# Twitter Thread by Daniela Gabor

**Daniela Gabor**
@DanielaGabor

**bankers against Biden's fiscal plan could really do with some proper fact-checking before sending their op-ed to the FT.**

**We all understand 'it's ideology, stupid!', but no excuse for lazy arguments.**

apparently, the Gospel according to Morgan Stanley is that we havent had enough neoliberalism for the past 4 decades

> This view overlooks the corrosive effects that ever higher deficits and debt have already had on the global economy. These effects, unlike roaring inflation or the dollar's demise, are not speculative warnings of a future crisis. There is increasing evidence, from the Bank for International Settlements, the OECD and Wall Street that four straight decades of growing government intervention in the economy have led to slowing productivity growth — shrinking the overall pie — and rising wealth inequality.

if you click on BIS link, it tells you monetary policy, not higher deficits, are associated with wealth inequality.

Incidentally, unconventional monetary policy through which central banks basically rescued banks after they nearly destroyed the global financial system in 2008

# Wealth inequality and monetary policy

**BIS Quarterly Review** | March 2016 | **06 March 2016**

by Dietrich Domanski, Michela Scatigna and Anna Zabai

PDF version (283kb) | 20 pages

*This feature explores the recent evolution of household wealth inequality in advanced economies by looking at valuation effects on household assets and liabilities. Using household survey data, we analyse the possible drivers of wealth inequality and the potential effect of monetary policy through its impact on interest rates and asset prices. Our simulation suggests that wealth inequality has risen since the Great Financial Crisis. While low interest rates and rising bond prices have had a negligible impact on wealth inequality, rising equity prices have been a key driver of inequality. A recovery in house prices has only partly offset this effect. Abstracting from general equilibrium effects on savings, borrowing and human wealth, this suggests that monetary policy may have added to inequality to the extent that it has boosted equity prices.*[1]

*JEL classification: D31, E52.*

speaking of government spending, who else but Morgan Stanley got $10 billion in equity investments from US Treasury in 2008?

I cant think of a more productivity-enhancing outlay for 10bn of public funds.

### Morgan Stanley and the Financial Crisis

During the financial crisis, Morgan Stanley reportedly lost 80% of its market value between 2007 and 2008. To survive the crisis, the firm received capital infusions from several entities. In December 2007, the China Investment Corporation injected $5 billion into the company in exchange for securities that would be converted to a 9.9% equity in 2010. In September 2008, Morgan Stanley received $9 billion from Mitsubishi UFJ Financial Group, Japan's largest bank. The US Treasury made $10 billion in equity investments into Morgan Stanley as part of the $700 billion government bailout for troubled financial institutions. The company also borrowed $107.3 billion from the Federal Reserve to help it finance its cash-starved operations.

the OECD 'evidence' that 'four straight decades of growing government intervention in the economy have led to slowing productivity growth' is also, excuse my language, a lot of bullshit.

## ABSTRACT/RÉSUMÉ

### The Walking Dead? Zombie Firms and Productivity Performance in OECD Countries

This paper explores the extent to which "zombie" firms – defined as old firms that have persistent problems meeting their interest payments – are stifling labour productivity performance. The results show that the prevalence of and resources sunk in zombie firms have risen since the mid-2000s and that the increasing survival of these low productivity firms at the margins of exit congests markets and constrains the growth of more productive firms. Controlling for cyclical effects, cross-country analysis shows that within-industries over the period 2003-2013, a higher share of industry capital sunk in zombie firms is associated with lower investment and employment growth of the typical non-zombie firm and less productivity-enhancing capital reallocation. Besides limiting the expansion possibilities of healthy incumbent firms, market congestion generated by zombie firms can also create barriers to entry and constrain the post-entry growth of young firms. Finally, we link the rise of zombie firms to the decline in OECD potential output growth through two key channels: business investment and multi-factor productivity growth.

JEL Classification: D24; E22; G32; O16; O40; O47.

Keywords: Productivity; zombie lending; misallocation; investment; firm exit.

if anything, there is stronger evidence that monetary policy is more important for explaining some of the productivity puzzle.

to blame government spending, instead of the Morgan Stanleys of this world, for monetary policy is, let's say, a bit rich

*(c) Forbearance and monetary policy*

Some have contended that productivity may have been held back by the actions of the authorities, in particular regulatory forbearance and accommodative monetary policies. By supporting low-productivity companies who would otherwise have failed, policy actions may have prevented the "creative destruction" of firms.[18] Certainly, the level of company liquidations and firm exits has remained low in many countries since the financial crisis, probably lower than would have been expected given the path of GDP.

A number of studies have considered the evidence on the impact of regulatory and monetary policies on firm death and productivity.[19] For instance, Arrowsmith et al (2013) examine the prevalence of bank forbearance across the small to medium-sized enterprises (SME) sector, finding the effect to be small. The same study finds a potentially larger impact of monetary policy on company failure and productivity.[20] That said, it is important to note that employment was also higher as a result of looser monetary policy, with potentially smaller crisis-related scarring effects on labour markets.

I really like that someone high-up in Morgan Stanley can write about the 'low interest rate elite' it's on par with Erdogan's 'high-interest rate cabal'

This "debt trap" is, despite elite dismissals, a real issue. Public debts in the US and other developed countries averages about 110 per cent of GDP, up from 20 per cent in 1970, according to IMF data. During the Bretton Woods system, from 1945 to the early 1970s, many developed countries ran consistent budget surpluses. Since then they have run consistent deficits, in good times and bad.

Increasingly, the money printed by central banks goes to finance government debts. Many elites see this as fine, since it has yet to revive consumer price inflation. Though governments can print all the money they want, they cannot dictate where it goes, and much of it has stoked a different kind of inflation — asset price inflation. Since the 1970s, the size of financial markets has exploded from about the same size as the global economy to four times the size. Most of those gains go to the wealthy, who are the main owners of financial assets.

the OECD 'evidence' again, two paragraphs lower!

But recent studies show that easy government money has ended up supporting the least productive companies, including heavily indebted "zombies" that would otherwise fail. The support also favours monopolies that have expanded not because of their innovation but by lobbying governments for favours and sidelining smaller rivals. The OECD warned, in a 2017 study linking falling productivity to easy money, that these trends will make it harder for societies to deliver "on their promises to current and future generations".

'my team cannot prove causality, and I wont even link to the study proving correlation, but it must be true because I am a serious person making substantive arguments backed by strong evidence'

> BCA Research recently demonstrated that nations with big spending governments tend to suffer slower per capita GDP growth. Similarly, Ned Davis Research found that, since 1947, US government spending above 22 per cent of GDP is correlated with periods of slower economic growth. It warned that this share has risen above 34 per cent during the pandemic. My team also found a statistically significant link between periods of rising government debt and slow GDP growth. These studies cannot show causation, but the consistent link between growing deficits and weakening growth is unlikely to be coincidence.

the average person understands that some bankers do get a free lunch, and munch on it while penning underwhelming op-eds.

I for one am all for Biden taking it away. Or better, redistribute it to some migrant workers breaking their back for $10 an hour.

> The average person understands that there is no free lunch. The path to prosperity cannot be so easy as to just print and spend. If he relies on low rates to fund further massive government spending increases, Mr Biden will double down on policies that have magnified the problems he aims to fix: weak growth, financial instability and rising inequality. Decades of constant stimulus have left capitalism weaker, less dynamic and less fair, fuelling angry populism. Deficits matter for the damage they are already inflicting.