MNI INTERVIEW: Ex-BIS White: Cenbank Prices Fixation Misguided

By Greg Quinn

TORONTO(MNI) - Central banks should rethink their focus on near-term price stability, former Bank for International Settlements Chief Economist Bill White told MNI, arguing that ultra-low rates may help bring on the next crash.

Most economies have gone through healthy periods where rising supply held down prices and boosted purchasing power, White said in an interview in Toronto. Low rates will also give policy makers less power to cope with the correction from the build-up of low quality debt and surging equity markets he believes could occur within the next two years.

"The idea that somehow inflation is always and everywhere the problem, it's just not true," he said. "Price stability and we have to have it -- and if we don't have it it's a disaster and if we do have it everything's okay -- these things are just patently untrue.

"The only example that you can point to where that kind of cumulative downward process seemed to happen was the 1930s, the Great Depression, and that prior to that there were all sorts of examples where prices were going down, even in aggregate, and growth was proceeding very strongly."

The Fed and ECB are reviewing toolkits with little sign they want to overhaul regimes aiming at keeping inflation around 2%, while continuing policies that fail to meet even that target.

"It's pulling out all the stops that led to interest rates ratcheting down to zero and all the unintended consequences," said White, who was also chairman of the Economic and Development Review Committee at the Organisation for Economic Co-operation and Development from 2009 to 2018. Central bankers have over-reacted to a disinflationary cycle in place since the 1980s driven by increased production from China and Eastern Europe and labor from the Baby Boom generation.

--WARNING SIGNS

Warning signs include a surge in emerging market debt, geopolitical fights with China, and a pile of U.S. corporate bonds one notch away from junk status. Yield curves have inverted while stock markets rally.

"Both of them can't be right here, and my betting would be that the bond markets have probably got it more right than the equity markets," White said.

The weakness of central banks' extraordinary tools is evident in the sluggish expansion and signs business confidence is waning, he said.

"There is a reasonable chance, perhaps a very reasonable chance, that things will come unstuck sometime in the course of the next year or two," White said. "The thing I worry about in a way is a repeat of 2009."

But negative rates and QE may be even less effective next time.

"It's a dangerous delusion to think that it will work without making things even worse," he said. "At

the same time as we have less ammunition, we face bigger headwinds of private debt overhang ... Monetary policy has sort of shot itself in the foot."

There are positive lessons from the experience of the financial crisis. Governments should remember growth sputtered after they yanked fiscal stimulus in 2010 and they have more room now to help than central banks, he said.

"It would be better to have fiscal easing at this point ... there is more room," White said, although he noted that there are still limits to government deficits and debt, which he said have been downplayed by proponents of Modern Monetary Theory.

The crisis was a reminder that economies and markets are more like a complex and unpredictable ecosystem rather than a machine to be controlled. While regulators need lines of responsibility made clear in advance and have wide powers to take on problems, they shouldn't fight every fire, he said.

"Don't fight the last war," he said. "Little breakdowns can actually be great for you, they clean out the undergrowth and avoid really bad outcomes," he said.

"We shouldn't really try to control the economy the way that we have done, which is leaning so vigorously against every little downturn."

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