The Bulletin

March 2017
Vol. 8 Ed. 3

Gender matters
Women in central banks

Global Public Investor Gender Balance Index
Christine Lagarde on women's empowerment
Vicky Pryce on employment quotas
Minouche Shafik on the role of experts
Tarisa Watanagase on aging demographics
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OMFIF

Dialogue on world finance and economic policy

The Official Monetary and Financial Institutions Forum is an independent think tank for central banking, economic policy and public investment – a non-lobbying network for best practice in worldwide public-private sector exchanges. At its heart are Global Public Investors – central banks, sovereign funds and public pension funds – with investable assets of $30tn, equivalent to 40% of world GDP.

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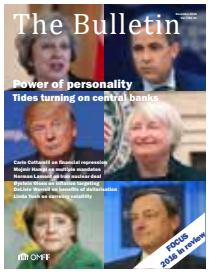
The 177-strong OMFIF advisers network, chaired by Meghnad Desai, is made up of experts from around the world representing a range of sectors: Monetary Policy; Political Economy; Capital Markets; and Industry and Investment. They support the work of OMFIF in a variety of ways, including contributions to the monthly Bulletin, regular Commentaries, seminars and other OMFIF activities. Membership changes annually owing to rotation.



EDITORIAL

Gender matters in world of central banking

Women in central banking remain a very small but powerful minority. Alongside well known cases such as Janet Yellen of the US Federal Reserve and the Bank of Russia's Elvira Nabiullina (featured on our cover), only 6.5% of central banks are headed by women. This corresponds to 12 institutions, down from 15 last year when OMFIF last conducted research into the gender balance of central banks.

Our research has been expanded this year to present a more nuanced picture. The OMFIF Global Public Investor Gender Balance Index takes account not only of governors but also of deputy governors and other senior central bank officials. The results (see p.8-10) are more encouraging. The research will be launched on 8 March, celebrated around the world as International Women's Day. In commemoration, this month's Bulletin is an all-female author issue featuring contributions from 14 women across central banking, academia, policy and capital markets, and from jurisdictions spanning California to Australia and Turkey to Thailand.

While most women in senior positions rightly want to be recognised for their skills and qualifications alone, rather than for their gender, it is important to raise awareness about their relative scarcity in central banking. Jenny Corbett presents evidence on the positive effects of female role models on the appeal of economics to women. In two words: gender matters. The world economy would also be a great beneficiary of improving opportunities for women in the workplace, argues Christine Lagarde. Vicky Pryce suggests employment quotas as the way to achieve this. Interest in investing among women is a historical phenomenon, according to a book by Amy Froide on Britain's late-17th century financial revolution. In her review, Rachel Pine worries that the encouraging trend of that period has now weakened.

Minouche Shafik reminds us that, at a time when the public has come to question experts, humility and trustworthiness are vital characteristics. This applies to political leaders, too. Marsha Vande Berg reflects on the lost opportunity to catalyse new thinking about the potential for female candidates following Hillary Clinton's defeat in the US presidential election.

An accord between two of the world's most powerful women, Angela Merkel and Christine Lagarde, over Greece's debt problem was key to calming markets after a period of uncertainty, notes Danae Kyriakopoulou. With Greece out of the headlines, Europe has turned its attention to the French presidential election, where there are risks voters could turn away from the mainstream, according to Sarah Hewin. The prospect of a victory for Marine Le Pen, and a potential French exit from the euro, has unsettled markets. The path of Britain out of the European Union could act as a guide, or deterrent, for other countries contemplating an exit. Linda Yueh analyses the trade options for the UK outside the single market. Aslihan Gedik presents the dilemmas for Turkey's central bank in the light of exchange rate volatility.

On emerging markets, Magdalena Polan questions the very concept as several economies in the grouping have effectively 'emerged'. But many still face challenges. Tarisa Watanagase highlights the need for policy responses to population aging in developing economies.

We conclude with the results of the monthly poll of our Advisory Board, which has expanded with the appointment of Georgina Baker from the International Finance Corporation and Katarzyna Zajdel-Kurowksa of the National Bank of Poland. Questioned on the appropriateness of dollar pegs for oil-exporting economies, 62% of respondents answered in favour of maintaining the status quo, given the unnecessary uncertainty which alternative currency regimes would bring. On the outlook for Iran's nuclear agreement, 62% predict that the deal will survive Trump's presidency.

Mis-stated accounts and financial stability

Nabiullina efforts to combat financial malpractice in Russia

Natalia Stanick, Bank of Russia

Since becoming governor of the Central Bank of Russia in June 2013, Elvira Nabiullina has undertaken the challenging task of lowering inflation with the view, among other things, of forming the conditions for well-balanced and stable economic growth. In parallel, the governor has been widely recognised for her efforts in extinguishing the worst cases of financial malpractice in Russia.

In its regulatory capacity and under the stewardship of Nabiullina, the Bank of Russia (CBR) ensures accurate reporting by supervised institutions. The results of independent auditing are widely used in decision-making and regulatory oversight by the CBR, and improving the quality of auditing is given high priority by the authorities. Without the development of institutions' internal auditing functions, supervised by the CBR, it is impossible to assure the stable functioning of the financial market. In general, credit organisations in Russia already maintain proficient internal auditing departments. These have successfully directed programmes such as investigating abuses, supporting external audits and oversight bodies, and independent evaluations of internal control and risk management systems.

The provision of quality auditing serves as a foundation for market participants' investment decisions. However, the Bank remains concerned with the problem of mis-stated accounts. There are irregularities where external auditors have communicated the unmodified (and occasionally unqualified) statements of institutions which are supervised by the Bank.

In 2016, licences were revoked from 97 credit institutions; 68 of them were declared bankrupt; 59 of them had audit opinions on the reliability of the annual accounts. For non-bank institutions in the same period, the CBR withdrew the licences of 17 private pension fund organisations. Eight of these organisations had presented an unmodified audit opinion on their annual financial statements. This is an extension of the measures implemented by Nabiullina to combat malpractice in Russia's financial institutions. Since entering office, she has overseen the closure of more than 300 negligent and unstable banks. Further checks and balances must be applied to the quality of audits for publicly listed companies. Public companies affect the interests of a wide range of investors, and therefore impact the investment climate of the entire country.

Natalia Stanick is Adviser to the Chief Auditor at the Bank of Russia.

OMFIF Advisers Network

OMFIF has appointed Georgina Baker and Katarzyna Zajdel-Kurowska to the OMFIF advisers network. For the full list of members, see p.24-25.

Georgina Baker is director of syndications and deputy treasurer at the International Finance Corporation, based in London, heading EMEA treasury operations. She is responsible for IFC's syndicated lending programme. Baker has been with IFC for more than 25 years, during which time she has worked on investments in many areas including manufacturing in eastern Europe and financial sector investments in South Asia, Europe, Central Asia, the Middle East and North Africa. Baker received an MBA from the London Business School.

Katarzyna Zajdel-Kurowska is a member of the management board at the National Bank of Poland, responsible for financial and operational risk management. She was formerly alternate executive director and Poland's representative at the International Monetary Fund from 2009-12. Zajdel-Kurowska has been a member of the Financial Stability Committee, chair of the State Guarantees Committee, deputy chair of the Banking Supervision Commission, member of the Economic and Financial Committee, on the board of directors at the European Investment Bank, and advisor to the chief executive of Bank Gospodarstwa Krajowego.

Cunliffe warns against 'currency nationalism'

Sir Jon Cunliffe, deputy governor for financial stability at the Bank of England, warned in an OMFIF lecture on 22 February in London against withdrawing euro clearing from the City because of 'currency nationalism'.

In a veiled assault on campaigns to bring to Paris the symbolically important market for euro clearing once Britain leaves the European Union, Cunliffe argued that restrictions on currency clearing, such as those geared to national European jurisdictions, are 'not a necessary condition for either financial or indeed monetary stability'. He said such policy 'if applied by all jurisdictions, is in the end likely to be a road to the splintering of this global infrastructure.'

Separately, Cunliffe said that augmenting Bank staffing in this field will be a priority in 2017. He also remarked that a supervisory levy will be charged to clearing houses and payment-providers which are under the Bank's aegis. The Bank plans to 'up its game' to press the UK's advantage in overseeing this complex and systemically significant sector.

Hufeld: Balance on regulation 'science and art'

Combining the 'science and art' of financial regulation represents a balancing act between sometimes competing objectives, Felix Hufeld, president of Germany's BaFin regulatory agency, said in an OMFIF City Lecture on 1 February in London.

The lecture focused on financial supervision, stability, integration and co-operation in Germany, as well as wider regulatory challenges throughout Europe. Hufeld argued that part of the regulator's role is to give the market enough room 'to create, innovate and indeed fail'.

He added that regulation must ensure that taxpayers' money is not used, or only used 'under very limited and extraordinary circumstances'. The establishment of the Single Resolution Board, the European Bank Recovery and Resolution Directive and the trio of higher capital requirements, improved liquidity, and good governance structures marks a step in the right direction. *For a fuller account of Felix Hufeld's speech, see the April edition of The Bulletin.*

ECB policy 'can't be only game in town'

'Monetary policy cannot be the only game in town: other policy-makers must display the same commitment to ensuring a sustainable economic recovery', said Peter Praet, member of the executive board and chief economist of the European Central Bank, at an OMFIF meeting on 23 February in London.

The discussion focused on the macroeconomic situation in the euro area, the implications for monetary policy, developments in the European banking sector and in the economic and monetary union. 'We expect the euro area economy to recover further,' said Praet. 'Private consumption growth and the continued cyclical recovery of business investment are expected to support domestic demand.

'Underpinning consumption are the improvements in labour market conditions, with unemployment steadily falling despite a rise in participation.'

Trump agenda under scrutiny

OMFIF economists scrutinised the agenda of President Donald Trump in a webinar on 8 February on the latest OMFIF Report, 'Trump: Curse or Cure?'. The report investigates Trump's proposals on international trade agreements, fiscal policy and financial regulation.

Presented by Danae Kyriakopoulou, OMFIF's head of research, and Ben Robinson, economist, the webinar covered a range of Trump's policy areas, including financial markets, taxation, spending, trade, and the global economy.

Kyriakopoulou explored Trump's aggressive approach to the Federal Reserve and its policies, highlighting the risks to financial markets, consumer spending and business investment of faster tightening. Robinson discussed Trump's, taxation and infrastructure spending plans. He underlined the difficulty of reducing mandatory outlays and the limited impact of cutting statutory corporate tax rates from their already-low effective levels.

Members answered live polls during the webinar. When asked, 'Will we see a correction in US asset prices this year?', 56% of respondents said prices 'would fluctuate but be higher at the end of the year', while 28% expected 'a sharp correction', and 17% 'a mild correction'. None believed that asset prices would continue to increase.

When asked about the consequences of Trump's economic policies, 70% agreed that they would 'provide a short-term boost but be negative long-term', and 15% felt there would be 'short-term instability but a longer-term boost'.

To request a PDF of this report, please email editorial@omfif.org.

Belka speaks on Poland, Europe perspectives

Political and economic perspectives for Poland and Europe after the US presidential election were spelled out in a wide-ranging OMFIF discussion on 15 February in London with Marek Belka, former president of the National Bank of Poland and member of the OMFIF advisory board. The discussion also covered the implications of Britain's exit from the European Union on Polish trade and the economy, the effect of populist trends across Europe on the country's politics, and the results of migration flows.

Sustainable infrastructure financing: 'cascade approach'

Joaquim Levy, managing director and chief financial officer of the World Bank Group, advocated the adoption of a 'cascade approach' to sustainable infrastructure financing at an OMFIF discussion on 24 February in London. Speaking on climate-friendly investment in developing countries, Levy highlighted the consequences of demographic pressures and climate change on the world economy. He discussed the significance of improving the volume of financing available for climate-smart infrastructure projects.

Economic ramifications of the UK's EU exit plan

Sir Simon McDonald laid out the broad lines of the UK's departure plan from the European Union at an OMFIF discussion on 31 January in London. McDonald, permanent under secretary and head of the diplomatic service at the UK Foreign and Commonwealth Office, spelled out the political and economic ramifications of the exit strategy for Britain and Europe. McDonald was previously the UK ambassador to Germany, and was the prime minister's foreign policy adviser and head of foreign and defence policy in the Cabinet Office.

Forthcoming meetings

GPI Gender Balance Index launch

GLOBAL GENDER PUBLIC BALANCE INVESTOR INDEX 2017

OMFIF marks International Women's Day with the launch of the Global Public Investor Gender Balance Index, a measure of gender balance in central banking around the world.
For further details on the Global Public Investor Gender Balance Index, see p.8.
8 March, London

Growth and investment in Nigeria

A briefing on the role of public sector investment institutions in Nigeria. Speakers include senior representatives from the National Pension Commission Nigeria, Nigerian Sovereign Investment Authority and African Development Bank.
8 March, London

UK pensions investment in China

A series of discussions and meetings sharing knowledge on China's place in the world's markets. Equities and fixed income are included. Part of OMFIF's China awareness meetings.
9 March, London

Japanese trade post-Brexit

Briefing on Japanese trade policies in the post-Brexit environment by Professor Yorizumi Watanabe, former deputy director general for economic affairs at Japan's Ministry of Foreign Affairs, now a professor of policy management at Keio University.
14 March, London

Economic and financial outlook for Ghana

A discussion with Abdul-Nashiru Issahaku, governor of the Bank of Ghana, on the economic and financial outlook for Ghana.
14 March, Singapore

Developing capital markets for growth

The inaugural Asian Development Bank-OMFIF seminar, to be addressed by ADB President Takehiko Nakao. The seminar deals with best practice in emerging markets on strengthening financial stability and meeting the needs for infrastructure development.
22 March, Tokyo

Financial markets at a time of change

DZ BANK International Capital Markets Conference, incorporating a City Lecture by Charles Evans, president of the Federal Reserve Bank of Chicago.
29 March, Frankfurt

For details visit www.omfif.org/meetings.

