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Dr. Brendan Brown's panel contribution to OKB 29th Vienna Roundtable November 12, 2019

Title of session: "Supporting Economic Growth – what options are there?"

A LESSON SOUND MONEY THEORISTS COULD LEARN FROM KARL MARX

Marx claimed to have turned Hegel on his head. He did this by advancing his hypothesis of dialectical materialism - economic evolution generates forces of conflict (for example struggle between social classes or exploitation by crony-monopolists) culminating in quakes and existential crises. These determine the course of history. Hegel had insisted that the conflict of ideas is the essential dialectic.

Sound money theorists could well follow Marx's example. They should stand on their heads the so-called orthodox ex-central bankers in Europe and Japan who are very belatedly advancing their mainstream critique of non-conventional monetary policy and tangentially the 2 per cent inflation standard.

These ex monetary officials argue that this policy and the related operating tools have lost any effectiveness they may have once possessed. Economic renaissance – meaning resurgent economic prosperity - now depends on the adoption of a range of powerful structural policies. The journey to monetary soundness, however, should be slow and cautious, with the ultimate destination still hazy.

Sound money advocates should refute the phony cause of bold structural policies and instead argue for brutally replacing the present deeply unsound monetary regime. Under the latter, price signaling has become totally corrupt. A sound money regime born in revolution (not a long gentle transition) would be the best structural policy.

Why bring up Marx you may well ask – surely another flawed economics visionary?

Answer: monopoly capitalism about which Marxist economists have had so much to write has become an actual almighty menace. Monetary inflation spurred on by giant experimentation is largely responsible for that.

The result could be the final collapse of an already highly fragile and shriveled free market order as understood by classical liberals. The failure of the capitalist order to preserve sound money, not Marx's discredited hypothesis about endemic overinvestment in a capitalist system spawning ever-falling profits, would be at the origin of that fatal blow.

Let's not run ahead of our story, though, and there are feasible paths still which the US political economy could take which would avert that demise. We should not underestimate in any case the potential resurgence of competitive forces to undermine today's monopolists even though at present they are weak and in disarray. Back to the critique of the now dissident ex-central bankers.

The highly principled ex-Governor of the Bank of Japan, Masaaki Shirakawa has produced a highly articulate expression of the main idea, contained in his new book ("The Central Bank", December 2018, so far only available in Japanese).

Shirakawa argues that monetary policy is not the solution to Japan's economic malaise. Instead he calls for structural policies to deal with falling productivity amidst an ageing population. The ex-governor states that the biggest cost of unconventional monetary easing by the Bank of Japan has been to give people the belief that it would fix Japan's economic problems – thereby shifting attention away from efforts to deal with structural woes. Monetary policy only buys time if society fails to take necessary steps.

How should the sound money theorist turn Shirakawa on his head and thereby reveal a powerful underlying message?

Unconventional monetary policy has empowered the structural forces which have held back the growth of prosperity. Abandoning this policy is the only dependable way in which to enable the invisible hands to work their wonders, though we should be under no illusions about the large in-built costs yet to reveal themselves of two decades of unconventional policy.

Shirakawa during his tenure pointed out that from 1997 onwards Japan economic growth corrected for shrinking population was somewhat superior to the US and used that as an argument against political clamour in Japan for ever more radical monetary policy. He could have buttressed his case by pointing out that the contemporary implementation of monetary radicalism in the US (2009-12) slowed the pace of US economic recovery to such an extent as to repudiate the famous Zarnowitz rule based on a 100 years of US cyclical observations. According to this, the stronger the downturn the stronger the subsequent recovery: not so for the aftermath of the Great Recession of 2007-9.

How have unconventional monetary policies restrained the growth of prosperity and how would their jettisoning bring about an autonomous flourishing of the economy in time?

The desperation for yield driven by these policies have spawned great speculative narratives which normally would have met with much due cynicism and even alarm. The result in short has been the world going too fast and too intensively and too enthusiastically into the so-called digitalization revolution. Investors have been mesmerized by the high present or future returns which the monopoly capitalism empowered by this revolution has brought into their field of vision. Equities of companies which can boast credibly now or in the future about monopoly income are priced by yield-hungry investors as if these rents are permanent.

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The low growth of overall prosperity (as reflected in subdued economic growth rates by previous standards of long economic expansion) is a direct result of malinvestment resulting from monetary inflation alongside grown monopoly power.

Monopoly capitalism extends well beyond Big Tech. It has spread into all these industrial sectors where the lead firm has gained an enhanced lead based on firm specific technological investment which has not so far seeped out extensively into the wider economy as happened in earlier industrial revolutions. Then technological investment was less firm specific and more generally embodied in equipment which could be widely purchased. The seeping out occurred through acquisition of machinery or skilled labour moving from the lead firm).

Normal cynicism on the part of investors (which would have included some appraisal of the vast potential costs related to the new technology including cyber-attacks, security, viruses) and the anti-trust authorities appropriately on their guard about the new technology would have meant less rapid digitalization and greater investment outside the digitalization area. But hunt for yield dumbed the cynicism and the anti-trust folk were asleep at the wheel (perhaps under political instruction).

In a key respect the trend-following passive investment in ETFs holding the mega capitalized stocks, as wildly exacerbated by frenzied hunt for yield in the inflationary monetary environment of present unconventional monetary policy, has fanned the growth of monopoly capital by bestowing cheap equity funds on any firms possessing present or suspected future power. These equities are now priced for a permanent flow of monopoly rent which continues to grow.

No wonder that sound money advocates are unpopular on Wall Street. It would not be the first time in US history that the cause of sound money involves an unholy alliance within the wider political spectrum.