks on the Fed and its Chair Jerome Powell over much of the last 12 months culminating in another clear statement in June this year:
“They made a big mistake. They raised interest rates far too fast. It’s more than just Jay Powell. We have people on the Fed that really weren’t -you know. They’re not my people”.
The last remark seems to include a threat.

Milton Friedman was very vocal in defending the independence to keep governments on the straight and narrow in their fiscal policies and public finance.
This did not mean that central banks needed to be passive bystanders in economic cycles, on the contrary.
Based on his research on the Great Depression of the 1930s, Friedman advocated a model of liberal market economics with little government interference combined with accommodating monetary policies by central banks. In his view the 1930s illustrated that western governments

followed a reverse recipe with dire consequences (an "over-governed society" and passive central banks).

Friedman's thinking was complemented by LSE professor A.W. Phillips and his macro-economic analysis of post-World War II employment and inflation data which resulted in the development of the so-called Phillips curve (see below).



Phillips' thesis that high inflation destroys employment and growth and welfare, generated many followers in economics and politics.
As a result, the control of inflation by monetary policy instruments became part of the core mandate of central banks in the western world. More recently, the reverse hypothesis (too low inflation also kills growth) has become mainstream following the 2008/09 financial crisis. Particularly the Bank of Japan and the ECB have resorted to active monetary policies to re-generate inflation upwards from the current morose level.

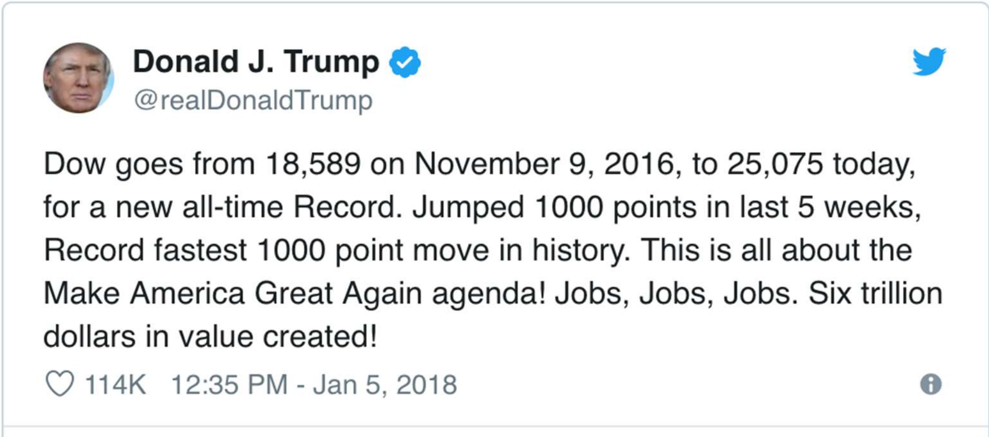
Today's political pressure on central banks is very much focussed on the key plank of monetary policy: the setting interest rates.
In the political debate, the link between interest rates and the relative value of the currency is essential. President Trump has accused China and the Euro zone countries to "manipulate" their Yuan and Euro to a relatively low level compared to the US dollar in order to facilitate their exports.

Based on long established economic principles, economists would conclude that independence of central banks from political interference was/is essential for sustainable economic growth and financial stability.
Politicising central bank's policies particularly on interest rates is not sound economics as it undermines financial stability and credibility and creates new volatility in financial markets (see below).
Theory and historical practice show that competitive currency devaluation policies will not work either but could start a race to the bottom with in the end only losers.

Bullying and the impact on financial markets

Paul Samuelson was one of the giants of economic theory of the 20th century. He was a scientific omnivore tackling many macro and micro economic topics. In his "modern finance theory" he explained that financial markets are bound to be and stay efficient provided that information is always readily available for all participants and governments/regulators do not interfere too much with market processes.

Luckily Samuelson was never exposed to the tweets of Donald Trump. Never has a US President commented so frequently on the stock market performance and linked it all to his policy action (see January 2018 Tweet below).



Economic theory points out that financial markets are very much driven by factors such as

- fundamentals (economic outlook for country, sectors and companies)
- valuation (Price/Earnings ratios and risk free interest rates
- regulatory frameworks (providing stability and transparency)
- sentiment (investor confidence).

As seen over the recent period, the economics of bullying weaken many of the fundamental drivers of financial markets:
The economic fundamentals are very much under siege through the bullying on trade.
The valuation of assets continues to be artificially boosted by the pressure for low interest rates.
Regulatory frameworks are frequently shaken by statements on de-regulation and queries on the validity of central bank independence.
And market sentiments yoyo with the volatile communications of the bullies.
Academic research points at a link between stock prices volatility and strong independent central bank policies. A recent study by using panel data analysis on a set of 29 countries from 1998 to 2005 summarises:
"In conclusion central bank's characteristics like the level of independence and the level of transparency may enhance the traditional goal of financial stability, which was highlighted by the recent financial crisis"
(S. Papadamou, c.s. Does Central Bank Independence Affect Stock Market Volatility?)

In summary the economist's view is that the current political populist debate on topics ranging from trade wars, to asset pricing, to interest rates and independence of central banks undermine stability and credibility of financial markets. This could lead to increased uncertainty and reduced financial stability and may trigger additional financial market volatility and distorted balanced risk/reward ratios.
Although, volatility is not a negative factor per se, but in the current climate it could reduce investors' appetite and may dry up funds, which would otherwise be available for investment.
Open, transparent and easily tradable financial markets are important for future growth and efficient economies.

