

The current crisis: managing in the slump

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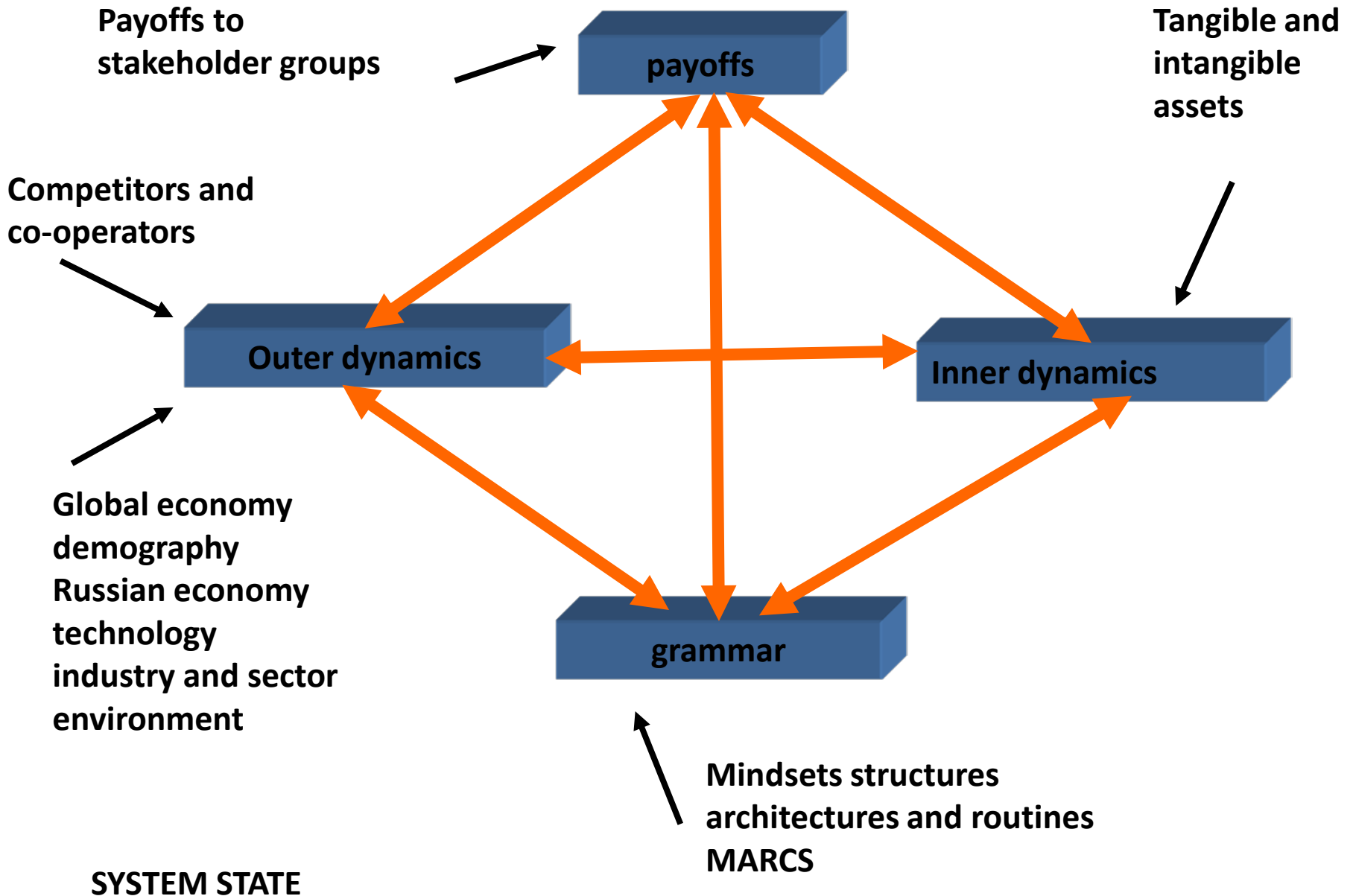
<http://kpp-russia.ru>

TYPE OF RECOVERY	V	U	W	L
PROBABILITY %	5	15	60	20

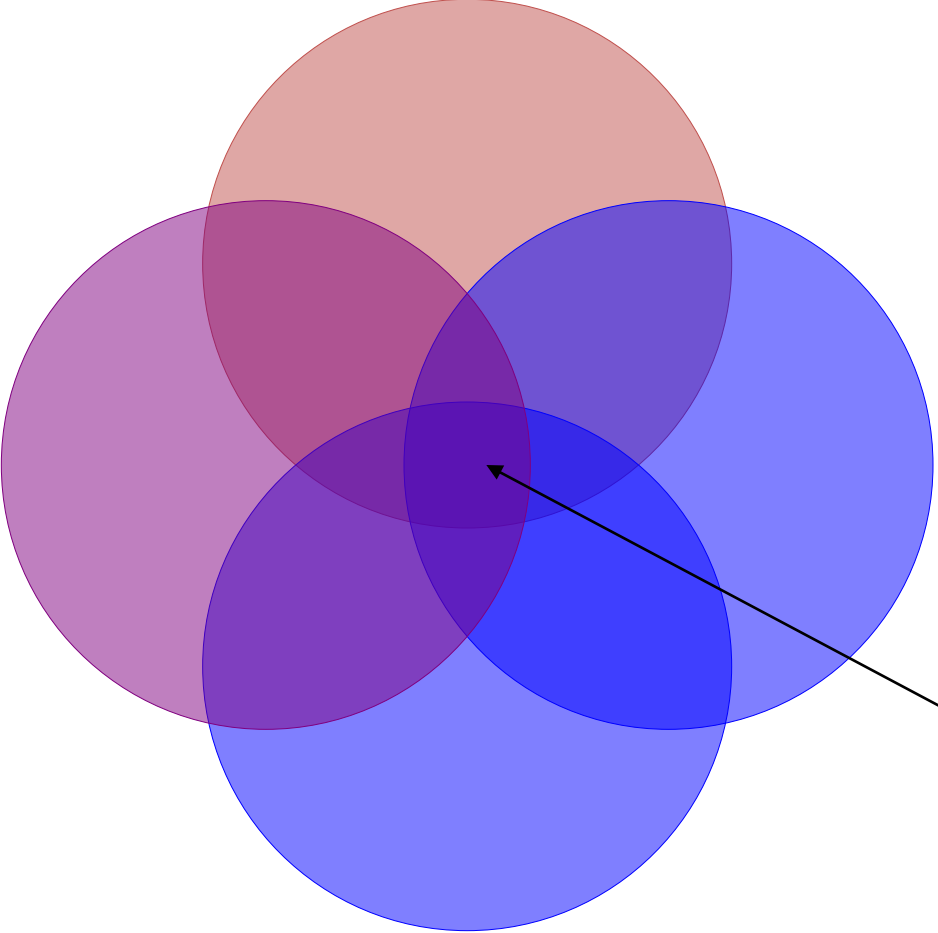
RISKS TO THE GLOBAL ECONOMY

Some questions

- **Shape of the future?**
- **Are the EM's decoupled?**
- **Why 100 crises in last 30 years?**
- **What causes of crises?**
- **Why don't we learn from history?**
- **Percolation contagion viruses and TBTF?**
- **Will policies make it things worse?**
- **Keynes monetarism and Hyman Minsky?**
- **What should be done?**



