Money and Finance after 2008

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Chair "Energy and Prosperity"

IDDRI
June, 30 2015.

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  Deflationary pressure on Western wages no more compensated by households' private debt.
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- Who will consume Chinese products ?

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- What misunderstanding of the economic rôle of money underlies the post-industrial fantasma?

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- Do you think that markets will ever be complete ?

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- Incomplete markets are generically not even second-best efficient.
  (Geanakoplos and Polemarchakis (1986))

  Too bad... The invisible hand is invisible because it does not exist even within the core of mainstream economic theory!

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- Sunspots never happen in complete markets.
  Incomplete markets can never be immune against sunspots.
  Example: Greece in January 2010 (via CDS).

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- Fama's hesitations...

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- Pricing theory fails when markets are incomplete.

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- Strong need for a reform of the accounting standards.
- Salamanca school (16th century): market prices need not be fair.

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effect in practice (because of decreased confidence). They all

turn out to be wrong!

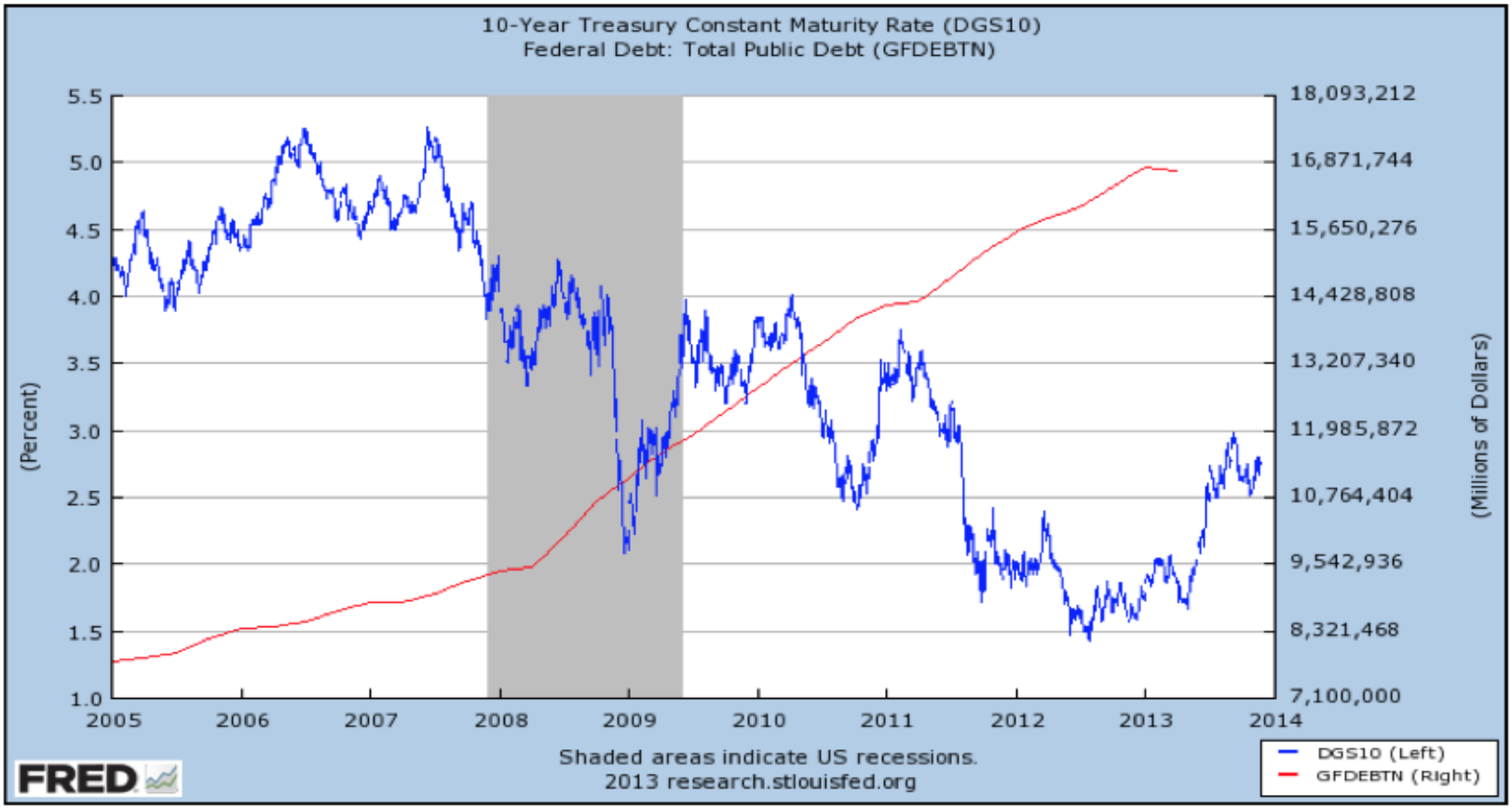

Figure: Government borrowing and interest rates.