US, Russia contrast in world gender balance

Number of women central bank chiefs globally down from last year

Danae Kyriakopoulou

The world of central banking is highly unbalanced when it comes to gender, and the disequilibrium seems to be getting worse, according to the 2017 OMFIF Global Public Investor Gender Balance Index. The index tracks the balance between men and women in senior positions of central banks around the world, weighted by level of seniority.

The coverage has been considerably extended from OMFIF's analysis in previous years to include individuals with a role in the monetary policy committee or higher, and to 175 institutions globally. For earlier scores see The Bulletin in April 2016 and January 2015. The value of the overall index – which aggregates the performance of individual institutions weighted by their share of the global economy – stood at 30.6% in 2017.

Regional imbalances

Russia, the US and France are the only G20 economies to feature in the top 20 of the GBI. On a regional basis, North America leads in terms of gender balance by a large margin, with an overall index score of 68.6% – more than double the global average (see Chart 1).

Apart from Janet Yellen's role as chair of the Federal Reserve board of governors, the US gender balance is supported by the presence of Lael Brainard on the board of governors as well as regional Fed presidents Esther George and Loretta Mester. Canada also scores moderately well, with a GBI value of 45%. Governor Stephen Poloz is joined by two female and three male deputy governors. However, these circumstances may change. The election of Donald Trump raises doubts over the continued strong performance of the US in the GBI.

> ***"There are only two women in Donald Trump's 16-member cabinet, the worst gender-balance record since Jimmy Carter's presidency in the late 1970s.***

Yellen's four-year term is due to end in February 2018. While her 14-year board term runs until January 2024, it is rare for a Fed chief to stay on the board after stepping down from the top post. This has occurred only once. Mariner Eccles, who served as chair between 1939-48, stayed on the board until 1951.

Political influence

Trump has the chance to reshape the Fed further through the replacement of Vice Chair Stanley Fischer, whose four-year term ends in June 2018. Additionally, he can nominate appointees to fill the two positions in the seven-person Fed board that have been vacant since 2014, owing to Barack Obama's failure to get approval for his nominees. This is in addition to board member Daniel Tarullo's post, which will need to be filled once his resignation becomes effective in April 2017.

Some of these positions could be filled by women. However Trump's record on gender issues raises doubts. There are only two women in his 16-member cabinet, the worst gender-balance record since Jimmy Carter's presidency in the late 1970s, according to the Centre for American Women and Politics.

This is in stark contrast to his former rival Hillary Clinton's pledge to pick women for 50% of her cabinet roles, a practice followed by Justin Trudeau, prime minister of Canada.

The position of Elvira Nabiullina, governor of the Central Bank of Russia, looks more secure. As a close confidant of President Vladimir Putin (she was his economic adviser in 2012-13), her status is closely tied to the political future of her country's leader – a contrast with other central banks where de facto independence is stronger.

The extension of the term of the president from four to six years in 2008 means that Putin will be in power until 2018. Nabiullina's term is due to end in August this year, but her record as a tough regulator and able manager have earned her great respect both within Russia and in the international community.

Lagging behind North America

Europe and Africa score close to the world average with 27.1% and 23.2%, respectively. In Europe, a very high score for Russia (80%) is neutralised by low scores for non-European Union economies such as Turkey (0%). EU central banks are in the middle. Poland earns a creditable score of 20%. The country's result is boosted by Vice President Anna Trzecińska and management board member Katarzyna Zajdel-Kurowska, who joins the OMFIF advisory board this month.

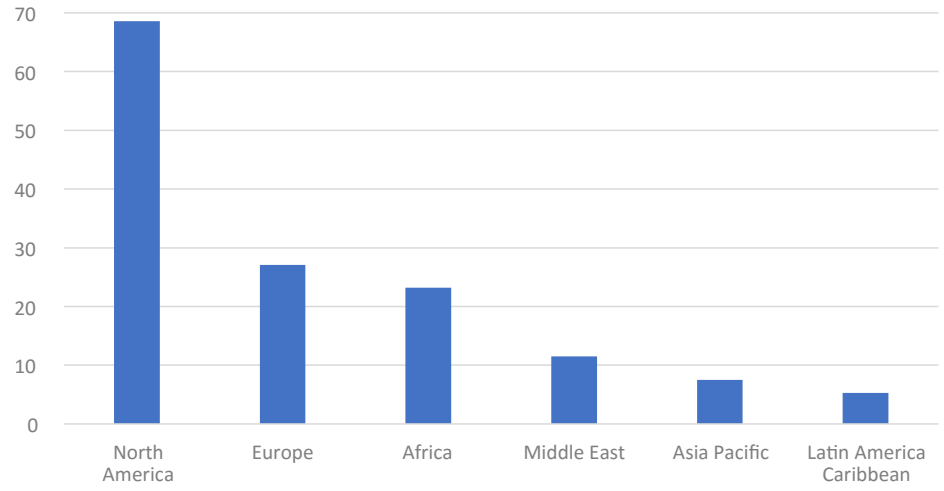
The UK earns a score of 29% this year and is expected to decline next year. While Deputy Governor Minouche Shafik will be replaced by Charlotte Hogg, effecting no change on the index, Kristin Forbes' time on the Monetary Policy Committee ends in June 2017.

The euro area earns an average score of 28.3% – this is derived from a European Central Bank score of 26.6% and a euro area aggregate score (weighted by GDP) of 30.3%. The ECB's executive board is made up of five men and one woman (Sabine Lautenschläger), while the equivalent composition of the supervisory board is three women and two men (see box on p.9). In individual member states only Cyprus has a female governor (Chrystalla Georghadji). When including deputy governors, the list expands to include Germany, France, Slovenia and Latvia.

Africa, the Middle East, and Asia Pacific are

Chart 1: North America leads regional rankings

Gender Balance Index by region, in 2017, %



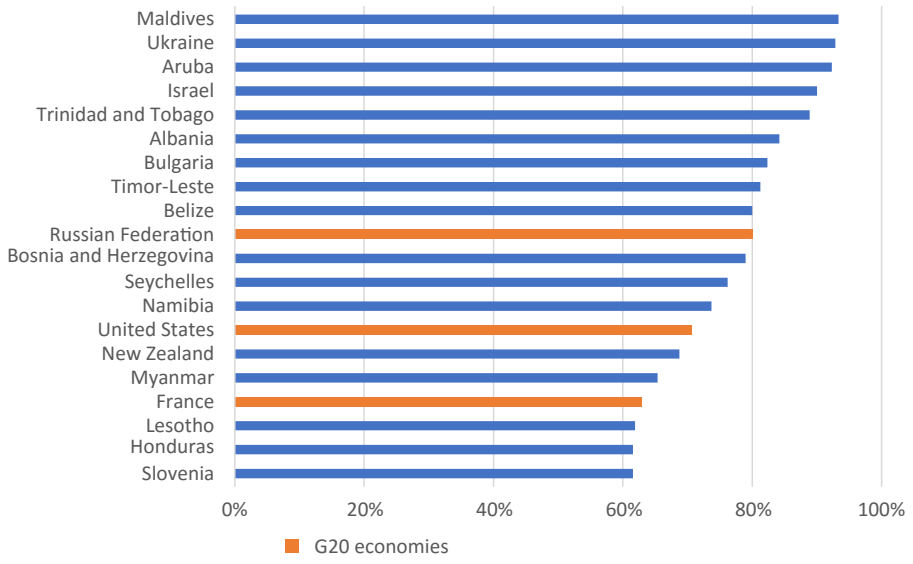
Source: OMFIF analysis

not keeping pace, though Asia Pacific is host to the top-ranking central bank for gender balance. The Maldives Monetary Authority earns the top spot with a score of 93.3%, with the National Bank of Ukraine, Central Bank of Aruba, Bank of Israel, and Central Bank of Trinidad and Tobago completing the top five (see Chart 2). However, these economies comprise only 1% of the world economy, with negligible impact on the overall index.

Latin America earns the lowest regional score for gender balance, at just 5.3%. This is despite a large concentration of female governors in some of the central banks of small Caribbean and central American states such as Belize, Aruba, and Trinidad and Tobago. In contrast, Latin America's largest economies – Brazil, Argentina, and Mexico – have no female representation in senior central banking positions whatsoever, earning them a score of zero and dragging down the overall index for Latin America.

Chart 2: G20 fares poorly on gender balance

Gender Balance Index Score, top 20 central banks, 2017



Source: OMFIF analysis

Top post most unbalanced

Gender balance is much weaker for the post of governor – only 6.5% of central banks are headed by women. This share corresponds to 12 institutions: the US Fed; Central Bank of the Seychelles; Maldives Monetary Authority; Central Bank of Samoa; Central Bank of Cyprus; he Bank of Israel; National Bank of Ukraine; Central Bank of Lesotho; Central Bank of the Russian Federation; Central Bank of Aruba; Central Bank of Belize; and National Bank of Serbia (see p.10). This figure is down from last year's level of 15.

The terms of four governors from last year's cohort ended in 2016, with their posts being filled by men. This includes Zeti Akhtar Aziz of Bank Negara Malaysia, Maria do Carmo Silveira of the Central Bank of São Tomé and Príncipe, Wendy Craig, governor of the Central Bank of Bahamas, and Linah Kelebogile Mohohlo of the Bank of Botswana.

A newcomer to the group of female central bank chiefs is Joy Grant, appointed governor of the Central Bank of Belize in September 2016. She is joined by two women deputy governors, earning Belize the fourth spot globally in a separate ranking on female participation in central banking.

Of the 12 women governors, eight will see their terms finish before the end of the decade. While gender will not be the key factor when selecting their successor – and rightly so – it should be one that is at least considered.

There are some signs that female central bank participation is gaining momentum. Apart from the appointments of Grant and Hogg in Barbados and the UK respectively, Ireland has contributed to the trend by appointing Sharon Donnery as the country's first female central bank deputy governor. Overall, there are 52 countries with either a female governor or deputy governor (see Chart 3 on p.10) and 146 with a woman on a decision-making committee. ■

Danae Kyriakopoulou is Head of Research at OMFIF.

Women at the European Central Bank

Sabine Lautenschläger
Member, Executive Board, ECB
Vice-Chair, Supervisory Board, ECB
Former Deputy President, Deutsche Bundesbank

Danièle Nouy
Chair, Supervisory Board, ECB
Former Secretary General, French Prudential Supervision and Resolution Authority

Julie Dickson
Member, Supervisory Board, ECB
Former Superintendent, Office of the Superintendent of Financial Institutions, Canada

Note on methodology

*The **OMFIF Global Public Investor Gender Balance Index** tracks the presence of men and women among senior staff of central banks around the world, weighted by level of seniority as follows: governor (7), deputy governor (5), member of the executive board, supervisory council or decision-making committee (3), member of the monetary policy committee (1). Individuals who fall in more than one of the above categories are given the weight corresponding to the highest-weighting category in which they fall. The GBI for each country is calculated by taking the ratio of the female and male (weighted) components. A score of 100% would be awarded to a perfectly balanced institution in terms of gender. The global GBI is calculated by taking an average of all country-specific GBIs, weighted by GDP.*

*The **OMFIF Female Participation Index** measures the extent to which women take up executive positions in central banks around the world. The index, ranged from 0 to 100%, captures two components: the relative position of women in upper management, and the contribution of the underlying economy to global economic output. The same weighting systems used in the GBI are also applied here for both these components. The FPI however is concerned solely with female participation in international monetary policy as opposed to a wider focus of gender balance within organisations. A female participation score is calculated for each institution. The global FPI is then obtained through a weighted average of each institution-specific score by the corresponding country's GDP. For questions please contact editorial@omfif.org.*

Results were prepared by Danae Kyriakopoulou and Peter Hu, research assistant at OMFIF.

Number of female governors at the helm of central banks drops to 12

Caroline Abel
Central Bank of Seychelles (from March 2012)
Previously first female deputy governor (2010-12).

Azeema Adam
Maldives Monetary Authority (from April 2014)
Previously assistant governor and chief economist, monetary policy and statistics. Joined bank 1991.

Maiava Atalina Emma Ainuu-Enari
Central Bank of Samoa (from August 2011)
Previously manager, financial markets department. Joined bank 1991.

Karnit Flug
Bank of Israel (from November 2013)
Previously deputy governor (from 2011). First joined bank 1988, rejoined 1997.

Chrystalla Georghadji
Central Bank of Cyprus (from April 2014)
Member of ECB governing council. Previously Cyprus auditor general (1998-2014).

Valeriia Gontareva
National Bank of Ukraine (from June 2014)
Previously chairman, Investment Capital Ukraine (2007-14).

Joy Grant
Central Bank of Belize (from October 2016)
Former Minister of the Energy, Science and Technology and Public Utilities Ministry (2012-16).

Rets'elisitsoe Adelaide Matlanyane
Central Bank of Lesotho (from January 2012)
Previously second deputy governor (2006-07), first deputy governor (2007-12).

Elvira Nabiullina
Central Bank of the Russian Federation (from June 2013)
Previously minister of economic development (from 2008), aide to President Putin (2012-13).

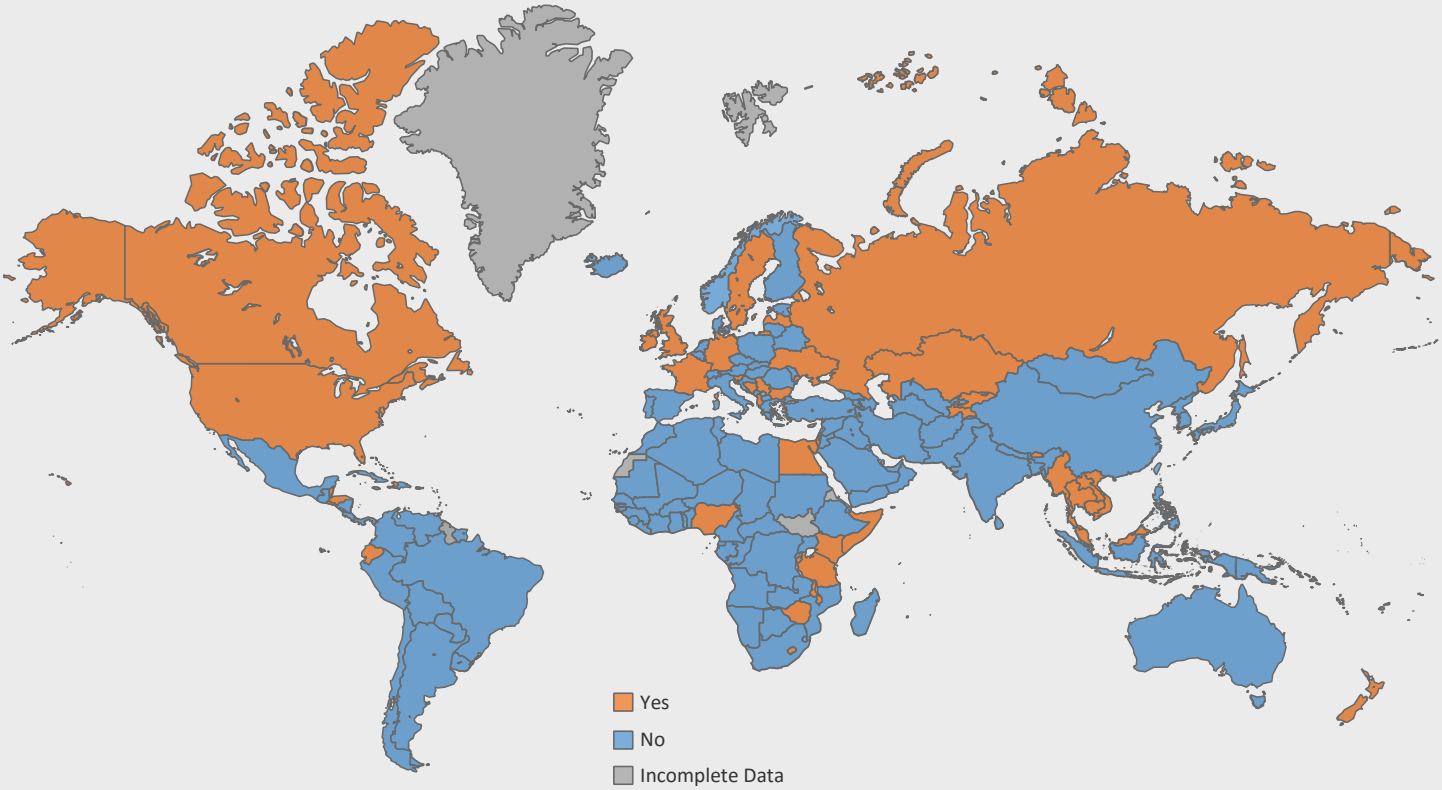
Jeanette Semeleer
Central Bank of Aruba (from September 2008)
Previously executive director (2000-2008) after working in research department. Joined bank 1990.

Jorgovanka Tabaković
National Bank of Serbia (from August 2012)
Previously minister of economic and ownership transformation (1998-2000).

Janet Yellen
Chair, Federal Reserve (from Feb 2014)
Previously Federal Reserve vice chair (2008-14).

Chart 3: Only 6.5% of central banks have women governors but 27% have female presence

Countries with presence of female governor or deputy governors in their central banks, 2017



Source: OMFIF analysis

Experts' role in informed debate

Communicating with brevity, without bravado

Minouche Shafik, Bank of England

The 2008-09 financial crisis was seen as a failure of mainstream economists and the 'establishment' who had previously touted the benefits of a system that later came crashing down.

More 'expert scepticism' followed the euro area crisis, perceived by some as an elite project that had painful consequences for the public. 'Experts' are seen as responsible for many such ills. Scepticism about their credibility emerged in the debate about Britain and the European Union.

Recall the scene in the Monty Python comedy film *The Life of Brian*, in which a group named the People's Front of Judea is organising a rebellion against the Roman empire. They work themselves into a righteous frenzy, culminating in their leader, Reg, yelling, 'What have [the Romans] ever given us?!'

Although the question is intended to be rhetorical, after a short pause one of the group points out that the local aqueduct has been useful. Several others then feel obliged to point out other helpful innovations from the Romans. Finally Reg has to restate his question as, 'Apart from the sanitation, the medicine, education, wine, public order, irrigation, roads, a fresh water system and public health, what have the Romans ever done for us?!'

Income has risen, poverty has decreased

Since 1960, average world incomes have risen more than twentyfold as a result of improved economic policies. The proportion of the world living in poverty in 2013 was 11%, down from 44% in 1980. And while the global population has grown to around 7bn today from 5bn in 1990, the number of people who go to bed hungry has fallen to 795m from around 1bn.

With these achievements in mind, it is not surprising that many decisions are delegated to experts – individuals who have invested time to develop a deep knowledge of a particular subject, usually with credentials and continuing professional development to maintain their skills.

One important example of delegation to experts has been the creation of independent central banks. Frustration with high inflation in the 1970s made many countries move towards de-politicising decisions about monetary policy and interest rates. Research suggested that political pressure led to an 'inflation bias' in policy-making, which could be solved by delegating responsibility for price stability to independent central banks. There is considerable evidence that countries that have given central banks greater independence have been more successful in maintaining low and stable inflation.

Similarly, many countries have tried to insulate fiscal policy from the political cycle. The International Monetary Fund has often observed governments running large fiscal deficits in the run-up to an election to win votes in key constituencies, only to be followed by a crisis when fiscal austerity and monetary tightening are necessary to restore stability.

> ***'Experts' are seen as responsible for many ills, and scepticism about their credibility loomed large in the debate about Britain's exit from the European Union.***

In response, many countries introduced fiscal councils to provide independent assessments and produce macroeconomic and budgetary forecasts. An IMF review found that fiscal councils improve outcomes when they are operationally independent, have strong public engagement, and have an explicit role in monitoring compliance with fiscal policy rules.

Lessons from expert failure

Experts can get things wrong. During a visit by Queen Elizabeth II to the London School of Economics and Political Science in 2008, she asked why no one had predicted the credit crunch. The answer, in the form of a letter signed by 33 distinguished economists, admitted, 'The failure to foresee the timing, extent and severity of the crisis and to head it off… was principally a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole.'

Sometimes expert systems for quality control fail. One of the most infamous cases is a 1998 study published in the Lancet medical journal. Based on just 12 children, the study claimed there was a link between the MMR vaccine and autism.

Uptake of the MMR vaccine subsequently dropped to under 80% nationally, and mumps reached epidemic levels in Britain in 2005. It later transpired that the lead author of the article had failed to disclose his role as a paid adviser in a lawsuit claiming MMR had harmed children. Later studies have failed to establish a credible link between vaccines and autism.

This and other failures underlined the importance of experts being subject to challenge and having rigorous processes for differentiating good experts from bad ones. Many are trying to think of ways to restore trust in experts and institutions. Societies have two ways of increasing trustworthiness. First, legislation, regulation or guidance that set standards, often accompanied by requirements to check compliance. Second, providing information empowering individuals to assess trustworthiness for themselves.

As was once said by Mervyn King, former governor of the Bank of England, experts must resist the pressure for 'an illusion of certainty'. In most fields of scientific enquiry, advances are made by making progressively better guesses. Rather than pretending to be certain and risk frequently getting assessments wrong, being candid about uncertainty will, over the long term, build the credibility of experts.

Challenges for modern experts

However, conveying uncertainty increases the complexity of a message. It is increasingly difficult to deliver such messages in a world where short-form is paramount. It is a lot easier to tweet 'BoE forecasts growth of 2%' than to tweet, 'If economic circumstances identical to today were to prevail on 100 occasions, the best collective judgement of the Monetary Policy Committee is that the mature estimate of GDP growth would lie above 2% on 50 occasions and below 2% on 50 occasions,' even though the latter would be a more accurate statement. The modern challenge for experts is how to communicate with brevity, but without bravado.

More humility and candour about the limits of expertise is a starting point, as is clearer communication. More rigorous assessment of ideas will generate better solutions. Better tools to allow the public to differentiate among ideas are also necessary. Managing better the boundaries and accountabilities between experts and politicians will help maintain the balance between technocracy and democracy. Getting this right is vital for determining whether our futures are shaped by ignorance and narrow-mindedness, or by knowledge and informed debate. ■

Minouche Shafik is former Deputy Governor for Markets and Banking at the Bank of England. This is an edited version of a speech given at the Oxford Union on 22 February.

Diversity of views more vital than ever

We waste resources by not recruiting talented women

Jenny Corbett, Advisory Board

When Virago, the international publisher for books by women, and the New Statesman magazine announced the inaugural winner of their 'Women's Prize for Politics and Economics' in 2016, there was a flurry of press interest asking, 'Where are the women economists?' This followed criticism of The Economist's list of most influential economists in 2014, which (excluding incumbent central bankers) included not one woman.

That list was not a qualitative judgement, but a data-driven reflection of whose voices are heard in global economic debate. There is a lack of contribution from women. This could be because of small numbers, unimportant contributions, or a lack of visibility. We need to ask if this situation is changing, and if it matters. Data are hard to compile, but international research begins to suggest a pattern.

Discouraging picture from universities

In the US and UK data collection has been long-running, enabling analysis over time. In other places it's only beginning. In aggregate the data suggest female students still don't enrol in undergraduate economics in the same proportions that they attend university. The share continues to drop for later-year courses, and falls again at postgraduate levels.

Progression into academic research and teaching is further reduced, and the proportion of women reaching the most senior academic levels is lower than even those academic disciplines, such as science, technology, and mathematics, which are commonly regarded as male-dominated.

The share of women in senior economics roles outside universities is also small. Out of the 35 member countries of the Organisation for Economic Co-operation and Development, 31 have never had women central bank governors.

Encouragingly, the numbers of female chiefs and of women in managerial roles in central banks are much higher in developing countries, particularly in Asia. In the Australian Treasury and the Reserve Bank of Australia, however, women account for around half of all staff, but only 29% and 32% are members of their respective senior executive bodies.

In the US 30% of economics degrees are awarded to women, while nearly 60% of STEM graduates are women. In the UK a little over a quarter of economics degrees go to women, a decline from a decade ago. In Australia 40% of economics degrees went to women in 2014, though data are sparse and harder to interpret.

The PhD picture is more bleak, with an unchanging 30% of doctorates in the US being awarded to women in the last 10 years. The number of women earning PhDs in other social sciences and STEM fields rose during the same period. In 2014, that translated into only 157 new female PhD economics graduates in the US. UK shares for women earning PhDs in economics have fluctuated around 31%-33% over a decade.

> ***"The share of women in senior economics roles outside universities is also small. Out of the 35 member countries of the Organisation for Economic Co-operation and Development, 31 have never had women central bank governors.***

Progression through the academic ranks is universally slow. Women comprise 25% of tenured economists in the US and 15% of full professors. In the UK just over 14% of economics professors in 2014 were women, and in Australia just over 12%.

Making economics more attractive

There is growing evidence that it's not a question of necessary skills in mathematics which makes economics less attractive to women. The comparison with STEM fields is telling. Data show that prior level of maths background, women's self-assessment of their maths skills, or assumed preferences for non-quantitative subjects have little explanatory power.

The presence of female role models in senior positions and on the faculty is of greater significance but they are few and far between. Surveys show that women students are more likely to respond that economics does not seem interesting.

Barriers to academic progression should be addressed for a variety of reasons. US research shows a bigger gender gap in tenure and promotion rates in economics than in other maths-intensive fields even after correcting for publication track record. US and Japanese survey data report higher rates of job dissatisfaction among women.

Increasingly, research points to a significant role for implicit bias in academic hiring and promotion across many scientific fields. There are some actions that help, such as mentoring and career development training, but these require intervention and commitment. 'Natural' growth is not solving the issue and tangible cultural change is required.

More and more studies show the benefits of gender diversity on groups' attitudes to risk, empathy, preferences on policy outcomes and impact of research. Early-stage research also suggests that women central bankers may be more effective inflation fighters.