payoffs



**Outer
dynamics**

**Inner
dynamics**

Internal grammar

capabilities

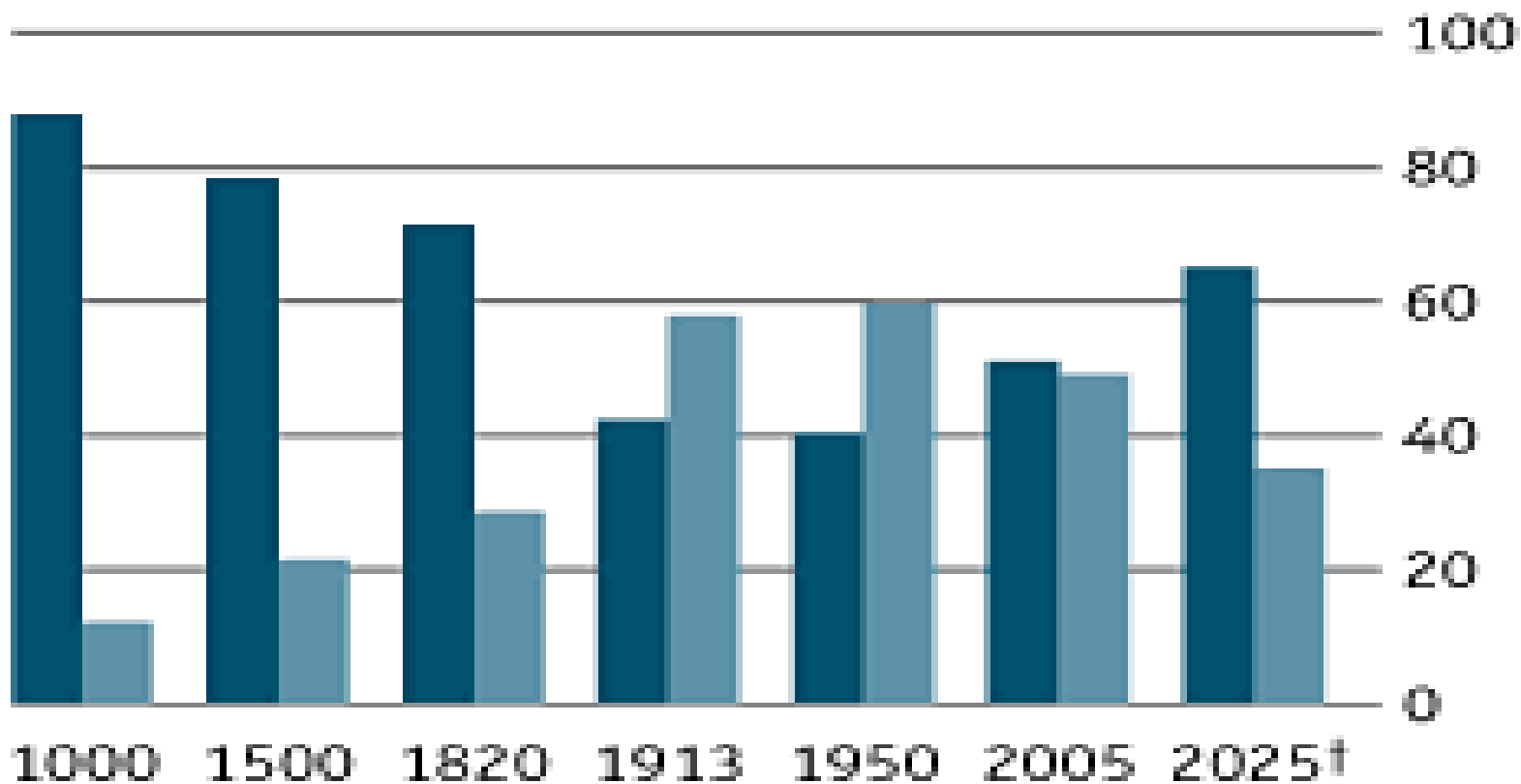
EMERGING MARKETS

ARE THEY DECUPLED?

