

[< Home](#)

The "Other" Imbalance and the Financial Crisis

Ricardo J. Caballero

SHARE   

WORKING PAPER 15636

DOI 10.3386/w15636

ISSUE DATE January 2010

One of the main economic villains before the crisis was the presence of large "global imbalances." The concern was that the U.S. would experience a sudden stop of capital flows, which would unavoidably drag the world economy into a deep recession. However, when the crisis finally did come, the mechanism did not at all resemble the feared sudden stop. Quite the opposite, during the crisis net capital inflows to the U.S. were a stabilizing rather than a destabilizing source. I argue instead that the root imbalance was of a different kind: The entire world had an insatiable demand for safe debt instruments that put an enormous pressure on the U.S. financial system and its incentives (and this was facilitated by regulatory mistakes). The crisis itself was the result of the negative feedback loop between the initial tremors in the financial industry created to bridge the safe-assets gap and the panic associated with the chaotic unraveling of this complex industry. Essentially, the financial sector was able to create "safe" assets from the securitization of lower quality ones, but at the cost of exposing the economy to a systemic panic. This structural problem can be alleviated if governments around the world explicitly absorb a larger share of the systemic risk. The options for doing this range from surplus countries rebalancing their portfolios toward riskier assets, to private-public solutions where asset-producer countries preserve the good parts of the securitization industry while removing the systemic risk from the banks' balance sheets. Such public-private solutions could be designed with fee structures that could incorporate all kind of too-big- or too-interconnected-to-fail considerations.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures



Download Citation



Related

TOPICS

Macroeconomics
Business Cycles
Money and Interest Rates
Monetary Policy
International Economics
International Finance
Financial Economics
Corporate Finance

PROGRAMS

Economic Fluctuations and Growth
International Finance and Macroeconomics
Monetary Economics

More from NBER



In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Retirement and Disability](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online conference reports, video lectures, and interviews.



16th Annual Martin Feldstein Lecture:

Lessons for Economists from the Pandemic

Cecilia E. Rouse, The Brookings Institution
and Princeton University
July 22, 2024

2024, 16th Annual Feldstein Lecture, Cecilia E. Rouse, "Lessons for Economists from the Pandemic"

FELDSTEIN LECTURE

PRESENTER: [CECILIA E. ROUSE](#)

Cecilia Rouse, president of the Brookings Institution and a professor at Princeton University, who chaired the Council...



Methods Lectures, Summer Institute 2024:

Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning

Susan Athey, Stanford University and NBER
July 25, 2024

2024 Methods Lecture, Susan Athey, "Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning"

METHODS LECTURES

PRESENTER: [SUSAN ATHEY](#)

Background Materials: [backgroundAthey](#), Susan, Undral Byambadalai, Vitor Hadad, Sanath Kumar Krishnamurthy, Weiwen Leung...



Economics of Social Security Panel Discussion

Earnings Inequality and Payroll Tax Revenues

Karen Dynan, Harvard University
Karen Glenn, Social Security Administration
Stephen Goss, Social Security Administration
Fatih Guvenen, University of Minnesota and NBER
James Pearce, US Congressional Budget Office
NBER Summer Institute, July 24, 2024

2024, Economics of Social Security Panel, "Earnings Inequality and Payroll Tax Revenues"

National Bureau of Economic Research

[Contact Us](#)

1050 Massachusetts Avenue
Cambridge, MA 02138
[617-868-3900](tel:617-868-3900)
info@nber.org
webaccessibility@nber.org

[HOMEPAGE](#)

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW

