

Macroeconomic and Financial Imbalances in the World Economy

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Globalization = Imbalances

1. Presence of chronic imbalances over last 30 years -> do not get corrected by market forces or policy-mix adjustments, only by crisis-induced breaks in pattern.
2. Imbalances are systemic -> meta-economic view, as the whole of world economy is more than the sum of its parts => identify global growth dynamic within IMS.
3. Imbalances are mobilized by global finance -> meso-economic view of finance as a system, since ongoing transformation of financial system has changed capitalism itself (“finance-led capitalism”).

Origins of Global Finance

1. Stagflation Crisis -> Recurrent Credit-Crunch Dynamic -> Disintegration of Post-War Regime of Nationally Administered Credit-Money -> Deregulation of Finance (ER, IR, Structure).

2. Crucial Role of Financial Innovations:

- Eurocurrency Markets (1960s) -> global private banking network beyond reach of national regulators.
- Wholesale Funding (1970s) -> money markets -> asset management -> more aggressive bank expansion.
- Expansion of Bond Markets (1980s) -> junk bonds, emerging-market bonds.
- Universal Banking (1990s): EU Directive (1989), FSMA (1999).

Universal Banks = Pillars of GF

Universal Banks:

- 1) integration of indirect, market, and network finance;
- 2) scale + scope + network economies;
- 3) cartel-like extraction of monopoly rents;
- 4) organization of worldwide correspondent system and inter-bank markets;
- 5) privileged access to governments as TBTF institutions (SIFIs).

Contradictory Tendencies of GF

- 1) Financial Concentration: corporate accumulation of financial assets; preference for external growth via mergers and acquisitions; workers' forced savings.
- 2) Financial Centralization: rapid growth of finance sector; income redistribution toward financial income.
- 3) Monetary Fragmentation (within IMS): From US-\$ dominance to multi-currency system; variety of exchange-rate regimes; post-crisis home bias; uneven implementation of regulatory reforms.
- 4) Centripetal vs centrifugal forces within IMS.

Centripetal and Centrifugal Global Growth Dynamic (Meta-Economic Analysis)

- 1970s: Exporting of US stagflation and Petro-dollar recycling;
- 1980s: US stock-market bubble (as vehicle of post-stagflation industrial restructuring) and LDC debt crisis (Brady bonds);
- 1990s: US internet bubble and “Asian” Crisis;
- 2000s: US housing bubble and EMEs’ export-led growth strategy => Great Recession 2007-09.

Strategic Role of Exchange Rate

- 1) Carry Trade: excess appreciation, ER-volatility
- 2) Internationalization of “resource currencies”
- 3) Policy Responses and Challenges:
 - Capital Controls: how effective are they? what are their long-term effects?
 - ER-regime: neither peg nor float; what hybrid?
 - ER-level: inter-sectoral adjustment arbitrage between different sectors of large-EME economy.

Other Policy Challenges

1. Inflationary Pressures: low currency price -> more inflation; overheating risk; need to raise productivity growth, but that's difficult.
2. Mixed Finance: kinked (or negatively sloped) yield curve -> ST bias; role of public FIs.
3. Structural Balancing: multi-sector economies in need of coherence -> strong manufacturing, improved services.
4. Macro-economic Policy Mix: crucial importance of effective fiscal-policy apparatus: spending composition, tax base, devolution.