Re-emerging

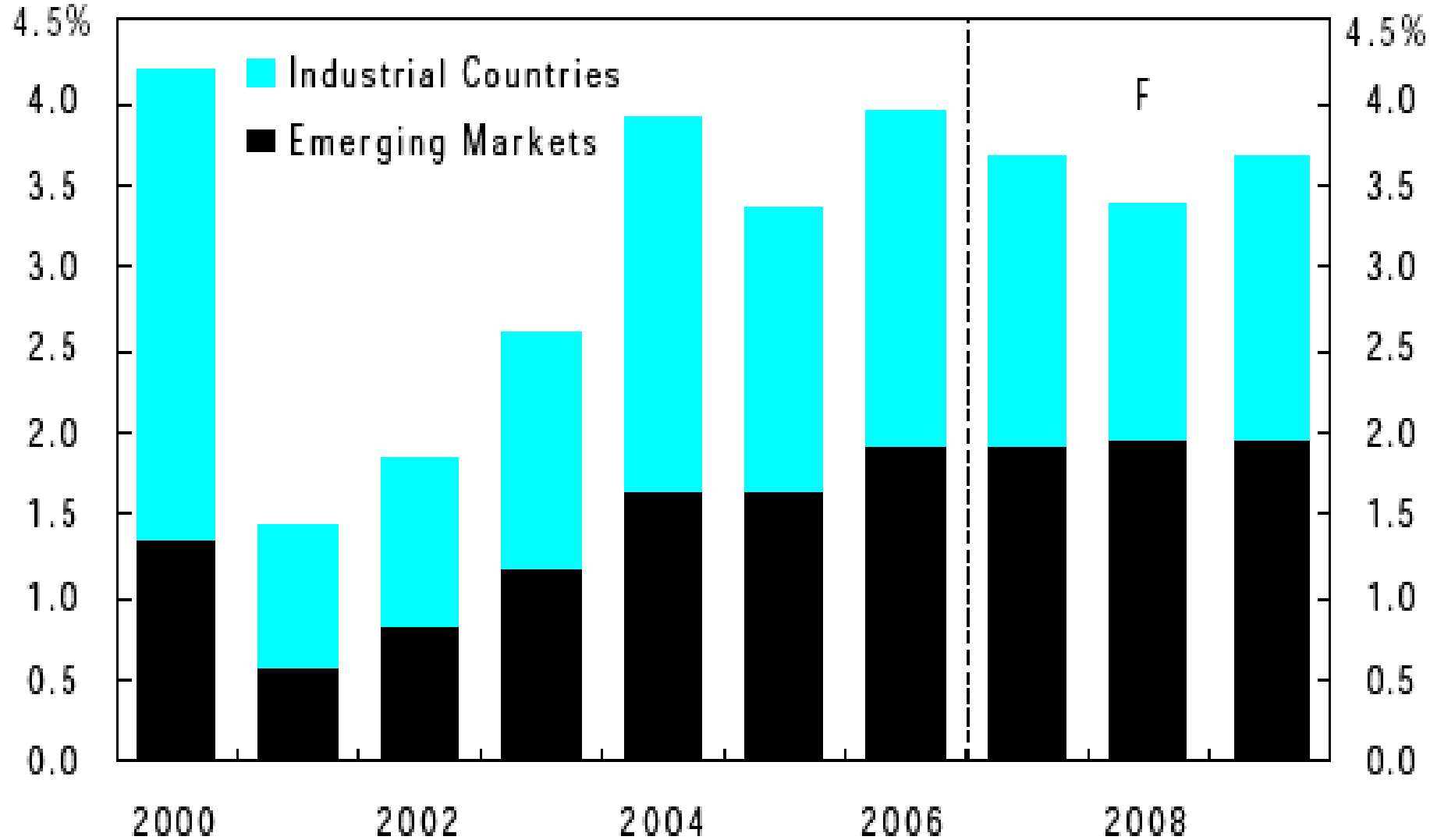
Share of global GDP*, %

■ Emerging economies
■ Developed economies



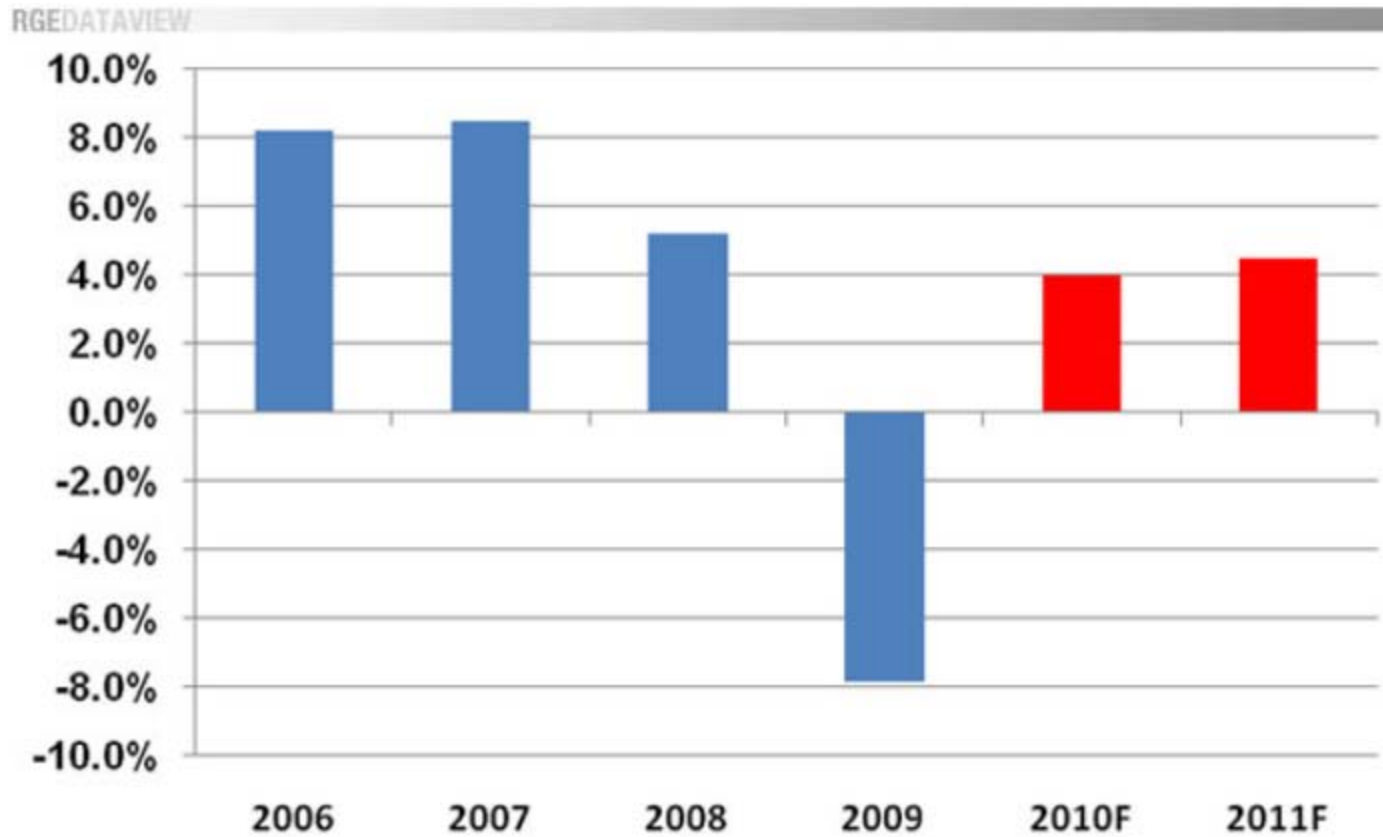
*At purchasing-power parity †The Economist forecasts
Sources: OECD, Angus Maddison; IMF

Figure 4. Global – Contributions to Global Growth (Percentage Points)



Sources: IMF and Citi.

