THE Relation between Financial Fragility and Financial Instability

Global Consequences Of Financial Deregulation.

WALLENOO

1: Introduction

[The main theme will be that by focusing on deregulation we may be emphasising a developement of secondary importance with respect to the emerging fragility of the financial structure. The absence of a major itterative financial crisis over the more than forty years since World War II has meant that the complexity and interdependencies 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]

1a: The economic theoretic background..stability or instability as the norm.

2: Deregulation and Intervention (wallen01) [Adjustments of regulating structure

2 a Compliance, avoidance and evasion

(The propsition is that any system of regulation is analagous to a set of taxes. Every rational economic unit chooses to comply, avoid or evade regulations depending upon the percieved cost 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 particle 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 advantqage 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 appertunities 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 and potential profit situation or the regulation is irrelevant is the first statement.

Lessons From: Rational Exploitation Units behavior adjusts to "regulating" structure interact ... structure changing Thus attenuating the effects of intervention. 'Disequilibrium' become more extreme

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) becausae of 2 the international balance of payments requires that the fiscally

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