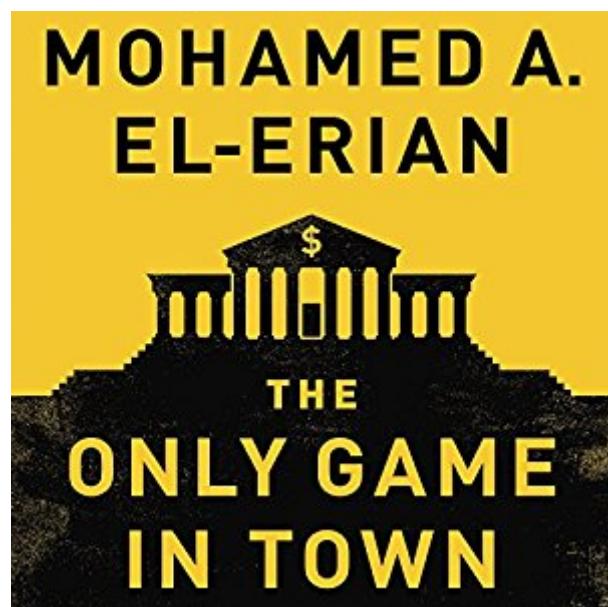


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# The Only Game In Town: Central Banks, Instability, And Avoiding The Next Collapse



## Synopsis

New York Times Best Seller Dr. Mohamed A. El-Erian, one of the world's most influential economic thinkers and the author of *When Markets Collide*, has written a road map to what lies ahead and the decisions we must make now to stave off the next global economic and financial crisis. Our current economic path is coming to an end. The signposts are all around us: sluggish growth, rising inequality, stubbornly high pockets of unemployment, and jittery financial markets, to name a few. Soon we will reach a fork in the road: One path leads to renewed growth, prosperity, and financial stability, the other to recession and market disorder. In *The Only Game in Town*, El-Erian casts his gaze toward the future of the global economy and markets, outlining the choices we face both individually and collectively in an era of economic uncertainty and financial insecurity. Beginning with their response to the 2008 global crisis, El-Erian explains how and why our central banks became the critical policy actors - and, most important, why they cannot continue in this role alone. They saved the financial system from collapse and a multiyear economic depression in 2008 but lack the tools to enable a return to high inclusive growth and durable financial stability. The time has come for a policy handoff, from a prolonged period of monetary policy experimentation to a strategy that better targets what ails economies and distorts the financial sector - before we stumble into another crisis. The future, critically, is not predestined. It is up to us to decide where we will go from here as households, investors, companies, and governments. Using a mix of insights from economics, finance, and behavioral science, this book gives us the tools we need to properly understand this turning point, prepare for it, and come out of it stronger. A comprehensive, controversial look at the realities of our global economy and markets, *The Only Game in Town* is required listening for investors, policymakers, and anyone interested in the future.

## Book Information

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## Customer Reviews

Central banks are forever fighting today's war with yesterday's weapons. Every recession is different, and central banks have to worry and flail their way back to a smoother ride, because this time is different. We've seen money supply tools come and go, interest rate tools lose their impact and of course, regulation all but disappear. The current tool is QE, necessary because so much of the money supply is beyond the control of the Fed. It will probably prove outmoded next time. The meat of the book is ten short chapters summarizing ten factors that demonstrate how weak our economies are. None of them is news. This is standard fodder for pundits everywhere. Things like unemployment, inequality and so on. Then there are four policy prescriptions, all commonly discussed, and none likely to happen. And that's the problem with the book – nothing new. We already know that everything is out of whack. Stockmarkets rise on bad news. Company shares improve on layoff announcements. Markets fall with the decrease in the price of oil. The US is at full employment, but 40% of working age Americans have no job. Despite record trading numbers, liquidity is one of the highest risks. Banks trade government bonds rather than lend to business. Corporates see more value buying back their shares than investing in their businesses. The distortions are enormous. And it's the central bank that did this, because its tools are wrong. About 140 pages in, El-Erian finally hits the nail on the head, calling for governments to reject the financial engineering that has opened gaping holes for big finance to exploit, and instead focus on economic growth policies so the markets will respond (more) rationally.

El Erian is a member of the establishment. 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 irresponsibly 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 ease 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 â " to bring expenses in line with income.

Mohamed El-Erian is one of our most thoughtful economic observers and commentators of our time, and he has delivered a masterful blueprint on how to get out of our current economic malaise characterized by "stall speed" growth that is considered the "new normal". El-Erian diagnoses is spot on: while central banks, particularly the Fed and the ECB, has kept the world's economy from collapsing, they have taken on extraordinary responsibilities through their actions in the face of ineffective political leaders. While this has bought us valuable time, it is not a sustainable model for the world's economy to properly function, and we are quickly approaching a fork in the road. This fork or "T stop" will require us to build the political will to make urgently needed reforms in our national and international governing institutions to reflect the realities of the 21st century, where emerging markets play a much bigger role, individuals from around the world hold more power than ever (and non-state actors wield unprecedented power), and technological change puts a premium on diverse thought and the ability to work alongside machines. These needed reforms can be made - and if they are, the extraordinary measures central banks have taken to buy us time will be validated. However, it is equally likely that political leaders will continue to be fractured and polarized, leading to continued slow economic growth, ever widening income disparities between wealthy individuals (and countries) and poor individuals (and countries), and the growing unemployment (especially among young people) and the hollowing out of the middle class leads to voter anger and frustration.

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