Global Consequences Of Financial Deregulation.

1: Introduction

The main theme will be that by focusing on deregulation we may be emphasising a development of secondary importance with respect to the emerging fragility of the financial structure. The absence of a major inter-regional financial crisis over the more than forty years since World War II has meant that the complexity and inter-dependencies of the financial structure has proceeded to increase without a serious period of financial simplification.

The financial structure is a schema for the prior allocation of incomes. Household debts are a prior allocation of mainly wages, government debts of taxes, and business debts of gross profits after taxes are taken out.

2: Deregulation and Intervention (wallen01)

a. Compliance, avoidance and evasion

The proposition is that any system of regulation is analogous to a set of taxes. Every rational economic unit chooses to comply, avoid or evade regulations depending upon the perceived costs and benefits of any course of action. A great deal of what passes for financial deregulation is the result of behavior that aims to avoid a regulation. In particular the operators in a financial market will respond to profit opportunities which are barred by regulation by creating instruments that are sufficiently different from some instruments that are barred by the regulation so that they are permitted, but which take advantage of a profit opportunity that otherwise would be barred. A classic example is the invention of the money market funds to take advantage of profit opportunities that are barred.

In this section it will be necessary to define comply, avoid and evade quite precisely. The proposition that a regulation either bars a unit from doing what the unit would do in the price cost, potential profit situation or the regulation is irrelevant is the first statement.

3: Fiscal Independence (wallen02)

The continuing relevance of the gold standard rules of the game.

Tie the idea of fiscal independence into the four-tier approach to the balance of payments. The fiscally independent economy has 1) a large net holding of foreign assets which typically are denominated in its currency, 2) a large current receipt because of interest and dividends on the holdings of off shore assets, 3) because of 2 the international balance of payments requires that the fiscally...
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1a: The economic theoretic background: stability or instability as the norm.

2: Deregulation and Intervention (wallen01)

2a: Compliance, avoidance and evasion

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independent country run some combination of a balance of trade deficit and a net export of capital.

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6: The Deregulation Experience.

7: The Intervention Experience.
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