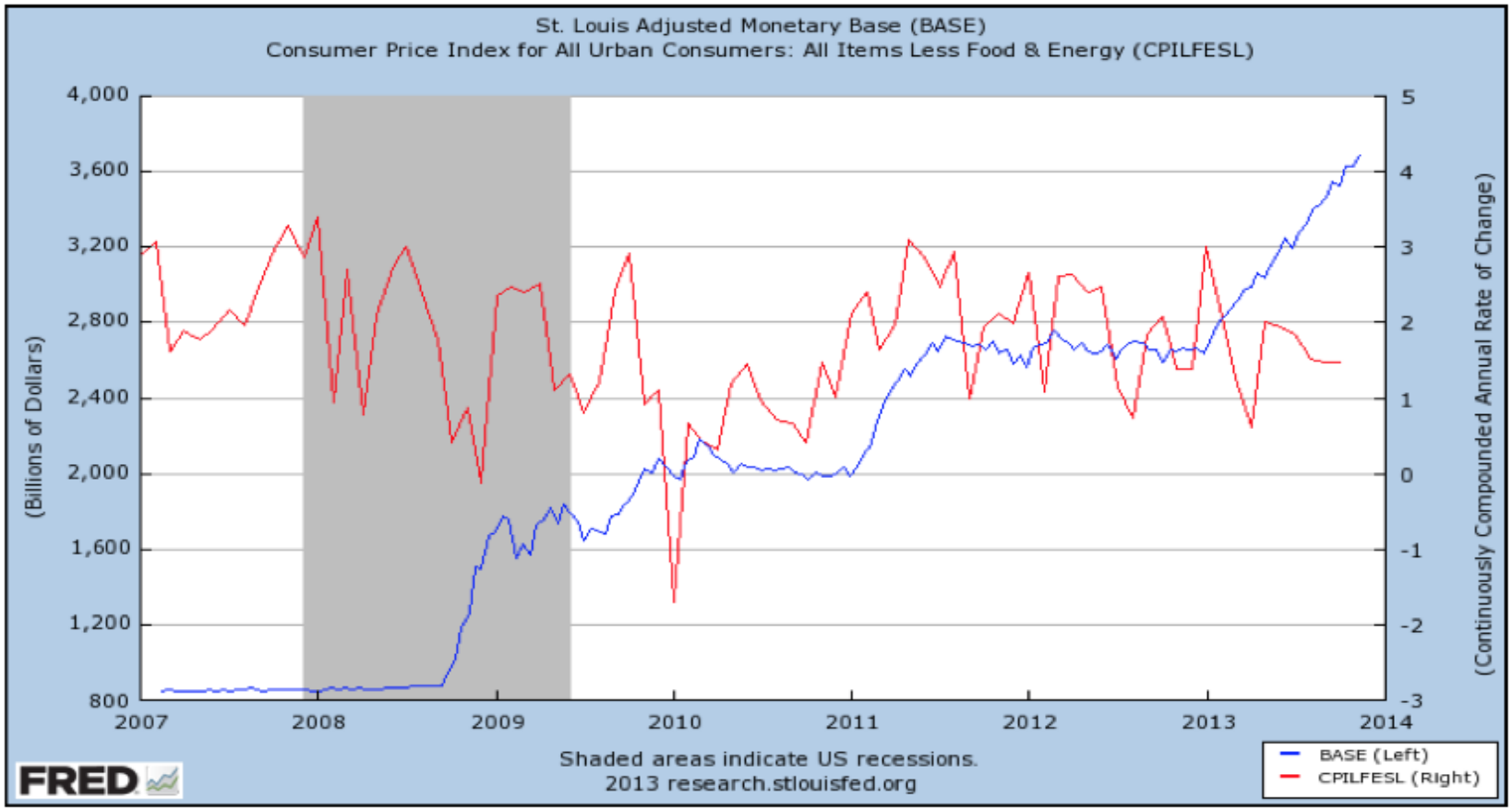

Figure: Monetary base and inflation.

Grasselli (2013) slide.

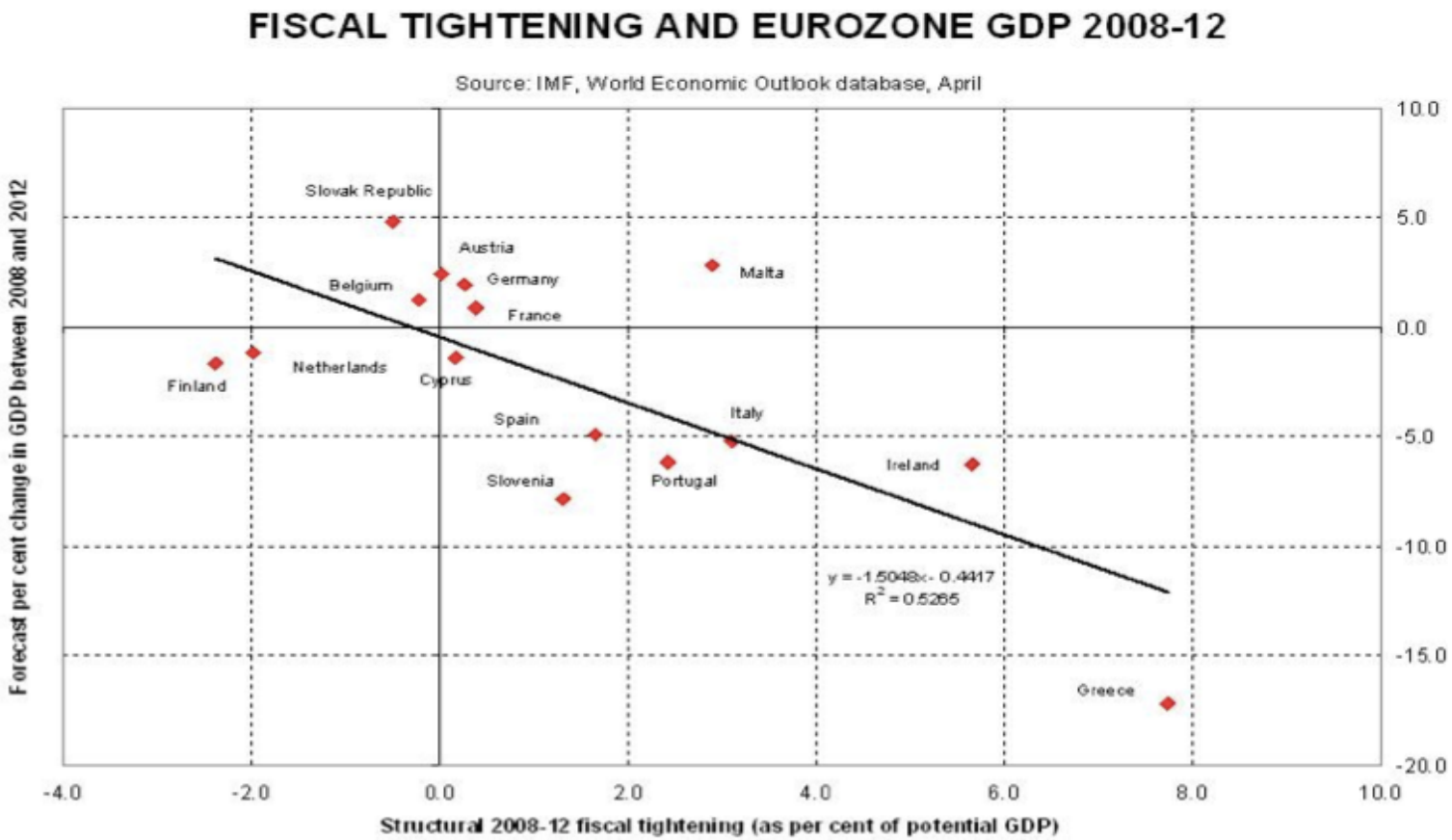

Figure: Fiscal tightening and GDP.