Lessons from Japan

A practical example of the global significance of women in economics can be drawn from Japan. As Prime Minister Shinzo Abe has said, 'womenomics is Abenomics.' But concern about low female labour market participation is not new in Japan. Policy innovations that have come from women economists and policy-makers may help to resolve this problem.

Concrete proposals and the implementation of childcare reforms have, for example, come from the work of Professor Nobuko Nagase and the example of Naomi Koshi, the mayor of Otsu city. This is because both women have paid attention to interesting questions neglected by men, such as what the impact of providing childcare on family's labour decisions would be, and what the consequences are of tax systems that privilege stay-at-home wives with male breadwinners.

> ***"More and more studies show the benefits of gender diversity on groups' attitudes to risk, empathy, preferences on policy outcomes and impact of research.***

At a time when economics is criticised for irrelevance, disconnect from reality, and unacceptable hubris, diversity of views is more vital than ever. We are wasting resources when we fail to recruit and promote talented women into our profession. ■

Jenny Corbett is Distinguished Professor in the Crawford School of Public Policy at the Australian National University, Reader in the Economy of Japan at Oxford University and a Fellow of the Academy of Social Sciences in Australia.

Employment quotas only way forward

Women's ghettoisation: a less prosperous and equal world

Vicky Pryce, Advisory Board

The Times in early February reported the results of a global opinion survey indicating that women had reached equality with men – at least that is what the male respondents thought. The women begged to differ.

The truth is far more discouraging, not only in emerging markets but also very much in the developed world. Even in the UK, where much has been achieved in terms of equality of opportunity and where women are at least as well, if not better, educated than men on average, there is still scant female representation in senior positions. And the pay gap refuses to go away.

The Institute for Fiscal Studies calculates that the difference between hourly wages for men and women in the UK has shrunk very slowly, to 18% in 2015 from 25% in 2003 and 28% in 1993. This is hardly a great achievement.

Persisting pay gaps in the EU

The situation in the European Union is not much better. The average gap is lower than that of the UK at just over 16%, but that hides many differences. The gap in Italy, Poland, Belgium, Luxembourg, Romania and Slovenia is 10% or below. But Germany, the Netherlands, France and Spain all surprise with pay gaps of 22%, 16%, 16% and 15%, respectively.

In terms of weekly pay as a separate comparator, women earn two-thirds as much as men. This is for two main reasons. Women tend to work fewer hours than their male counterparts, and a much greater proportion of women than men works part time.

Data show that part time staff tend to lose out in terms of wage progression, and the difference in women's part time hourly wages and those of full time men is 37%.

In addition, there is the so-called 'motherhood paradox'. The hourly wages of women who have children fall further behind those of men, partly owing to a mix of conscious and unconscious bias. The hourly pay gap rises further as women move through their 30s and 40s. That many return to part time jobs once their children are older does not help. The evidence suggests that women who move from full time to part time work, except in some parts of the civil service, end up in jobs at least one rank below their skill level.

> ***"Emphasis has been placed on increasing the presence of women on boards, and there has been progress. But the impact on the culture of organisations has been minimal.***

The message to our daughters is clear, if sad: take only scant time off when you have a baby and, when you go back, assuming your job is still there, avoid taking on part time roles. It is not only prospective mothers that need to worry. Part of the reason for the persistent pay gap is that women are often ghettoised in low paid service jobs which offer little in terms of wage and career progression.

The issue is not just one of fairness and equality of opportunity. The pay gap also impacts the financial and political empowerment of women, which often stems from achieving financial independence. This is true globally. Output and productivity suffer as a result and the world is less prosperous, and more unequal.

More girls than boys now go to university in the UK and their final results are on average better. But they are often not directed towards science subjects and therefore to degrees that would potentially move them into high-earning professions. There are few role models in senior positions to inspire them. Only 10% of fund managers are women who hold just 16% of managing director posts in banks in the City of London.

In the 'big four' accounting firms men are three times as likely to become partners in the business. Similar trends are seen in City law firms. More women than men now enter the legal sector, but men are 10 times as likely to climb to the top of their profession.

A demonstration of intent

In the UK the greatest emphasis has been placed on increasing the presence of women on boards, and there has been progress. Undoubtedly this matters as a demonstration of intent. But the impact on the culture of organisations has been minimal. Emphasis should be placed on the forthcoming 'pipeline'.

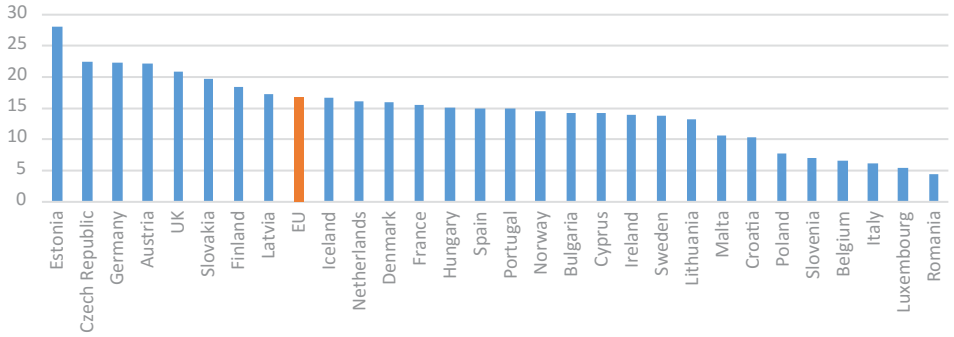
In my view quotas for senior management positions, flexible and varying from sector to sector, are the way forward. This is the only way that organisations will be incentivised to retain talent and bring about change in corporate cultures which should help both men and women. More job-sharing and flexibility in senior positions would help.

Long hours, the encouragement of 'laddish' behaviour, and the continued presence of sexism in the workplace all point to the need for more decisive action. Pay reviews, now compulsory in the UK, will help. It is shocking to learn that female managers in their 40s are paid around 35% less than men in comparable executive positions and that they also lag some 30% behind in bonus payments.

For young women, having role models in senior posts matters most. For organisations, it is good business to keep the talented women in whom they have invested so much early in their careers. ■

Romania, Luxembourg, Italy have lowest gender pay gap in the EU

Gender pay gap in unadjusted form*, 2014, %



Source: Eurostat, OMFIF analysis.

Excludes Greece owing to lack of data.

**The difference between average gross hourly earnings of men and women as a percentage of average gross hourly earnings of men.*

Vicky Pryce is a Board Member at the Centre for Economics and Business Research, a former joint Head of the UK Government Economic Service, and author of Why Women Need Quotas, *published by Biteback, 2015.*

Empower women, boost economies

Gender equality will raise global growth

Christine Lagarde, International Monetary Fund

Over recent decades, women around the world have been extending their achievements on educational attainment, political representation, and economic participation. But gender gaps remain. Globally, just 55% of women participate in the labour force, compared with 80% of men. Women are only now earning what men did a decade ago.

As countries seek to expand their economies and reduce inequality, tapping into the huge potential of women can make an important difference. Analyses clearly illustrates the compelling business case for women's empowerment. Increasing women's labour force participation can produce significant macroeconomic gains, as shown by International Monetary Fund research.

If Latin American countries, for example, raised female labour participation to the Nordic country average (around 60%), GDP per capita could be up to 10% higher. Gender inclusion is also associated with lower income inequality. IMF research has shown that moving from a situation of perfect gender inequality to perfect equality is equivalent to reducing income inequality from the levels prevailing in Venezuela to those in Sweden.

This can strengthen the structural make-up of an economy. Increasing gender equality can lift a country from the lowest rank to the average in terms of export diversification.

These macroeconomic gains are critical in the light of demographic change. Many advanced and some emerging economies are struggling to raise growth potential in the face of aging populations and shrinking labour forces. Women are part of the solution.

Japan is one such economy. There, raising female labour force participation to the levels of northern Europe could boost GDP growth by up to 0.4 percentage points in the transition years. With growth rates in Japan hovering around 0.5 in this year and next, the economic gains could be massive.

The impact of employing more highly educated women on productivity growth could be even more significant – by up to 0.4 percentage points per year in Canada, for example. Bringing more women into the labour force would expand the talent pool and boost productivity and growth.

> *"Women are part of the solution to raising growth potential in the face of aging populations and shrinking labour forces.*

Aside from wider macroeconomic benefits, women's empowerment can have a material impact on business success. Adding one more woman in senior management or to a corporate board, while keeping the size of the board unchanged, is associated with higher returns on assets of 8-13 basis points.

A role for everyone

Narrowing gender gaps requires an agenda and a commitment to gender equality by governments, international institutions and the private sector. Governments can demonstrate leadership, for example by gender budgeting, which looks at how spending and revenue policies can help achieve equity goals.

Reducing taxes on a family's secondary earner – mostly women – can encourage more women to join the labour force. This was the case in Canada in the 1990s, which introduced tax cuts for secondary earners and benefits for families with children. Today, Canada's female labour participation rate is over 80%, above the 74% of the US.

Governments can make efforts in the legal field to try to move women towards more equal opportunities. Starting in the mid-1990s, Peru changed the laws that constrained women's legal rights. A decade later, women's labour force participation increased by 15 percentage points. After Namibia strengthened women's legal rights – including the ability to sign contracts, pursue professions, and open bank accounts without a husband's permission – female labour force participation rose by 10 percentage points.

Social infrastructure investment

Investing in social infrastructure is vital. Supporting girls' education not only has individual and social benefits, but wider economic ones as well. Increasing education spending by 1% of GDP in India could boost female labour force participation by 2 percentage points. Changes in public policy can make a big difference, as can changes carried out by the private sector. Many businesses are promoting gender equality by ensuring pay parity for equal jobs, by giving greater access to maternity leave and, for those involved in the financial industry, by ensuring access for women to financial services.

International financial institutions have a role to play. Gender equality and women's empowerment are one of the 17 priorities of the United Nations' sustainable development goals to achieve inclusive growth by 2030.

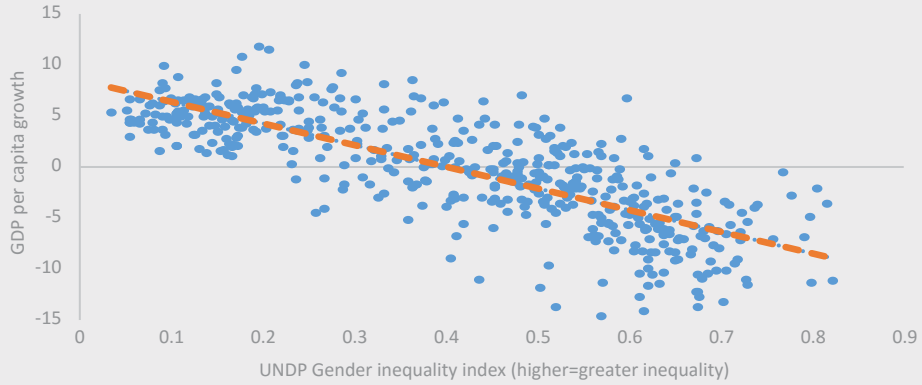
The IMF is incorporating gender-equality goals into its annual Article IV consultations, where women's economic participation can be of material impact. As part of this, the Fund has already completed detailed analyses for 13 countries to help provide tailored policy recommendations on gender equity: Chile, Costa Rica, Guatemala, Germany, Hungary, India, Italy, Jordan, Mali, Mauritius, Nigeria, Pakistan, and Sweden. A second wave of analysis includes nine countries.

There is much more to be done. Improving equality will not only make a difference for women; it will help the global economy achieve sustainable and inclusive growth. ■

Christine Lagarde is Managing Director of the International Monetary Fund.

Greater gender inequality associated with lower per capita growth

Gender inequality and GDP per capita growth, 1995-2010, %



Source: United Nations, International Monetary Fund estimates

Assessing Greek debt sustainability

Lagarde-Merkel understanding crucial for confidence

Danae Kyriakopoulou

Prior to the crisis, in the eyes of the average Athenian the acronym DSA stood for Deutsche Schule Athen, the city's German school. Founded by the German archaeologists Heinrich Schliemann and Wilhelm Dörpfeld in the late 19th century, the school has for years been fostering strong relations between Germany and Greece.

Today, DSA is better known as the abbreviation for 'debt sustainability analysis', the term for the International Monetary Fund's procedure for analysing debt dynamics. In sharp contrast to the role of its venerable educational counterparty (which I was fortunate enough to attend), this type of DSA has strained relations between the two countries.

Debt sustainability has been a key issue since, in May 2010, the IMF was called to join the European Commission and European Central Bank to form the 'troika' group of creditors to provide financial assistance to Greece under the first economic adjustment programme. The IMF needed to grant exceptional access status to Greece, occuring when the amounts lent by the Fund exceed the normal ceiling of 145% of the country's quota per year, or a total of 435%. Surpassing all precedents, the participation of the Fund in this programme was equivalent to over 3,200% of the Greek quota. Its participation in the second programme was worth 2,159% of the quota.

Exceptional treatment

Under the original framework of exceptional access, put in place in the aftermath of emerging market crises in 2003, the Fund would not lend to a country unless 'a rigorous and systematic analysis' showed that 'there was a high probability' of debt being fully serviced.

