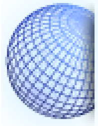

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Why Mainstream Economists Don't Understand Financial Instability

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Thème: Global Economy

Mondialisation.ca, 10 juillet 2016
Jack Rasmus Productions 9 juillet 2016

The conceptual toolbox of mainstream economics is no longer sufficient. In a 21st century global economy—in which financial variables and cycles have increasing effect on the non-financial economy and its stability—that toolbox lacks a number of necessary instruments. The missing instruments, or tools of analysis, are those that would explain how financial variables and financial cycles interact with real variables and cycles, both mutually determining the other.

In earlier decades, before the 1980s, financial variables were simply not that important in determining the trajectory of the real side of the economy. From the 1980s on, however, they have become increasingly central to that unstable trajectory. Today, well into the second decade of the 21st century, financial variables are more important and determinative of real growth and business cycles than ever before.

A problem with mainstream economics is that it is superficial. By that is meant it doesn't go deep enough in analyzing financial determinants underlying economic instability. Instability in this case, in the 21st century, should not be understood as just severe swings in economic conditions. Instability today is not limited to a 'Lehman-like' credit crisis, as in the US banking system in 2008, or a stock market crash, as in China 2015; nor is it limited to a deep or protracted real contraction, which followed the global subprime mortgage and credit crash of 2008-2009, or Europe's subsequent double dip in 2011-2013, or Japan's five short and shallow recessions since 2008.

Forms of chronic stagnation are as much an indicator of instability as a banking crisis or stock market crash. Today's global productivity collapse, the acute slowdown of global trade in recent years, and the disinflation and steady drift toward deflation in prices of real goods and services now spreading globally are also indications of growing economic instability. Mainstream economic analysis is superficial because it insists on understanding these instability trends employing a conceptual toolbox composed almost exclusively of real variables, while ignoring the influence of financial variables and conditions that ultimately underlie the instability.

The Interest Rate Fetish

Since 2008 mainstreamers' theoretical—and central bankers' policy—focus on interest rates as a solution to growing instability has become almost a fetish. Interest rate manipulation is viewed increasingly as the end-all solution to all the global economy's woes. Forget fiscal stimulus. Forget income inequality. Forget unsustainable and increasingly unserviceable

levels of debt. Ignore the major changes in labor markets that are crushing wage earners, or the structural changes in financial markets that are rewarding investors in financial securities with unprecedented gains in income and wealth. Just lower interest rates to zero and, if necessary, push them into negative territory. And if seven years of the same is not enough, then another seven is necessary.

Mainstream economics erroneously believes that focusing on interest rates and their money determinants represents analysis of financial variables. But interest rates are not financial variables. Moreover, interest rates are not fundamental, but intermediate variables. They are proxies for changes in more fundamental forces. These forces may reflect real variables like money, technological change, cost of physical capital, expected rates of return on investment. But interest rates may reflect financial variables as well. Nevertheless, while mainstream economists may sometimes consider various real causes determining interest rates, they continue to ignore financial determinants of those rates.

Mainstreamers' preoccupation with real determinants of interest rates goes back at least to the early 20th century, when economists like Wicksell, Fisher and others debated what drove changes in interest rates—beyond just the previous simplistic 19th century economic notion of money supply and demand. Was it money that determined interest rates? Money demand? Money supply? Money velocity? Or did rates instead follow changes in real investment. Was it interest rates that determined real investment or real investment that determined interest rates? Whichever side of the debate taken, interest rates were viewed associated primarily with real variables—whether money, real asset investment, waves of new technologies, cost of replacement of physical capital, and so on. The same preoccupation with interest rates determined by real variables applies to mainstream economics today.

