NEC MAGAZINE

CONNECTING ECONOMICS

NUMBER 17 | NOV & DEC 2017

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Prevent the housing bubble burst – Chinese authorities take actions

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US student loans – debt levels become oppressive

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The fear of the next Minsky moment

The fear of the next debt crisis and the negative consequences of over-leveraged economies have become imminent in the recent discussions about economic policies - policy making is key to curb potential threats

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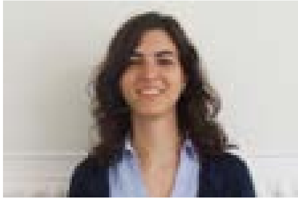
MEET OUR TEAM

NEC is a club dedicated to challenging, discussing, and developing economics, making the difference through education, communication and, above all, practice.

In between the last published newsletter and this magazine, we had substantial growth. The referred time lapse was crucial to promote new activities and events with new governmental and institutional partnerships, enhancing quality research and stimulating the public debate on key economic topics.

On this growth trend, we now relaunch our former newsletter as a magazine, focused on serving your economic and political interests, as well as providing you a cluster of news within economic issues. It is with great pleasure that the NEC team embraces this challenge once more, now with the contribution of the eighteen young economists that joined this semester.



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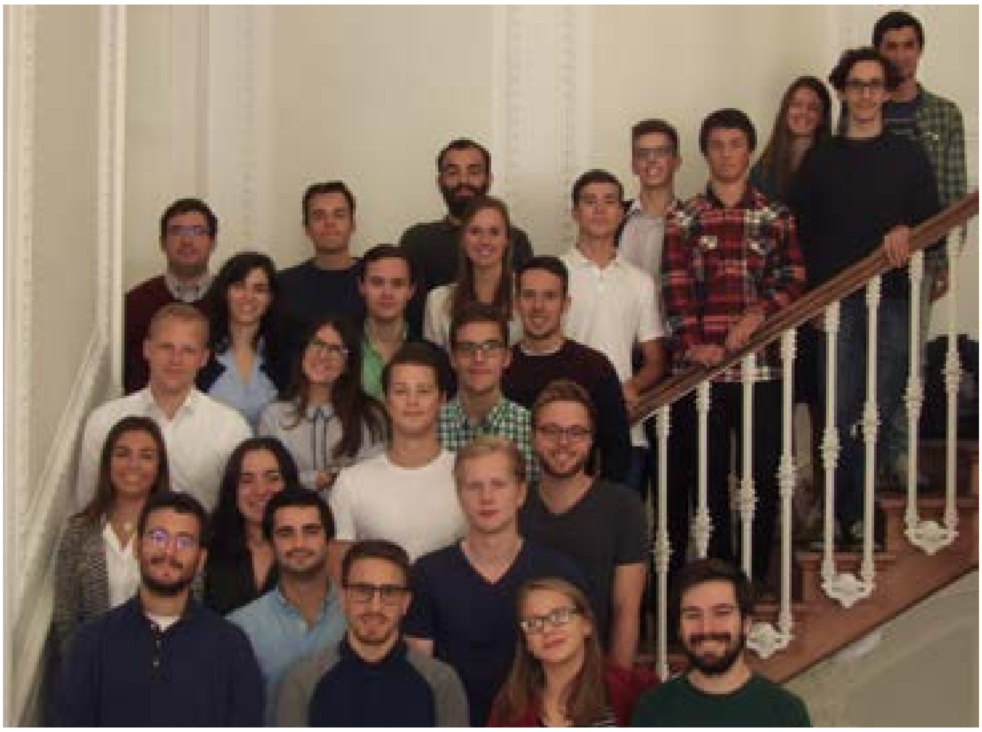

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LETTER FROM THE EDITORS

Dear Reader,

At the Nova Economics Club and NEC Magazine, we hope that you had a wonderful Christmas break and wish you happy and prosperous New Year 2018. After our successful relaunch of the NEC Magazine last year, we are happy to announce the second edition of this academic year.

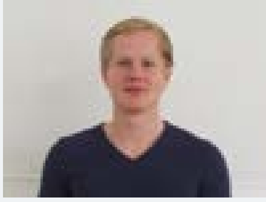
This edition encompasses important developments in November and December. It has a special focus on recent developments in Asia, whereby we take a closer look at the Chinese housing market and highlight the lessons that can be learned from the burst of the Japanese asset bubble in the nineties. Moreover, we abstract from the dynamics of Asian markets to discuss the surging debt levels and likelihood of the next Minsky moment for the global economy.

Debt is also hotly debated among students of the American education system. Even though American universities rank among the best, we analyse how overwhelming the debt burden has become for the average student who is seeking tertiary education.

Enjoy reading this edition and benefit from new insights!

JOÃO MATIAS

PAUL-LEONARD GLOECKNER



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NOVEMBER IN REVIEW

Reviewed by Gonçalo D'Alte

1 EU FARMERS SOW SEEDS OF DOUBT AS BRUSSELS MOVES TO SEAL MERCOSUR PACT

The EU wants to pursue a trade deal with MERCOSUR, which estimates it could eliminate €4bn in annual customs duties on EU exports. However, EU countries, such as France and Ireland, are opposing this deal due to reservations in the beef and ethanol markets, since the entry of South American players, such as Brazil and Argentina, would lead to fierce competition in these industries.

2 BANK OF ENGLAND RAISES INTEREST RATES FOR THE FIRST TIME IN A DECADE

The BoE increased interest rates by a quarter point to 0.5 per cent, signaling the start of a process of increasing borrowing costs.

6 EUROZONE INVESTOR CONFIDENCE HIGHEST SINCE JULY 2007-SURVEY

Investor confidence jumped more than forecasted, hitting its highest level in more than a decade, highlighting the good conditions in the Eurozone. The Sentix investor sentiment survey increased from 29.7 mark in the previous month to 34 at the start of this month, which is above a forecast of 30.8 from Reuters.

