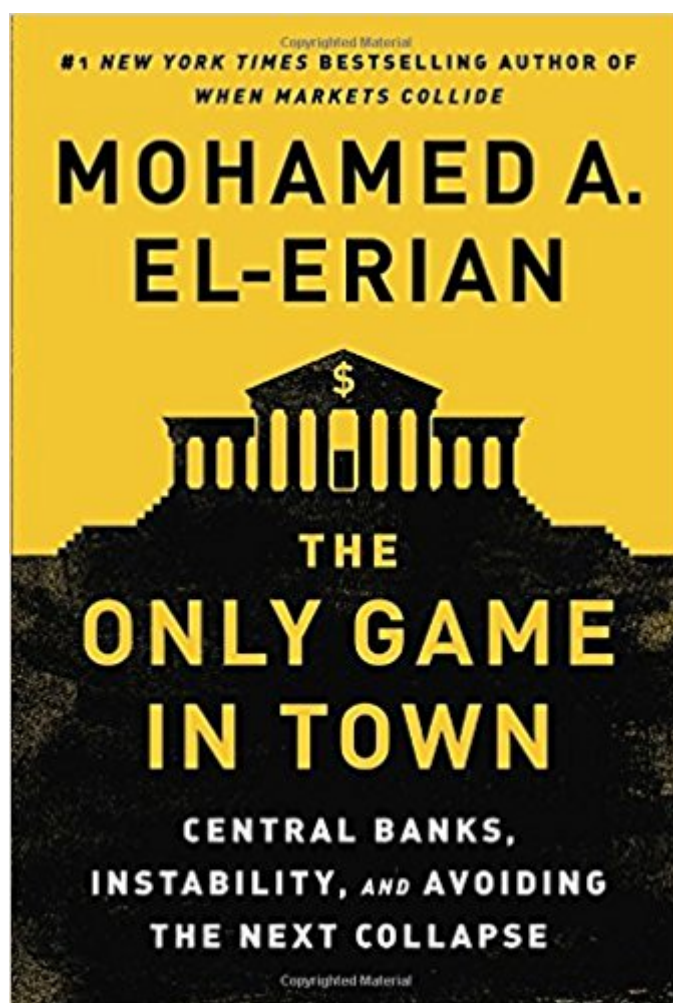


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# The Only Game In Town: Central Banks, Instability, And Avoiding The Next Collapse



## Synopsis

NEW YORK TIMES BESTSELLER • A roadmap to what lies ahead and the decisions we must make now to stave off the next global economic and financial crisis, from one of the world's most influential economic thinkers and the author of *When Markets Collide* Our current economic path is coming to an end. The signposts are all around us: sluggish growth, rising inequality, stubbornly high pockets of unemployment, and jittery financial markets, to name a few. Soon we will reach a fork in the road: One path leads to renewed growth, prosperity, and financial stability, the other to recession and market disorder. In *The Only Game in Town*, El-Erian casts his gaze toward the future of the global economy and markets, outlining the choices we face both individually and collectively in an era of economic uncertainty and financial insecurity. Beginning with their response to the 2008 global crisis, El-Erian explains how and why our central banks became the critical policy actors—and, most important, why they cannot continue in this role alone. They saved the financial system from collapse in 2008 and a multiyear economic depression, but lack the tools to enable a return to high inclusive growth and durable financial stability. The time has come for a policy handoff, from a prolonged period of monetary policy experimentation to a strategy that better targets what ails economies and distorts the financial sector—before we stumble into another crisis. The future, critically, is not predestined. It is up to us to decide where we will go from here as households, investors, companies, and governments. Using a mix of insights from economics, finance, and behavioral science, this book gives us the tools we need to properly understand this turning point, prepare for it, and come out of it stronger. A comprehensive, controversial look at the realities of our global economy and markets, *The Only Game in Town* is required reading for investors, policymakers, and anyone interested in the future. Praise for *The Only Game in Town* • “The one economic book you must read now . . . If you want to understand [our] bifurcated world and where it’s headed, there is no better interpreter than Mohamed El-Erian.” • “Time • A grand tour of the challenges we face, along with ideal solutions and more likely outcomes . . . We desperately need a system in which the central banks are no longer the only game in town.” • “Steven Rattner, *The New York Times Book Review* • A must-read from one of the most astute financial analysts of our time.” • “Walter Isaacson, author of *Steve Jobs* • El-Erian’s gift for clarity and his use of compelling examples make important economic issues accessible.” • “Anne-Marie Slaughter, president and CEO, New America • [A] highly intelligent analysis.” • “Fareed Zakaria, CNN (book of the week)

