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Investor Myopia and The Current Global Crisis: A Post Keynesian View

Abstract

The main idea of the paper is to analyze the important (but rather implicit) factor of the current crisis. This factor can be revealed by use of Post Keynesian approach. I imply investor myopia as the determinant of negative long-run investment dynamics (which, in turn, is one of the essential causes of the crisis).

I would like to start with concept of *short-termism*. It can be defined as the pessimistic under-weighting of expected future returns and/or the excessive discounting of expected future returns" (Juniper, 2000). It is clear that so defined short-termism leads to refusal from realization of some investment projects. Furthermore, as Juniper (2000) has pointed out, short-termism favors strategies of labor-shedding and asset-stripping instead of strategies of skills formation and asset-renewal.

Furthermore, short-termism can be represented in more extreme form, although this form is often treated as a something which differs from short-termism itself. I imply *investor myopia* which – as it already was mentioned above - means that *agents evaluate consequences of their decisions only over short-time horizon* (Juniper, 2000; italics added; see also Rozmainsky, 2011). I believe that investor myopia is both really powerful cause of underinvestment and important determinant of portfolio (and real investment) decisions. Therefore it matters. But investor myopia is not concerned with cyclical fluctuations of macroeconomic activity. This myopia can be treated as the special institutional barrier to economic growth. Unfortunately, there are neither consistent theory of short-termism nor satisfactory analysis of investor myopia (as the most radical and important form of short-termism). The latter is an almost completely unexplored phenomenon.

The essence of investor myopia can be formulated in the following way. This phenomenon can exist whenever decision about purchase of durable asset(s) should be made. And always investor myopia shows itself to be a shift toward assets bearing short-term income across the whole spectrum of durable assets. If liquidity preference, according to quick-witted definition of Dequech (1999, p. 426), is "an urge for inaction", then investor myopia can be defined as "an urge for action bearing only short-term outcomes".

Furthermore, investor myopia affects not only structure of stock market and choice between asset-renewal and asset-stripping, as Juniper (2000) and other researchers pointed out. In other words, investor myopia is not confined to equity market. In particular, this phenomenon can determine ratios between productive and non-productive activities, between skills formation and skills erosion, between health promotion and health loss, between technical-progress-inducing industries and other ones, between legal and illegal activities, and so on. Put in more detail, investor myopia can exist in the following spheres of choice (see also Rozmainsky, 2011).

I will try to show that *investor myopia changes fundamental decisions determining a structure of the economy and also dynamics of capital stock and its technologocal structure.* It is clear that investor myopia can have enormous influence on economic growth, structural dynamics and technical progress. But what factors generate investor myopia itself?

The point is that investor myopia is a *behavioral norm*, because often it is a long-run principle of human behavior. Therefore it can be treated as an *institutional phenomenon*. It means that investor myopia problem exceeds the limits of purely macroeconomic analysis. In order to fully comprehend this problem it is necessary to take institutional factors into account. As an *institutional phenomenon* and *behavioral norm*, investor myopia should be considered in connection with main elements of institutional environment. I suppose that this phenomenon is determined by some important both formal and informal institutions. So theory of investor myopia can become new addition to the analysis of "institutional dimension" of the current crisis.

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