9 IRELAND DEFLATION RISK RECEDES AS COUNTRY POSTS THIRD MONTH OF PRICE GROWTH

Consumer prices increased at a year-on-year rate of 0.5 per cent, in the previous month, being the strongest increase since April. The figure exceeds economists' forecast of a 0.2 per cent increase. Cheaper imports from the UK, due to the decrease in value of the pound, led Ireland into two months of inflation beginning in June 2017. In October 2017, housing, water, electricity gas and other fuels category were the ones with the major price growth.

13 RISKIEST COUNTRIES ARE SELLING DEBT AT RECORD RATE

Supported by the global economic upswing and investors' search for yield in a world of historically low returns, the riskiest countries are issuing debt at a record rate. Junk-rated EM sovereigns have raised $75bn in syndicated bonds, this year, 50 per cent highest total on record, according to figures from Dealogic. This reflects the penetration of capital into locations that were previously not much explored by investors.

17 PORTUGAL MAKES ANOTHER EARLY IMF REPAYMENT

Portugal has made an early repayment of €2.78bn to the IMF to pay back the bailout loans from IMF. This year, the early payments have amounted to €9bn, the highest amount since the bailout, and the ahead schedule of repayments will continue in 2018, said the ministry. Government said that early payments have a "decisive contribution" in improving Portugal's public debt sustainability.

22 FED SIGNALS NEAR-TERM RATE RISE DESPITE INFLATION QUESTIONS

Federal Reserve's policymakers signaled the eminence to lift rates again. Given the above-trend growth and a beyond full employment labour market, a number of Fed policymakers said that another increase in the target range might be needed "in the near term" if the economy stayed on track. This view was not unanimous and before the latest meeting it was revealed that the central bank is still struggling to get to grips of the implications of sub-target inflation.

24 JAPAN MANUFACTURING GROWTH RISES AT FASTEST PACE IN 3 YEARS

The Nikkei-Markit "flash" Japan manufacturing purchasing managers' index rose to 53.8, compared to a value of 52.8 in October, with manufacturing conditions at the highest rate since March 2014. Joe Hayes, economist at HIS Markit said that new orders increased strongly, due to business activity from abroad together with recent yen weakness. Furthermore, he said that new export orders expanded at the fastest pace in almost four years.

28 POWELL SAYS REGULATIONS ON BIG BANKS 'TOUGH ENOUGH' TO ENSURE STABILITY

Powell signaled the end of tightening regulation on big banks, saying that the existing rules were already 'tough enough' to make sure the system was stable. The central banker, nominated by Donald Trump to serve as Fed chair, supported the idea of re-writing the Volcker Rule on proprietary trading, adding that the central bank had made progress to end the problem of banks that are too big to fail.

DECEMBER IN REVIEW

Reviewed by Filipe Berjano

2 TRUMP'S "MASSIVE TAX CUT" APPROVED

The United States Senate passes the highly controversial Tax Cuts and Jobs Act of 2017 on a 51-49 vote. This bill changes the tax code by reducing taxes on both individuals and corporations. Forecasts point to higher GDP growth and employment over the next 10 years while implying an addition of $1.455 trillion to the $10 trillion increase forecast under the previous policy baseline and existing $20 trillion US government debt.

4 MARIO CENTENO WILL LEAD THE EUROGROUP

Portugal's Mario Centeno is the new leader of the Eurogroup, succeeding former Dutch Finance Minister, Jeroen Dijsselbloem. The Harvard-graduate and previous Portuguese Minister of Finance will conduct the group that sets out the economic strategies of the currency bloc in a time when many call for a reform of the Euro.

6 US RECOGNIZES JERUSALEM AS ISRAEL'S CAPITAL

The United States have officially recognized the holy city of Jerusalem as the capital of Israel. In a move that sparked outrage in the Palestinian Authority and raised discomfort and opposition in the world community, President Trump has ordered the transfer of the US embassy from its current location in Tel Aviv to the Holy City.

8 EU AND JAPAN FINALIZE TRADE DEAL

The European Union and Japan concluded negotiations on a free trade deal to create the world's largest open economic area, signaling their rejection of the more protectionist stance of US President Donald Trump. This treaty between two economies that makes up 30% of the World GDP comes after the US stopped the Trans-Pacific Partnership on President Trump's first day in office.

14 NET NEUTRALITY REVOKED

US regulators dismantle the net neutrality legislation that enforced equal treatment to all online content. Internet providers can now slow down or speed up certain content or services of their choice in the United States. The end of net neutrality has been perceived by its critics as an antidemocratic move while its supporters say that it will improve competition between internet providers.

21 PRO-INDEPENDENCE PARTIES SWEEP CATALAN ELECTIONS

Pro-independence parties won the majority of parliamentary seats on the latest regional elections in Catalonia. The suffrage had been called by the Spanish Government after it had triggered article 155 of the Spanish constitution that suspended Catalan's autonomy following the October referendum on independence.

29 VENEZUELA CREATES NEW CRYPTOCURRENCY

Venezuelan authorities announced the creation of its very own cryptocurrency. The Petro, as it will be called, will be backed by 5.3 billion barrels of oil worth an estimated 267 billion US dollars. Venezuela reportedly owns the largest oil reserves in the world and has recently been ravaged by recession and high inflation.

30 MASSIVE PROTESTS IN IRAN

Nationwide protests against the Iranian regime have greatly escalated. Demonstrators call for the removal of Muslim clerics from power. What started as a outcry against price increases in the North-eastern city of Mashhad has now evolved into massive protests against the Islamic Republic led by the religiously conservative Ayatollahs since 1979.

NEC RECOMMENDS

Recommended by Rodrigo Barrela and Pedro Pereira

FINANCIAL TIMES

NOV 8, 2017

EUROPEAN LEADERS SEEM DETERMINED TO REMAKE THE "GLOBAL SAVINGS GLUT" ON A MASSIVE SCALE

Twenty years ago, following the surge in investments to emerging markets, some Asian countries entered a deep recession due to excessive borrowing used to finance real estate bubbles and acquisitions. The countries that were most affected by these crises were running current account deficits prior to the burst, which then turned to current account surpluses in the years following the recessions.