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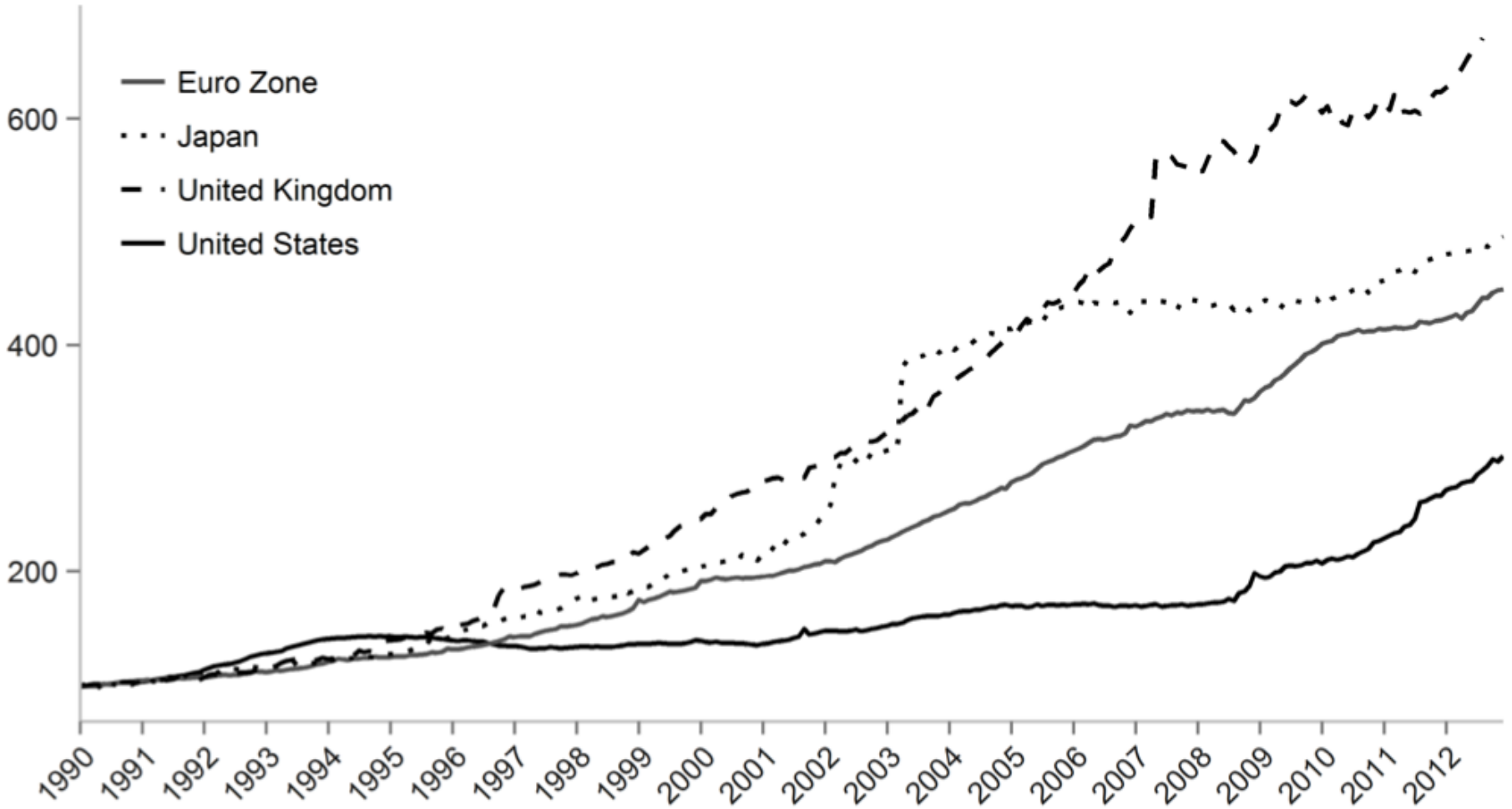
- Money creation should be endogenous:
  Giraud (2013), Kumhof (2015).

Money Supply M1 (Index 1990 = 100)



