Econ_unit 5 discussion

Economics Unit 5 Discussion Monetary Policy of the of the Economics Unit 5 Discussion: Monetary Policy Money, positionand power- a heady mix that gets you noticed. Whether you are a multi-billionaire like Carlos Slim of Mexico, Steve Jobs of Microsoft or Donald Trump of Trump Enterprises, you simply cannot avoid the limelight. Once it is known that you are successful and in a position of power, people want to follow your every move. It is interesting that Newsweek chose to put Ben Bernanke of the US Federal Reserve, Jean-Claude Trichet of the European Central Bank and Masaaki Shirakawa of the Bank of Japan in the spotlight as numbers 4, 5 and 6 in their list of the Newsweek’s 50 most powerful people in the world: all three men are central bankers, in essence controlling the value of money and interest rates across most of the developed world (Samuelson, 2008). Though the full extent of their power might never be properly understood except by more erudite scholars of economics and finance, it is not difficult to reflect upon the fact that as chiefs of the financial institutions that they have been appointed to, these three men make decisions that do affect the value of money in terms of fiscal and monetary policy. Japan is the world’s largest economy, with the USA and the European Union vying for second and third place. According to a documentary The Story of Stuff by Annie Leonard, ‘ of the 100 largest economies on Earth now, 51 percent are corporations’ (Anderson & Cavanagh, 2006). So it is not surprising if Bernanke and company command more power than a few of the world’s presidents and prime ministers. It is economic power that rules more than the political. Monkey see, monkey do. With the onset of the present economic crisis still fresh in our minds, and President Barack Obama unable to stem the rot and restore consumer confidence despite his best intentions, it is most enlightening in hindsight to reflect upon how the crisis unfolded and enveloped the world in a matter of months. What has happened today is that the world's banks have sought to even place sizeable chunks of their monies abroad in the effort to both diversify risk as well as get a better return on their money. Iceland was a place of choice. But with risk spread thin, and the world's best opportunities well known in higher circles, we quickly run out of choices. Since the world's markets are so closely connected, a run on one bank or one sector of the economy invariably spreads across borders. The world's economies are more closely connected than ever, and so the fiasco is easily exacerbated. Remember, with a lot of bankers watching these top three central bankers of repute, a consensus to lower interest rates was followed almost unanimously when it was taken. It makes no sense to keep your interest rates high when other countries have lowered theirs to help stimulate the economy. Regarding the best monetary policy to follow, I would imagine that lowering interest rates, reduction in unemployment benefits and higher taxes on the rich would help instill confidence and reduce economic inequality. We need to instill consumer confidence and should look at how the various New Deals by President Lyndon B. Johnson helped lift the USA out of the Great Depression of the 1930s, a situation often compared to the crisis today. References Anderson, S. & Cavanagh, J. (2006). The Top 200: The Rise of Global Corporate Power. Washington, D. C.: Institute for Policy Studies. Samuelson, R. J. (2008). The Global Elite: Economic Triumvirate. Newsweek, 20 Dec 2008. Web. 05 Mar 2011.