Russia: economic growth

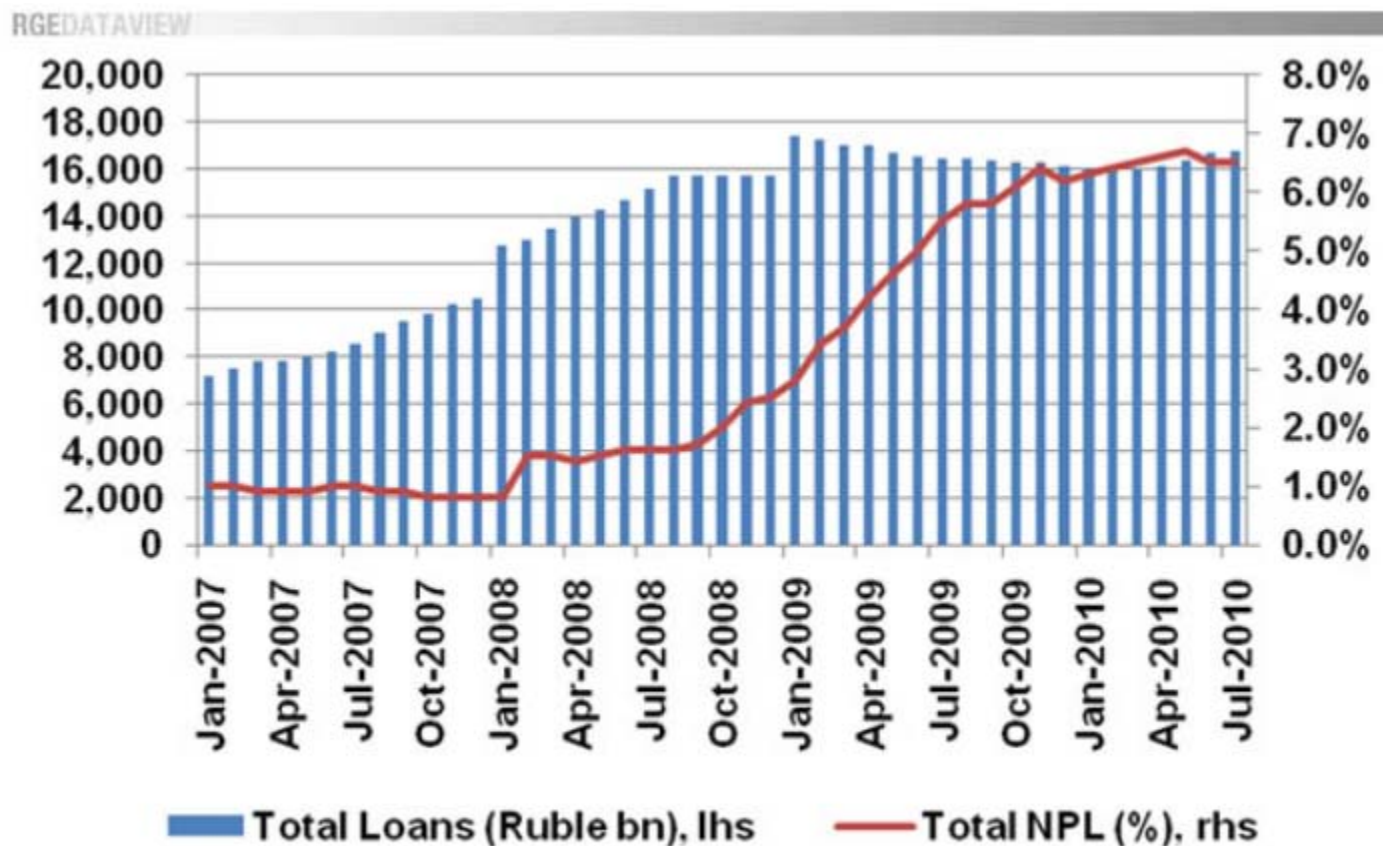


Source: Bloomberg BCF

Russia: retail sales

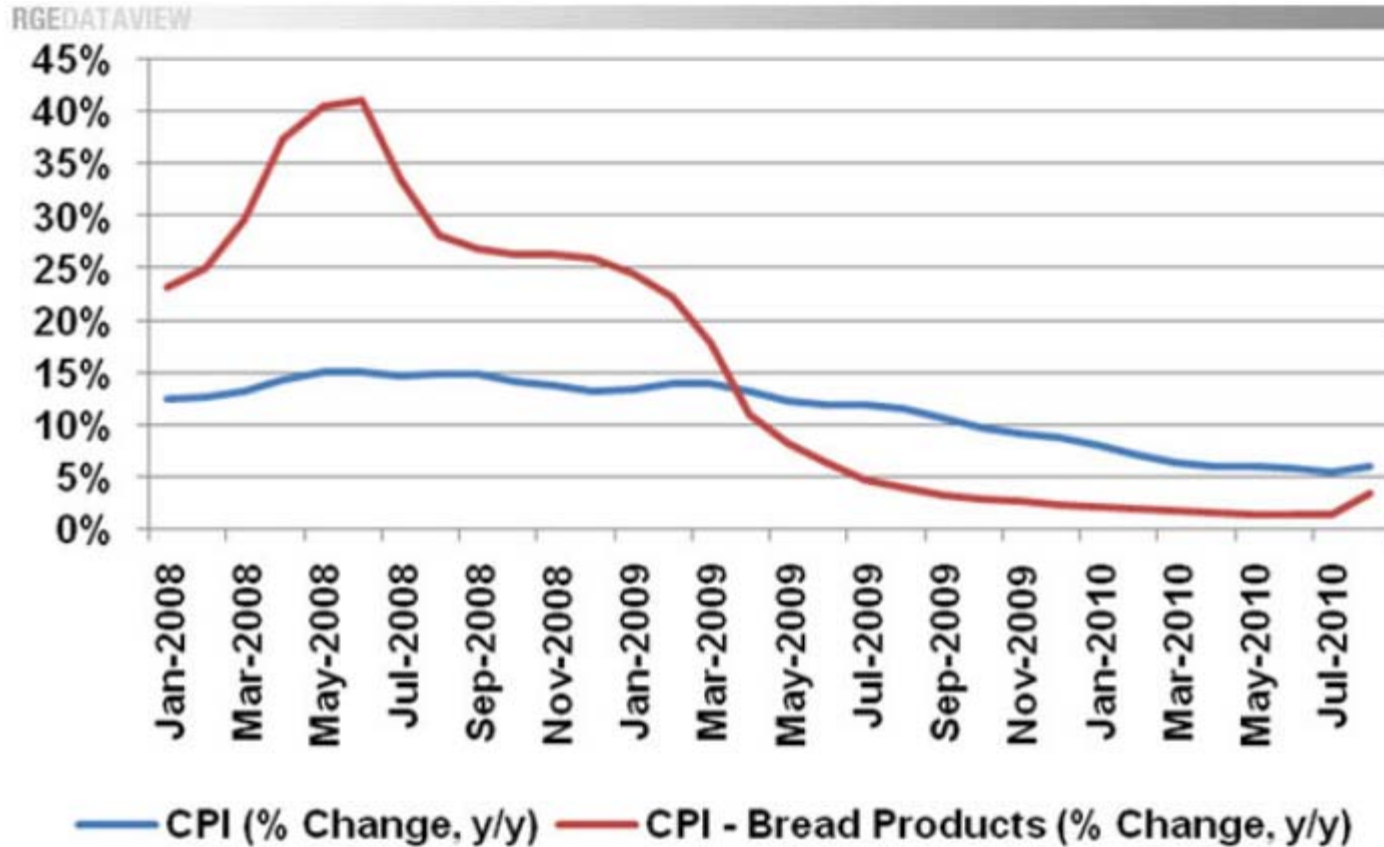


Russian banks: performing and non performing loans

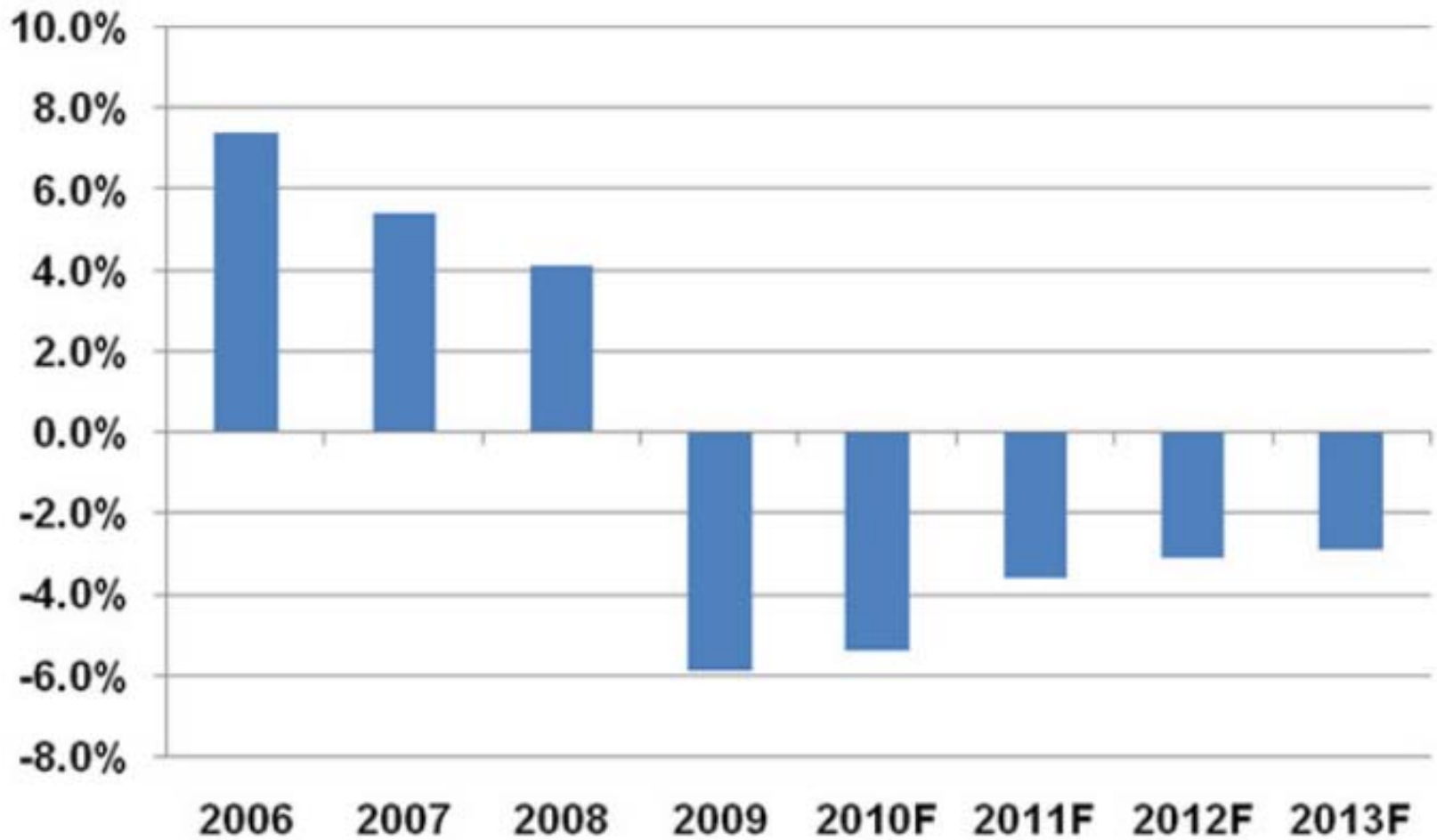


Source: Bloomberg, CBR

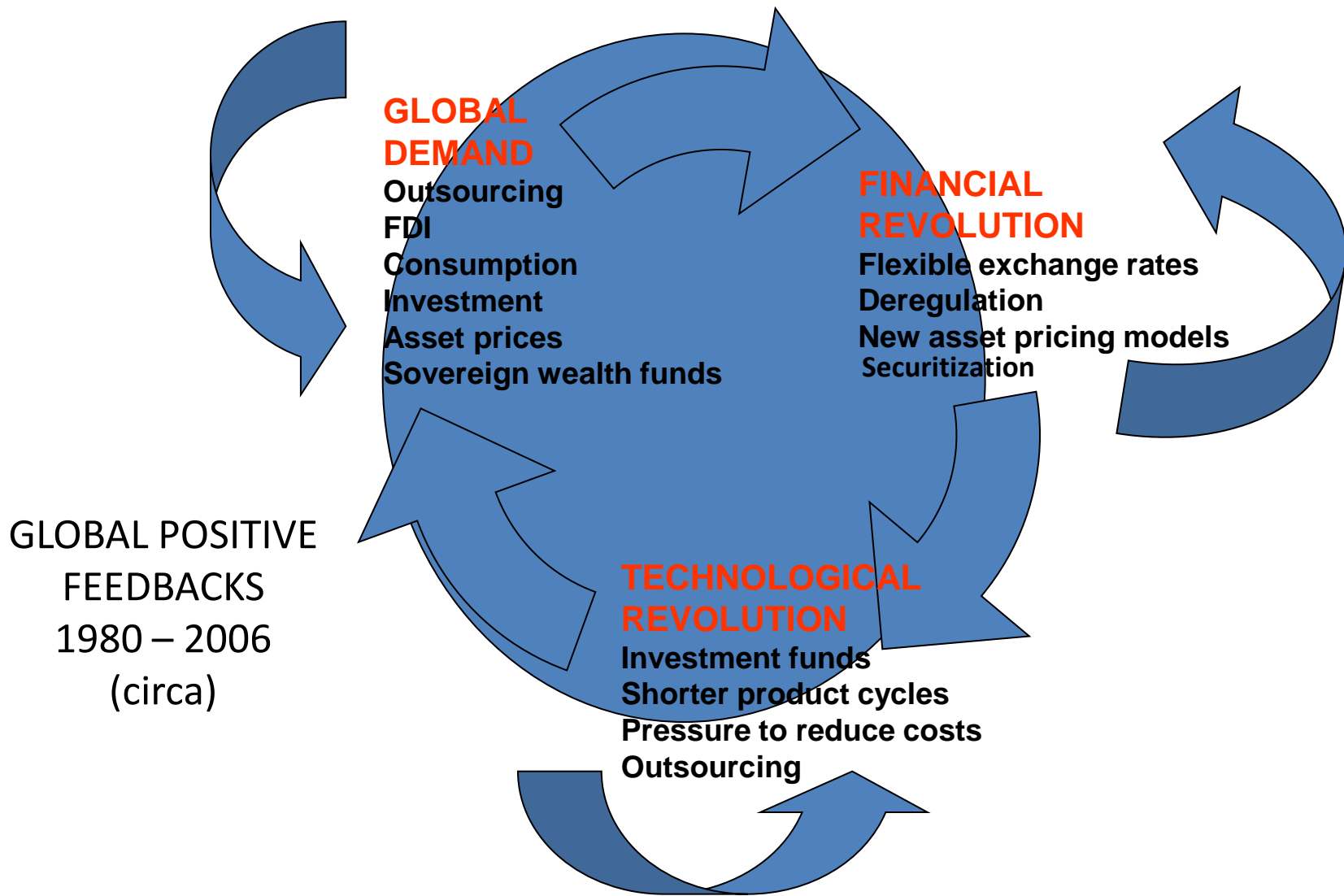
Russia: inflation



Source: Bloomberg, CBR



Russia: fiscal balance (G - T)



CHANGING IDEOLOGY

- **Privatization**

- belief that the state ownership is inefficient
- Economic *shock therapy*

- **Deregulation**

- Reliance on self regulation
- Condoning shadow banks and falsification

- **Monetarism**

- Policies based on interest rates
- rational expectations theory
- supply side economics