In its original assessment, the IMF could not establish that there was a high probability, as required, that the Greek debt was sustainable. Given the urgency and the systemic nature of the crisis – according to some politicians and experts the future of the euro was at stake – the framework was amended to include a systemic exception applicable to cases of high uncertainty and a high risk of international systemic spillovers. This allowed the Fund to approve the loan.

The Fund's evaluation of the second programme, published in February 2017, highlights some of the lessons learned. Crucially, it acknowledges that 'the initial macroeconomic assumptions of the programme may have been too optimistic', that 'fiscal multipliers may have been underestimated' and that 'the possible negative feedback loops stemming from the rapidly rising insolvency problems in the private sector and the persistence of Grexit fears were not fully factored in'. It also recognises that 'adjustment has taken a heavy toll on society that, together with high poverty and unemployment rates, has contributed to a slowdown in reform implementation'.

Prospects for IMF participation

These are important lessons for the Fund's task in considering its involvement in the third Greek bail-out programme. While the Fund did not officially become a signatory of this programme at the time of its creation in summer 2015, its involvement is needed for the bail-out to go ahead.

The Fund's participation would be financially desirable, but not essential. The European Stability Mechanism, which has a remaining lending capacity of €375bn, could comfortably provide the funding for the Greek programme. In fact, the main motivating factor is the credibility of the Fund given its technical expertise earned through experience with enforcing similar programmes in the past.

There are also legal reasons for IMF participation. The German government in July 2015 secured parliamentary approval for the Greek bail-out , linked to an understanding that the IMF would be financially involved. If Europe decided to 'go it alone' with an ESM-only programme, renewed parliamentary approval would be required in Germany – politically sensitive ahead of federal elections in September.

Measurement challenges

The traditional approach of assessing debt sustainability, looking at debt-to-GDP ratios, is not suitable for Greece. This is because its loans are mostly on concessionary terms, through low interest rates and extended maturities. A crude debt-to-GDP ratio does not take account of these benefits.

An alternative approach considers the debt's net present value. This refers to the nominal amount outstanding minus future debt-service obligations on existing debt. However, results using this method are sensitive to the assumed discount rate. This is difficult to estimate, creating the need for other tests.

The one favoured by the IMF, as argued in its latest 'Perspective' on dealing with sovereign debt, is gross financing needs. This refers to the share of GDP needed for debt repayment (including interest payments). Under its framework for Market Access Countries, the IMF defines the appropriate threshold for GFN for Greece as 15% and 20% of GDP over the medium and long term respectively.

> ***"The long-term horizon involved and the compounding nature of DSA exercises mean that the results are extremely sensitive to small changes in the assumptions.***

However, there is a lack of clarity as to how these figures are obtained (the 15% is the emerging market threshold from the Fund's experience with MACs). The IMF has not published any research that validates them for the case of Greece in particular. Moreover, if these numbers are correct, this implies that other countries may need debt relief. Portugal's financing needs for example will be 16.7% of GDP this year and Spain's 19.8%, according to the IMF.

Irrespective of the method followed, the long-term horizon and the compounding nature of DSA exercises mean that the results are extremely sensitive to small changes in the assumptions. A big part of the difference between the debt projection of the IMF (2060: 275% of GDP) and the EU (2060: slightly above 100% of GDP) is explained by different primary surplus projections.

This casts doubt on whether any policy conclusions can be drawn from the DSA. The solution to the IMF's dilemma over participation is likely to be a political one. News that the IMF and the euro area are coming closer to an agreement after the meeting between German Chancellor Angela Merkel and IMF Managing Director Christine Lagarde are encouraging, and could provide an important injection of confidence that would be beneficial for the economy in the short term.

For many Greek citizens, analysis drawing out to 2060 has become a meaningless light at the end of a very long tunnel. ■

Danae Kyriakopoulou is Head of Research at OMFIF.

Turnout key in French election

Le Pen voters more committed than left-wing supporters

Sarah Hewin, Standard Chartered

Marine Le Pen, leader of France's National Front (FN), will need to overcome high hurdles to win the French presidential election in May. Even if she wins, the chances of an FN majority in the National Assembly are remote, and parliament would probably prove reluctant to approve a referendum on European Union and euro membership.

A Le Pen victory would be highly unsettling for the EU, and financial markets are becoming nervous that opinion polls may be underestimating her chances.

Polls show that Le Pen's supporters are more committed than those of other candidates. The French Institute of Public Opinion estimates that 82% of Le Pen supporters are sure of their choice – the average for other candidates is 60%. Loyalty will stand Le Pen in good stead if voter turnout is low.

In a country that otherwise prides itself on high political participation, the indications are that voters may stay at home this year. Turnout is currently forecast at 62%, against an average of 83% for the past four decades.

Even so, to secure victory Le Pen would have to win more than double the record number of votes cast for FN in the 2015 regional elections. At that time, at the height of its popularity in the light of the European migrant crisis, the party attracted just under 7m votes – around 15-19m votes are needed to win the presidency, depending on turnout.

Unemployment is main concern

Surveys show that, unlike in the UK ahead of the British EU referendum in June 2016, French voters in general do not regard immigration as the major issue facing their country. This perhaps reflects the much lower rates of net migration to France than to the UK, and falling concerns since 2015.

> ***"France suffered less than the UK during the global financial crisis, but since 2011 GDP growth has averaged just 1% per year.***

The chief problem is unemployment, according to nearly half of the respondents to Eurobarometer's November 2016 survey. Unemployment, at 9.7%, is twice as high as in the US and UK, and has only recently started to fall. By contrast, the US and UK are close to full employment. The UK has created 2.5m jobs since 2010, compared with less than 500,000 in France.

Weak growth is partly to blame. France suffered less than the UK during the global financial crisis, but since 2011 GDP growth has averaged just 1% per year in France. This compares with 2% per year in the US and UK. The 2011-12 euro area crisis contributed to weak growth in France, but even over the past two decades France has underperformed the UK. France is expected to lag again this year, with growth of 1.4%, against 1.7% in the UK and 2.1% in the US.

Despite the economic recovery, real earnings declined for a prolonged period in the UK ahead of the EU referendum. This was the UK's 'lost decade', according to Mark Carney, governor of the Bank of England, and, together with rising inequality, may have contributed to increased anxiety about the future. In contrast, for those working in France, real earnings growth has stayed largely positive. After years of subdued consumer confidence, sentiment is rising in France. Fundamentally, France is less economically unequal than the UK and US and has lower rates of poverty, which might temper support for populist candidates.

Voters move away from the mainstream

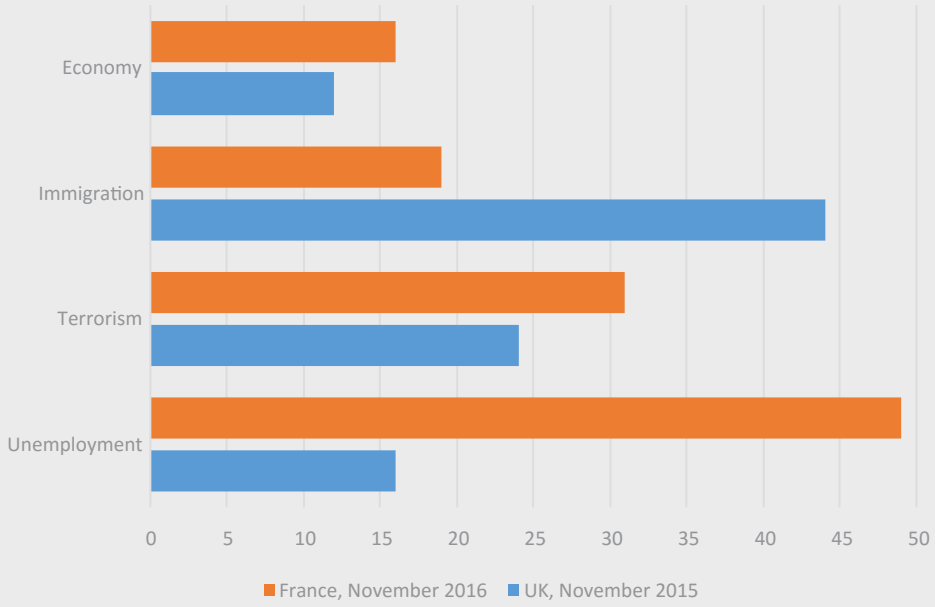
Opinion polls suggest that, though she could win the most votes in the first round of the election on 23 April, Le Pen will fail in the run-off on 7 May. There remain, however, risks that could cause voters to turn away from the mainstream centre-right and left-wing presidential candidates.

First, personal scandals, potentially inflamed by social media manipulation. Emmanuel Macron, the leader of the En Marche! centre-left party, claims to be the target of social media attacks. However, his campaign has received a boost from joining with veteran centrist politician François Bayrou. François Fillon, the conservative front-runner, is under formal investigation for the misuse of state funds. Second, terrorism is a major concern for French voters. In a run-off against Le Pen, Macron could be vulnerable in the event of a terrorist scare.

French voters remain in favour of the euro – 68% support the single currency, according to Eurobarometer. Once France's election cycle is over, market attention may shift to Italy, where support for the euro is ambivalent (53% in favour) and where elections are due within the next 12 months. ■

Key concerns for French election different from pre-referendum UK

Most important issues facing country, % of respondents



Source: Eurobarometer, Standard Chartered Research

Sarah Hewin is Chief Economist, Europe, at Standard Chartered Bank. This article is produced with permission of Standard Chartered Bank, and is updated based on a Global Research Report originally published on 16 February. It is subject to its General Disclaimer.

Turkey's interest rate dilemma

Further volatility for lira in 2017 after challenging year

Aslihan Gedik, Advisory Council

Last year was extremely challenging for Turkey. The country, having come under terror attacks by the Kurdistan Workers' Party for decades, is now dealing with the militants targeting civilians in major cities. It is also increasingly threatened by Isis.

All of this is in addition to the attempted military coup of 15 July 2016. This brought the country into a state of emergency that is still in place. The next major step is the constitutional referendum on 16 April.

The Turkish lira has depreciated by more than 20% since November's US presidential election. Most of the depreciation reflects Turkey's high sensitivity to fluctuations in global financial conditions and low oil prices. Recent weakness has been driven by market concerns about the Central Bank of the Republic of Turkey's (TCMB) policy intentions. In practice, however, the TCMB has the means to stabilise the lira.

> *"The lira is now 30% undervalued compared with fair-value estimates, and it is hard to see why this should not be sufficient to encourage monetary action.*

Most of the flows out of lira-denominated assets are driven by return considerations, and can be addressed by raising interest rates. However, the authorities prefer a weaker real exchange rate, which would put the economy on a more solid external footing. Hence the reluctance to tighten policy. Given that Turkey needs to reduce its dependence on external borrowing, such a strategy seems plausible. This suggests that we will see more decisive action from the monetary authorities once the lira is deemed weak enough.

Decisive action from monetary authorities

The lira is now 30% undervalued compared with fair-value estimates. It is hard to see why this should not be sufficient to encourage monetary action. With the exception of the 2001 Turkish banking crisis, this is the lira's weakest level in real terms in 20 years.

Although a short-term appreciation is likely to be necessary to stabilise local flows, it is hard to argue that the lira would need to weaken much further still. Interest rates would have to rise temporarily by at least 2-2.5 percentage points to stabilise the exchange rate, and would have to remain at around 10%-11% until inflation began to fall.

Rates will have to rise sharply, but should subsequently ease fairly quickly as well. The Taylor rule, which estimates the sensitivity of interest rates to changes in economic conditions, suggests that rates will have to rise to close to 11% to stabilise the lira and then fall towards 9.5% by year-end to reflect tighter global financial conditions.

Lira stabilisation using rates

This tightening could be delivered by increases in the main policy rate and a widening of the interest rate corridor. The nature of the flows that lead to depreciation is still returns-driven, and hence can be stabilised using rates. This is consistent with the pricing in the sovereign credit default swap market and in the equity market in local currency, which have been relatively stable.

This view is consistent with the intra-week response of the lira, which fell sharply when the TCMB injected dollar liquidity while government officials were restating their opposition to higher interest rates. The currency then stabilised when the central bank did not open its seven-day repo auction. The Bank's inaction raised the average cost of funding, and indicates that the TCMB could tighten policy if needed.

Given the size of the shocks to the economy, Turkey's growth outlook is, at best, uncertain. Additionally, the Turkish Statistical Institute has published revised GDP figures.

> *"Turkey's national savings rate is significantly higher than previously thought, arguably facilitating the adjustment of the current account towards a sustainable level.*

According to the revisions, Turkey's national savings rate is significantly higher than previously thought, arguably facilitating the adjustment of the current account towards a sustainable level.

The sharp slowdown in domestic demand, coupled with the much weaker exchange rate, should result in a much-reduced current account deficit. While the size of that improvement is dependent on the potential for a recovery in tourism revenue, the deficit is expected to fall to 3% of GDP.

Globally, Donald Trump's win in the US presidential election has introduced much economic and policy uncertainty. Following years of abundant liquidity and positive external conditions that have benefited Turkey's current account position since mid-2014, the external environment is becoming negative.

Accordingly, Turkey will confront at least two external shocks in 2017: a potential 25% rise in oil prices, and a secular shift in global capital flows towards developed markets. This points to a wider current account deficit next year coupled with higher financing costs.

