

Secular Stagnation, too much Saving, Ben Bernanke vs Larry Summers and the Theory of Limited Good

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Abstract

Current discussions among major economists finds significant disagreement in defining the status of the global economy. This article examines the main themes in the context of the theories presented on savings, consumption and investment. The primitive society concept of "limited good" appears to have more relevance than any of these theories of modernity.

Keywords: Credit crisis; QE; Central banks; Investment; Consumption; Inequality

Introduction

The New York Times article by Josh Barro (*New York Times* 4/2/15 "Bernanke says global imbalances bedevil the world economy. Discuss." reporting on the battle between Ben Bernanke, former head of the Fed, and Larry Summers, former Clinton advisor and Harvard economist, has mushroomed into a media event. But there is hope within the husks of this conflict. The *Financial Times*' Weekend issue is filled with this quarter's flood of economic bewilderment. John Authers' obsesses (*Financial Times* April 11, 2015, "Earnings recession might not be so bad...") over the "earnings recession" issue, while Garbiel Wildau and Josh Noble (*Financial Times* April 11, 2015, "The party is over") fret over the possibility of a Chinese bubble. Alan Beattie effectively describes the clash between Ben Bernanke and Larry Summers ("The less appealing way to abolish boom and bust") where Bernanke is suggesting readjustment to normality is underway and patience is required, while Summers argues we are doomed to low or no growth for the future. Bernanke seems to be arguing a form of the idea attributed to traditional economies of the Theory of limited Good [1]. Too much money is being hoarded, especially by large corporations in off-shore tax havens or "tax friendly" countries like Ireland. In either case much of this behavior is tax avoidance and these companies (and many individuals) are tax cheats.

For example, as I noted in a 2009 article saving (or caching), is a behavior typical of many animals and is associated with strategies for long term survival. The present situation as described by Bernanke and Martin Wolf of the *Financial Times* suggests that there is too much saving behavior. Yet how and why people save is bound up in perceptions, both in the individual and the group, of future needs as well as fetishes of value [2]. This saving, in their view, has a sequestering-like effect on world money supplies, dampening investment and consumption alike. Here there is a similarity I found apparent when this argument first appeared in 2009 with traditional ideas of value and credit. Baric [3] using Armstrong's (1928) original data from Rossel Island, argues that, "...despite great activity in the economic sphere, aggregate capital is largely maintained at the same level although individuals may become wealthy". Here is reflected the idea described by George Foster [1] But in the present usage, one might say, in terms of mentality as described by [4], a primitive or traditional conception, somewhat akin in physics to the idea of the conservation of matter, it cannot be created anew or destroyed in the balance of the universe, only transformed back and forth into energy. In the new view of Western modernity (in Physics and finance), one might say that from Dark Matter we get both the mysterious creation of multiple worlds and universes as well as new

wealth. However, no matter how much "liquidity" the central banks pour into the global economy they cannot melt the idea of limited good that prevents the "restarting" of the economy and an end to the stagnation. The people who have control of the money, whether corporate CEOs, the 1% or politicians who could initiate public works projects or investments in education are acting "primitively."

It is certainly difficult for managers to plan in this environment, but then that is the opportunity. While Jamie Dimon of JP Morgan predicts doom (if there is another liquidity crash or multiple economic blow to the global economy that he believes would result in chaos) because of the new restrictions on banks. Instead I think the situation may be much better, because of them. Currently, while risk is on and derivatives have ballooned to 2007 levels and securitization is off and running, and junk bonds flooding the market, the real risk is with the shadow banks and credit entities. It is likely they will take a substantial hit, but the new banking regulations will allow the traditional, regulated sector to weather the crisis (Figure 1).

