

Economic Outlook and The Need for Monetary Reform

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Monetative

“The Future of Money -Ten Years after Lehman”

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Public Policy in the Lead Up to the Crisis of 2007

- Demographics, the “fall of the wall” and global disinflation
- Fiat money and irrational exuberance in AME’s
- Inadequately resisted by fiscal, monetary and regulatory policies
- Leading to real and financial “imbalances”
- Spreading to EME’s via semi-fixed exchange rates
- The trigger event in a complex, adaptive world; “sub-prime”

Public Policy in the Post-Crisis Period

- Monetary and non-monetary policies resisted the downturn
- Quick recognition of downsides to non-monetary policies
- Regulatory policies tightened
- Leaving monetary policy as “the only game in town”
- Increasingly inventive but essentially “more of the same”
- Yet failing to lift aggregate demand as expected.
- As Keynes himself predicted

Monetary Policy Has Led to Still More “Imbalances”

- Global debt ratio 40 percentage points higher than pre crisis
- With EME corporates now exposed as well
- Asset prices at unsustainable levels?
- Risks of financial instability have risen
- Compounded by structural developments affecting finance
- Perhaps contributing to the slow down in productivity growth

New Regulations Insufficient to Ensure Even Financial Stability

- Microprudential regulations have been significantly tightened
- Yet, grounds for belief that the financial sector remains fragile
- Macroprudential policies not directed to restraining the credit cycle
- And suffer many other shortcomings
- In short, we are not in a good place

Where to From Here?

- Demographics and rising “imbalances” support monetary tightening
- But existing “imbalances” imply this is risky; the debt trap?
- Moreover, every major region has economic and political problems
- And problems anywhere will become problems everywhere
- Hoping “this time is different” but preparing for the worst?
- What should policymakers do to when the next crisis hits?

Or Do We Need a New Monetary System?

- George Selgin and “Free Banking”
- Larry Kotlikof and “ Limited Purpose Banking”
- The Chicago School and “Narrow Banking”
- Jonathon McMillan and “The End of Banking”
- The international dimension: from Non-System to System

A Postscript on Complexity

- Analytical shortcomings of economic models
- The domestic economy as a complex adaptive system
- The global economy as a complex system of complex systems
- Fundamental lessons suggested for policymakers
- The need for a “paradigm shift”

And Why it Has Not Happened

- Muddling though rather than thinking big thoughts
- Paradigm shifts in normal times
- The retreat into “false beliefs” in abnormal times
- Cast the blame on others, both domestically and internationally
- Will the coming crisis bring the needed paradigm shift?

Could Improvements to the Current Monetary System Avoid Future Debt Crises?

- Coordinated resistance to “lean” against credit bubbles?
- More symmetric use of monetary and fiscal policies?
- Improve self discipline and market discipline in the financial sector?
- End interest deductibility and limited liability banking?
- Roll back globalisation, securitization and consolidation?