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## Customer Reviews

“The one economic book you must read now . . . If you want to understand this bifurcated world and where it’s headed, there is no better interpreter than Mohamed El-Erian. . . . [The Only Game in Town] is an excellent primer. . . . It’s also a guide on what to expect as the world struggles to cope with slower, less equal growth and the resulting populism, nationalism and ugly partisan politics that we see in countries from the U.S. to France to China.” —Time “How come the global economy is now run largely by unelected central banks? In this highly intelligent analysis, the author, a respected investor and CEO, explains how elected governments are failing in their basic job to take care of the economy and why this might lead to a massive unmanageable crisis.” —Fareed Zakaria, CNN (book of the week) “El-Erian expertly offers a balanced view, commending the central banks for their necessarily aggressive policy views while noting, for example, the failure of the Fed to recognize the pre-crisis housing bubble. But title aside, this is hardly just a book about central banks. Instead, El-Erian offers a grand tour of the challenges we face, along with ideal solutions and more likely outcomes. . . . We desperately need a system in which the central banks are no longer the only game in town.” —Steven Rattner, The New York Times Book Review “What better moment could there be for a book subtitled ‘Central Banks, Instability, and Avoiding the Next Collapse’? And who better to write it than Mohamed El-Erian—the man who captured the essence of the present era of low growth, low inflation and low investment returns better than anyone else with his memorable concept of the ‘new normal’? . . . It is refreshing to read a policy book with the confidence to say that it is pointless to dispense

elevator-pitch solutions to epochal economic challenges. . . . [A] sobering book.ââ"Financial Times

ââA warning on the Federal Reserveâs limits . . . For those who consider Washington politicians incapable of acting effectively, [El-Erianâs] diagnosis is chilling. . . . Whatâs vital now, Mr. El-Erian argues, are large-scale investments in the âreal economyâ with greater potential to create stable, widely distributed growth. They are measures only a president and Congress can take: improved public infrastructure, enhanced education and job training, an overhaul for a convoluted tax system rife with perverse incentives.ââ"The New York Times

ââEl-Erian uses the bank as a backdrop for discussing the current crossroads he sees in the global economy and the role these institutions could play in shaping the future. . . . This easy-to-read discussion from a well-respected financial industry insider on the current state of the economy and the role of central banks will satisfy anyone who wants to learn about economics or the policy decisions that affect financial stability.ââ"Library JournalââMohamed El-Erian has had an extraordinary career as an investment analyst, investor, and market commentator. His ânew normalâ concept was prescient, provocative, and has proven out. Agree or disagree, his go-forward thoughts contained in this bracing book are well worth considering.ââ"Lawrence H. Summers, former secretary of the U.S. Treasury ââThe Only Game in Town achieves the nearly impossible: It takes complex financial issues and events and makes them both enlightening and entertaining. Itâs a must-read for anyone who cares about the global economy and its future, raising critical questions, exploring all the relevant topics, and offering sound policy recommendations. Itâs a terrific book.ââ"Jack Welch ââThe Only Game in Town may well be the only book you need to read on how the global financial system works, the serious trouble we may be in, and what to do about it. El-Erianâs gift for clarity and his use of compelling examples make important economic issues accessible.ââ"Anne-Marie Slaughter, president and CEO, New America ââFrom the rise of Airbnb and disruptive technologies to worries about Russian foreign policy and turmoil in the Middle East to negative interest rates and âthe new mediocre,â the world is an increasingly confusing place. The job of policymakers is mind-bogglingly hard. Who better than Mohamed El-Erian, with his knowledge of markets, his knowledge of policy, and his brilliant mind, to help organize their (and our) thoughts. The Only Game in Town is a great read.ââ"Olivier Blanchard, senior fellow at the Peterson Institute for International Economics ââTodayâs global economy is beset by low growth and rising inequality. By looking at the tools now being used by the worldâs major central banks, Mohamed El-Erian shows how we can instead promote inclusive economic growth. This is a must-read from one of the most astute financial analysts of our time.ââ"Walter Isaacson, author of Steve Jobs ââWidely regarded as

one of the most astute observers of global economic trends, Mohamed El-Erian is famous for having coined the now-ubiquitous phrase “the new normal.” Five years ago, he was worried that the global economy might take years to regain its footing. Now El-Erian worries it could fall off a cliff. *The Only Game in Town* is simply a must-read for anyone trying to understand how the global economy might unfold in the next five years.

