

Quand les économistes anglo-saxons viennent à nos thèses

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Nous ne recopions jamais d'articles de presse sur ce blog. Nous allons faire une exception avec cet article d'un économiste anglo-saxon qui montre que les mentalités et les analyses évoluent dans les milieux qui ont nié le plus longtemps et avec le plus d'acharnement les dysfonctionnements d'une économie internationale basée sur les changes flottants. Nos thèses cessent d'être totalement marginales et désormais, après quarante ans, arrivent dans le "mainstream".

Que 2018 voit d'autres progrès dans ce sens et bonne et heureuse année à tous nos lecteurs.

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Typically over the past 200 years, the international monetary systems that have governed the global economy have lasted between 25 to 35 years. The current system, which has been in operation since the end of Bretton Woods in 1971-73, is 44 years old. Reflecting its longevity and its construct, this system has outlived its usefulness. Replacing it with an international one, which restricts the role of money creation, would go a long way towards solving many of the world's main political and economic challenges. The modus operandi of this current system is the primary reason we have such populist and divisive politics across much of the west. In particular, this system explains the gap between the "haves" and "have nots", and it is the reason we have had a "debt supercycle", subsequent financial crisis and 10 years of fiscal austerity. This current international monetary system is the first, other than during and immediately after periods of global war, that has operated in an unanchored liquidity environment. This, with the 1980s financial deregulation and subsequent three rounds of Basel rules, has enabled the biggest global debt build-up ever recorded in history. That debt is the primary reason for high house prices. The absence of housing supply, while true in localised parts of the west, is a false narrative. An analysis of the UK economy makes the point. Over the past 40 years, mortgage debt has increased eightfold in real terms while excess housing supply as a share of total housing stocks has been increasing, not decreasing, over the past 20 years. Similar growth in household indebtedness has also been experienced in Australia, Canada, Denmark and New Zealand, to name a few. With that, the prima facie role of the commercial banking sector has changed dramatically. In 1980 in the UK and much of the west, the mortgage loan book of the commercial banks was effectively zero. Today, mortgage debt accounts for between 40-75 per cent of the loan books of most western banking systems. The continual reduction in risk weightings for mortgages by successive rounds of Basel rules has, along with this current monetary system, facilitated that rapid growth in mortgage debt. Currently in the UK, for example, risk weightings on mortgage debt are running at about 13 per cent across the main commercial banks. That figure is similar in the Australian, Canadian and other banking systems. In contrast, risk weightings for corporate loans remain at 100 per cent. In effect, therefore, banks need to charge approximately eight times as much interest on a corporate loan to make the same return on capital. That skewed incentive to encourage mortgage lending (into unproductive assets) rather than lending into the corporate sector (into potentially productive assets) is one of the reasons for the poor productivity outcomes in the west. More importantly, the policy response to the indebtedness crisis has further undermined the productive potential of the UK and western economies as ultra-loose money

forestalls the Schumpeterian forces of creative destruction. The Bank of International Settlement's analysis of western zombie companies illustrates the point — zombies in this context are defined as businesses that are unable to cover their interest expense with their earnings before interest and taxes. It shows a trend of a rising share of zombies in the corporate base in the west since the early 2000s (the beginning of ultra-easy money). Breaking that down into an individual country analysis shows the trend is widespread across western and large emerging market economies. Indeed, Japan is the only exception — arguably illustrating that time is one healer of the debt deflationary forces faced by the west. A corporate base with a high share of zombies is a weakened corporate base with productivity growth therefore undermined. That then feeds into poor real wage growth and divisive politics. As such, a return to an anchored international monetary system, while painful en route, should bring about much more widespread real income growth and therefore wealth accumulation. It should, if properly designed, re-orient house prices back towards more normal long-term valuation levels, thereby improving affordability and, by anchoring liquidity provision, it should also bring about less asset price-intensive and more productivity-rich economic growth. With that, politics can once again become more inclusive and less divisive and extreme. Achieving this should be the primary goal of the G20 — or the very least that of the three major currency areas in the global economy (US, eurozone and China). While currently a speculative bubble, cryptocurrencies, if embraced in this new model, would have the potential to realise their true purpose.

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