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ECONOMICS UNDER SIEGE

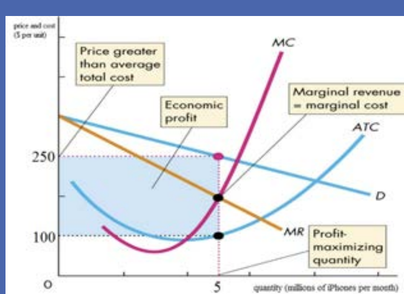
- WHY, THANKFULLY, I NEVER PROGRESSED BEYOND ECON 101

HERE'S THE THING!

The past four decades have witnessed radical change in the structure of our free world economic system. We no longer possess the tools to measure or understand what is going on around us.

As we strive to improve, we must refocus our attention on these three issues:

- Altered Power Structures
- Social Justice, and
- The need for Humility



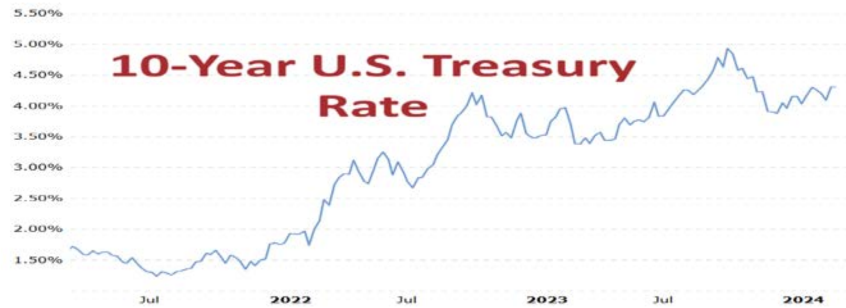
REALLY?

Today's idea emanates from two articles in the March issue of F&D (Finance & Development) magazine*, Economics: How Should It Change?*, a publication of the International Monetary Fund. I was also inspired by an early morning exchange on CNBC's "Squawk Box" between Michelle Caruso-Cabrera and Joe Kernan, on the somewhat complex subject of bank liquidity.

Stock markets took a hit in 2022 as the U.S Federal Reserve made several adjustments to the federal funds rate ("FFR"); rate increases ceased mid-2023 and the FFR has held steady at 5.25% to 5.50% since that time. Companies that use leverage (borrow money) to finance growth opportunities consider these rates high, although today's inverted yield curve reduces the pain somewhat for those willing to extend term (promise to pay an agreed interest rate for 10 years or more). Still, rates are set much higher than they have been for decades, with the intent of reining in inflation, all of which should theoretically dampen economic growth. Available economic data today (see charts on page 2 and the footnote on this page) tell us that interest rates are high (Chart 1) and bank liquidity[1] is low (Chart 2). So, the pre-conditions for a slower economy are there, yet GDP increases keep chugging along at a healthy pace (Chart 3).

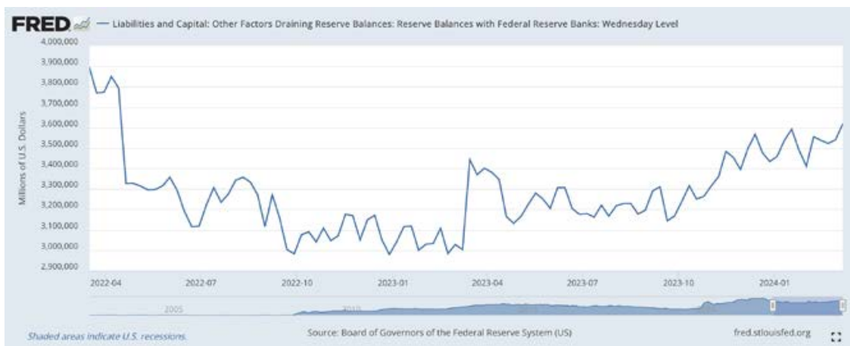
[1] Note higher bank reserves imply reduced liquidity levels.

Chart 1



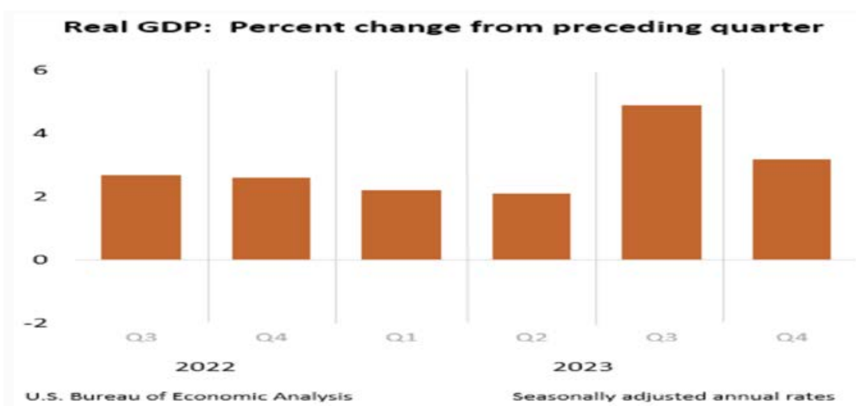
Source: [10 Year Treasury Rate - 54 Year Historical Chart | MacroTrends]