Here Henny Sender's article (*Financial Times* "Weak growth suggest QE might not have been worth the costs") carries considerable insight, if misdirected. She is right that the recent Swiss Re report represents a general population loss of savings and that the wealthiest have gained from the efforts at QE by holding up asset prices, especially equities. As Martin Wolf reports (*Financial Times*, "An economic future that may never brighten," April 15, 2015) we can expect a future of weak investment, low real and nominal interest, low wages, credit bubbles as people chase higher returns and unmanageable debt. But worse is the fact that since 2008 and the massive government bailout and the QE support for banks, there has been an enormous buyback in stock that is transferring ownership of America's public corporations of over a trillion dollars. Along with the increased transfer of income to the 1% of richest Americans it only further deepens the economic divisions in the country. This can be seen from the chart produced from data collected by Bloomberg recently. But there is a silver lining. With wages low for more than 3 decades and the general loss of savings and home equity, most working people have found reduction

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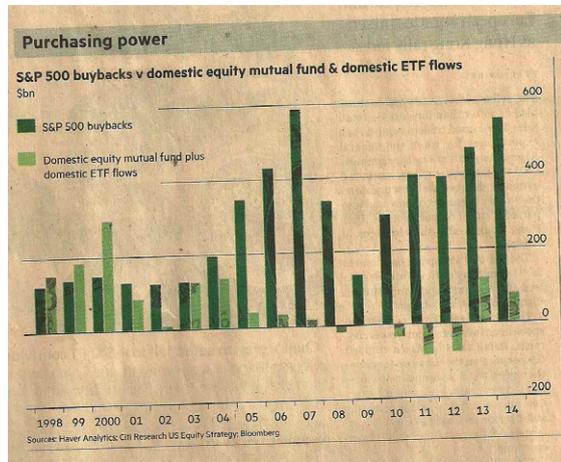


Figure 1: Economic divisions.

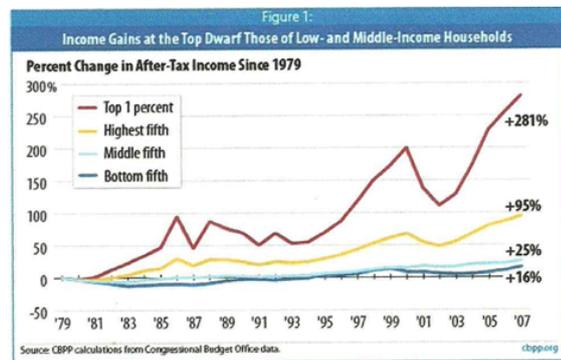


Figure 2: Income Households.

in demand the only way to survive. Also, children are living at home longer, deferring college, marriage and children all of which reduces demand in consumption. The introduction of virtual products and new electronic devices and social media has allowed for a considerable replacement of physical demand with these electronic experiences, satisfying and perhaps replacing traditional consumption choices. We have seen in Japan a parallel with children living at home longer, deferring marriage and children, and again this reduces consumption at a time when demand for care of elderly parents increases and has placed significant demand on savings to accomplish this care, both for families and the government [5]. The benefit to society at large is a decrease in population and what appears to be a beginning of a demographic shift away from continuous population growth. This can have a positive effect on the environment in less garbage, less need for energy and a shift to what Daly (Herman Daly, *Beyond Growth: The Economics of Sustainable Development*, Boston, Beacon Press, 1996). Urged for a steady state economy. I have examined past complex

societies and traditional (or primitive as they used to be called) and produced an analysis of factors that make complex societies fragile and less likely to deliver positive returns for citizen in a new book [7].

Lastly, what can be done? Giilian Tett (*Financial Times*, April 10, 2015, "A bumpy ride for New Yorkers," brings up [7] the lack of infrastructure investment. This is needed, yet Japan made substantial investments in infrastructure and still could not change the "secular trend" on the other hand widening inequality could be reduced by infrastructure investments and substantial educational investments (Figure 2). This must be balanced with reductions in government debt by increasing taxation on the wealthiest people in the world and making war on tax havens. It must be made impossible and very dangerous to engage in tax evasion. This could be done by an international mechanism like the change from individual currencies before the Euro to the Euro by giving a date by which all money in tax havens would become worthless forcing people to either repatriate their cash or use it. It would also create chaos among drug cartels and money laundering entities like terror groups. Other examples of this have occurred when nations have gone to fiat paper currencies and made holding precious metallic currencies illegal or declared currencies worthless and introduced new replacement fiat currencies.

Conclusion

Therefore while *Financial Times* contributors, and almost all other commentators on economics today, see doom and gloom, Bernanke and Summers may both be wrong and yet the situation we are in could result in a more sustainable future.

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