—Kenneth Rogoff, Thomas D. Cabot Professor of Public Policy at Harvard University, and former chief economist and director of research at the International Monetary Fund

—Mohamed El-Erian knows the global economy as an investor, a public servant, and as an analyst with a rare ability to grasp its essentials. He has an urgent message to convey here: Central banks cannot continue to carry the global economy on their backs for much longer without a high risk of a very bad global outcome. If he’s right—as he has often been before—all of us, governments, business, finance, and individuals, need to understand why and how to take evasive action.

—Jessica Mathews, former president, Carnegie Endowment for International Peace

This book is a must-read for anyone interested in the global economy. It’s a masterful account of how central banks became the only game in town after the global financial crisis but also how other structural and fiscal policies are necessary to resolve key global economic issues. El-Erian is the best thinker on the key global issues of our times.

—Nouriel Roubini, chairman, Roubini Global Economics, and professor of economics, Stern School of Business, NYU

In his next book, *The Only Game in Town*, Mohamed El-Erian has done several important things superbly. First, he has presented the first really comprehensive assessment of the multiple challenges to sustainable and inclusive growth facing a wide range of countries and the global economy. Second, he does it through the illuminating lens of central banks and monetary policy—with few exceptions, the only game in town. Third, he then deftly and insightfully dissects the limits and risks of this almost ubiquitous one-handed policy response. And fourth, he argues persuasively that this is a journey we cannot continue; that we will break either right to a much superior level and quality of growth, or left to declining performance and rising instability. He then suggests mind-sets that will help everyone—policymakers, and the rest of us—navigate in this complex and uncharted territory. It is a tour de force.

—Michael Spence, Nobel Laureate and professor of economics, Stern School of Business, NYU

Mohamed El-Erian understands markets and economics, and he clearly and coolly articulates the forces that created the current global slowdown and the dangerous fork in the road that the world economy is approaching. The road ahead could lead to a perilous U-turn or more durable, inclusive growth. The good news, as El-Erian convincingly argues, is that policymakers, businesses, and the rest of us still have our collective hands firmly on the wheel, and can steer the economy in a better

direction.” Alan Krueger, Bendheim Professor of Economics and Public Affairs, Princeton University “An indispensable guide to understanding the rapid expansion and current role of central banks in the global economy, as well as the challenges and opportunities that they will confront in responding to future economic shocks.” James Poterba, professor of economics, MIT, and president and CEO, National Bureau of Economic Research “The Only Game in Town says it is about central banks, but it really is about so much more: everything from the investment strategy needed in today’s macroeconomic environment to the hard choices about taxes and public works that our politicians face to the economics underlying the still relevant “new normal” (which he coined). El-Erian has an incredibly rich worldview, far greater than the sum of his impressive and diverse experience, and seeing today’s world economy through his eyes offers a real education.” Dr. Adam S. Posen, president of the Peterson Institute for International Economics “Illuminating . . . El-Erian charts the changing role of central banks in national economies and the global economy at large. . . . Central banks are experimenting, even making things up as they go along, in order to jump-start economies, for instance, by putting into place negative interest rates and other “unconventional monetary policies” without any precedent or historical examples to follow. The natural result is instability from above and below.” Kirkus Reviews

Mohamed A. El-Erian is the chair of President Obama’s Global Development Council and chief economic advisor at Allianz, the corporate parent of PIMCO where he was previously the CEO and co-CIO. He is a contributing editor at the Financial Times and a Bloomberg columnist. Earlier in his career, he served as Deputy Director at the International Monetary Fund, Managing Director at Salomon Smith Barney, and president and CEO of the Harvard Management Company. El-Erian was on Foreign Policy’s list of Top 100 Global Thinkers for four consecutive years, and named by that journal as one of the 500 most powerful people on the planet. He is regularly on CNN, CNBC, and Bloomberg, and his writings have also appeared in Fortune, The Wall Street Journal, The Washington Post, Business Insider, Newsweek, The Atlantic, Latin Finance, Project Syndicate, and other outlets. El-Erian’s last book, *When Markets Collide*, was a New York Times and Wall Street Journal bestseller, won the Financial Times/Goldman Sachs Award for best business book of the year, was named as a best book of the year by The Economist, and was called a best business book of all time by The Independent. El-Erian earned his master’s degree and doctorate at Oxford University, having obtained his undergraduate degree at the University of Cambridge, where he holds an honorary fellowship at Queens’ College.