Chart 2



Source: [219293-17099144275479136_origin.png (2278×920) (seekingalpha.com)]

Chart 3



Source: [Gross Domestic Product | U.S. Bureau of Economic Analysis (BEA)]

So, wazzup? …

Could it really be different this time? Quite possibly! The past four decades have witnessed radical change in the structure of our free world economic system. We may have reached a tipping point where the economy (dare I say governments as well) is now being driven by a handful of humungous corporations with massive cash reserves who don't need to borrow to expand. If so, higher interest rates and decreased liquidity, at least in the short-to-medium term, will not slow the growth rates of these "monster" companies. The economic measures of global prosperity that we currently employ to develop policies to manage our free-world economies seem very poor indicators of what is happening on the ground to corporations and consumers not benefitting financially from the exceptional privilege of size (money and power) held by the few economic monsters among us.

This brings us to the articles in the March issue of F&D[2]. The articles address the need to rethink our approach to economics, in part by engaging with other related disciplines and I cannot do better than to recommend that you read these two short articles both for the insight they afford and for the joy of their prose. If you don't have time, perhaps the following snippets with my comments will serve as a summary, adequate to make the point.

Let's begin with "***POWER***".

In his article, *RETHINKING MY ECONOMICS* ***Angus Deaton says***, "Our emphasis on the virtues of free, competitive markets and exogenous technical change can distract us from the importance of power in setting prices and wages, in choosing the direction of technical change, and in influencing politics to change the rules of the game." And in her article, WHY AND HOW ECONOMICS MUST CHANGE, ***Jayati Ghosh says***, "The original sin could be the exclusion of the concept of power from the discourse, which effectively reinforces existing power structures and imbalances."

Indeed, it seems not a day goes by without media reports warning of the excessive influence of a small percent of the "1%ers" on our existence and on political decisions that set the course for our lives. If we are measuring society's economic well-being, how can we presume that the concentration of power within our society should not be weighed according to its impact on our well-being, whether positive or negative?

Secondly, on "***INEQUALITY***", …

Many in my age group have personally experienced the destruction of opportunity for small businesses and the middle class over the past forty years. I will admit to a personal phobia around the issue 🤣.

[2] You can find all three articles and much more at FD0324.pdf.

- *RETHINKING MY ECONOMICS*, ANGUS DEATON, MARCH 2024; CREDIT: ANDRE LAAME/SEPIA
- WHY AND HOW ECONOMICS MUST CHANGE, JAYATI GHOSH, MARCH 2024; CREDIT: ANDRE LAAME/SEPIA

Here, ***Deaton writes***, “Many subscribe to Lionel Robbins’ definition of economics as the allocation of scarce resources among competing ends or to the stronger version that says that economists should focus on efficiency and leave equity to others, to politicians or administrators. But the others regularly fail to materialize, so that when efficiency comes with upward redistribution—frequently though not inevitably—***our recommendations become little more than a license for plunder***.” (Bold, *Italics mine*). “… social justice became subservient to markets, and a concern with distribution was overruled by attention to the average, often nonsensically described as the ‘national interest.’ … I am much more skeptical of the benefits of free trade to American workers and am even skeptical of the claim, which I and others have made in the past, that globalization was responsible for the vast reduction in global poverty over the past 30 years.” And ***Ghosh notes***, “The global economy was already limping and fragile before the pandemic; the subsequent recovery has exposed deep and worsening inequalities not just in incomes and assets but in access to basic human needs. The resulting sociopolitical tensions and geopolitical conflicts are creating societies that may soon be dysfunctional to the point of being unlivable.”

*And finally, on “**HUMILITY**”*, …

We need to learn to share ideas, listen to others and learn from them.

Deaton observes, “We are often too sure that we are right. … It would be good to recognize that there are almost always competing accounts and learn how to choose between them.” ***Ghosh says***, “Arrogance toward other disciplines is a major drawback, expressed for example by the lack of a strong sense of history, which should permeate all current social and economic analysis. Recently it has become fashionable for economists to dabble in psychology, with the rise of behavioral economics and “nudges” to induce certain behavior. But this too is often presented ahistorically, without recognizing varying social and political contexts. … The mainstream discipline is sorely in need of greater humility, a better sense of history and recognition of unequal power, and active encouragement of diversity.”

TO CONCLUDE:

Had I majored in economics way back in the ‘70s, and relied on its tenets to shape my worldviews ever since, I am sure, like Angus Deaton, I would find myself “changing my mind, a discomfiting process for someone who has been a practicing economist for more than half a century.” But there you have it; the need to build new social and political contexts into our economic thinking, measuring and reporting, has never been more apparent. And the need for humility is always and everywhere present.

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