But focusing on real variables has failed to explain why interest rates have had little effect on restoring economic stability and, in fact, are contributing now to instability. As interest rates approached the zero bound after 2008, and descended into negative territory in recent years, real economic growth has continued to slow and stagnate nonetheless. No less than $10 trillion in bonds and other securities are now in negative rate territory, with more being considered or on the way. And not only has real economic growth been slowing, but global trade is stalling, productivity has nearly collapsed, real asset investment growth rates are declining, and the drift toward deflation in real goods and services long term continues. Something is wrong with the mainstream theory interpretation of interest rates—as well as the central bankers' policies built upon the theory.

At the same time as instability in the real economy is rising, so too is instability on the financial side. Highly correlated with the collapse of interest rates, financial asset prices have escalated and repeatedly created asset bubbles globally—which suggests strongly that low rates have been servicing financial markets more and real investment less. But that evidence has been largely disregarded by mainstream economics.

To explain why the linkage between low rates, on the one hand, and real investment and economic growth has broken down, mainstreamers would have to focus their analysis at a more fundamental level and consider financial forces as well real at that level. They would have to explain how the effect of low interest rates has been distorted by financial forces that have become increasingly influential in the 21st century.

But mainstreamers have no financial tools in their box to do that kind of analysis. They pay

little attention to the linkages between financial forces and interest rates because their toolbox is composed of pliers, hammer, wrenches and such, when perhaps what is missing is a software machine-learning algorithm tool that might show how financial forces today are eclipsing real forces in determining the impact of interest rates on economic stability.

Those mainstream economists who have been growing uncomfortable with the historical record contradicting the theory have attempted to explain the failure by what they call 'secular stagnation'. But secular stagnation theory is itself an analysis based primarily on real variables as well. Like contemporary interest rate theory, it also disregards the role of financial forces and variables. Once again we get refusal to consider the financial side.

What then are possible financial forces and variables behind the failure of zero bound, and even negative, interest rates to generate real investment and restore normal economic growth rates, real investment, productivity, global trade, halt the slide of commodity prices, and reverse the drift toward deflation of real goods and services? These were addressed at length in several key chapters in this writer's recent book, 'Systemic Fragility in the Global Economy'.

A short explanation would be as follows: during the past decade central banks in the advanced economies have pumped tens of trillions of dollars and other forms of central bank money liquidity into the global economy. Rates plummeted to near zero and below. But instead of the liquidity being directed by low interest rates into real investment, it was redirected instead into financial asset markets. Or it was hoarded on balance sheets in expectation of future opportunities in financial assets. Or redistributed to shareholders in trillions of dollars of stock buybacks and dividend payouts. A new global financial structure was created the last quarter century to accommodate the central-bank driven liquidity explosion—itself set in motion and enabled by the collapse of the Bretton Woods international monetary system in the 1970s, the subsequent removal of controls on cross-country money capital flows in the 1980s, the advent of new digital technologies and the internet in the 1990s, and the general rise of political influence by financial investors since the 1990s.

The result was a proliferation of new financial securities and global expansion of liquid markets in which they are traded. New forms of financial institutions concurrently emerged, sometimes called shadow banks, which also penetrated and merged with commercial banks and even non-bank corporations, to provide the institutional framework for the global trading of the new securities in the new markets. Behind the institutions and markets was the rise of a new agency—i.e. a new finance capital elite that has expanded in number and even more so in available investible wealth.

It is this new financial structure—with its proliferating highly liquid markets, countless new financial securities, new financial institutions, and new agency of professional investors—that has diverted the massive, post-Bretton Woods liquidity injections by central banks into financial asset markets and investment.

The new financial structure and the diversion has rendered interest rates and their real determinates increasingly ineffective in generating real investment and growth. Given the new evolved global financial structure of institutions, markets, securities and agents, financial asset investment has proven to be simply more profitable in the short run than real investment. Both risk and uncertainty is less in financial asset investing than in real asset investing. Interest rates may lower to zero, and even negative, but the liquidity that is

borrowed at those rates will still flow primarily into financial investments.