Source : Ecowin, IMF IFS, Bank of England, ECB

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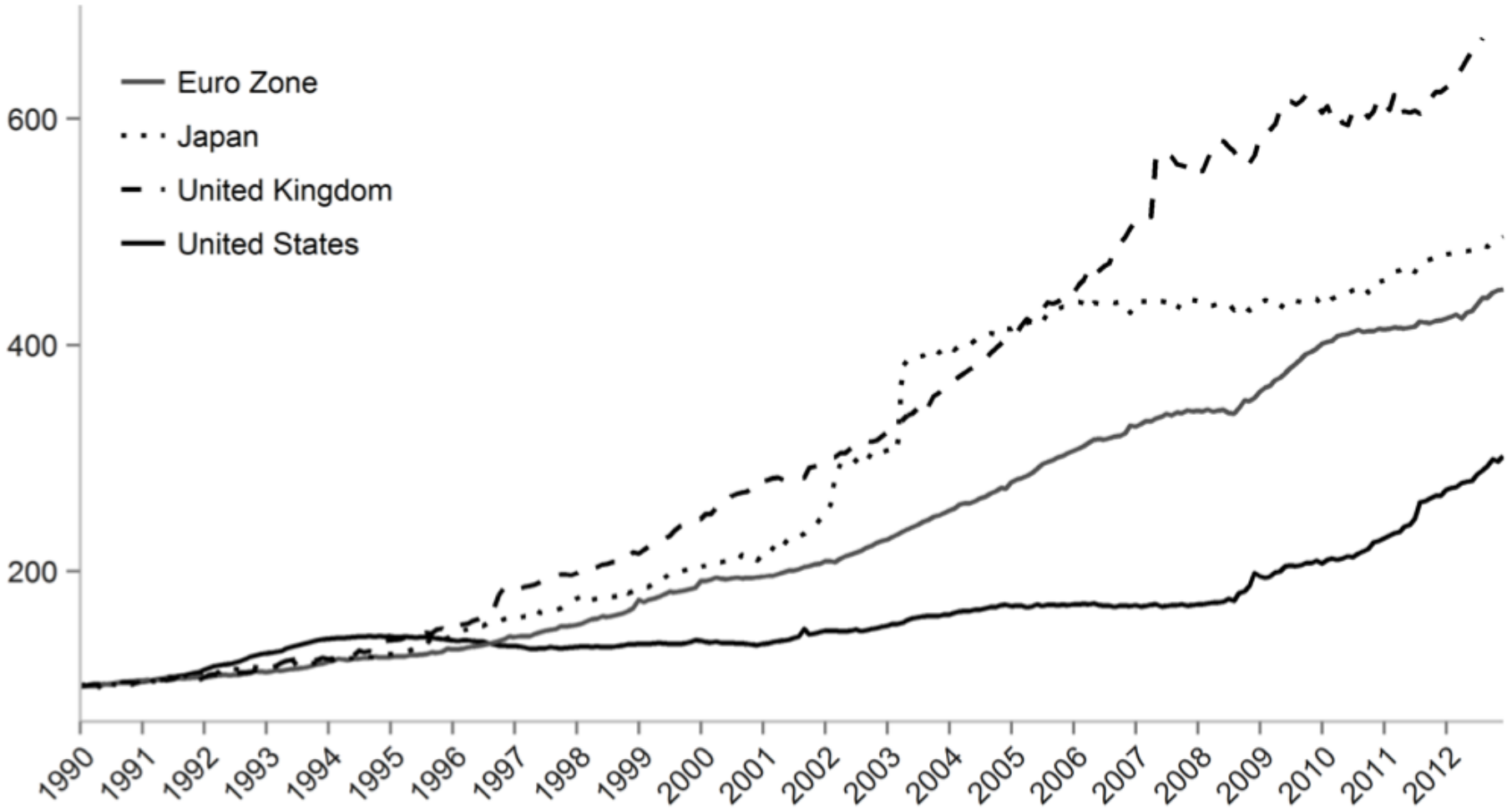

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- Liquidity creation $\neq$ Money creation.
