The Only Game in Town- Central Banks, Instability, and Recovering from Another Collapse
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Puts as nice a gloss as possible on central banks

El Erian is a member of the estabishment. He attempts to explain what went wrong, and is going wrong, without stepping on any toes. It is worth reading, but he is not burning any bridges.

What causes the crises in central banking? Naivety on the part of central bankers. Their oversight was lax. They should have been less credulous of the banks' ability to police themselves. They should have assessed the explosive potential of the exploding derivatives market to, well, explode.

He does not even address other possibilities. Biggest among them is conflict of interest. "The Creature from Jekyll Island" charges that the Federal Reserve was set up by and for the benefit of the big city banks. The charge is that its primary intent is to protect the interests of those institutions. El Erian remarks that the whole world became "financialized," with bankers allowing institutions, governments and individuals to take on far more risk than they should have. He does not mention the perverse incentives that led them to irresponsibily shove money out the door.

He says that the politicians do not understand banking and finance. The central banks wanted to insulate themselves from political pressure to deliver short-term results. This is true. One can recall Volker resisting presidential pressure to easy up on interest rates. El Erian uses the word "regulatory capture" without going into depth about the extent to which the regulators are compromised.

The Federal Reserve bailed out feckless politicians who steadfastly refused to balance the budget – to bring expenses in line with income. The do so by facilitating the growth of federal debt, both that shown in the growing official account and the off-balance-sheet obligations such as guarantees of student loans and unfunded liabilities for Social Security, Medicare and the rest. If the Fed was truly a public servant, it would attempt to impose some discipline on the politicians. However, as noted in the many books critical of the Fed, banks depend on debt. They have grown fat on the politicians' lack of discipline. And the Federal Reserve is constituted as a private corporation owned by those banks.

El Erian repeatedly asserts that the United States is in better relative shape than Europe or Japan. He asserts it has been growing, albeit slowly. Other commentators attribute this mostly to smoke and mirrors. The government has repeatedly revised its formulas for computing unemployment, inflation and other essential measures, a process well documented by John Williams' Shadow Government statistics. He notes that central banks have been actively involved in asset markets. They have been buying stocks to hold up exchanges. He does not mention,, but it is widely known that they are at the same time actively depressing the cost of alternatives to money such as precious metals and Bitcoin.

I include El Erian's ten issues that confront central banking, the meat of the central ten chapters of this book, below as a comment. These are issues beyond the scope of central banks, and even government and all of society. Neither government nor the banks have any power to reverse the fact that technology is changing the workplace, providing fewer and fewer employment opportunities for the less intelligent. It cannot change the fact that the more intelligent are having fewer children. Demographics alone dictate that politicians will be unable to balance their budgets. The central banks, as the "only game in town," will be forced to continue to paper over the gaps, until the whole system runs to failure, collapses of its own weight.

El Erian writes of an upcoming T junction, one road leading to peace and prosperity, the other to collapse. He does not make a very convincing argument that the first is anything more than a mirage. There are many good insights in this book, but they should be balanced with a reading of more skeptical books by Pippi Malmgren, James Rickert and others.

Puts as kind a gloss as possible on central banks

Issue 1: Repeatedly inadequate and unbalanced economic expansion, reflecting cyclical/ secular/ structural headwinds, highlights the extent to which many advanced economies still lack proper growth models.

Issue 2: Unemployment remains too high in far too many advanced countries; and it is getting more deeply embedded in the structure of these economies and, therefore, will become that much harder to solve.

Issue 3: Fueled by an unusual combination of cyclical, secular, and structural factors, the worsening of income and wealth inequality has been so pronounced within countries that it now also undermines opportunities.

Issue 4: The loss of institutional credibility is part of a more generalized erosion of trust in politicians and the "system" as a whole.

Issue 5: National political dysfunction is still a headwind to overcoming economic malaise and restoring genuine and durable financial stability. The good

Issue 6: As national dysfunction undermines global policy coordination, traditional core/ periphery relations fail and geopolitical tensions escalate.

Issue 7: With systemic risks migrating from banks to nonbanks, and morphing in the process, regulators are again challenged to get ahead of future problems.

Issue 8: When the market paradigm changes, as it inevitably will, the desire to reposition portfolios will far exceed what the system can accommodate in an orderly fashion.

Issue 9: Yet none of these uncertainties and fluidities seemed to disturb financial markets that, operating with unusually low volatility, went from one record to another. As such, the contrasting gap between financial risk taking (high) and economic risk taking (low) has never been so wide.

Issue 10: All of this adds up to considerable headwinds for the better-managed part of national, regional, and global systems. The difficulties

These developments and insights point to the unusual risk of an even more prolonged slump in advanced economies. Importantly in terms of actionable outcomes, their insights can (and should) be translated— albeit not without some risk of oversimplification— into the four broad policy implications discussed earlier— namely, addressing simultaneously

1) lagging structural reforms to revamp growth engines;
2) the mismatch in aggregate demand between the ability and willingness to spend;
3) persistent debt overhangs that undermine existing and new productive capacity; and
4) Europe's incomplete regional integration project, as well as other multilateral bottlenecks.