Financialization as thus defined has severely damaged the traditional interest rate to real investment relationship. But nowhere in mainstream economic analysis is the impact of these financial forces—this financialization—on the function of interest rates in determining real investment considered. Neither in academic theory nor in central banker practice. Mainstream economists and central bankers remain myopically fixated on interest rates, even as financial forces continue to negate the effect of interest rates on real investment and drive the global economy—both real and financial—steadily toward more instability.

The Productivity Conundrum

Another area where mainstream economics that has failed to account for the influence of financial forces is productivity analysis. Productivity has long remained a favorite instrument in the mainstream toolbox. But mainstreamers have little or no explanation why today productivity is stagnating globally.

A recent global business page headline read: 'The Puzzle That Baffles the World's Economies'. The article remarked that slowing output per hour is little understood by mainstream economists today. "There is little agreement on the cause and still less on the right response", the article concludes. It has become a major conundrum of sorts for mainstream economic analysis.

A well-known American economist of the 'hybrid' wing, Robert J. Gordon, addressed the problem of stagnating productivity in great detail in his recent tour de force book on the contribution of technology evolution to US economic growth since 1860. Gordon identifies the slowdown of productivity having two causes reflecting the two primary elements of macroeconomic level productivity—hours of work per person and output per person, the latter of which he calls simply labor productivity but apparently means output change per person holding hours worked constant. Labor productivity in the US began to slow during the decade of the 1970s, per Gordon's analysis. It was offset and obscured, however, by rising hours of work per person as women entered the labor force in the US in great numbers that decade and after. However, by 2000 this second element of hours of work began slowing as well. The fundamental trend of slowing productivity, as both its determinants weakened, has thus become increasingly evident since 2000 in the US.

As Gordon concluded, "The most recent decade, 2004-14, has been characterized by the slowest growth in productivity of any decade in American history". The rate of productivity growth during 2004-2014 measured barely one third of the rate during 1948-1970, according to Gordon. And during the five year period, 2010-2015, productivity grew annually by a mere 0.5%. This year, 2016, it will likely turned negative for the first time in a century.

And it is a global trend as well. Supporting Gordon's data, recent reports by the US Conference Board also shows US productivity growth barely at a few tenths of a percent annually. Europe's OECD recently confirms the same for the Euro and G7 economies.

For Gordon, productivity is primarily driven by technological revolutions. The slowing of productivity in recent decades is due in part to the digital revolution having had less of a significant impact on productivity growth than did previous tech revolutions before 1970. The contribution of the internet was largely played out by 2005 and the wireless tech revolution that followed has had an even lesser impact on productivity than did the internet.

After the 1970s, an 'educational headwind' to productivity emerged and reduced the historic contribution of education to productivity growth, which intensified after 2000. Hours of work per person shifted after 2000 as well, as various 'demographic headwinds' to productivity also began to develop. Finally, there is what Gordon refers to as 'fiscal headwinds' of entitlement (social security, etc.) and tax policies which add to productivity slowing as resources for real investment are redirected and reduced.

What's notable about all this analysis is that, in classic mainstream economics fashion, the most important determinants of productivity growth are 'real' forces, especially technological waves; so too, the most important determinants of the slowing of productivity are also real—the soft technologies of internet and digital communications, education system failures, demographic trends, and fiscal policies. Financial restructuring of the US and global economy—which perhaps not coincidentally also began in earnest circa Gordon's key datapoints of the1970s decade and after 2000—is nowhere part of the analysis why productivity has been slowing. But it should be.

Consider an alternative explanation, factoring in financial forces as contributing to the collapse of productivity.

Global financialization has been key to enabling real investment to move offshore from the US and advanced economies to emerging market economies, most notably China, since 2000 and even more rapidly from 2010-2013. Without financialization the shift of real investment offshore would not have been possible. As a consequence of that shift, the relative size of the manufacturing and construction sectors have shrunk, in particular in the US, Euro and Japan economies, leaving service industries constituting typically 80% or more of the economy in the US. Service sector productivity growth is typically far less than manufacturing-construction and very difficult to accurately estimate. As the service sector has grown as a percent of the total economy, productivity growth rates have slowed.