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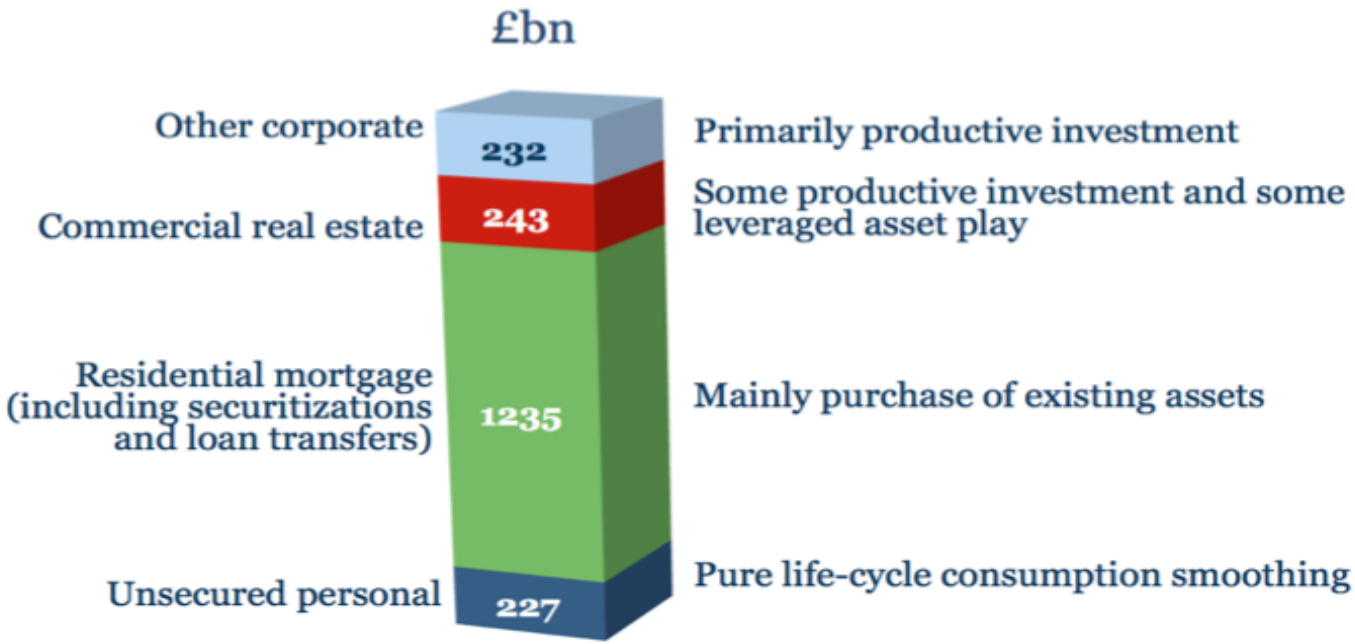
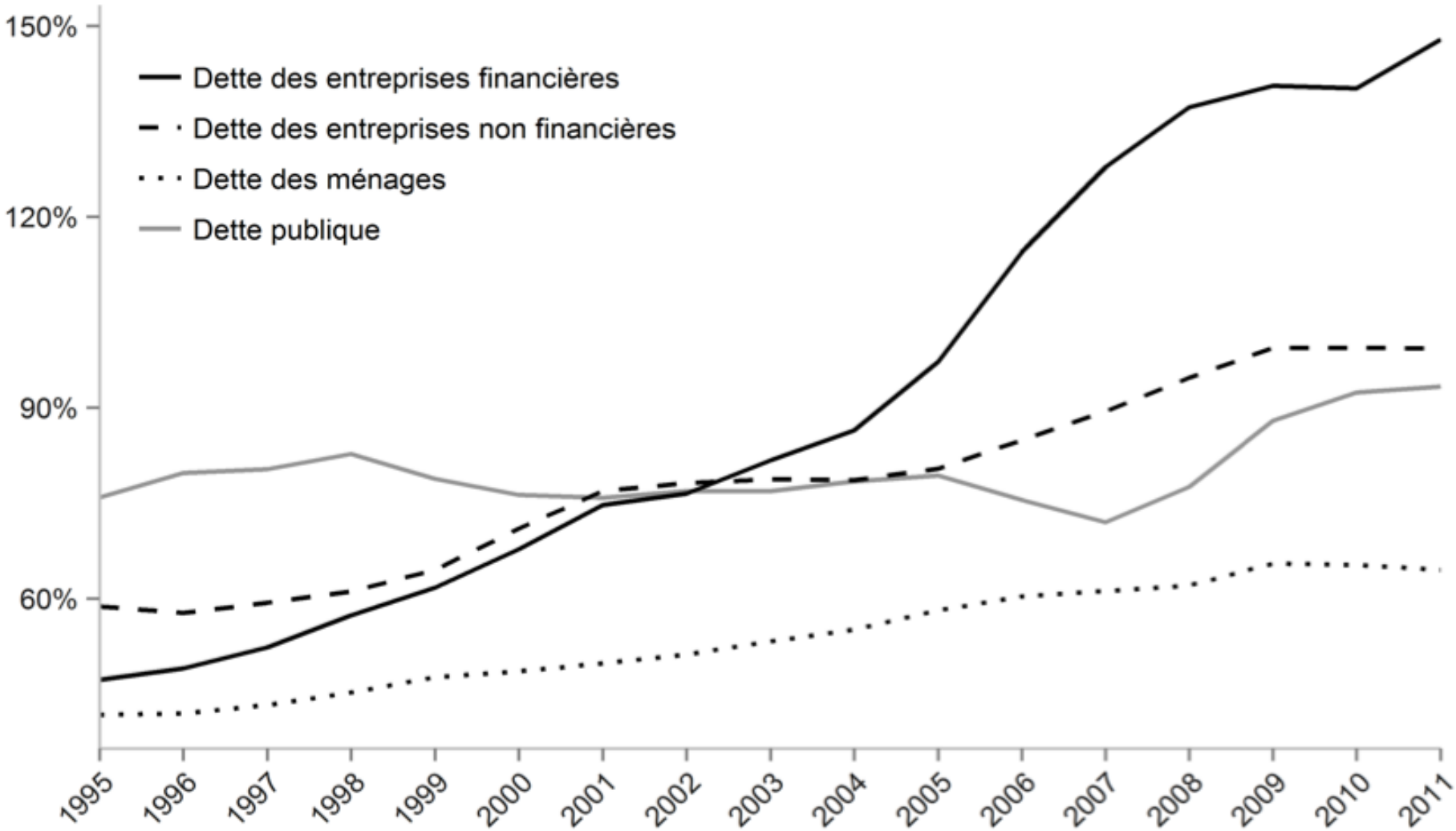
- Accounting equation $I = S$ should incorporate banking credit.
  $\neq$ IS-LM and *all* neo-classical models.

