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Contributions on monetary and financial issues: an introduction

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The present issue of PSL Quarterly Review includes three articles: by Mario Sarcinelli, on the need for structural regulations on financial institutions in order to avoid a new systemic crisis; by Mario Tonveronachi, on the limits of the official regulatory responses to the current crisis; by Hossein Askari and Noureddine Krichene, on the inflationary pressures in world commodity markets stemming from expansionary monetary policy.

These are all important issues, in the present-day context. However, two notes of caution are needed. First, while all articles have passed the scientific test of the refereeing procedure, disagreements on their argumentations are still possible: as it has always been in the tradition of our Review, the debate is open. Second, other issues (such as the limits of expansionary fiscal policy as the tool for countering the real effects of the financial crisis) may be at least equally important for the present-day policy debate; the Review does not (and indeed, cannot) attempt to provide a complete, wide-ranging picture of current economic events and policies.

Within these limits, the contributions presented in the current issue of the Review possess those qualities of relevance, realism and scientific rigor (the three Rs which constituted Sylos Labini's often repeated methodological tenets, and to which this Review has always tried and will continue to try to adhere to). Let us consider briefly the context to which these articles refer.

In the aftermath of the world financial crisis, the immediate policy response was necessarily directed to re-establishing working conditions in national and international financial markets, and to set out cushions to the impact of the financial crisis on the real economy, especially on

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employment. Both objectives implied very strongly expansionary monetary and financial policies. It was clear from the outset, however, that such policies could not be maintained for an indefinitely long span of time. As Askari and Krichene stress, inflationary pressures are the normal outcome of easy money (even if no stable and univocal relationship between prices and monetary circulation can be established, and even if there are reasons to believe that under present conditions the inflationary pressure implicit in expansionary monetary policy is less immediate and less powerful than in the past). In fact, as their article shows, this has been the outcome of the United States Federal Reserve easy money policy under Greenspan, especially in the years 2003-2007. Also, conditions of smooth financing of external and public sector imbalances cannot be maintained for very long, when such imbalances are strong and expanding. (Here too, the precise requirements for sustainability of the public and external debt are a matter for research; let us recall, in this respect, Pasinetti's (1989, 1998) and Sylos Labini's (2003) contributions published in the first series of our Review).

In both cases, however, and particularly in the second one, the risk of instability and new systemic crises is greatly increased by the persistence of a strong degree of financialization of the economy, which increases the scope for speculative activity (by which many financial institutions are trying to recover the losses experienced in the worst period of the financial crisis). As stressed by Minsky (1982), by its very way of operation, speculation may generate strong bandwagon effects; under present conditions, these could (and in fact, are likely to) ignite a new crisis (as we saw with Greece: the problems were there a week or a month before they all of a sudden became apparent to financial operators, policy authorities and rating agencies – not by chance, in this order). At the same time, the masses of liquidity which central banks have been compelled to throw into the markets have taken the direction of new speculative operations rather than (or, at best, parallel to) financing productive activities. There have been rumors of a gigantic carry trade on the dollar (Roubini 2009; see also Roncaglia 2010); a gold bubble is also apparent (with prices around 1250 dollars per ounce at the beginning of June 2010, up by nearly 20% since the end of March, notwithstanding a dramatic fall in gold jewelry demand); the international oil market is also repeatedly affected by speculative price movements.

Such speculative activities may well be minor elements in the picture (even though financial institutions are in all likelihood once again running greater risks than they can bear). However, the way financial speculation operates on public and external debt imbalances – with sudden increases in risk spreads, hence increasing the cost and difficulty of debt financing – strengthens the already existing negative asymmetry in policy responses. That is, it puts strong pressure on deficit countries to adopt drastic readjustment policies which are clearly counterproductive for activity levels and employment, while surplus countries (especially those with external surpluses) do not stand equal pressure to adopt reflationary policies.

Indeed, fiscally virtuous countries receive a prize in relatively lower interest rates on their public debt, so that they too can be induced to choose deflationary policies. This tendency is further strengthened by the persistent adhesion to traditional (Washington consensus) tenets on the side of the large majority of policy authorities, which led to a problematic and contradictory final declaration on occasion of the last G-20 summit, stressing at the same time the need "to follow through on delivering existing stimulus plans" and to "to accelerate the pace of consolidation" (G-20, 2010, p. 1). Thus, Germany's decision to seek full budgetary equilibrium within three years does not come unexpected, though it implies a strong negative effect on recovery perspectives, especially for the European economy.

In the meantime, as far as the financial side of the economy is concerned we seem to be back to the old course. Deleveraging is under way, but more as the result of indirect pressures on the side of monetary authorities and retrenchment on the side of financial institutions than due to new and structural regulations. In this respect, more than a year has been lost, at the double cost of setting strong limits on the room for expansionary responses to the real crisis provoked by the financial one, and of increasing the risk of new financial upheavals. It is against this background that the articles by Sarcinelli and Tonveronachi published below are to be evaluated.

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