There's also the matter of the composition of the service economy. It is developed in some sectors into a virtually all-contingent labor economy. Part time, temporary, independent contract, and 'gig' or sharing economy employment has exploded. That too lowers productivity growth potential and makes the estimation of productivity even more problematic. In Europe in recent years, contingent labor growth constitutes 70% or more of job creation in various countries. In the US today, perhaps as much as a third, or more than 50 million, are now contingent in some way. Many of the new, contingent-based service companies being created are also being financed by the new financial structure—hedge funds, peer to peer lending groups, online funding, angel investors, venture capital, and so on. The emerging 'gig' or sharing economy—the latest phase of service economy evolution—is almost a total product of the new financial structure.

Financial structure and institutions are changing rapidly, driving corresponding changes in labor markets in turn, that are resulting in the relative decline of traditional high (and easier to measure) productivity sectors like manufacturing and construction and the relative rise of low productivity (and difficult to measure) service industries. Changing labor markets and forms of employment slow productivity growth rates even further.

But because mainstream economics cannot see the connections between today's revolution in financial structures and its direct or indirect impact on productivity, the collapse of productivity appears a conundrum. A 'puzzle that baffles', according to the global business press. Non-transformative technologies compared to those of the past (Gordon), or the

technology ‘diffusion machine’ is just somehow broken, as other mainstreamers have concluded.

Looking deeper into the potential causes of the productivity malaise, however, focusing not just on real factors but on the contribution of financial forces’ to the collapse of productivity, may yield another conclusions other than conundrum. But mainstreamers’ refusal to look that deep, or in that direction, produces a myopia that ends in ‘bafflement’.

Money vs. Credit

Mainstreamers of the ‘Retro-classicalist’ wing fare no better with regard to financial variables and financial instability. If mainstreamers of the ‘hybrid’ wing make a fetish out of interest rates, the ‘retros’ do the same in the case of aggregate money supply. Hybrids argue interest rates are the proper focus of analysis; retros say it is the money supply, regardless of the effect money may have on the level of interest rates.

The problem with the money supply ‘retro’ view is that it fails to distinguish between money as credit, on the one hand, and the rapid growth of non-money forms of credit on the other. For Retros, the distinction between money and credit does not exist. Without money there is no credit and therefore no possibility of investment. But this is not so in today’s era of radical global financial restructuring.

Traditional banking theory describes how the central bank can provide liquidity to commercial banks and thereby incentives for the latter to make loans and increase the money supply in the greater economy. Innovations in central bank policies in recent years allow central banks to function as private banks, in the sense of directly injecting money into the economy by printing (electronically) and purchasing assets directly from non-commercial bank investors. But financial security products in particular may be purchased without access to money in the traditional sense. Credit is loaned to investors based on the collateralized value of the financial assets previously purchased. Asset price escalation may lead to more debt availability that is simply credited electronically to the borrower. This is the essence of ‘inside credit’ creation. Other forms of non-money credit creation are emerging as well. Bitcoins and forms of digital money are rapidly growing. Shadow banks are taking over the functions of commercial banks, from financial repo markets to peer to peer online lending. Technology is enabling the acceleration of money velocity and credit velocity in general—accelerating the turnover and de facto raising the supply of money and credit as a flow and not just a stock.

To continue to try to explain the role of money defined in a traditional sense has been seriously challenged by the rapid restructuring of financial institutions, markets, and products that characterizes the recent present period. Nevertheless, the retro wing of mainstream economics insists on theorizing and trying to explain today’s global economic instability by reference to traditional forms of money. But money is no longer just money. And forms of credit are separating from traditional forms of money.

