OFF THE NEWS

A Missed Opportunity

Other attendees did not fail to notice outgoing Federal Reserve Vice Chairman Stanley Fischer slipping into the Bergsten Auditorium of the Peterson Institute for International Economics one morning recently. The main speaker that day: former Fed Chairman Ben Bernanke, who chaired the Federal Reserve from 2006 to 2014, including the period of the financial crisis.

What was striking was Bernanke's remarkably thoughtful presentation. The former chairman outlined monetary policy options in the event of a crisis, with interest rates still at the zero lower bound. Bernanke worries that his policies that helped stabilize financial markets a decade ago won't work in the future. And he outlined various options for the next chairman. The contrast with the soon-to-be retired Fed vice chairman sitting meekly in the audience was striking.

Fischer's visibility in Washington was not supposed to be so modest. When he joined the U.S. central bank as vice chairman in 2014, Fed watchers anticipated the former Bank of Israel governor, World Bank economist, and university professor would become the institution's intellectual turbo charger, and a major center of influence at a time when issues such as stagnant productivity growth remain perplexing. Never happened. For financial markets, Fischer quickly became the invisible man.

Stanley Fischer

China and The Minsky Moment

International observers watching the recent Chinese Communist Party Congress were surprised by a comment made by a central bank official. The official used the phrase "Minsky moment," a reference to economist Hyman Minsky's theory that after prolonged periods of prosperity and rises in the value of assets, which lead to greater speculation and higher leverage, a sudden collapse in asset values occurs. Immediately, attention turned to the fact that in recent months, ten-year Chinese government bond yields have been steadily rising.

In general, Chinese officials of late have offered a confusing message: On the one hand, they want to open up capital markets. On the other, they want to tighten capital controls and give the Communist Party a dominant say in economic decisions.

The greatest point of confusion has been the massive speculative investment in commodities by Chinese companies and individuals at the same time global producer prices are on the rise. Is there a connection here? And are there limits to this highly leveraged commodities speculation, with significant implications for future global producer price trends?

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Seven New Myths of the Twenty-First Century

I. NOTHING EVER CHANGES

"Amazon's market value is twice that of Walmart and 500-fold that of evaporating Sears. Apple's valuation is twice Exxon's, and Facebook and Google are each valued at 20-fold CBS. Next come 200 'unicorns,' private software-dominated startups each valued at over $1 billion. Uber has a valuation greater than all car rental companies combined, and 8-year-old Airbnb is worth as much as 80-year-old Marriott."

—*Mark Mills, Wall Street Journal*

II. AMERICA CAN'T MAKE THINGS

"American manufacturing has more than doubled output in real terms since the Reagan era, to over $2 trillion today. Productivity is soaring. Output per labor hour rose by 47 percent between 2002 and 2015, outpacing gains in Britain, France, and Germany. A survey of global chief executives conducted in 2016 by Deloitte, a consultancy, found that bosses expect American manufacturing to become more competitive than China's as soon as the next few years, in part because pay for Chinese workers has risen. A closely followed index of American manufacturing activity hit a thirteen-year high in September."

—*The Economist*

III. CENTRAL CONTROL WORKS

"The aggregate return on assets for [China's] state-owned industrial sector, as high as 6 percent in 2007, now is barely 3 percent—not only well below the 7 percent average for all industrial companies but the average bank lending rate of 5 percent."

—*Wall Street Journal*

IV. AMERICANS HAVE LEARNED THE LESSON OF EXCESSIVE LEVERAGE

"Outstanding credit card debt—the total balances that customers roll from month to month—hit a record $1 trillion this year, according to the Federal Reserve. The number of Americans with at least one credit card has reached 171 million, the highest level in more than a decade, according to TransUnion, a credit-reporting company."

—*New York Times*

V. THE WORLD HAS LEARNED A LOT SINCE THE FINANCIAL CRISIS

"Sales of European collateralized loan obligations are running at their highest level in almost a decade, with activity resilient even as managers compete more fiercely to buy the loans backing these types of securitization vehicles. The first three-quarters of 2017 has generated €12.4 billion of fresh CLO issuance, according to data from Bank of America Merrill Lynch, a figure that does not include refinancing transactions that merely recycle existing deals at lower funding costs."

—*Financial Times*

VI. AMERICAN BANKS ARE DINOSAURS

"Ten of the nation's biggest lenders including JPMorgan Chase & Co. and Bank of America Corp. together made $30 billion last quarter, just a few hundred million short of the record in the second quarter of 2007."

—*Bloomberg*

VII. THE ROLE OF TECHNOLOGY IN DAILY LIFE IS OVERSTATED

"There are more mobile connections than people on the planet, and more people have access to a mobile phone than to a toilet."

—*World Economic Forum*