Categories of bank debt: UK, 2009





*La dette publique est une version non-consolidée de la dette publique au sens de Maastricht.
Pour les autres secteurs, les instruments pris en compte sont les crédits et les titres hormis les actions.

Source : Eurostat

- Deflation should be possible.
  ($\neq$ Aghion, Acemoglu, etc.)
  Schumpeter (1927) ; Schumpeter (1934) ; Fisher (1933), Keynes (1936), Minsky (1975, 1977, 1982, 1993), Krugman Eggertson (2012).

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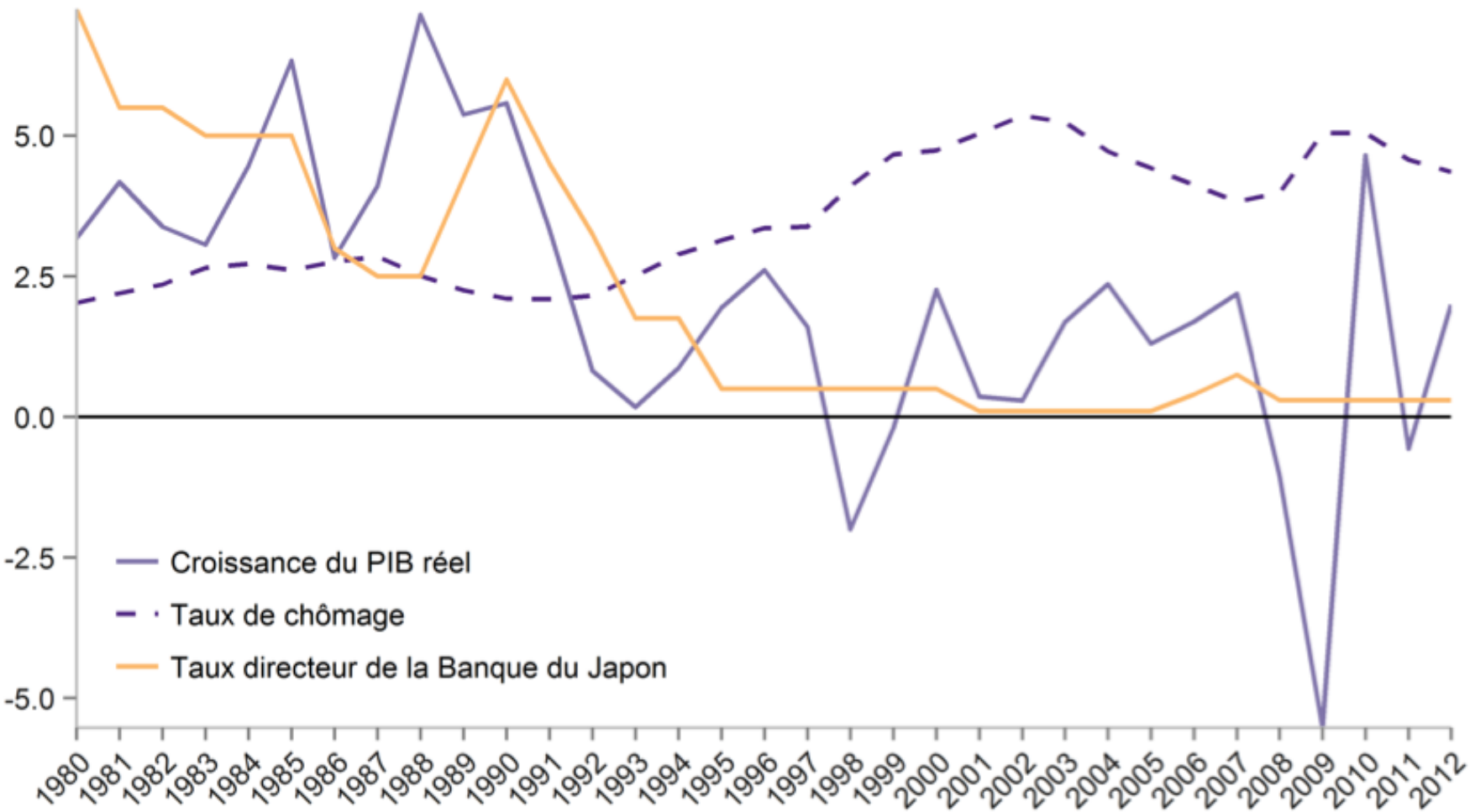
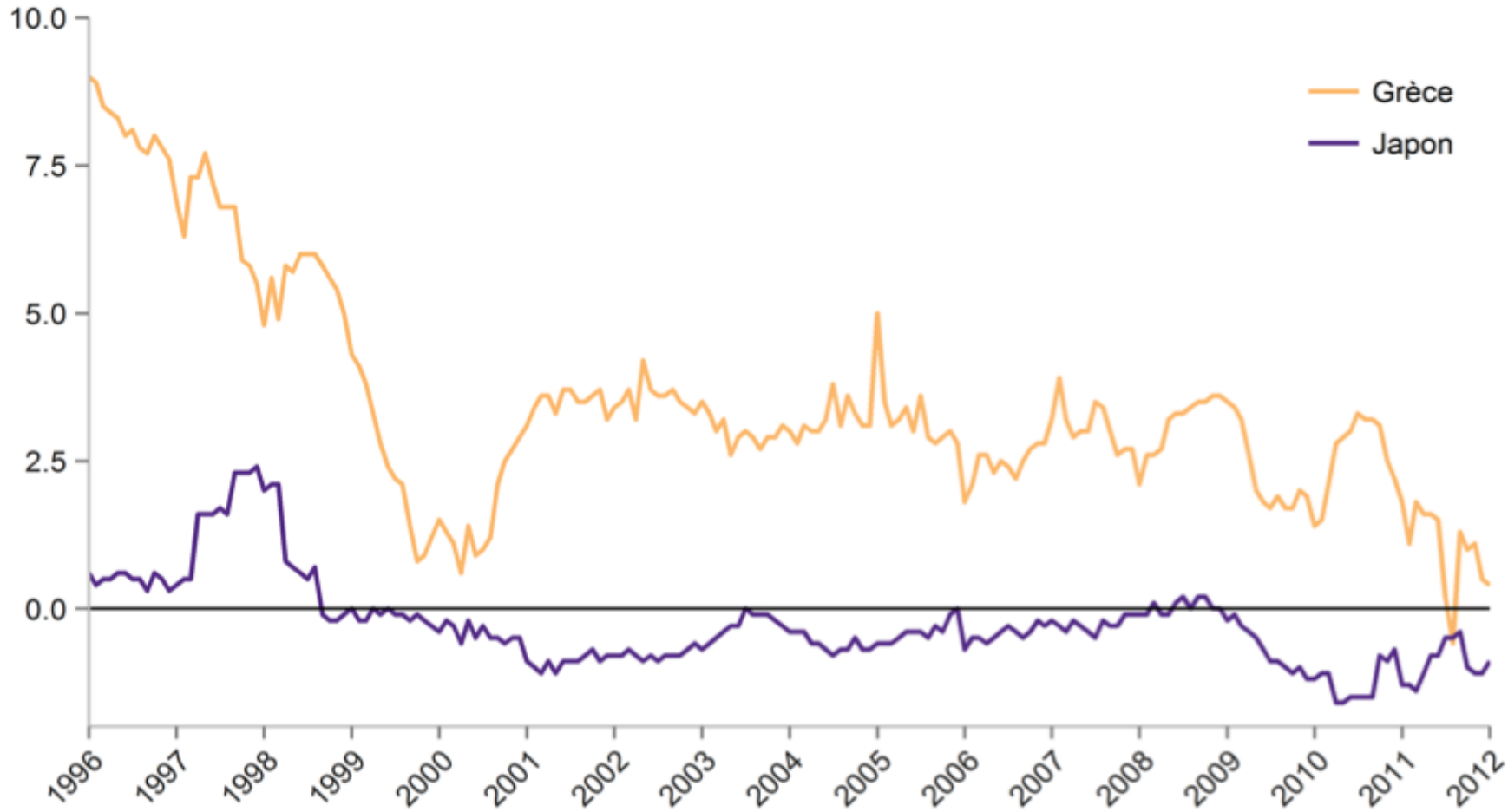
- Krugman versus Aghion on the Eurozone.