Why Mainstream Economists Ignore Finance

The question then becomes why do mainstream economists mostly ignore financial variables? Why does their analysis remain fixated on real variables and at a level of analysis that is often superficial?

Part of the explanation is traceable to their basic training in the discipline. Mainstream macroeconomists—which is the primary subject here—are trained in constructing hypotheses and models based on real variables almost exclusively. Modern macroeconomics begins in the 1920s and 1930s and is concurrent with the development of National Income and Product Accounts (NIPA), sometimes referred to loosely as GDP analysis. GDP by definition excludes financial variables. It was a product of the need to determine the effects of government policy on stimulating real economy growth, in particular during the great depression and subsequent war years. Attempts to understand the financial underpinnings in the 1920s of the origins of the great depression of the 1930s were mostly abandoned thereafter in favor of understanding real economic growth.

From the mid-1930s on, financial instability and financial forces were no longer a major focus of macro analysis. Nor did it subsequently become so once again during the several decades following the war, during which real growth was substantial and banking and financial instability not yet a factor of instability. Even at the policy level, central banks played a secondary policy role in relation to Treasury departments until the 1960s, at least in the US. Evidence of the return of financial instability only again began to emerge in the late 1960s, and then only marginally and located in single markets or single financial institutions.

As financial forces and instability began to re-emerge in the late 1960s and gather momentum in the 1970s and 1980s, conditions in the economy changed and it became increasingly susceptible to financial forces and instability events. But mainstream economics was slow to change with the conditions. Ideas upon which careers are established are not readily jettisoned. Anomalies that challenge the old ideas, theories, and models built upon them, are more often ignored than not.

Thus, Hybrid Keynesians who dominated until the 1970s continued to focus on interest rates and money determinants of rates in subsequent decades as financial instability grew; Retro classicalists continued to insist that money supply, and not the rates, were the key determinant and continued to argue money supply was the only significant determinant of instability. With the end of Bretton Woods, stagnating real investment, localized financial instabilities, and slow economic growth throughout the 1970s, the Retros' continued focus on money supply dethroned the Hybrids as the dominant wing within mainstream economics. With a few exceptions, neither wing paid much attention to financial variables. The de-emphasis continued to widen throughout the 1980s and after, and remains a factor to this day.

There is also the conservative inertia that in general afflicts most academic thought and idea development. Peer pressures are great to avoid fundamentally challenging basic paradigms of analysis. If a young challenger cannot show how her ideas are essentially an extension of previously accepted thinking, the work will not get pass the peer reviewers and committees. Promotions will not follow. Job security becomes problematic. Pressures are significant to engage in what the philosopher of science, Thomas Kuhn, once called 'mopping up operations' or 'normal science', instead of potentially breakthrough thinking that may challenge, especially fundamentally, prevailing paradigms and acceptable modes of thought. This too contributes to why mainstreamers are still reluctant to explore more deeply the connections and relationships between financial instability and the real economy. Some may attempt so, but are encouraged to gather together and separate themselves voluntarily from the rest of the discipline in special institutes dedicated to such analyses, safely isolated from the mainstream communication channels. A form of institutional

containment results, relieving the dominant paradigm's advocates from having to directly confront and contend with the new ideas.

Thus both the initial training of mainstreamers, the type data they employ, the models they have developed that largely exclude financial variables, conservative career pressures, and the acceptable intellectual preoccupations of the economics discipline itself keeps the consideration of financial variables and financial instability on the fringe. The end result is a continuation of a widespread disregard of financial forces and instability among mainstream macroeconomists to this day. When they do engage the subject, moreover, it is almost always from the perspective of their own non-financial analyses and accepted theory.

Professor Fields' Mainstream Review

Representative of a number of the above limits of mainstream economics is the recent review of this writer's book, 'Systemic Fragility in the Global Economy', by Alex Fields, which appeared in an earlier edition of European Financial Review.