State of emergency

Domestic conditions are similarly unsympathetic. The state-of-emergency conditions and purge of coup-plotters are blurring Turkey's investment and consumption outlook. This is in addition to rising political volatility ahead of the public referendum on transforming Ankara's parliamentary system into an executive presidency.

Relations with the European Union have been strained, as illustrated by the European parliament's non-binding vote in November 2016 to freeze Turkey's accession talks.

External pressures, a rising inflation differential against trading partners, the absence of geopolitical clarity, and a wider current account deficit all point to further lira volatility in 2017. ■

Aslihan Gedik is a Deputy General Manager of the OYAK Anker Bank.

The economic practicalities of Brexit

Absence of trade deal will cost far more than tariffs

Linda Yueh, Advisory Board

Trade agreements are about opening up markets, but they're also about reducing the frictions of cross-border trade. In other words, the gains from international trade result from, among other things, the reduction of tariffs and duties, especially in an era of global supply chains.

Once Britain leaves the European Union, these economic factors will come into play.

The government's January white paper detailing the UK exit from the EU confirms that Britain will not seek to remain in the EU single market or the customs union.

The UK will try to get preferential access for certain exports like cars into the EU. But, if there are differential tariffs and duties, there will be customs checks at the border to establish which duty should apply. These frictions largely pertain to manufacturing and agricultural products, and less so to services which make up more than three-quarters of the UK economy. After Brexit, there will be a lot more customs checks at Britain's national borders.

Just under half of British exports go to the EU. They face minimal customs procedures. The principle is known as RORO or 'roll-on, roll-off'. After Brexit, shipments to and from the EU will be subject to the same level of checks as non-EU trade. These include customs declarations at the border, assessing the tariff or duty to be paid, as well as inspection checks for lorries, ships and aeroplanes.

Direct and indirect tariff costs

The British Chambers of Commerce estimate that by 2019, owing to Brexit and the overall increase in global trade through Britain, the annual number of customs declarations will rise to 390m from 90m.

A quadrupling of the paperwork will require an IT system that can manage the additional load, as well as additional physical infrastructure to ensure that the customs checks don't cause excessive delays for shipments or gridlock on the roads.

In a measurable way, additional customs requirements will increase the cost and frictions of trading with the UK.

There are also likely to be greater trading costs associated with the fall-back position of relying on the World Trade Organisation if there is no trade deal with the EU. Under the WTO, the UK would trade under 'most favoured nation' status with the rest of the world. Around one-third of British exports would be zero tariff and many would have tariffs of just 2%-3%. But for Britain's biggest goods export – cars – tariffs would rise to 10% from the current zero. Others, mainly agricultural products, would be subject to higher tariffs.

Tariffs are an example of trade frictions that countries seek to reduce through free trade agreements. Although most tariffs are not large in magnitude, countries around the world have sought further FTAs in addition to their WTO membership to reduce these costs of trade further.

> ***"An increase in tariff rates and customs costs may be manageable in the short term. But it adds pressure to the British government to maintain the long-term competitiveness of British goods exports by agreeing FTAs to bring those costs down.***

Competitiveness of British goods

An increase in tariff rates and customs costs may be manageable in the short term. But it adds pressure to the British government to maintain the long-term competitiveness of British goods exports by agreeing FTAs to bring those costs down.

What that implies is greater competitive pressure on British exports. EU officials have stated that Britain must trigger Article 50 of the Treaty of Lisbon before a trade deal can be discussed.

EU membership also means that Britain cannot formally negotiate trade agreements with other countries. Informal talks are taking place and groundwork has been laid in the US, but it still means the UK won't have any FTAs in place when it finally leaves the EU.

One implication is that those British products which now attract zero tariffs when exported to the 50 countries with which the EU has FTAs will see those taxes rise from zero to 'most favoured nation' levels after Brexit.

Therefore, the additional friction will increase not just for exports to the EU, but also for exports to places like South Korea and Canada.

Theresa May, UK prime minister

WTO membership terms

Friction also surrounds the potential uncertainty regarding which tariffs or quotas apply once Britain has left the EU. The UK is a member of the WTO as part of the EU. It can replicate existing WTO schedules for tariffs and others by essentially crossing out EU and writing in UK for the most part, in a process called rectification. But there are two areas where that is not feasible.

WTO subsidies and quotas are set for the EU as a whole and not for individual nations. There are about 100 quotas for imports of mutton and the like which will need to be divided between the EU and the UK. The EU and UK then need to present the new schedules to the other more than 160 WTO members which must agree unanimously to the new WTO membership terms.

To avoid confusion over which quotas or tariffs apply after Brexit, it is in the interest of both the UK and EU to agree their WTO membership terms quickly. It's the sort of trade friction that is avoidable and suggests that the Brexit talks with the EU can't be wholly devoid of trade negotiations.

In other words, in a 'no deal' scenario with the EU, the UK will still need to do a deal with the EU. ■

Linda Yueh is a Fellow in Economics at St Edmund Hall, University of Oxford, and Adjunct Professor of Economics at London Business School.

Critical aging in developing economies

Governments must reconcile expenditure and contributions

Tarisa Watanagase, Advisory Board

The world is getting older. The United Nations estimates that the number of people aged 60 and above will more than double to 2.1bn in 2050 from 901m in 2015, with accelerating aging in developing economies a key contributing factor.

Lower fertility rates and higher life expectancy, the major factors behind population aging, are gaining momentum in developing economies. This is thanks to improved employment opportunities, family planning and medical services.

Population aging has significant social and economic implications. Financing expenditure during old age can be a major challenge for households. Businesses may face higher costs from labour shortages and employer contributions to security funds. Lower spending by the elderly may squeeze the economy and government revenues.

Fiscal burden of old-age social services

Pensions, healthcare and other social services related to old-age are likely to become a major fiscal burden, with lower contributions and higher expenditure. There will undoubtedly be behavioural and market adjustments to the changing demographic structure, such as increased household savings and labour-capital substitution. It is important that a country attains growth and fiscal sustainability while its population ages.

Although governments should play the biggest part in providing adequate social services and maintaining fiscal sustainability, most are focused on the short term. International organisations such as the World Bank, the International Monetary Fund and regional development banks must play a role in providing technical assistance and pushing for policies that respond to population aging.

Global growth has been stagnant for over a decade, partly as a result of population aging and a shrinking workforce. Productivity has also been weak, in part due to lower private investment, a consequence of new digital technologies and the growing services sector. Government investment has also slowed in the light of fiscal constraints. Fiscal sustainability in several countries is threatened by higher pension expenditure and healthcare costs as a result of improved longevity.

Emerging markets must adapt quickly

The challenges of population aging are particularly critical for developing economies. These markets must adapt at a quicker pace, often with inadequate social services and lower incomes. Small and open developing economies that are dependent on exports are especially affected by stagnant global growth.

> *"Fiscal sustainability in several countries is threatened by higher pension expenditure and healthcare costs as a result of improved longevity.*

Disruptive technologies will substitute employment both in advanced and developing economies, but are likely to have more significant impacts on the unskilled segment of the workforce. This segment is proportionately bigger in developing economies compared with advanced ones. Less sophisticated education systems in these markets also make it more challenging to train or retrain populations to adapt to disruptive technologies.

Fiscal sustainability is a serious concern. On the expenditure side, developing economies have a larger gap to fill between their current level of social services and what is required for their rapidly aging populations. There will also be competition between resources for continued economic development, such as in infrastructure, and old-age related services.

On the revenue side, developing markets generally have a small tax base with inefficient tax collection. Furthermore, a large segment of their economies is often comprised of small and medium-sized enterprises, where employers and employees may have limited ability to contribute to social security funds. Households likewise may have poorer financial literacy and a lower ability to plan for old age and put aside long-term savings.

Responses to population aging

Developing economies can learn from the extensive studies on policy responses to population aging. These range from encouraging higher fertility rates to pension and healthcare reforms.

In addition there must be serious efforts to create common understanding that, although population aging may look like a distant challenge, action needs to be taken now. About half of the 30,000 public schools in Thailand have less than 120 pupils each, due to the lower fertility rate. Parents also prefer to send their children to better schools in cities, which illustrates the lack of government efforts to convince and entice communities that these schools should be consolidated and cost-savings shifted to benefits for the elderly.

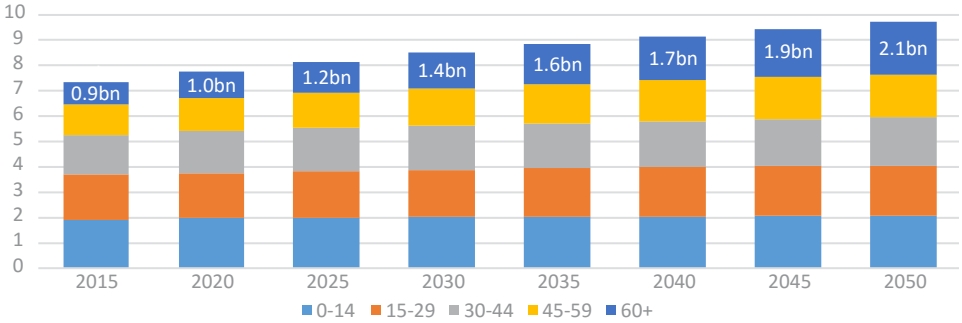
Equally important are efforts to bring about changes in behaviour to deal proactively with population aging. A major building material company in Thailand is developing soft bathroom tiles and fixtures to prevent injuries from falls. A Thai medical equipment company has started exporting robots for elderly care to Japan. Such developments will support growth and sustainability as the population ages.

Developing economies must establish policies that fit their own constraints. Incentivising support for the elderly by extended families or communities is likely to be more cost effective than operating nursing homes. Regardless, hospices and palliative care may need to be made widely accessible to provide a more cost-effective option than life-sustaining treatments. ■

Tarisa Watanagase is former Governor of the Bank of Thailand.

Population aged 60 and above to double in next 33 years

Population projections by age, billions



Source: UN Department of Economic and Social Affairs, OMFIF analysis

‘Emerging market’ definition obsolete

Country groupings should become more nuanced

Magdalena Polan, Legal & General Investment Management

The practice of labelling economies as either ‘developed’ or ‘emerging’ is reaching its limits. Several emerging markets have effectively ‘emerged’ and their per capita income levels are comparable to those of some developed economies.

Although emerging markets are generating more and more of global GDP, maps of the world financial system continue to marginalise these economies (see Chart 1).

The term ‘emerging markets’ is being applied to an increasingly diverse group of countries, stretching from the Czech Republic to Nigeria and Vietnam. The list includes manufacturing economies with robust trade surpluses to commodity exporters with perennial financing needs. Because of this diversification, individual emerging markets and their assets respond to macroeconomic events very differently. The effects of the 2014 decline – and subsequent recovery – in commodity prices and changes in the outlook for the US federal funds rate are two noteworthy examples.

At the other extreme, some emerging market indices are very selective and include only the largest emerging market companies. These indices are heavily skewed towards commodity producers and exclude many medium-sized manufacturing and financial companies. This makes emerging market equity indices strongly aligned with the commodity cycle, making them less representative of the economic cycle in manufacturing-orientated emerging markets. Then there is China, which by some measures is already the largest economy in the world.

Diagnosis by exclusion

The earliest classification defined emerging markets by exclusion. They were simply the countries that were neither the most developed nor the very lowest on the income scale. This definition is becoming quickly outdated. Some emerging markets have crossed the official (if arbitrary) threshold of the high-income grouping, and formerly low-income countries are now gaining middle-income status.

Most important, several emerging economies are still growing significantly faster than developed markets, and offer larger potential returns. Any group of assets with strong, distinguishing characteristics will inevitably be pooled into the same category or require an index to facilitate trading, diversification, and performance assessment. This is all the more true when interest in passive investment strategies is increasing. So while the definition of an ‘emerging market’ needs to be rewritten, the label will not soon disappear.

> *“Individual emerging markets respond to macroeconomic events very differently. The effects of the decline – and recovery – in commodity prices and changes in the outlook for the US federal funds rate are two noteworthy examples.*

Then there is the definition of ‘capital importers’. The traditional understanding is that emerging markets were importing capital from developed economies to finance growth, at the cost of exposure to fluctuations in developed economies’ interest rates and savings supplies.

This division is becoming old-fashioned. Emerging markets are becoming net creditors

The history of emerging markets

As an asset class, emerging markets have been one of the fastest growing in recent decades. Since the term was coined in the 1980s, and soon after the first emerging market indices were created, the size of the asset class expanded a great deal.