Fast-forward twenty years, and a similar scenario is seen in the Eurozone– the elimination of currency risk coupled with lower interest rates led to huge inflows of capital to European countries, which started accumulating huge current account deficits before the financial crisis in 2008. Countries such as Cyprus, Portugal, Spain and Estonia all had deficits in double digits. As the crisis hit, all these countries turned from net borrowers to net lenders. Today, the Eurozone has a whole builds up a large current account surplus– something that can be regarded as problematic for the global economy, since for every lender, there needs to be a borrower. This imbalance may be unsustainable in the long run.

NOV 1, 2017

GLOBAL GENDER GAP WILL TAKE 100 YEARS TO CLOSE, SAYS WEF STUDY

The World Economic Forum, an economic nonprofit independent foundation, released its annual report on gender equality, which concludes that there is an increasing inequality in the workplace and in political representation. The world seems to have regressed in terms of gender equality when compared to 2016 and 2015, mainly due to these two factors.

The report also finds that the share of economically active women has dropped since 2006 and that the income gender gap has widened over the past 10 years, especially in countries such as Kenya, Brazil, Japan and India.

DEC 21, 2017

THE FISCAL SURPLUS THAT GERMANY SHOULD SPEND

Germany will pass New Year's Eve without a government in office after the past elections in September. We can expect one of two things to happen next year concerning this subject: a grand coalition between Christian Democrats and Social Democrats or new elections.

If this grand coalition continues, it will be the third government out of the last four, to have this composition. The question of what to do with the current fiscal surplus may be an important step for Social Democrats to decide whether they support Merkel's new mandate as a chancellor. Some Germans demand that this surplus, or part of it, should be redirected to infrastructure investments as large parts of the infrastructure is becoming obsolete. Let us wait and see what 2018 brings for the strongest European economy.

THE ECONOMIST

DEC 20, 2017

TAX REFORM HAS PASSED. WHAT NOW?

America's congress finally approved the bill promoted by the republican party that dictates, according to Mr. Trump, the largest tax cut in American history. Although this may not be true, it is the first major legislative accomplishment of the president since he is in charge and the first significant tax reform since 1986.

This reform will have huge impact on both political and economic fields. Some argue that it is disrespectful for the great majority of the Americans, by reducing taxes for the rich. Although, the other side claims that it will attract investment and put the US economy back on track. Also, the GDP is expected to grow as a result of this fiscal stimulus.

The future will show whether this presidential measure will have positive or negative impact in the long term.

PROJECT SYNDICATE

NOV 7, 2017

THE MORAL IDENTITY OF HOMO ECONOMICUS

"A quiet revolution is challenging the foundations of the dismal science." This is how Ricardo Hausmann, former Chief Economist of the Inter-American Development Bank describes the impact of behavioral economics on the economic science as a whole.

In this article, the author points out a few arguments as to why the field of behavioral economics is changing how we perceive economics, challenging its most ancient and unquestionable assumptions, most of which are taught to students as undeniable truths. By giving us some examples of choice-making and directing us to some of the literature available on the subject, Hausmann presents an interesting and defying view on how Economics could evolve.

NOV 20, 2017

INEQUALITY COMES TO ASIA

Lee Jong-Wha, Professor of Economics and Director of the Asiatic Research Institute at Korea University, walks us through how inequality has evolved in the Asian continent over the past years, warning about a worsening of income distribution in countries such as China, Singapore or South Korea.

The author attributes this behavior to the growing trend of globalization and fast, unsustainable economic growth, arguing that wages of high-skilled workers are rising relatively to low-skilled ones.

As a solution to this trend, Jong-Wha calls out for structural reforms that act more as long-term solutions rather than short-term and easier to implement solutions, such as minimum wage increases.

DEC 29, 2017

CHINA, THE INNOVATION DRAGON

Chinese policies allied with the recent shift in American policies, may change the environment of the digital economy and place the Middle Kingdom as the world's innovation leader.

The rapid growth after the transition to an market economy resulted in a manufacturing boom. Today, China's exports represent 13% of the world's total. A path to economic modernization was also accompanied by massive construction of new infrastructures such as airports, bridges, energy plants or even the world's largest bullet train system.

This month, Apple's CEO said that China is no longer a low labour cost country and that was not the reason to come to China. China's strengths in manufacturing lie in an advanced production know-how and supply-chain networks which rank among the best in the world, if not the best.

VOX

NOV 13, 2017

OPINION: THE CASE FOR TRADABLE GROWTH

Nick Lea, Deputy Chief Economist of the Department for International Development, argues that the least-developed countries should bet on tradable sector led growth to enhance their economic growth capabilities.

The economist argues that expanding export capacity can lead to long-term benefits, as it is impossible to sustain domestic markets growth for very long periods without resorting to global openness.

However, the author also points out to some of the drawbacks of such strategy, mainly those regarding skills mismatches, competition and exchange rate risks.

DEC 9, 2017

HERE'S WHY NORTH KOREA'S ECONOMY IS ABLE TO SURVIVE SANCTION AFTER SANCTION

North Korea's nuclear program is one of the biggest threats to western society, especially for US security. To discourage its activity, the Trump administration has been imposing tougher and tougher sanctions on North Korea's economy, but it seems to be not effective enough.

There are some clues about why this may be happening, and the main reason seems to be that some countries are not abiding to the UN agreement on sanctions that are, for itself, hard to be widely recognized by China and, sometimes, Russia.

Trump's main strategy is to negotiate with China's authorities and convince them to influence Kim Jong Un's policies, although, the US president's position on international affairs makes it tough to reach an agreement with China. In the meantime, the authoritarian regime in North Korea continues to develop its program, while becoming a growing threat mainly for US, South Korea and Japan.