Bullying and the future of multi-lateral cooperation

When a young John Maynard Keynes published *The Economic Consequences of the Peace* in 1919, he revolutionized the post-World War I economic thinking about how the international community should respond to post-war rebuilding efforts. The need to offer international support for rebuilding post-war Germany would benefit all nations. Many other distinguished economists such as Nobel laureate Douglass North have built on this concept underlining the importance on international cooperation, the rule of law and supporting multi-lateral institutions.

The United States have always been at the forefront of new international agreements and multi-lateral cooperation. It was US leadership that brought the world into a new area of international cooperation following World War II in organising the Breton Woods conference, attended by 44 nations which established the World Bank/IMF institutions and reaffirmed the United Nations system.

President Trump has taken a very different view on international institutions. In December 2016, then-President-elect Trump tweeted:
"The United Nations has such great potential but right now it is just a club for people to get together, talk and have a good time. So sad!"
And in his first address to the UN General Assembly in September 2018 he elaborated his view by saying:
"We reject globalism and embrace the doctrine of patriotism… Moving forward, we are only going to give foreign aid to those who respect us and, frankly, are our friends.
And we expect other countries to pay their fair share for the cost of their defense."

The US Centre of the London School of Economics recently evaluated the effectiveness of President's Trump's policies based on extensive surveys under 1000 economic experts. The large majority of President Trump's policies have been labelled "ineffective/negative" (see table from the LSE study below).

Table 2 – Assessments of the influence of the Trump administration on international policy outcomes

	U.S. experts			World experts		
	Positive	Ineffective	Negative	Positive	Ineffective	Negative
Balancing international trade	4.1	54.1	41.6	2.6	63.6	33.7
International cooperation in multilateral organisations	0.0	18.5	81.4	1.8	38.8	59.2
Peace and security	0.0	29.6	70.4	2.3	37.0	60.7

Source: ifo World Economic Survey (WES) IV/2017

Source LSE: Allesandro Lanteri: Economists think Trump harmed the world economy January 2018.

For many people the US withdrawal from the Paris Treaty on Climate Change was the ultimate sign of President Trump's nationalist agenda. He clarified his motives in June 2017:
"The Paris Climate Accord is simply the latest example of Washington entering into an agreement that disadvantages the United States to the exclusive benefit of other countries, leaving American workers — who I love — and taxpayers to absorb the cost in terms of lost jobs, lower wages, shuttered factories, and vastly diminished economic production."

Such stance would have been Douglass North's worst nightmare.
His theory of path-dependence development of nations was built on the view that nations could only escape poverty through deviating from historical paths through international cooperation otherwise they would remain stuck in their own path leading to nowhere.

So the economist view would be that nationalist views and bilateral approaches would destroy the basics of international cooperation and negatively impact development of poorer nations. The multi-lateral institutions framework has served the world well since Bretton Woods. Reversing that would ultimately reduce world growth and would be hardest felt by poorer developing nations.
In summary it would leave the world poorer, would increase international tensions and conflict, create new uncertainties and volatility and - with the current US Climate Change approach – would make the world a less sustainable place to live for future generations.

4. The Economics of Bullying and the outlook for investing

My "Economics of Bullying" does not make for happy reading.
Apply current economic models to the bullying phenomenon and we see:

- Trade conflicts and competitive devaluations negatively impact global economic growth.
- Such trade barriers will also break up important global value chains in manufacturing and services, and undermine arduously won economic efficiencies.
- Politicising monetary policy and forcing lower interest rates result in competitive devaluations (race to the bottom) and lead to unsustainable economics and undermines economic stability.
- Artificially low interest rates risks are likely to create new asset bubbles and thus new inequalities which will feed further popular discontent.
- Questioning central bank independence will increase political tensions and to further financial market volatility.
- Fragmentation of international relations and multi-lateral cooperation destabilise international development and threaten world peace.
- Withdrawing from international climate change agreements results in making the world a worse place for future generations and may trigger further migratory flows.

For the investor world the Economics of Bullying brings a series of messages of caution:
With a looming slowdown in economic growth, the fundamentals for companies' future earnings will come under pressure. Stock markets should start reflecting this in their valuations.
Although continued soft monetary policies may keep interest rates low and thus provide support for investing in risk assets, investors may focus more on alternative/illiquid investments. Their valuations are less impacted by market sentiments and carry more cash flow based valuations.
Financial markets volatility will be a feature for the future with potentially large unpredictable shocks shaking market sentiment.

So where to turn to as a long-term investor?
My recipe is simple:

- Hold the longer term investment horizon in view
- Diversify portfolio to include alternative/illiquid real asset based funds
- Focus on trends such as green investments, energy transition and longevity/digital health
- Actively take positions in equity and other risk assets exposures via low costs ETFs, moving up and down with changing market outlook/sentiment

- Monitor closely, and act swiftly, but keep the long term horizon in sight.

The Economics of Bullying may not last for long.
In my view, the bullied/victims need to stand up to the bullies. Victims joining forces may help, but bystanders need to understand that one is never a real bystander in this game.
History shows that bystanders are just the victims of tomorrow.

Bart Le Blanc, July 2019.