EuroPOLIS

Centralbankism encounters strong resistance

Why in the light of lacklustre results the faith in central banks is fading away

by Markus C. Kerber[1]

The great monetary experiment as Brendan Brown calls the Fed's quantitative easing is less under intellectual pressure because of insufficient results in the US. The upswing in the U.S. economy seems robust. But the poor performance of its European disciple ECB whose Public sector purchase programm (PSPP) as the first controversial QE experiment has produced nothing but inflating complaints in the German Constitutional Court sparks off a large debate on the prerogatives of central banks and their accountability. There is neither increase of inflation nor an upswing of growth due to a more entrepreneural attitude of banks in the lending business.

While in the Eurozone scepticism towards ECB is growing due to a lack of significant results, the chapter of QuE in the US – although offcially over – is intellectually challenged more than ever before. Brendan Brown, Mitsubishi's chief economist has challenged the concepts of Fed's QuE and explains in understandable terms why QuE is unreasonable because it brings about unsocial effects which destabilize our society and could ruin the financial system. Brown in his thoughtful book explains the genesis of QuE as the the result of the intellectual antagonism between Rogoff/Reinhart and Ben Bernanke who in the crisis of 2007/2008 proposed new path breaking monetary tools to get more quickly out of recession. The price paid for an economic upswing which seems to generate sustained growth and an effective decrease of unemployment in the US is - according to Brendan Brown – too high. As a matter of fact QuE goes hand in hand with asset price inflation. That is why Brown compares the benefits of saving investors – near to death – from bankruptcy with the effect QuE : inflation in the real estate market as well as in the equity market. As prices for stock are roaring independently from the state of the real economy, the great monetary experiment called QuE might eventually create those bubbles which are so dangerous to financial stability. In as much as zero interest policy has turned out to be inefficient (zero lower bound) the Fed could not admit to be powerless in the face of recessionist perils.Therefore QuE has been conceived as a means to enlarge the monetary base.

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Let us take a closer look to Brown's thesis of spreading asset priece inflation by Fed's QuE:

Brown develops his thought by looking at the historic genesis of ECB's unconventional monetary policy: the weak US dollar in 2010 reaching an exchnage rate of 1.40 USD against the Euro and 1.45 agaiainst the Yen[2]. Thus asset price inflation through huge bond purchase programms and abnormally low interest rates has been the disguised exchange rate measure by ECB to readjust competitiveness for the struggling countries on the southern periphery of Europe. The pretence of ECB to fight deflation is severely contested by Brown. He puts forward arguments to prove that the assumed deflation battlefield is nothing but an illusion as economies in the Eurzone are and remain heterogenious[3] entailing necessarily different rates of inflation. Not surprisingly he finds as well fault with the cherished target of „ inflation at 2% p.a."[4]

Whereas in the US a sustained growth cannot be contested nothing comparable could be identified in the Eurozone. Nevertheless ECB's president Draghi contniues to preach to virtues of QuE . On DEcember 3rd PSPP has been prolonged and enlarged by decision of the ECB Council. The prolongation till March 2017 means an additional purchase of bonds worth about 400 billion Euros and the enlargement of eligible securities concerns the purchase of refinancing instruments issued by ESM,EFSF and EFSF.

The Euro-rescue funds no longer need a placement of their refinancement instruments with banks. They can rely on a purchase by ECB of up 33 % of the issue. Could anyone put the practical reality of monetary financing by ECB into question ?

Brendans's thesis for the Fed deserves to examined under auspices of ECB's recent policy.

[2] Brown op.cit. p. 48

[3] Brown op.cit. p. 53

[4] Ibid.

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