THE FEAR OF THE NEXT MINSKY MOMENT

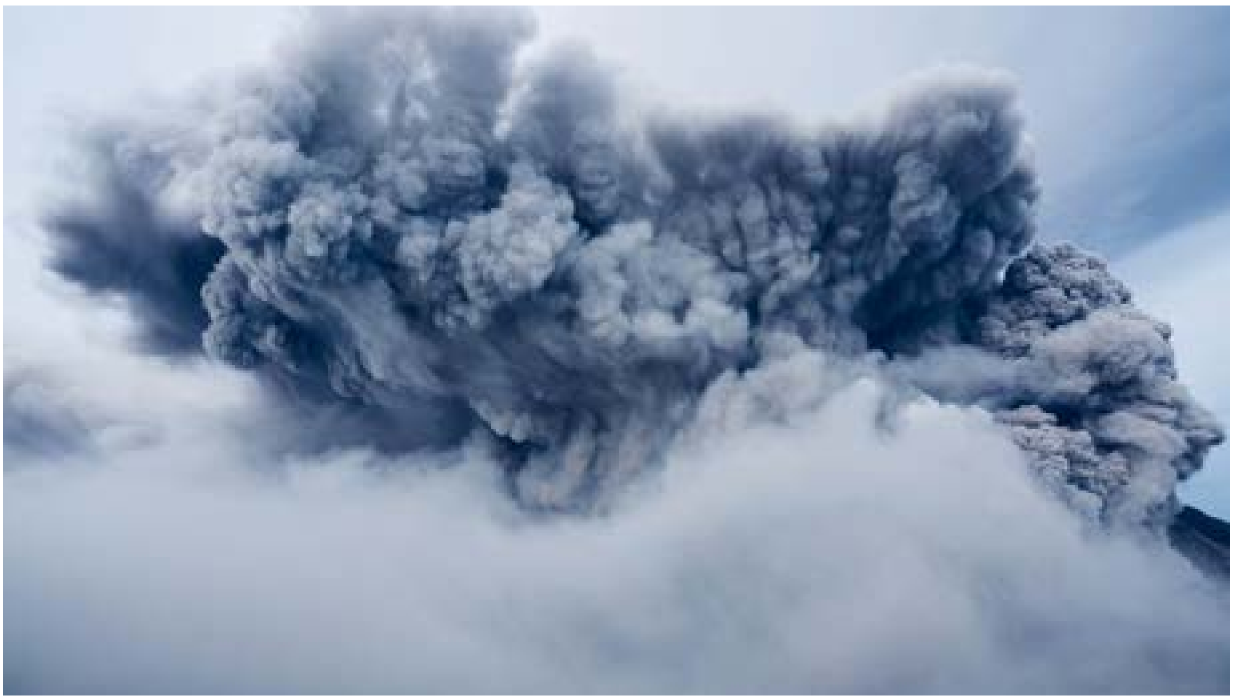
WHAT TO KEEP IN MIND ABOUT BUSINESS CYCLES

Written by Fabio Stohler

During the National People's Congress in China, Zhou Xiaochuan, China's central bank governor, warned against the next "Minsky moment" as a result of excessive debt levels and optimism. A Minsky moment is a sudden collapse of asset prices during a small economic downturn after a long period of growth due to the buildup of unsustainable debt levels. His warnings have largely stayed unnoticed. Is the global economy at the edge of facing a similar crisis scenario as in the financial crisis of 2008?

At the first glance, policymakers have little to worry. The economic recovery has been strong. Unemployment levels have reached historic lows and inflation has started to pick up in several countries. Since the global financial crisis in 2008 and the subsequent European debt crisis, important lessons learned slowly start to fade away. Optimism prevails. The US had already recovered from the recession and returned to positive GDP growth in 2010, whereas the Eurozone only returned to economic growth in 2014. China's growth rate has gradually been declining but remains at a high level around 6.5% per year. These developments were caused by fiscal and monetary policy intervention to stimulate aggregate demand. These interventions influenced other economic areas, as well. This article highlights the interaction between intervention and economic variables as well as their implication for the prospective economic development to prevent the next Minsky moment.

First, a look at private, public and corporate debt is insightful. Debt is the manifestation of lending, which is used to finance expenditure today in exchange for future income. Therefore, debt is partly the cause of additional aggregate demand. The current public debt levels are directly related to fiscal intervention and indirectly through monetary policy. According to the Bank of International Settlement, global debt is at 330 percent of annual economic output up from 225 percent in 2008. Leverage is high in the US, in China and



certain European countries. China has already experienced a credit downgrade due to the high debt levels of Chinese state-owned firms. Contrary, the US has high private consumption debt. Ireland, Portugal, and Spain managed to slightly reduce their private debt but stagnated at high debt levels. Private debt in Greece, France, Belgium, and Finland increased continuously over the last years. Furthermore, leverage ratios of corporations in the Netherlands, Belgium, France, Portugal, Ireland, and Luxembourg have continuously increased.

Lending and borrowing activities in an economy lead to debt but are necessary operations since it enables agents to smooth consumption and finance expenditures upfront. However, debt imposes restrictions on economic agents in the case of an economic downturn. With decreasing income, debt prevents households and firms from more expenditure and thereby restricts consumption and investment expenditures. Banks may amplify this effect through three mechanisms. First, when facing non-performing loans, banks adjust the loan-to-value-ratio and demand higher collateral for borrowing. Second, since asset valuations are procyclic, the value of collateral decreases during the crisis. Due to asymmetric information, banks restrict agents from borrowing because they have difficulties to provide the necessary collateral. With declining asset prices during a crisis, this further restricts credit access in the entire economy. Third, in crisis situations, interest rates normally increase because of higher perceived risk in the economy. Higher interest rates make it more expensive for people to access credit which amplifies the effect portrayed above. These three points are especially harmful to agents which are already indebted because they are more vulnerable to volatility and a worsening of credit conditions.