Croissance, chômage et taux d'intérêts au Japon



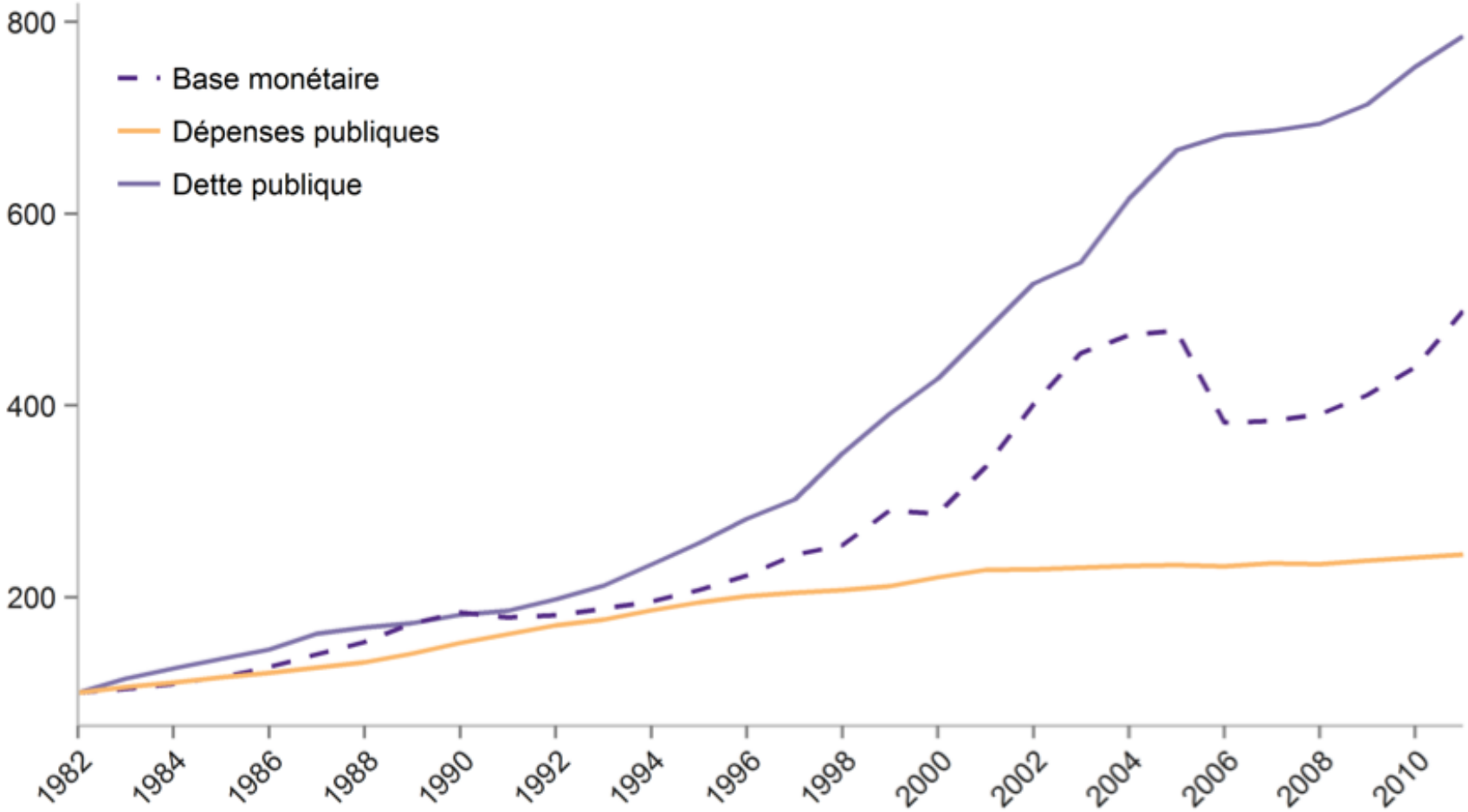
Sources : IMF International Financial Statistics, IMF World Economic Outlook

L'inflation, en glissement annuel



Sources : Eurostat, Ministères des Affaires Intérieures et des Communications - Japon

Évolution des dépenses publiques, de l'endettement public et de la masse monétaire au Japon - Base 100 en 1982



Sources : Bank of Japan; Ministry of Finance, Japan

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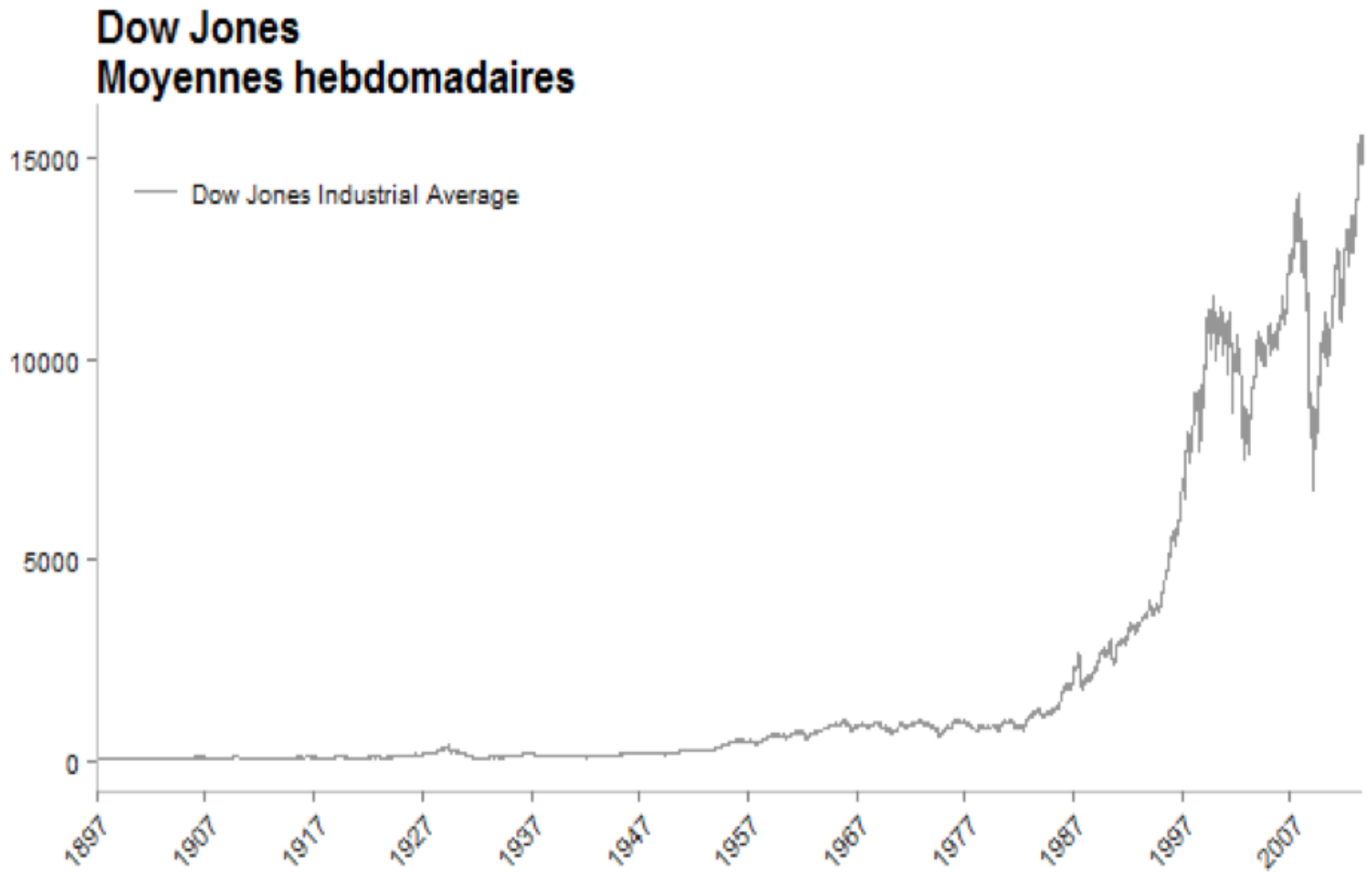
- But not just as a "black swan".
  Giraud & Kockerols (2015)
  Report for the European Parliament on the Cost of the next Banking Crisis within the European Banking Union.