- **Nationalization**

- USSRUK
- USSRUSA
- Bail outs

- **Regulation**

- Awaiting policy decisions

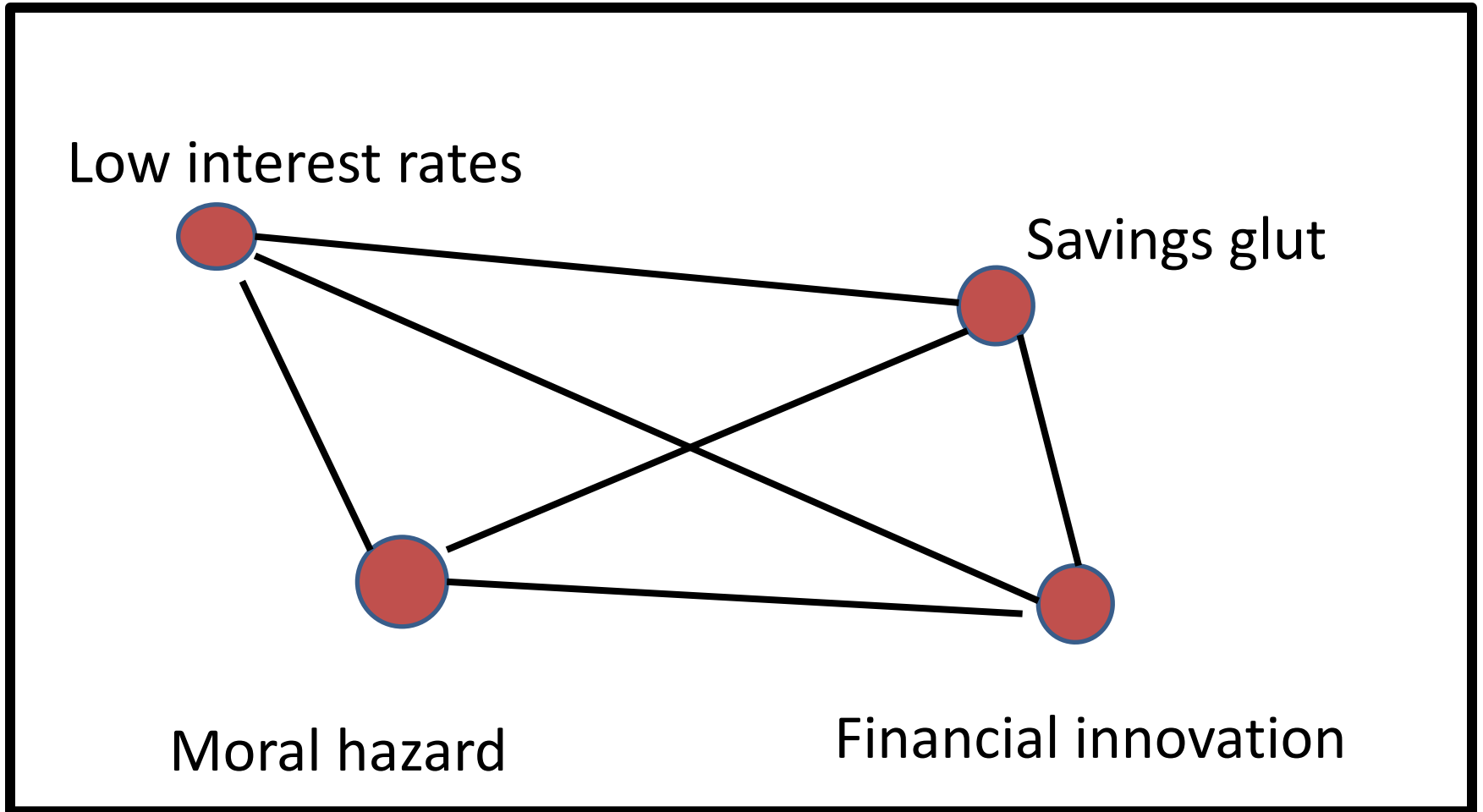
- **Keynesianism**

- fiscal policy
- deficit finance
- demand side economics

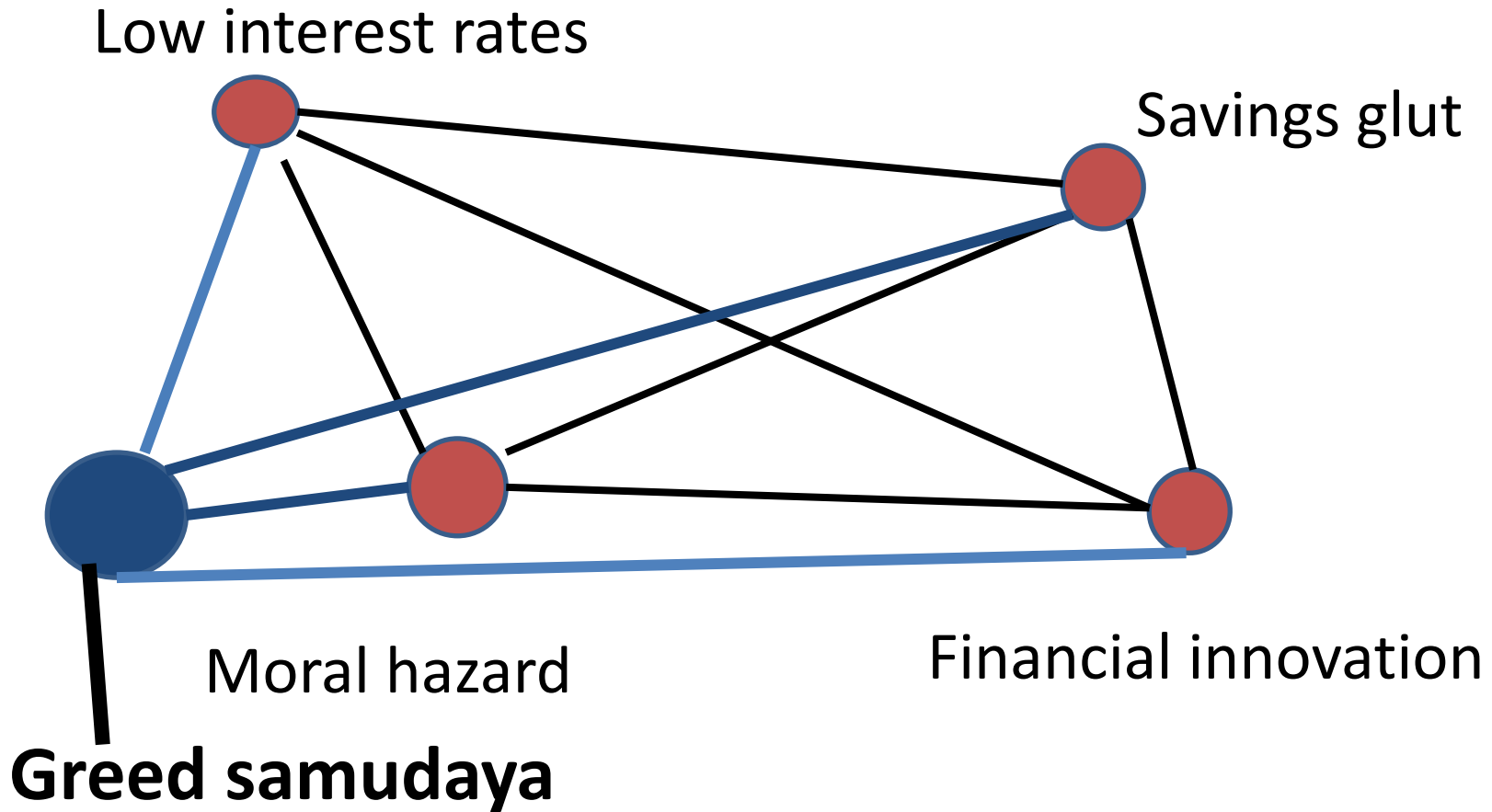
Causes of crises

- Low interest rates
- Savings glut
- Financial innovation
- Moral hazard
- None of the above
- All of the above
- Samudaya (the second noble truth: thirst)