Second, monetary policy plays a key role. Open market operations and negative interest rates on deposits are widely discussed and have major implications. Financial corporations use the cheap money to restructure their balance sheet with the goal to meet new, stricter financial regulations. Furthermore, the cheap money was used to invest into new, sometimes even riskier, projects. Since the demand for investment opportunities with positive returns is high in a low yield environment, this resulted in higher valuations of safe assets. Furthermore, funds were channeled into riskier investments in search of returns. Therefore, investors move higher along the risk curve to acquire moderate returns and invest in risky projects. This has major implications for the survival of failing firms. If banks face a loss through bad performing loans, they can take the loss or provide the corporation

ALTHOUGH THE AGGREGATE DATA MAY BE WORRISOME, THE DATA FOR INDIVIDUAL COUNTRIES MAY PROVIDE A MORE OPTIMISTIC PICTURE.

with additional money, hoping to avoid the absolute bankruptcy. Corporations, which continue to operate due to credit top-ups are known as zombie firms. These may be profitable investments if the companies are able to get back on track and have become especially interesting investments throughout the past years due to fewer alternative investments. As the OECD concluded in a study from 2017, low rates, therefore, result in the survival of zombie borrowers and companies. This may also imply that capital is inefficiently allocated within the economy.

Although economic theory predicts that investment should only respond negatively once interest rates increase, compared to historical investment levels at this point of the business cycle, current investment is low. The cheap central bank money, therefore, was not only used for financing real projects, but for financial investment. Driven by additional demand for investment projects, most major stock indices announced historical highs, housing prices in Western metropolis increased and capital markets continue to experience a period of historically low volatility. Due to lack of alternative investments, investors pay high prices for assets. However, overpriced investments may lead to lower returns and increase the risk of future losses. Since data on volatility and interest rates are essential input factors for investment decisions, current investment decisions could be biased by the historically low rates and low volatility environment. With agents being highly leveraged and becoming too optimistic, small changes in these variables may have huge downside effects.

The interplay of these variables discussed above has important implications for the stability of the global financial sector. It poses a potential threat to the stability of the banking sector in an economic downturn scenario. Policymakers should, therefore, be aware that shocks to these key input variables may trigger economic fluctuations, which may be amplified by high leverage and private debt in several countries. However, the economic environment is more complex. Although the aggregate data may be worrisome, the data for individual countries may provide a more optimistic picture. Highly indebted countries in the Eurozone are benefiting from higher credibility and lower borrowing cost in the market which provides a chance to take preventive measures. In the US, private debt levels may be high, but there is little evidence for a credit bubble in private consumption so far. In China, the Chinese government has taken measures to encourage a deleveraging of state-owned enterprise and to prevent the real estate market from overheating. However, more needs to be undertaken. Policymakers should take advantage of the current positive economic environment to deal with the high debt levels and to prepare for a downturn in the future. That way, the next Minsky moment may be avoided.

AMERICAN HIGHER EDUCATION: A RECIPE FOR DISASTER?

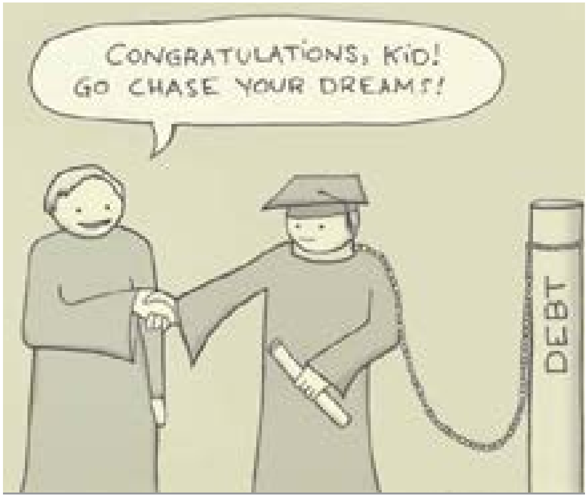
A PYRAMID OF DEBT WORTH $1.48 TRILLION

Written by Daniel Soares

TUITION FEES

In 1974, the median American family earned just under $13,000 a year. At the time, a new home could be purchased for $36,000 and an average new car for $4,400. Attending a four-year private college cost around $2,000 a year; affordable to median earners willing to make small sacrifices. Attending a public college was even more affordable at the time with a price tag of approximately $510 a year. If these figures are converted to current day dollars, they are closer to $62,000 per annum for median family income, $174,000 for a house, a sticker price of $21,300 for the same car, $10,300 for the private university, and $2,500 for the public one.(1)

A lot has changed since then. Median family income has risen slightly, to about $64,000, while median home prices have increased by about 66%. Car prices have remained steady over this period of time. The real outlier here is higher education. Tuition at a private university is now roughly three times as expensive as it was in 1974, costing an average of $31,000 a year; public tuition, at $9,000, has risen by nearly four times.



FINANCIAL AID

The exponential increase in college attendance costs led to the obvious need to expand financial aid programs. Federal Pell Grants, obtained by completing the bureaucratic Free Application for Federal Student Aid (FAFSA) are no longer meeting the mark with a maximum payout of $5,730 reserved for only the most needy families.

Some private universities are known to be more generous in awarding scholarships, grants, and work-study opportunities to their students. The latter two tend to be reserved for students who can provide evidence of their low-income backgrounds, such as proof of receiving free lunch during secondary education, or those who are undergoing severe extenuating circumstances that have a detrimental effect on their financial situation.

Traditionally, both athletic and merit-based scholarships were perceived as golden tickets to a free or little to no cost education. The only prerequisites being strong motivation, a bit of luck, and capacity to excel at either collegiate-level sports or maintaining a stellar grade point average. While the former may still keep its golden ticket status, the allocation of merit-based scholarships has changed.

For starters, it has become rarer than ever to earn a 'full-ride, merit-based' scholarship without belonging to an underrepresented minority group.(2) Many upper-tier, highly sought after universities have done away entirely with academic performance scholarships. Their reasoning being that they receive countless applications from cream of the crop students to the point where the quantity of valedictorians rejected becomes a proud statistic of theirs. At this level of academic achievement, it becomes near impossible to distinguish between candidates as they would theoretically all be worthy of receiving a merit-based scholarship.

EDUCATION LOANS

The average American university student is not an underrepresented minority, low-income, athletic genius. As such, they must often times look for some sort of funding to fill the gap between the exorbitant tuition fees and any parental or other aid that they may have been lucky enough to qualify for. Companies such as Navient, Nelnet, and Sallie Mae are eager to fill this gap through private education loans.