While Professor Fields acknowledges various positive contributions of the book at the close of his review—and notes that the first third of 'Systemic Fragility', which focuses on a description of fragility conditions today in Europe, Japan, China, US, and Emerging Markets, is "the most interesting section of the book" providing "a readable and informed overview"—he nonetheless concludes the third section of the book, which critiques mainstream economic thought and theory, "is the least satisfying". Nothing "new or original in summarising or critiquing mainstream macroeconomics" was apparently said in the chapter directly critiquing mainstream economic analyses.

We would of course beg to differ. It would have been useful for Fields not to have just brushed off the critique of his theoretical perspective with a single phrase of 'nothing new or original'. But his reply is not untypical of mainstreamers who don't like to confront direct challenges to the fundamental propositions of their analytical framework—especially when they involve debate over the need to give more consideration to financial forces and variables.

In the book, fourteen specific points were made in the summarily dismissed chapter critiquing mainstream economics that Fields chose not to consider—including how the hybrid wing (of which Fields is clearly a member) fails to distinguish between real and financial assets in its theory of investment; how it regards debt levels and rates of change as benign so long as the economy is at less than full employment; how it does not distinguish between money and non-money forms of credit; lacks a convincing theory of financial asset price inflation; how mainstream's Savings = Investment basic assumption makes no sense if financial asset investment is excluded from the Investment variable; and how mainstreamers provide no explanation why multiplier effects have been declining in recent years perhaps due to the excessive accumulation of private sector debt—to name but a few of the fourteen. Nothing new or original? Really?

Even more indicative of mainstreamers' refusal to confront theoretical challenges to their basic assumptions from the financial side is Prof. Fields' failure to even mention the book's concluding chapter, ' A Theory of Systemic Fragility', in which an alternative, financial approach to explaining instability today is offered. However, not a word in the review about the chapter. Nor its specific consideration of the negative relationships between debt, income, and conditions of debt repayment that are at work today at levels of government,

households, and business. Nor was anything said about the preliminary equations that summarize the theory in an appendix at the end of the concluding chapter.

Professor Fields elsewhere in his review criticizes the proposition that liquidity has been flowing in ever greater magnitude into financial asset investing—with negative consequences for sustaining real investment. He queries, “what is the purported mechanism”? If he had read the concluding chapter he might have noticed the three specific transmission mechanisms that were proposed in support of the assertion that financial asset investing is crowding out real investment: price systems, investors’ expectations, and public policy.

The middle, second part of the book fares little better. Nine chapters that lay the groundwork for the theoretical critique and restatement that follows. Except for a brief reference as to whether global shadow banking can be effectively regulated—which I concluded cannot and in his view, one must try nonetheless—Fields focuses most of his review on chapters 14 and 15. Here monetary policy and fiscal policy are discussed. Seven of the nine chapters in part two of the book are bypassed, which makes eleven of the nineteen chapters virtually ignored. Given that the first six chapters are descriptive narratives and overview of the global economy, Fields’ review consequently boils down to two chapters—monetary and fiscal policy—and a few passing references elsewhere to regulating shadow banks and other matters. In other words, the review is conducted from a safe ‘high ground’ comfortable to mainstream economic analysis.

Fields dedicates much of his review to refuting the book’s contention that massive liquidity injections by central banks has led to excessive debt-driven financial asset investing at the expense of real asset investment. He acknowledges quantitative easing and near zero interest rate central bank policies have occurred but he is not convinced they “have been harmful”. What about the tens of millions of households in the US alone on fixed income investments? Have eight years of no interest income not ‘harmed’ them? Or what about pension funds and insurance annuity funds that tens of million retirees are dependent upon? Or the union pension plans now going bust? Or the trillions of dollars in high yield corporate bonds—made possible by the super-low rates—that are now in trouble? Of course, investors in equities and bonds were not ‘harmed’, quite the contrary. In the US alone, in just the past five years no less than $5 trillion in share buybacks and dividend payouts were distributed.

