

Whither Central Banking?

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Table 1

History of CBs has swing between periods of Consensus and Uncertainty

	<u>Consensus</u>	<u>Uncertainty</u>
1873-1914	Gold standard; Real Bills Doctrine; LoLR	
1914-1933		Break-down of GS; Break-down of Real Bills Doctrine; Unemployment and inflation
1934-1970	Fiscal (Keynesian) dominance; CB subject to Finance Ministry; Financial repression; Interest rates used for BoP, otherwise low	
1971-1990		Stagflation; Monetarism vs Keynesianism; Liberalisation and Financial Crises
1990-2007	Independent CBs; Inflation Targets; Great Moderation	
2008-		Great Financial Crisis; Financial Instability; Deflation

Table 2
Generally Accepted Myths pre 2007

- (i) Price stability, plus Basel CARs, would guarantee solvency;
- (ii) With solvency thus guaranteed, liquidity will always be available via wholesale markets;
- (iii) That maturity mismatch in the banking system can be ignored.

Table 3

<u>Date</u>	<u>Crisis</u>	<u>Radical Proposal</u>	<u>Comprise Outcome</u>
Early 1800s	Suspension of GS	Ricardo's Currency Board	Bank Charter Act 1844
1929-1933	Collapse of US Banking System	Chicago Plan	Glass-Steagall
1970s	Stagflation	Monetarism	Pragmatic Monetarism
Now	Collapse of Banking Systems	Narrow Banking	Ring-fencing and ?

Table 4
Some Queries about the use of Macro-Pru

- (i) Are they to protect the economy from banks, or banks from the economy? What is their main purpose?
- (ii) Will they be used aggressively enough (Brainard caution)?
- (iii) What is the dividing line between macro-pru and other policies, e.g. fiscal?
- (iv) Since dividing lines are fuzzier, who controls?
- (v) How does one distinguish between sustainable and unsustainable financial developments, and how can one communicate that to both politicians and public, both of whom enjoy being in a boom period?

Table 5

Some Queries about Inflation Targetry

(i)	Q; A higher target?	Ans; No
(ii)	Q; Lean, vs clean?	Ans; Try macro-pru first.
(iii)	Q; Why so ineffective?	Ans; Weakness of banking sector.
(iv)	Q; How communicate?	Ans; State, not date. But even states are unpredictable.
(v)	Q; What if another downturn?	Ans; Helicopter money? Negative interest rates?

Table 6
Some Queries about Technology

- (i) Efficiency and State Security vs Privacy and Liberalism.
- (ii) Block-chain Ledger transactions.
- (iii) Speed vs Equality of Opportunity. HFT and Frequent Auctions.

Table 7

Contrast in Role of CBs

	<u>Focus</u>	<u>Instruments</u>	<u>Confidence</u>	<u>Independence</u>
<u>GM</u>	<u>Narrow:</u> Price Stability	<u>Single:</u> Interest Rate	High	Undoubted
<u>GFC</u>	<u>Broader:</u> Price Stability Financial Stability	<u>Many:</u> Interest Rate UMP Macro-Pru Stress Tests Resolution	Groping	At some risk