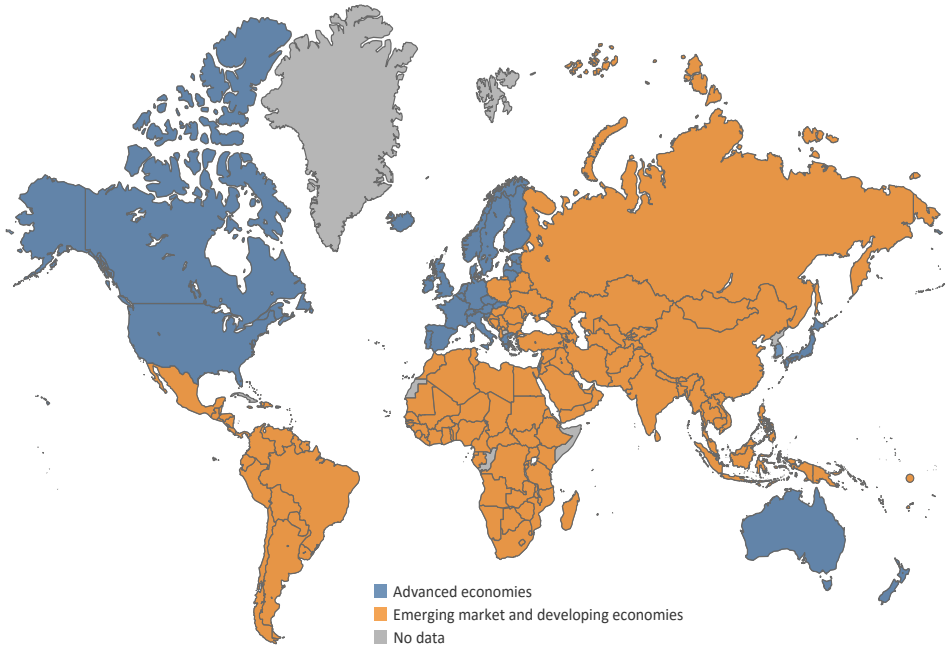
There is no clear definition of the term ‘emerging market’ and, to complicate matters further, it is used interchangeably to refer to whole economies or financial markets of these economies.

The first major bond index, JP Morgan’s EMBI+, included 14 countries and bonds with market value of $100bn. Today various indices include issuers from 65 countries and cover assets valued at more than $2.6tn. MSCI EM equity index launched in 1988, starting with 10 countries – it now includes the largest companies from 23 countries, with around $1.6tn benchmarked to the index.

Since 1990, emerging markets have grown by just over 5% per year on average, compared to developed market growth of roughly 2% per year during the same period. According to the IMF, emerging markets generated 58% of global economic activity in 2016 (adjusted for purchasing power of their currencies).

Chart 1. Binary grouping marginalises dynamic economies

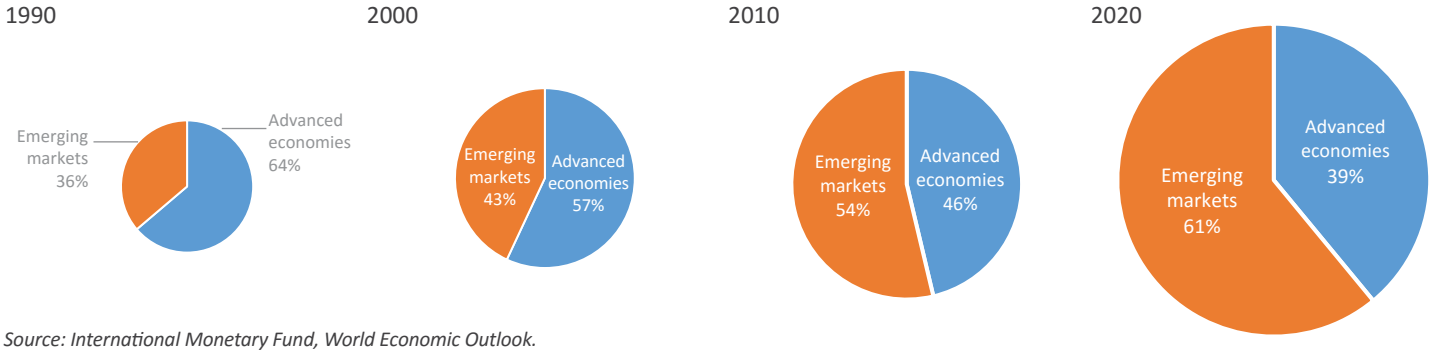
IMF categorisation of countries by development status



Source: International Monetary Fund, OMFIF analysis

Chart 2: Emerging markets make up more than half of growing world economy

Share of global GDP*, PPP adjusted, %



Source: International Monetary Fund, World Economic Outlook.

**The size of the circles is proportional to the size of the global economy in real terms in each year.*

to developed economies, in large part due to the former's accumulation of substantial international reserves. Cash-strapped emerging markets increasingly borrow from their peers, especially China and those emerging economies with sovereign funds.

Emerging markets are also defined by judging their quality of governance and political risks. One of the broad definitions singles out emerging markets as those countries where, for financial assets, politics matters at least as much as economics. But this definition relies on the assumption that the political systems of developed economies guarantee continuity. This is, at best, an optimistic assumption.

Ways forward

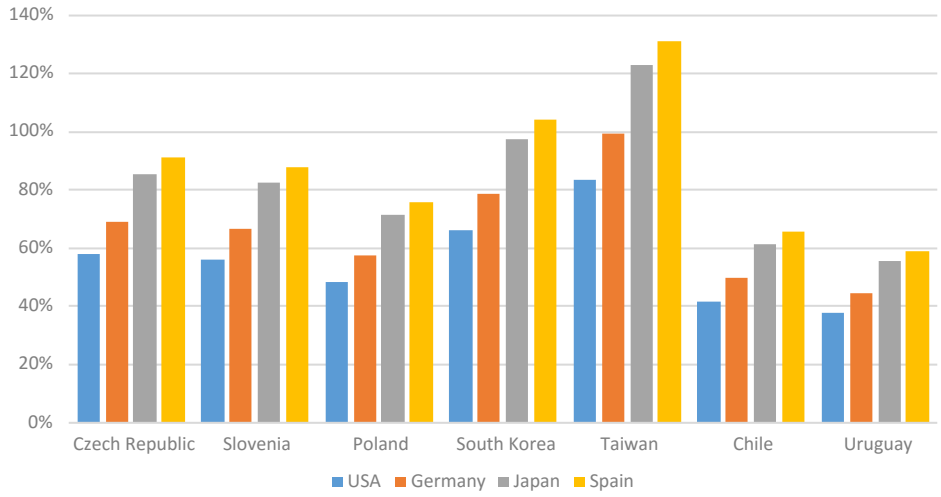
There are several ways countries can be regrouped. In addition to classifying countries by income, they could also be divided into manufacturers or commodity exporters, and those with current account deficits or surpluses.

This would introduce an important distinction lacking in contemporary debt and equity indices. It would also allow for the inclusion of manufacturing and service-orientated companies from smaller emerging markets in equity indices. But this definition would still require adjustments as countries shift from deficit to surplus, making indices attached to related groupings less stable.

Another method would be to group economies by similarities such as production and export structure, productivity, income, reliance on foreign capital, or credit rating. This would make groupings more relevant, but would require many more clusters than those broadly used today. This could be useful for investors following bottom-up investment strategies, but would be difficult to implement for those employing top-down approaches and those still interested in broad emerging market exposure. Indices based on smaller groupings would also be more volatile and provide less diversification.

Chart 3: Emerging markets income close to advanced economies

Per capita GDP as a share of selected advanced economies, PPP adjusted, 2016



Source: International Monetary Fund, World Economic Outlook.

Another approach is to rank countries and their financial markets using various quantitative and qualitative scores extending beyond the variables used to determine credit rating.

> ***"Many emerging economies still have smaller, less liquid financial markets in which foreign investors play a disproportionately large role, making these markets more sensitive to the global rate cycle and investor sentiment.***

Such a ranking is likely to create a mapping broadly similar to that of the current emerging against developed market division, but would also reward smaller emerging economies that feature high quality policy-making and positive levels of liquidity. This method would likewise 'penalise' developed markets with worse-performing policies and illiquid financial markets.

Nuanced definition, heuristic value

Country groupings remain worthwhile tools. Many emerging economies still have smaller, less liquid financial markets in which foreign investors play a disproportionately large role. That makes these markets inherently more sensitive to the global rate cycle and investor sentiment.

Many are small, open economies, with lower savings or fiscal space to smooth the growth cycle. This again distinguishes emerging markets from their more developed counterparts. ■

Magdalena Polan is Global Emerging Markets Economist at Legal & General Investment Management.

California minimum wage and recessions

State pay increases must navigate next downturn

Irena Asmundson, Advisory Board

Although California's economy has been growing strongly since the 2007-09 recession, the state is aware that it needs to plan for the next one. Recent budgets have included paying down debts, adding money to an emergency reserve fund, and addressing pension needs. Recognising the inevitability of downturns, the state is incorporating contingency plans into policies such as minimum wage increases.

California's unemployment rate was 5.2% in December 2016, less than half the 12.1% rate in December 2010. The participation rate also began to rise in 2016. The state minimum wage was increased to $10 per hour at the beginning of 2016, giving people an incentive to join the labour force.

Economic theory suggests that raising the minimum wage should decrease job growth for professions that are on the margin. However, nonfarm payrolls – the main indicator for employment creation in the US – grew by 2.0% in California in 2016, faster than the 1.6% growth for the country as a whole. California's lower-wage sectors also saw growth, as workers had more disposable income. Leisure and hospitality jobs grew by over 3.5%.

In 2016, California passed a series of increases to the state minimum wage that will be phased in until the minimum wage reaches $15 per hour. Employers with more than 25 workers were required to raise their minimum wage to $10.50 per hour at the beginning of 2017, rising to $11 per hour at the beginning of 2018 with an additional $1 per hour increase each subsequent year. Employers with 25 or fewer employees will have an additional year to comply with each increase.

Difficult budget trade-off

If the economy continues to grow, the state minimum wage is scheduled to be $15 per hour for all employees at the beginning of 2023.

However, growth is not perpetual. The current US economic expansion period started in July 2009, which means that it is approaching eight years in length.

The longest continued US expansion was 10 years, which ended in 2001. By convention, economic forecasts do not include recessions, but the phase-in period for a $15 per hour minimum wage is long enough that not having a recession would be unusual given historical trends.

This would imply some difficult trade-offs for the state budget and for businesses. California's revenues are strongly procyclical, the state employs many workers who would be affected by minimum wage increases, and it is constricted by a balanced-budget requirement. In addition, raising the minimum wage while jobs are being cut is likely to worsen unemployment.

Given these budget and economic cycle risks, the minimum wage statute includes two contingencies that would allow increases to be paused. First, if the next minimum wage increase were to lead to a budget deficit, the governor can opt to suspend the increase for a year. There can be no more than two pauses of this type before the full state minimum wage reaches $15 per hour.

> ***"Economic forecasts do not include recessions, but the phase-in period for a $15 per hour minimum wage is long enough that not having a recession would be unusual given historical trends.***

Second, if jobs fall over a three or six month period before the next scheduled increase, and sales tax receipts fall, the governor may delay the next scheduled increase. There is no limit to the number of times this measure may be used, but neither provision may be used after all employers reach $15 per hour.

Representative measures of inflation

After the state minimum wage reaches $15 per hour for all employers, it will be increased thereafter at the rate of US inflation. If inflation is negative, minimum wages won't be decreased, and there is a ceiling of 3.5% on increases in any one year.

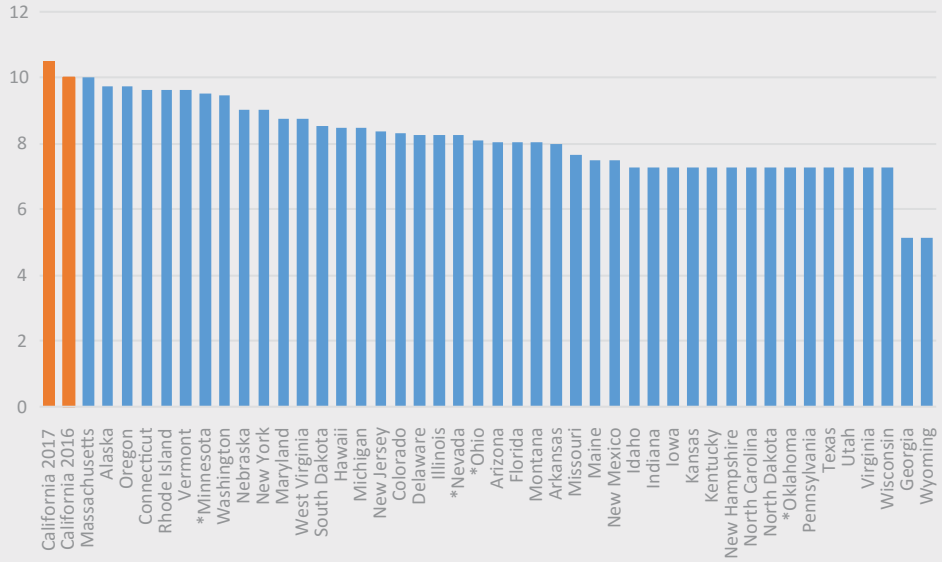
California's inflation rate is based on surveys of prices in the San Francisco Bay area and greater Los Angeles area. However, this ignores the more rural areas of the state. Likewise, several expensive jurisdictions, including San Francisco and Los Angeles, have policies that increase their minimum wage at a faster pace.

Tying indexation to the broader US inflation rate may be more representative for the entire state, and avoids the possibility of a wage-price spiral. With contingencies for the business cycle and a long phase-in period, the hope is that the plan to increase minimum wages will allow more workers to benefit without disrupting to the economy. ■

Irena Asmundson is Chief Economist at the California Department of Finance.

Proposed minimum wage will increase California's lead on other states

Minimum wage by state, 2016



Source: US Department of Labor, OMFIF analysis. Note: States that do not report a minimum wage are Tennesse, South Carolina, Mississippi, Louisiana and Alabama.