Central banks are forever fighting today's war with yesterday's weapons. Every recession is different, and central banks have to worry and flail their way back to a smoother ride, because this time is different. We've seen money supply tools come and go, interest rate tools lose their impact and of course, regulation all but disappear. The current tool is QE, necessary because so much of the money supply is beyond the control of the Fed. It will probably prove outmoded next time. The meat of the book is ten short chapters summarizing ten factors that demonstrate how weak our economies are. None of them is news. This is standard fodder for pundits everywhere. Things like unemployment, inequality and so on. Then there are four policy prescriptions, all commonly discussed, and none likely to happen. And that's the problem with the book "nothing new. We already know that everything is out of whack. Stockmarkets rise on bad news. Company shares improve on layoff announcements. Markets fall with the decrease in the price of oil. The US is at full employment, but 40% of working age Americans have no job. Despite record trading numbers, liquidity is one of the highest risks. Banks trade government bonds rather than lend to business. Corporates see more value buying back their shares than investing in their businesses. The distortions are enormous. And it's the central bank that did this, because its tools are wrong. About 140 pages in, El-Erian finally hits the nail on the head, calling for governments to reject the financial engineering that has opened gaping holes for big finance to exploit, and instead focus on economic growth policies so the markets will respond (more) rationally. But while economists and bankers argue about the significance of cyclical and secular drivers, they're still in little enders vs big enders hell. The view from above is completely different. Until and unless political leaders rein in the banks' ability to create money at will and grow too big to fail, this period will continue. And central bankers will not have tools to do their job. El-Erian spends a great deal of time referring to an upcoming T, where a choice of left or right will be made. The wrong choice could lead to recession or worse. The right choice could lead to more of the same or better. There is nothing special going on here. We all face these decisions continually. We constantly make the wrong choice, and muddle through somehow. The insight here is minimal. A book by Mohamed El-Erian should offer uncommon depth and uncommon insight, if not uncommon proposals. The Only Game In Town is merely common. It is superficial punditry; necessary for some, but disappointing from El-Erian. David Wineberg

Mohamed El-Erian's new book, *The Only Game in Town*, analyzes the post-Great Recession financial world where the institutional response is dominated by central bank monetary

policy actions. He does a good job presenting the proximate causes of the financial crisis and praises the coordinated reaction of central banks around the world. He further describes how central banks (with a special emphasis on the Federal Reserve Bank) have led the economic policy response to the financial crisis. They have been "the only game in town". But central banks did not strive to become the dominant player in financial markets. They were forced to fill the void created by the lack of policy decision making from other government and international institutions. Mr. El-Erian showed why the Fed had no other choice. Mr. El-Erian proposes that the "new normal" of low economic growth, low inflation and low interest rates (as described by former Treasury Secretary Larry Summers) can continue for an extended period but is ultimately unsustainable. He asserts that we are coming to an inflection point, or T-junction as he calls it, where the global economy will take on a new course, whether by design or circumstances. I agree that we are approaching an inflection point but the T-junction Mr. El-Erian describes is narrowly focused on financial markets whereas I believe the inflection point will be much broader and encompass major changes in society. Mr. El-Erian cites ten big challenges before narrowing the proposed policy foci down to four. But Mr. El-Erian makes no specific policy proposals except for some organizational changes to the structure of the IMF (where he once worked). For someone with Mr. El-Erian's presence on the financial world stage, I was hoping for something more tangible. Instead he seems to digress into recommendations on decision-making techniques that sounded like they were coming from a McKinsey consultant (I kept waiting for the PowerPoint presentation). The decision-making techniques are all good suggestions on how to reach a decision but I was hoping that Mr. El-Erian could throw out some proposals to be considered. Don't get me wrong. This is a very good book by one of the top insiders to global financial circles. It has great analyses of the situation in financial markets and has some great insights. I was just hoping for a bit more.

What I liked about it was the clear-sighted recognition that the Fed and other central banks aren't evil and our legislators are the ones reneging on their responsibility to govern. There were two things I didn't like. One was El-Erian's use of language. For example, he has ten issues to which he devotes a chapter each. Each of these chapters starts with an italicized issue. This would work very well, except each time he uses run-on sentences and superfluous adjectives that actually muddle the issue. I found myself going back and restating the issues in a clearer fashion. Second, he repeatedly says that there are specific things that households should do to prepare for the anticipated "T-junction" and to help influence a positive outcome in it. Unfortunately, he never



articulates what these things are. Ending with the vague ideas of optionality, agility, and resilience doesn't help me much. In fact, I'd wager many people reading this book don't use the word "optionality" in their daily lives and would be unclear what actions they'd need to take to implement that concept.

I found myself begging for something more concise. I too often felt like I was rereading the same reoccurring repetitive concepts redundantly, again and again, over and over, repeatedly, page after page, chapter after chapter... OK, it wasn't that bad, but it does loop back a little, revisiting the same ideas, a bit cyclical... OK, OK, I'm saying it again, but too much repetition makes me skim instead of read hoping to find something new.

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