Dow Jones
Moyennes hebdomadaires
Dow Jones Industrial Average
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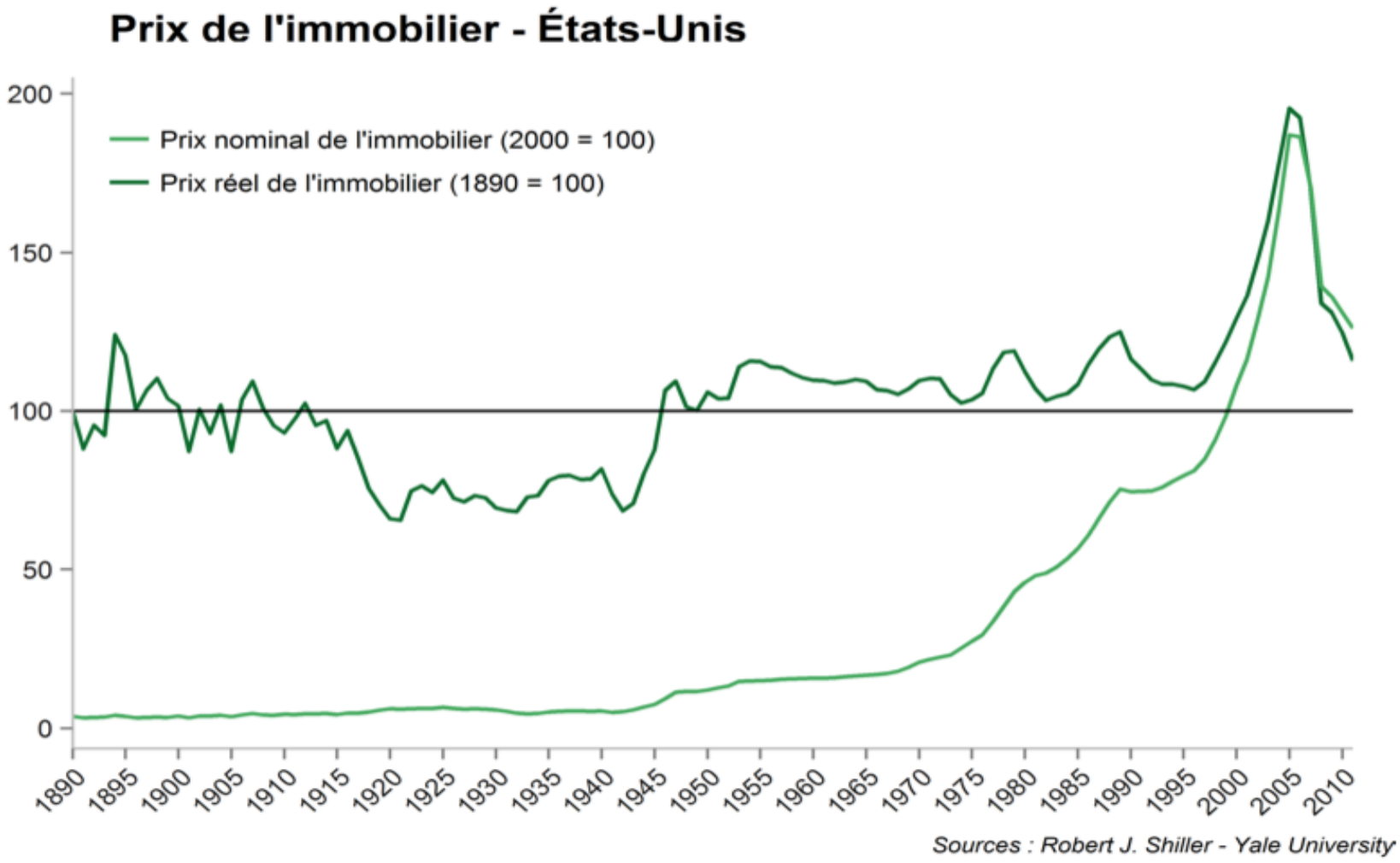
Prix de l'immobilier - États-Unis
Prix nominal de l'immobilier (2000 = 100)
Prix réel de l'immobilier (1890 = 100)
200
150
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Sources : Robert J. Shiller - Yale University

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  Knightian uncertainty and entropy: Giraud (2015).

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