

## In case you missed it ... six notable economic stories from 2013

Last year was a busy one, not least in the area of economics. **Richard S. Grossman** takes us through the most notable economics stories of 2013, including a mixed performance for the US economy, Janet Yellen's replacement of Ben Bernanke as Chairman of the Federal Reserve system, and the rise of "Abenomics" in Japan.



2013 was an eventful year from the perspective of economics. The US government was **shut down** for 16 days as ideologically-driven Republicans held the budget hostage in an effort to repeal the **Affordable Care Act**. Japan's new nationalistic government embarked on a bold and so far largely successful attempt to revive the country's anemic economy. And it was another year of outside-the-box thinking in the world's leading central banks, as some unlikely candidates stepped into leadership roles. What follows is a brief—and incomplete—summary of some of the highlights of the main economic current of 2013.

### (1) Europe did not implode.

One of the most important economic stories of 2013 is what did not happen: Europe did not implode. The ongoing saga of the European sovereign debt crisis kept observers on the edge of their seats all year but, thankfully, that particular crisis did not heat up appreciably during the year. On the other hand, Europe's problems are not over yet: both France and the Netherlands recently had their credit ratings lowered, and European leaders continue to seek ways of creating a stable banking union.

### (2) The performance of the US economy was mixed, at best.

The US unemployment rate continued to fall from its sub-prime crisis high of 10% in October of 2009 to 7% in November of 2013, although wage growth has not yet returned to pre-crisis rates. The stock market, on the other hand, performed quite well. So those who owned stocks—that is, those who are well off—did much better than those living off employment income. Still, the inability of Congress to avert a government shutdown in October had a chilling effect on the US economy and led one credit rating agency to threaten that it might lower the US's credit rating if the fiscal house was not put in order. As 2013 comes to a close, there appears to be a deal in the works that will avoid a similar shut-down in early 2014, although as of this writing nothing is certain. Avoiding another budget impasse and raising the debt ceiling before the US threatens to default should be a priority for Congress and the Administration in 2014.

### (3) Shinzo Abe was elected Prime Minister of Japan, heralding the age of "Abenomics."

Image credit: Shinzo Abe in 2013. Public domain via Wikimedia Commons.

The most dramatic change in macroeconomic policy among the industrialized countries came with Japan's December 2012 election of Shinzo Abe and, with it, the introduction of "Abenomics." Among Abe's first moves was to install a new Bank of Japan governor, Haruhiko Kuroda, who has engaged in expansionary monetary policy and doubled the Bank's inflation target to 2%. Among its other benefits, this has led to a depreciation of the yen and an improvement in Japan's trade balance. Other arrows in Abe's quiver have included expansionary fiscal policy and structural reforms in Japan's overly regulated economy. He also intends to participate in the Trans-Pacific Partnership, which will entail further loosening of Japanese trade restrictions. Although Abe's right wing nationalism has raised tensions with Japan's neighbors, his economic policies have so far provided a tonic for the long-ailing Japanese economy.

### (4) A Canadian was selected as the new governor of the Bank of England.

Mark Carney became governor of the Bank of England in July. The appointment was notable because Carney is a Canadian, the first non-Briton picked to lead the Bank in its more than 300-year history. Carney had been the well-respected governor of the Bank of Canada and leader of the Basel-based Financial Stability Board at the time of

his appointment. Appointing a foreigner to one of the most important policy-making jobs was a bold move, but a sound one. Two independent expert reviews of the Bank published in late 2012 found that junior staff members tended to give advice that confirmed senior management's preconceived notions, rather than speaking their own minds. The reports stated that the Bank would gain by considering views that diverge from the consensus. Picking a real outsider might be the best way to achieve this.

**(5) Janet Yellen will replace Ben Bernanke as chairman of the Federal Reserve System.**

Speaking of central bank leadership, Janet Yellen, the current vice chairman of the Board of Governors of the Federal Reserve System, was nominated to replace Ben Bernanke as chairman when he steps down in January 2014. The rumor mill suggests that Stanley Fischer will be nominated to replace Yellen as Vice Chairman. Fischer, born in Zambia, taught Bernanke and a number of other future economics superstars when he was on the faculty at MIT. He has served in high profile positions at the World Bank and International Monetary Fund and, as governor of the Bank of Israel between 2005 and 2013, helped that country escape the worst of the international financial crisis. He is widely respected, and his international experience would complement Yellen.

**(6) Bankers fraudulently manipulated Libor, further eroding public faith in the British financial system.**

2013 also saw continuing news on the scandal surrounding **Libor, the London Inter-Bank Offer Rate**. Libor is an interest rate serves as a benchmark for some \$800 trillion in transactions—everything from complex derivatives transactions to relatively simple adjustable-rate home mortgages. In 2012 it was discovered that Libor, which is set by taking the average of estimates submitted by bankers, had been manipulated by those bankers in order to enrich themselves and their institutions. Although fines for Libor manipulation continued to be assessed in 2013, attempts to reform the benchmark have fallen short. Rather than scrapping Libor and allowing the development of a market-determined—and therefore less likely to be manipulated—alternative, ownership of Libor was transferred to NYSE/Euronext, a company that does not have any more incentive to prevent manipulation than its predecessor. Libor will be an important story to watch in 2014. The credibility of the financial industry has already taken a serious hit during the last few years. If the public discovers that Libor continues to be manipulated, they will be less likely to put their faith—and money—into the financial system. If this happens, the consequences will be dire.



Image credit: Official portrait of Federal Reserve Chairman nominee Janet Yellen. Public domain via Wikimedia Commons.

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