In total, Americans hold in excess of $1.48 trillions of student loan debt distributed across 44.2 million individuals. The average Class of 2016 graduate has $37,172 in student loan debt, up 6% from the previous year.

If the numbers themselves are not grave enough, the aforementioned student loan servicing companies are often times accused of predatory loan practices and sketchy business dealings. On October 5th of this year, Navient Corporation's share price dropped over 14% after the Pennsylvania Attorney General, Josh Shapiro, filed a lawsuit alleging that they cheated struggling debtors by steering them into payment plans that postponed bills and caused interest to accumulate rather than incentivizing income-driven repayment plans.

GRADUATION RATES

A study from the National Center for Education Statistics indicates that the 6-year graduation rate for first-time, full-time undergraduate students who began seeking a bachelor's degree at a 4-year degree-granting institution in fall 2009 was 59% (3). That is, 59% had completed a bachelor's degree by 2015 at the same institution where they started in 2009. The 6-year graduation rate was 59% at public institutions, 66% at private nonprofit institutions, and 23% at private for-profit institutions. The 6-year graduation rate was 62% for females and 56% for males; it was higher for females than for males at both public (61% vs. 55%) and private nonprofit institutions (68% vs. 62%). However, at private for-profit institutions, males had a higher 6-year graduation rate than females (24% vs. 22%).

The six-year graduation rates, full-time students who began seeking a bachelor's degree in fall 2009, varied according to institutional selectivity. In particular, 6-year graduation rates were highest at institutions that were the most selective (i.e., had the lowest admissions acceptance rates) and were lowest at institutions that were the least selective (i.e., had open admissions policies). For example, at 4-year institutions with open admissions policies, 32% of students completed a bachelor's degree within 6 years. Meanwhile at 4-year institutions where the acceptance rate was less than 25% of applicants, the 6-year graduation rate was 88%.

OUTLOOK

The combination of omnipresent pressure to attend college from a young age, rising tuition fees, rolling back of no-strings attached financial aid, predatory loan servicers, and pitiful graduation rates all contribute to a grim outlook for those seeking a formal education with an aspiration of one day being able to live free of saddling student loan debt. Declaring bankruptcy may save debtors from credit card debt, car loans, and even gambling debt but student loans are controversially exempt from such forgiveness. The United States is not alone in this phenomenon, as its neighbor Canada is also showing a similar development.

While a domestic solution does not seem imminent, universities abroad have an opportunity to capitalize on these developments. Despite a widespread lack of awareness, a number of European universities offer very attractive programs to international students. By setting themselves in a position where they can charge lower tuition fees for a similar quality of education and standard of living, schools such as Nova SBE can attract academic

Sources:
(1) New York Times
(2) Money
(3) National Center for Education Statistics

CHINESE HOUSING BUBBLE UNDER CONTROL - LITERALLY.

Turmoil caused by Daniel Hu

China's economy has been steadily growing partly due to its housing market, even after the events of the stock crash in 2015-16.

In China, housing prices are among the most expensive in the world, particularly in Beijing and Shanghai. Many people believe that these prices are outrageously high and unsustainable, claiming it to be a bubble which may burst at any given moment. But is this, indeed true? In order to answer this question, first understanding the causes of high house prices is crucial.

Over the last decade, China faced relatively low interest rates. This environment coupled with unattractive stock and bond markets, incentivized people to invest in real estate as their main source of capital income.

Additionally, as main Chinese cities provide better job opportunities to its population when compared to smaller cities, it leads to a growing population to the large cities, consequently increasing demand in the property market.

Moreover, the Chinese central bank and government authorities, until recently, have been supporting house sales and stimulating the housing sector, by, for instance, deciding to cut the minimum down payment ratios for mortgages, meaning it eased lending standards.

All those factors coupled together are the main drivers of the rising housing prices. Similarly, the main reasons that may trigger the burst of the bubble are, in fact, related to its causes. As of 2017, real estate has become the greatest source of credit risk in China. Moreover, population growth in major cities is slowing and high debt-to-income ratios may pose a great danger to the market. Yet, the rich are lionizing the property market, owning several houses and using them as an investment vehicle. Therefore, the property market has become home to speculators in which the provision for affordable homes has lost importance.

Is the bubble really going to burst?

In China, the government and the Communist Party are the centralized authorities in the country, possessing a strong influence in market decisions. They are aware that a real estate collapse may disrupt their entire economy which must be avoided. Thus, these entities control the supply of the real estate and have a strong influence on its demand. The government actively manages the housing demand by implementing policies and restrictions that reduce demand, whereas removing those policies and restrictions would stimulate demand. Currently, restrictions such as the limited number of houses people can buy, different types of taxes, increases in minimum down payments and other ways of tightening credit are the main tools that the government uses to reduce real estate demand.

However, one may start wondering that if the government can regulate the market so well, why are the prices still so high?

One answer may lie in the effectiveness of these policies. In the past, people have been found to "dodge" these policies with bizarre methods such as deliberately going through divorce to lower the minimum down payment or resorting to peer-to-peer lending to meet the down payment criteria. The other answer is that the government intentionally wants high prices, which subsequently spurs the huge Chinese manufacturing sector, increasing GDP and job opportunities, which boosts the standing of the Communist Party.

All in all, the Chinese property market is extremely regulated by the government that an outright crash seems unlikely, yet not impossible.

LESSONS FROM THE JAPANESE EXPERIENCE

Turmoil caused by Gonçalo Mendes

For plenty of times, we have heard people discussing the problem that has been haunting Japan since the early nineties: Deflation. Deflation may be described as a continuous decrease in the price of goods and services. This effect generally occurs in periods of depressions, when there is a severe decrease in the demand for goods and services and the unemployment rate is high. This drives down consumption and investment because people are better off buying or investing tomorrow, since prices are in decline. There were many attempts to revert this situation. None of them, however, was successful. In Japan, the turning point could have been reached according to the latest economic data, which has made the government led by Mr. Shinzō Abe to become more confident on bidding farewell to deflation in the next years. Nevertheless, the question is still on: will Japan manage to overcome the long-standing deflation and deflationary mindsets in the medium or in the long run?