Where Fields seriously misses one of the book’s main themes is his refutation that financial bubbles need not require excessively low interest rates in the short term to occur. He notes how the bubbles in the 1990s and early 2000s in tech and global currencies were accompanied by relatively high US central bank interest rates. The same occurred during the 1920s, he adds, when asset bubbles occurred and rates were high. What Fields misses, however, is that years and decades of central bank liquidity injection is what fuels bubbles. Since the end of Bretton Woods in 1973, central banks like the US have been injecting volumes of liquidity with every recession, credit crunch, financial crisis, etc. The money is not recalled, but remains circulating in the global economy, accessible by borrowers from various global markets. The global economy is full of dollars after decades of such injection. It is not a matter of short term central bank interest rates, as Fields maintains (thus revealing mainstreamers’ excessive reliance on the role off interest rates). Speculative investing need not ‘borrow’ from central banks short term. The credit is available in countless global dollar money markets. Indeed, investors need not borrow dollars at all. They can access non-money forms of credit, based on collateralized value of prior financial assets’ price appreciation. No ‘money’ is required. Central bank ‘high powered money’ is not

essential in the short term to produce financial asset bubbles. On that Fields and I agree. But we disagree as to where the liquidity has been coming from. Once again, mainstream analysis does not understand the difference between money credit and non-money, or 'inside', credit—the latter of which Fields confuses with central bank 'inside money'.

In typical Hybrid Keynesian analysis, Fields maintains that real asset investment may be declining not due to financial asset crowding it out (or 'diverting' and redirecting liquidity as I express it), but due to lack of money demand for bank lending. But if that were so, then US banks after 2009 would not have imposed highly restrictive terms and conditions for borrowing funds by small and medium companies—which they did. Banks were eager and loaned to large multinational corporations, speculated themselves in financial markets, and otherwise hoarded the trillions in cheap dollars provided by the Federal Reserve. The rates of return on these options were far higher than traditional lending to small-medium businesses. The money demand was there; the banks preferred safer and greater returns elsewhere—i.e. in financial asset markets and/or abroad in emerging markets.

With regard to fiscal policy, Fields takes issue with my view that multiplier effects have diminished. A number of studies recently show this is so. But the book does not maintain that multipliers are low because of zero interest rates. They are likely declining because of chronic debt overhang, especially for businesses having loaded up on high yield and other bond debt and median to low income households. And as for the book's claim that the US 2009 Obama Recovery Act did not aid homeowners, for which he asks for evidence, the US budget is clear that no more than $50 billion was spent on homeowner foreclosure assistance, half of which went to banks holding mortgages, while trillions of dollars were spent by the Federal Reserve bailing out the US banks. And in so far as the book's assertion that the bank stress test in 2009 was phony, one can only conclude so since the banks at the time were exempted from 'mark to market' accounting at the time of the tests, which allowed them to value their assets well above then prevailing market rates.

But critiques and tit-for-tat replies aside, what is evident in Professor Fields' review is that it is conducted from a typical mainstream economic perspective—a perspective that clearly feels challenged by propositions that increase the weight of financial forces and financial instability in general economic instability.

The slowing global economy, world trade, productivity collapse, disinflation-deflation in real goods and services, rising currency exchange rate volatility, trillions of dollars in global non-performing bank loans, fifty trillions in additional debt since 2009, desperate new forms of central bank liquidity injections, tens of trillions of dollars in negative interest rates, global equity and bond markets teetering on the edge—all represent growing global economic instability, both financial and real. Mainstream economics to date has little to offer in the way of explaining the causes and future trajectory of these trends. Its focus on real variables, and at a superficial level of analysis, continues to result in little understanding of what is behind it all. Mainstream analysis would do well to be more open to approaches that bring a more financial variables focus to the analysis of what is clearly a growing instability in the global economy.

This article appeared in the June-July 2016 Issue of the London-based, European Financial Review.

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