1. Central banks around the world are once again moving in the direction of a more expansionary monetary policy. Is this appropriate or are the central bank's overreacting?

   There are clear signs that the global economy is weakening. Central banks, recognizing that it takes time for easier policies to feed through to stimulate the economy, are pre-emptively easing to support employment and avoid excessive disinflation. Having been criticized for failing to forecast and pre-empt the last recession, central banks do not want to draw the same criticism.

2. Can monetary policy still provide any positive stimulus to the real economy, or are the central banks just sowing the seeds for the next financial crisis?

   There has been a fundamental inter-temporal inconsistency in the conduct of monetary policy for decades. Economic slowdowns or prospective slowdowns since the late 1980's have led to monetary easing. While this initially stimulated aggregate demand as desired, it also encouraged higher debt levels and left the financial system less stable than otherwise. This implies that the effectiveness of monetary easing has diminished over time. Doubling down now could do more harm than good.

3. Is there the threat of a global competitive devaluation or a currency war?

   We have been in a currency war for ages. As the Fed eased in the last recession, the dollar fell and other currencies rose. Other central banks, also facing rising unemployment, resisted this strength either by easing themselves or through massive foreign exchange intervention. As a result, central banks have now financed unprecedented levels of sovereign debt, issued by their own or other governments.

4. Are the central banks too narrowly focused on the widespread target of 2% inflation? Is there a need to rethink monetary policy goals and frameworks?

Yes. The original concern about inflation was to resist **high** and accelerating inflation. Now, when inflation is too **low,** even by decimal points, it elicits a massive monetary policy response. This is very odd, particularly if the inflation shortfall is due to positive supply side developments. In reevaluating the framework, central banks should focus much more on their own contribution to “boom-bust” credit cycles.

5. Is there a need for closer cooperation between monetary and fiscal policy?

   If easier monetary policy cannot be relied upon to combat the next downturn effectively, then more reliance must be put on fiscal policy. Most countries retain some “room for manoeuvre” before markets will be reluctant to provide finance. However, assuming sustainable growth then resumes, monetary policy must eventually be renormalized to avoid its further undesirable side effects. Moreover, restoring fiscal sustainability should subsequently be vigorously pursued. The market’s “patience” cannot be assumed to last forever.