**States where the higher minimum wage value is taken from a band.*

Overcoming barriers in Trump presidency

Female US leaders form small pool of potential candidates

Marsha Vande Berg, Advisory Council

The first woman to win the nomination of a major political party for president of the US fell short in the final contest with Donald Trump. Hillary Clinton, the Democratic nominee, won the popular vote but lost to Trump's impressive electoral college sweep in one of most bitter, divisive and ugly election campaigns in US history.

Whiplashed by sexism, racism and Islamophobia, the election brought into view two visions of America. The first is generous, open and comfortable with international leadership, and the other paranoid about immigrants, feeling abused by allies and victimised by trading partners. Americans are now dealing with Trump's vision for America.

Women, who make up half the US population, may be part of that vision, but only a patronising extension of it. A scan of current and historical precedent for advancing causes that are important to women and the scant growth in the number of women in elected office suggest that the election of a woman president is not likely to happen any time soon.

As a candidate, Trump promised to appoint conservative judges who are opposed to *Roe v. Wade*, the 44-year-old landmark women's reproductive rights decision. Since entering the White House, he has said women can just 'go to another state' to get an abortion. Many states have too few abortion clinics already – this ruling would create a more significant barrier. While he may believe an adverse ruling by the Supreme Court would push the issue to state legislatures, it is likely to jeopardise a woman's ability to find 'another state'.

Tilting balance of power

Last November's conservative electoral result, catalysed by Trump's resilience and Republican gerrymandering, tilted the balance of power at the state level decisively for Republicans and put them in charge of both the upper and lower legislative chambers in 32 states.

Those who want to see a woman elected to the country's highest office are left wondering what to do and whom to support. One also wonders whether it will be possible to realise this goal in the light of today's political and social climate. Such habits may change over time, and there is insight to be gleaned from a review of the evolving 'habits of the heart' in the US concerning women's rights.

Harry Burn was the youngest member of the Tennessee legislature in August 1920. His last-minute change of heart about women's suffrage broke the legislative deadlock over a decision to ratify the 19th amendment to the US constitution. He changed his mind because he listened to his mother's admonition: 'Do it for the ladies!'

The invention of the typewriter contributed to softening Victorian attitudes about women in the workplace. Bicycles offered freedom and mobility. Then there was birth control. These developments helped catalyse a quiet revolution and established the foundation for the late 19th and early 20th century suffragette movement in the US.

Equal pay for equal work

The advocacy of the suffragettes was hardly a straight line, let alone a guarantee that equal access with equal pay for equal work would follow. These are issues women still struggle with today, underscoring the challenge of contemporary gender issues.

The logical extension to the 19th amendment to the US constitution, the equal rights amendment, was intended to guarantee equal rights for women – it was defeated in the state legislatures in 1979. Opponents included Eleanor Roosevelt, who was the first chair of the presidential commission on the status of women.

> ***"The pool of prospective female candidates who are earning experience in the management of large administrations and running challenging legislative processes is relatively small.***

A recent Pew Research survey asked respondents why more women do not occupy top elected offices. In the poll, 41% of women respondents said Americans are not ready to elect a woman to higher office; 31% of the men polled agreed.

Likability and trustworthiness are important measures of electability for both female and male candidates. For trustworthiness, neither Clinton nor Trump scored highly. But had Clinton won, she would have had an opportunity to catalyse new thinking about the potential for female candidates.

The pool of prospective female candidates who are earning experience in the management of large administrations and running challenging legislative processes is relatively small. Both tasks are central to the job description for US president, and both are tasks which define the role of governor.

Hillary Clinton, Democratic nominee for US president

Of the 44 American presidents, 17 have served as governor, including Thomas Jefferson, Theodore and Franklin Roosevelt, Ronald Reagan and Bill Clinton. A total of 26 presidents have served in the military, 12 of whom were generals, including George Washington and Dwight Eisenhower. While Elizabeth Warren, the Democratic senator from Massachusetts, is often mentioned as a future presidential candidate, her public service is in the US Senate. There are only four women who serve as governors today. Newly-elected Senator Tammy Buckworth, former Democratic representative of Illinois, is a decorated Iraq war veteran.

Increased diversity in Congress

The proportion of women in Congress barely changed in 2016, representing about 20%. Concurrently, the 115th Congress is now the most diverse in history. Although still disproportionately white, the ethnic profile of newly-elected legislators more closely resembles the increasingly diverse US population.

It is not yet certain what direction this Congress will take when considering Trump-sanctioned legislative proposals that support his closed-door vision of America. It also remains to be seen what shape coalitions take, what side of the political and gender aisle they land, and whether they are able to promote a vision with which the US is comfortable. ■

Marsha Vande Berg is a Distinguished Career Fellow at Stanford University.

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Paul Judge, Schroder Income Growth Fund
Thomas Kielinger, Die Welt
Ruud Lubbers, Minister of State, Netherlands
Denis MacShane, Avisa Partners
Kishore Mahbubani, Lee Kuan Yew School of Public Policy
David Owen, House of Lords
Brian Reading, independent economist
Robert Skidelsky, House of Lords
Michael Stürmer, WELT-Gruppe
Christopher Tugendhat, House of Lords
John West, Asian Century Institute
William White, OECD
Linda Yueh, St Edmund Hall, Oxford

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François Heisbourg
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Korkmaz Ilkorur
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José Roberto Novaes de Almeida
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Francesco Papadia
Robin Poynder
Poul Nyrup Rasmussen
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Philippe Sachs
Nasser Saidi
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Paola Subacchi
José Alberto Tavares Moreira
Jens Thomsen
David Tonge
Jorge Vasconcelos
Gottfried von Bismarck
Jack Wigglesworth
Paul Wilson

The Duchess and the lace trader

Women of England: their role in financial revolution

Rachel Pine

***Silent Partners: Women as Public Investors during Britain's Financial Revolution, 1690-1750*, depicts an era when women served as critical liquidity providers to England's nascent capital markets. Amy Froide's illuminating look at public markets of 300 years ago demonstrates that female investors of the time understood and made use of complex financial instruments, and employed traditional investing options.**

An outgrowth of household management, which saw women running their family's budget, meant investment by women became common not only for wealthy households, but also for those from the 'labouring' classes. There was a flourishing trade in accounting schools and accounts books aimed specifically at women. Investment prowess became a desirable characteristic for a potential wife.

Ingenuity of female investors

Women's power as investors was notable. When the Bank of England was founded in 1694, 12% of subscribers were women, investing 6% of its initial capital. This comprised a larger portion of the capital than that attributed to professionals, manufacturers or tradesmen. By 1753, 25.4% of the Bank's shareholders were women. Large corporations, including the East India Company and the South Sea Company, were also strongly supported by female investors.

Froide's research draws on a plethora of case studies that illustrate the mores of the day as well as actual transactions by female investors. One example is that of Hester Pinney, a lace trader turned investor and broker. Starting with a market stall in the Royal Exchange where she sold bows and linen with her sisters, Pinney continued the business after her sisters married.

On her own, she took the profits from the market stall and invested them into various assets, including government annuities, stocks in large corporates of the time and shares in the Bank of England. This diversification was quite unusual – at the time 87.4% of men and 97.5% of women owned only one stock. Even more unusually, Pinney served as a financial agent for not only her extended family but for unrelated men, who sought out her investment advice and engaged her as their broker.

However, it was wealthy women who were best positioned to become involved in financial markets. Most of Froide's case studies focus on women who were born into more fortunate circumstances than Pinney. Sarah Churchill, the Duchess of Marlborough and an adviser to Queen Anne, is credited as a woman of financial prowess and influence.

> ***"Women's power as investors was notable. When the Bank of England was founded in 1694, 12% of subscribers were women, investing 6% of the capital.***

While it is probable that her proximity to the throne benefited her investment choices, she managed her family's finances and managed her own account, along with those of her husband Lord Marlborough. At the time of her death, Sarah Churchill's portfolio, comprising loans, annuities and stocks, was worth £19,100 – a staggering £36.6m in present-day value.

Disparate investment strategies

The case studies within *Silent Partners* are plentiful and vivid, and do an excellent job of bringing these women to life. Financially, at least, they come across as thoroughly modern. The scenarios also highlight the disparity between these women's sophisticated investment ideas and the laws of the day.

Married women had the mental dexterity to execute complicated financial transactions and investment strategies, yet required permission from their husbands, brothers or fathers to actually manage their own accounts. Unmarried women were, however, allowed to sign contracts and make loans.

A particularly fascinating portion of the book deals with lotteries, seen as a 'gateway' investment for young women. Alone or in pools, they would purchase lottery tickets in the hopes of securing a dowry or, for single women, to begin saving for retirement.

Worrying trend reversal

Public investment suited female investors for a variety of reasons: worthwhile interest rates, relative security, reliability of payment and liquidity, and veritable anonymity. Froide posits that private investment, which would include needing to collect rent and interest payments from relatives and private individuals, was far less hospitable to women.

It is interesting to note that contemporary women's attitudes about public investment seem to have stalled or, even worse, reversed. A September 2016 poll and white paper by consultancy BritainThinks on behalf of the Financial Times showed that women feel less knowledgeable generally and lack confidence about investing. Of those women polled, 40% described themselves as 'less knowledgeable about investing compared to others'.

Froide's impeccably researched book depicts a time in history when many women did feel confident about their investments. The waning of this confidence plainly begs investigation. ■

Rachel Pine is Senior Manager, North America and Caribbean & Pensions at OMFIF.


GCC countries 'should not question' rate peg

Advisory network believes natural link to dollar remains advantageous

This month's advisory board poll focused on the Middle East, in particular the impact of rising US interest rates on the exchange rate peg for a group of oil exporters. Members of the OMFIF advisory network were asked: 'With the Fed on a tightening path and with oil under pressure, is it time for Gulf Co-operation Council economies to question the appropriateness of their dollar peg?'; 'What is the main obstacle to a change of exchange rate regimes?'; 'Will the oil price increase or decrease in 2017?'; and 'Will the Iran deal survive Trump's presidency?'

Of respondents, 62% believe GCC countries should not question their dollar pegs, reasoning they have acceptable rates of inflation while the natural link to the dollar through the price of oil remains advantageous. The 38% of respondents who disagreed believe a flexible exchange rate allows for the currency to absorb market shocks and removes the significant costs of maintaining a fixed rate.

In the event of an exchange rate regime change, respondents said that the main obstacles would come from: politics; foreign currency liabilities of the private sector; loss of confidence of foreign investors; a lack of economic diversification and integration of the GCC; conservatism; and the fear of antagonising the US.

Oil prices will increase in 2017, according to 46% of respondents; 23% expect prices to remain steady through the year; 15% believe prices will fall; with the remainder uncertain. On Iran's nuclear deal, 62% of advisory board members believe that it will remain uninterrupted by a Trump presidency, stating that despite much of the insular rhetoric coming from Washington, Iran will not renege the agreement.

'The GCC requires exchange rate flexibility that allows currencies to act as shock absorbers during times of high market volatility. These economies see the peg as a symbol against price volatility (as oil is priced in dollars). This could backlash as predicting the oil price is always hazardous, even more so with the Trump administration.'
Brigitte Granville, Queen Mary College, University of London

'GCC economies breaking the peg would not trigger a current account rebalancing, as domestic producers lack capability to fill importers' market share. The government would enjoy only limited fiscal relief given the high import share of government expenditure. So the greatest benefits of breaking the peg would not be accrued by GCC states, which enjoy the stability, predictability and low transaction costs afforded by it.'
Eliot Hentov, State Street Global Advisors

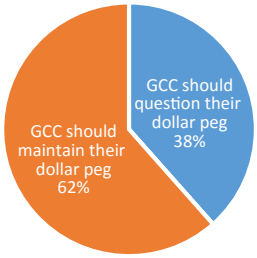
'For GCC economies the peg is an optimal regime – it is understood by their economic agents. It should be accompanied with the build-up of reserve funds capable of serving as macroeconomic stabilisers. There is a lack of alternatives. The credible peg is based on the notion that exit must be abrupt and unexpected and often involve debt payment freeze or default. Questioning the peg without knowing where the discussion leads just destabilises the economy.'
Miroslav Singer, Generali CEE Holding

'It has long been unwise for the GCC countries to peg to the dollar. They would be better off treating their currencies more as the commodity currencies they are, to absorb some of the real and price distortions introduced by movements in the price of energy.'
Ted Truman, Peterson Institute for International Economics

These statements were received as part of the February poll, conducted between 9-20 February, with responses from 13 Advisory Board members.

GCC economies should maintain dollar peg

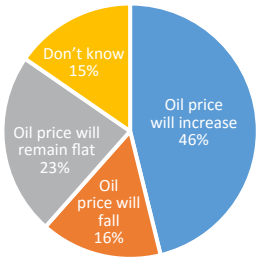
Percentage of responses



Is it time for GCC economies to question their dollar peg?

Oil price predicted to increase in 2017

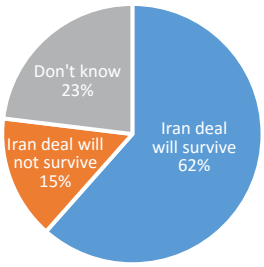
Percentage of responses



Will the oil price increase or fall in 2017?

US-Iran deal to survive despite Washington pressure

Percentage of responses



Will the Iran deal survive Trump's presidency?

April's question

As Theresa May triggers Article 50, what are your expectations for the deal aimed at from the UK's negotiations with the European Union over the coming two years?