

**FAZ**

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## **Europlatz Frankfurt: Leading role for the ECB**

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"Money makes the world go round." If we ever needed anything to affirm this time-old saying, the crisis of the last few years certainly has. We have the resolute and coordinated action by the central banks to thank for the fact that the Lehman crisis did not plunge the global economy into depression. And it is certainly no exaggeration to say that the ECB deserves the lion's share of the credit for the easing of the euro debt crisis.

Faith in the power of monetary policy has been reinforced. But not all of the political consequences are positive ones: the duties and responsibilities assigned to monetary policy appear to be growing by the day. These not only include financial market stability and banking supervision – there are good enough arguments for making these monetary policy matters. Particularly in the US and the UK, the remit of monetary policy is increasingly being broadened to include areas such as unemployment and national income. In the current economic climate, this basically means: keeping interest rates extremely low and making unlimited liquidity available, even after the current crisis has blown over.

This harbors a number of risks. First, it is important not to ignore the economic cause-and-effect relationships. If excessive public and personal debt is to be reduced, which is what most industrialized nations want to achieve, this will inevitably result in lower demand growth for some time. In this sort of situation, the unrelenting pursuit of growth runs the risk of standing in the way of, or at least delaying, necessary corrections. Even if it could, monetary policy should not steer an unsustainable expansion path.

Another risk is the reliance on policymakers. After all, whether or not growth targets are reached in the long run depends, to a considerable

degree, on policymakers' commitment to reforms. Japan's years of stagnation and deflation, for example, is mainly the result of hesitant political action. There is a danger that expansionary monetary policy will start to become something of a substitute drug that is administered as a replacement for necessary structural reforms. From this point of view, it was wise of the ECB to explicitly tie possible bond purchases to preliminary work that policymakers have to perform first. It would be nice to see similar conditional announcements from other central banks, too. Monetary policy can support reform processes, but it is no substitute for them.

The longer the phase of expansionary monetary policy lasts, the more the negative aspects of extremely low interest rates start to come to the fore: slowdown in asset creation, distortion of resource allocation and possible price bubbles. The very manner in which the financial crisis of 2008 came about should serve as a warning. Central banks will, however, have to work together in a coordinated manner when the time comes to withdraw from their current policy. Otherwise, we could be faced with drastic fluctuations on the financial markets and distorted exchange rates. What we need is constructive collaboration among central banks to ensure that everyone can return to monetary policy normality. The ECB should assume a leading role in this respect.