SPECULATION AND OVERCONFIDENCE IN THE JAPANESE ECONOMY ALLIED TO A LACK OF REGULATION BY THE RESPONSIBLE ENTITIES RESULTED IN AN UNBEARABLE SITUATION

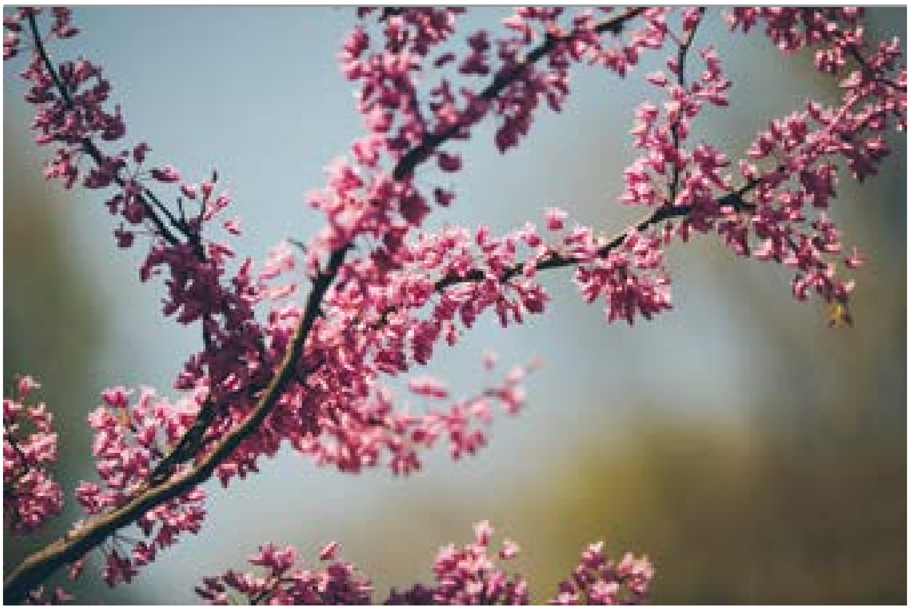
After a staggering recovery following the Second World War, Japan experienced three golden decades of continuous prosperity. The gross domestic product (GDP) was growing exponentially, unemployment was low and there was no noticeable problem regarding its inflation rate. Japan was seen as a very attractive country for investments. However, this quasi-utopian situation came to an end when an asset bubble, which was affecting the prices of real estate and stocks, burst. The continuous appreciation of the Japanese Yen, the low interest rate policy and monetary easing, implemented by the Bank of Japan, led to a rise in the price of land and the subsequent credit expansion. Above all, speculation and overconfidence in the Japanese economy allied to a lack of regulation by the responsible entities resulted in an unbearable situation. The outcome became apparent in 1992. The bubble burst and the country fell into a deep recession.

The following decade of slow recovery – called the Lost Decade – brought deflation into the country. This led to a sharp decline in consumption and investment, creating an economic stagnation. Notwithstanding the continuous efforts of the Bank of Japan and successive governments, the problem persisted, with prices declining every year (with one or two punctual exceptions).

But, as aforementioned, the most recent data brought good news. Confidence in starting a new chapter has been growing, there are signs of a low inflation and unemployment levels are at historical minimums. The government has been urging firms to raise salaries to generate momentum and leave deflation behind.

The question that arises in this moment is whether this situation is sustainable or just punctual. If we take a look at other indicators, we can identify other problems aside from GDP and unemployment. Japan has the highest debt levels in the world, amounting up to 250% of their GDP. This has become an ever-harder burden to carry, even for an economically strong country like Japan. However, there is another important aspect to look at: demographics. The country has one of the highest rates of aging in the world and the population decline has slowly set in during the latest years. This is fuelling the ever-growing labour shortage. By observing this situation, countries should derive lessons learnt about how catastrophic the lack of strategies and regulations may be for a country, which had been facing a stable prosperity for decades.

BY OBSERVING THIS SITUATION, COUNTRIES SHOULD DERIVE LESSONS LEARNT ABOUT HOW CATASTROPHIC THE LACK OF STRATEGIES AND REGULATIONS MAY BE FOR A COUNTRY, WHICH HAD BEEN FACING A STABLE PROSPERITY FOR DECADES



However, even though some decision makers seem to have learned from Japanese experience and are aware of the negative long-term effects that a crisis may cause, e.g. the recent fears of a deflation in Europe, other decision makers seem to take a less pessimistic view at what happened to Japan. In the case of China, the Chinese government has recently acknowledged the existence of a housing bubble in its major cities, such as Beijing and Shanghai. A sudden burst could lead to a prolonged slump with even greater consequences for the global economy, due to the mutually dependent trade ties of Chinese markets and the rest of the world. The discussion about how to avoid a possible repetition of Japanese events in other countries, in particular, China, remains more relevant than ever. The Japanese government may finally close the chapter, but policy makers in different countries should avoid to put the story back on the bookshelves. There are important lessons to be learned. ▣

THOMAS PIKETTY

Highlighted by Paul-Leonard Gloeckner

When Thomas Piketty's English translation of his book **Capital in the Twenty-First Century** was published in March 2014, he became the new rockstar among economists overnight. Rarely has an economist he received so much attention. His work on the distribution of wealth and income inequality triggered an important debate.

The French economist, who is a Professor at the Paris School of Economics and the École des Hautes Études en Sciences Sociales (EHESS), is conducting research on wealth and income inequality. The distribution of wealth within an economy has always been at the core of many debates across the political spectrum from liberals to conservatives. However, the longer the excitement about Piketty lasts, the more criticism are directed against his research and use of data. However, the importance of his research questions about inequality remains undisputed.