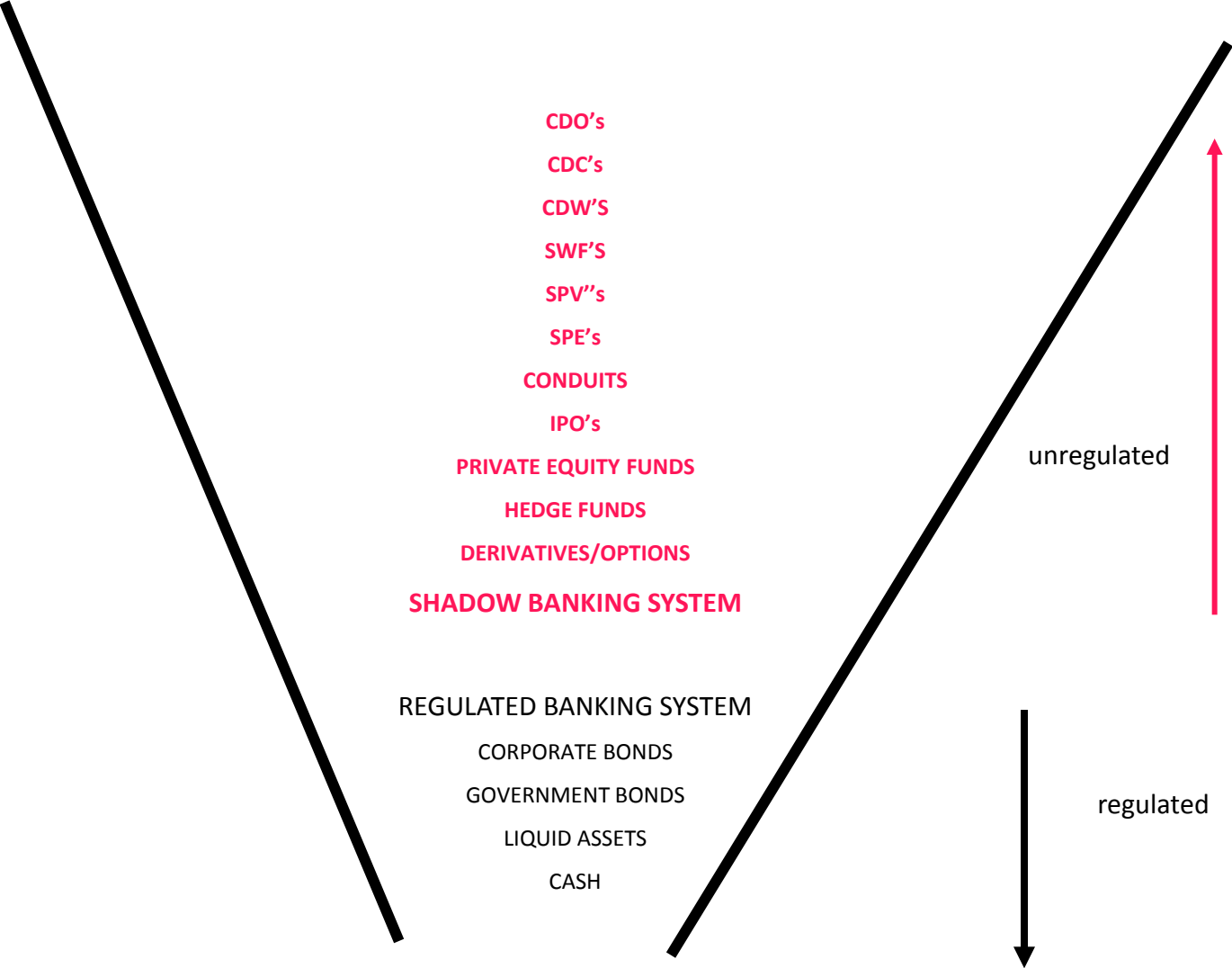
interdependence



interdependence



The financial tower of Babel: 21ST century



Contagion percolation and viruses

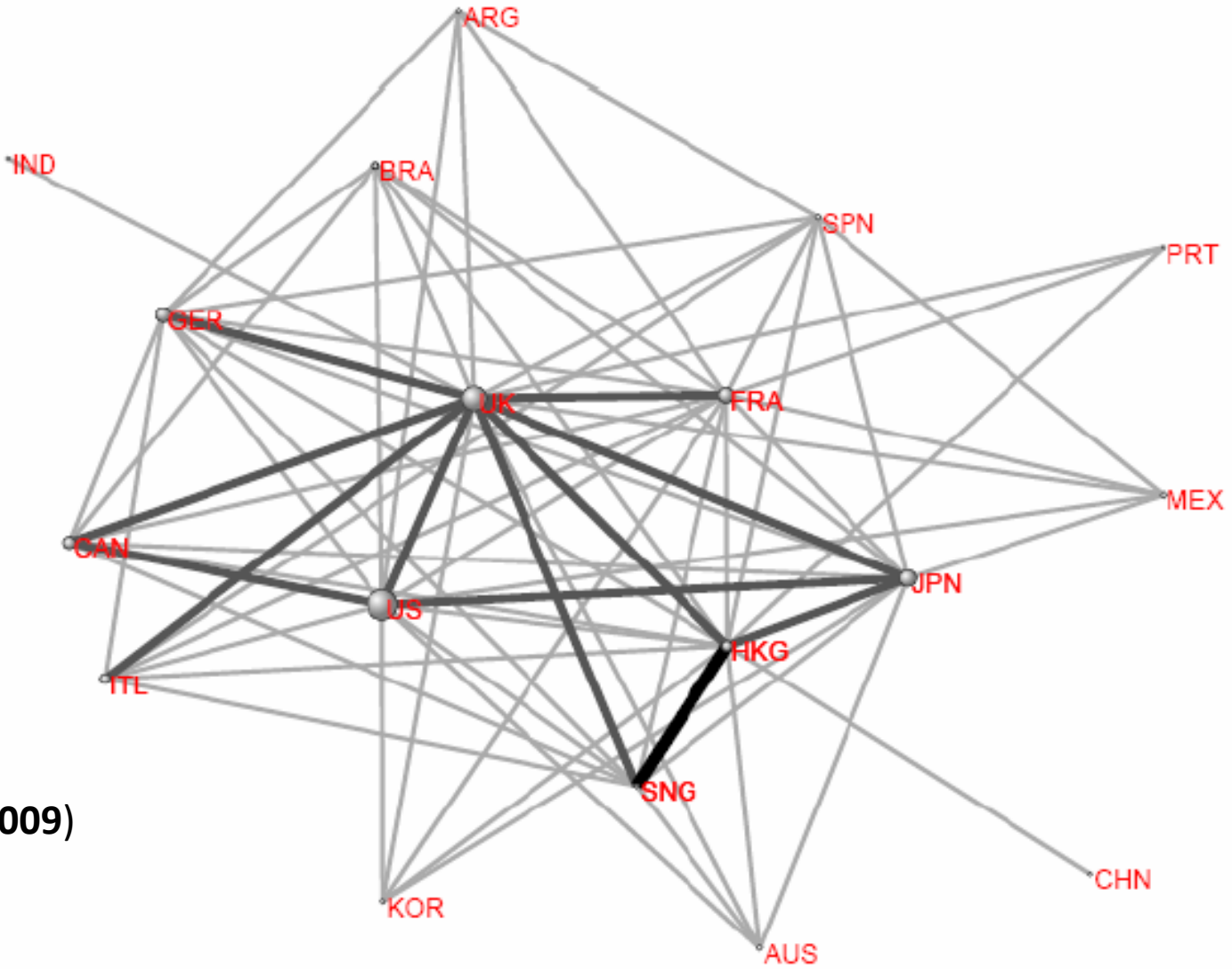
Why we don't learn from history

TBTF

- The next 3 slides are taken from
- Haldane (2009)