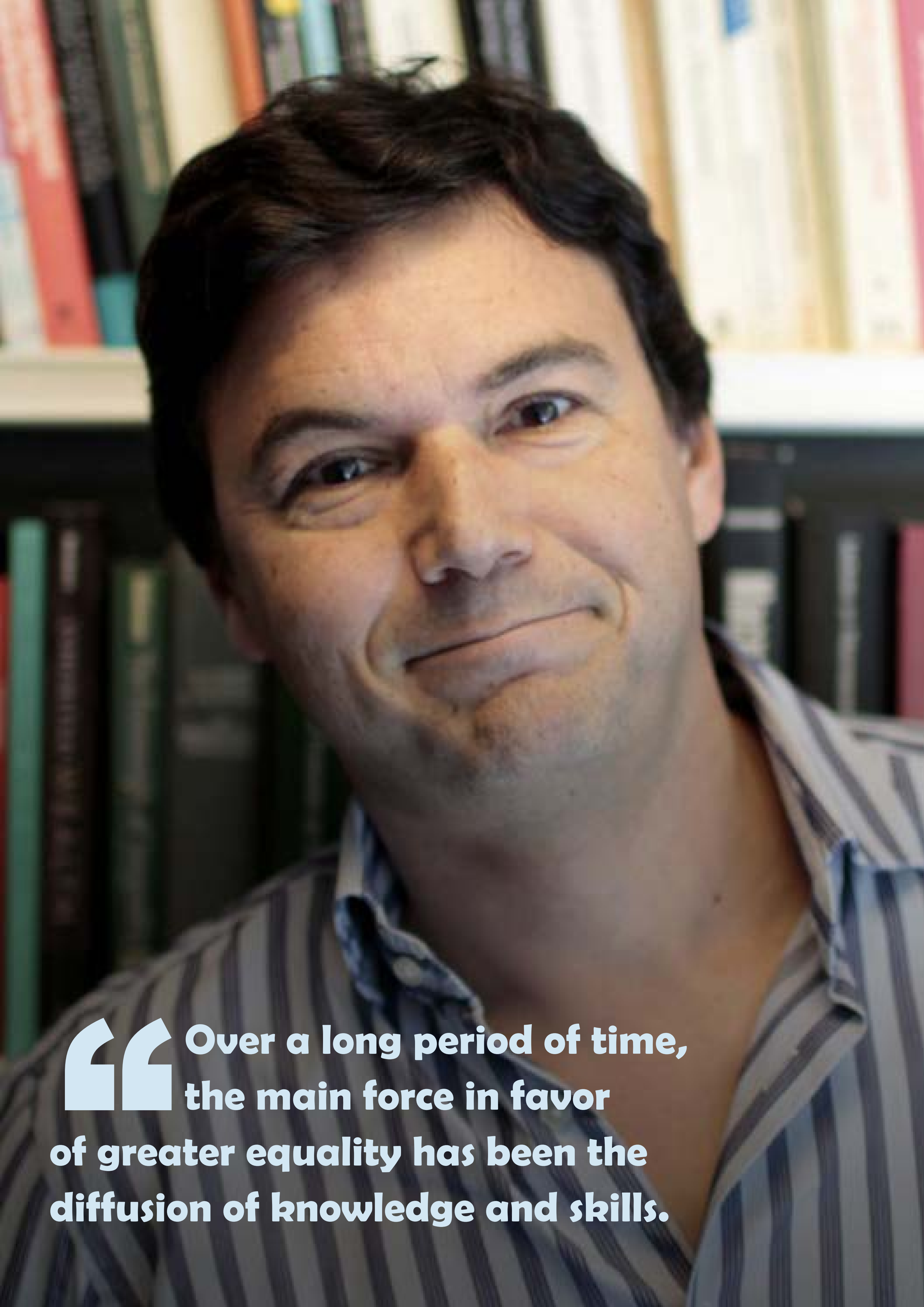
THE HERITAGE OF LARGE FORTUNES HAS BECOME A DETERMINANT OF SUCCESS

At the age of 22, Piketty earned his PhD for a thesis on wealth redistribution at the London School of Economics. After two years of teaching as an assistant professor in the Department of Economics at the Massachusetts Institute of Technology, he returned to France for further research projects and went on to become a professor. Piketty has written many books, articles on income inequality and has built the World Wealth and Income Database in collaboration with other researchers.

The 46-year-old Piketty has made a name for himself because of his historical data analysis on income distribution and for linking his findings to the theory of capitalism. His research culminated in the book Capital in the Twenty-First Century. The story is roughly simplified as follows: If the return on capital is greater than the growth rate of the real economy, capital will increasingly be concentrated in the hands of few. This concentration of capital was interrupted only by the First and Second World Wars. Today, Piketty warns that the level of inequality could soon become like that of a hundred years ago and potentially could even become worse. According to Piketty, "worse" refers to the danger of creating a wealthy oligarchic society, in which the rule of the rich over the less rich becomes immanent. High levels of inequality could then lead to different groups in society not participating in democracy and finally be a destabilizing factor in society.

In his view, this reflects the central contradiction of capitalism: While wealth becomes increasingly concentrated, pure income from work is no longer enough to rise to the top of a society in which the heritage of large fortunes has become a determinant of success. As a possible remedy, he proposes a higher progressive tax rate on income and the introduction of a global, drastic tax on inherited wealth. Critics argue that Piketty omitting other solutions, because he does not think about how to let more people participate in gaining higher returns on investment, e.g. through privatization and capital coverage of pension insurance.

In December 2017, Piketty reinforced the discussion on wealth and income inequality by publishing the World Inequality Report. The report includes the work of more than 100 researchers in over 70 different countries. The findings are alarming: Since 1990, the share of the rich and especially the super-rich in income has been increasing globally. There are few exceptions such as the Middle East or South America - where inequality stagnated at a high level. The report also makes policy recommendations: governments should invest into the future, such as improving the education of people. However, this is not an easy task considering the impoverishment and indebtedness of many rich countries. He therefore demands that other ways of debt reduction must be considered – again, this includes the taxation of wealth, debt relief and inflation.


“Over a long period of time,
the main force in favor
of greater equality has been the
diffusion of knowledge and skills.

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