Chart 1: Global Financial Network: 1985

1985

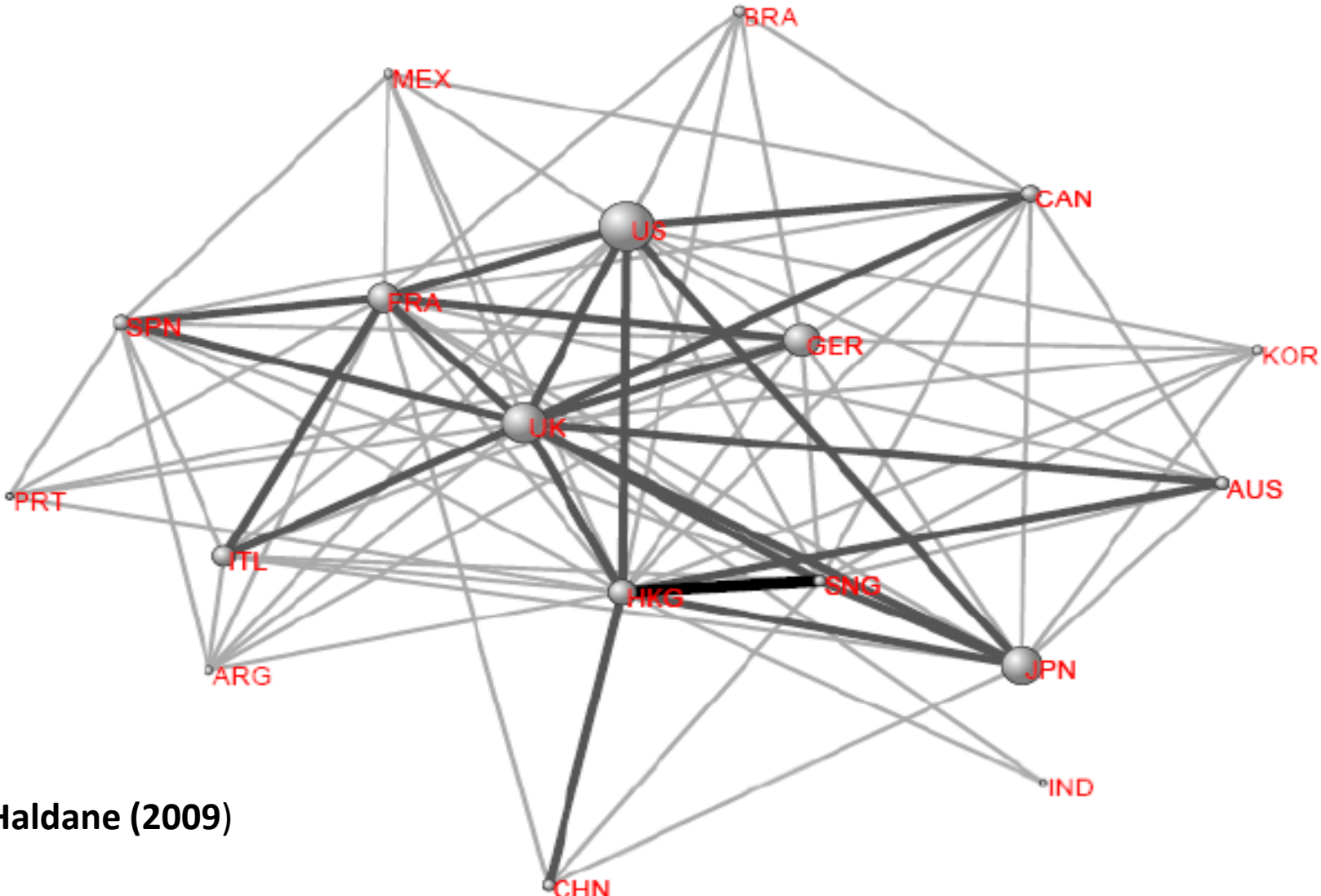


Haldane (2009)

Key:  0.003-0.03  0.03-0.2  >0.2

Chart 2: Global Financial Network: 1995

1995



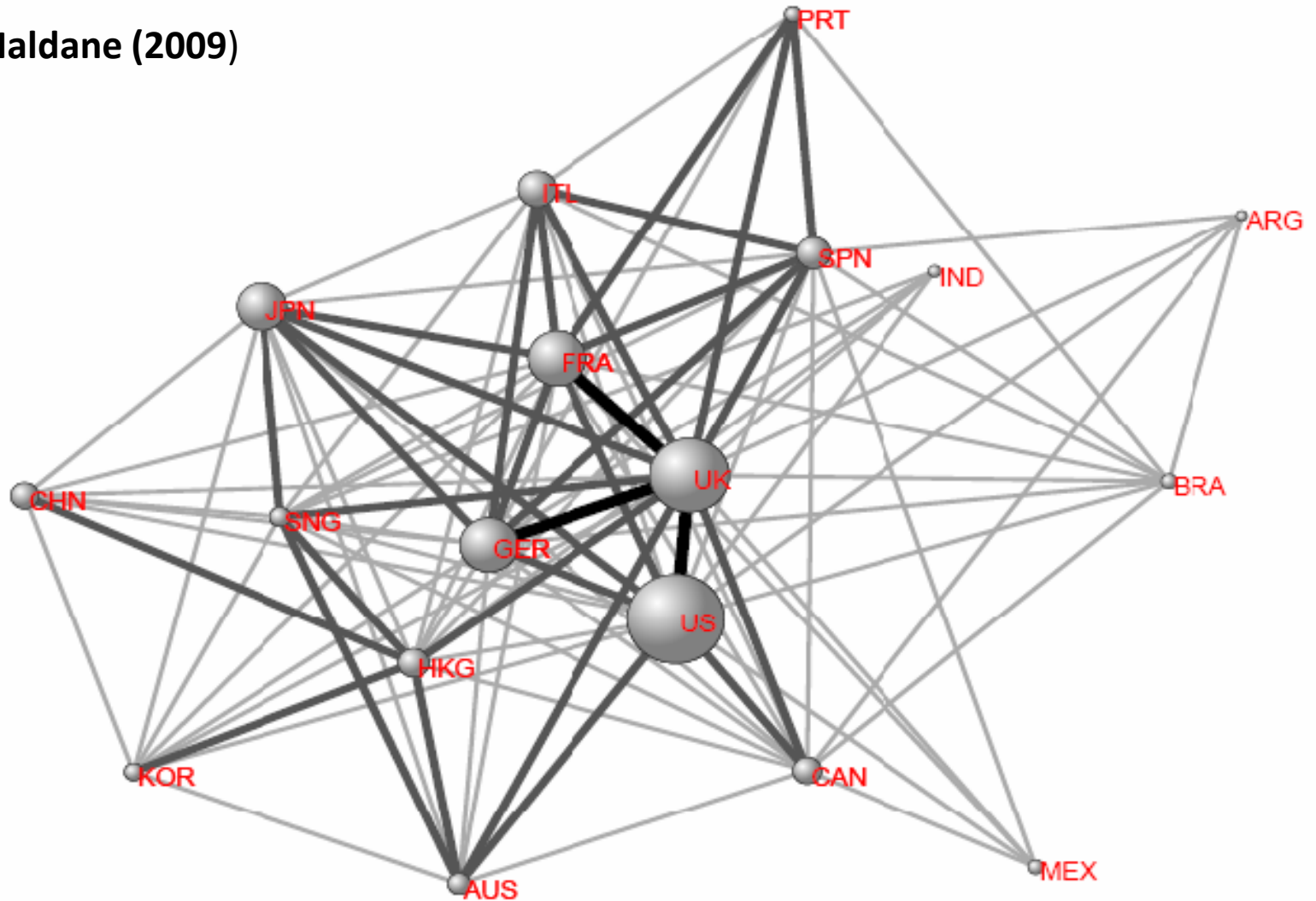
Haldane (2009)

Key: — 0.003-0.03 ——— 0.03-0.2 ————— >0.2

Chart 3: Global Financial Network: 2005

2005

Haldane (2009)



Key: — 0.003-0.03 — 0.03-0.2 — >0.2

Company	On-book assets (A)	Intangibles (B)	Tangible Assets (C) = (A) - (B)	Equity (D)	Preferred (E)	Tangible Common Equity (F) = (D) - (B) - (E)	Leverage Ratio (G) = (C) / (F)
Citigroup	\$2,050	\$83	\$1,987	\$126	\$27	\$36	56
Bank of America	\$1,831	\$91	\$1,740	\$181	\$24	\$46	38
JP Morgan Chase	\$2,252	\$89	\$2,183	\$146	\$8	\$69	32
Wells Fargo (ex-Wachovia)	\$622	\$14	\$609	\$47	\$1	\$33	19
Goldman Sachs	\$1,082	\$10	\$1,071	\$48	\$3	\$32	33
Morgan Stanley	\$987	\$4	\$983	\$36	\$1	\$31	32
GE	\$830	\$99	\$731	\$112	\$0	\$14	54
TOTAL	\$9,654	\$349	\$9,305	\$674	\$85	\$260	36
\$ in billions	OptionARMageddon.com						

Will policies make it worse?

- **Monetarist fixation on deficits will bring**

W or L

- **Minsky and Keynes**

Global cost of crisis?

\$3trillion – \$23 trillion

10 year recovery

REFERENCES

Many different sources for this presentation have been used including the following.

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