Elusive Consensus at IMF Spring Meetings: Part II

Douglas A. Rediker says the role of central banks in Europe, Japan and the US were a focus of intense discussion at the IMF–World Bank meetings.

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Steve Weisman: One week after the marathon meetings of the International Monetary Fund, the World Bank, the world's finance ministers, central bankers, policymakers and policy specialists convened in Washington, I'm here, Steve Weisman, with Doug Rediker, visiting fellow at the Peterson Institute, to talk about the ideas floating around the sessions.

We just finished talking about the growth vs. debate. Another issue is the concern raised by many countries about quantitative easing and what economists called "competitive devaluation" of currencies with some people criticizing countries like Japan, the United States. What was the buzz?

Douglas Rediker: There were those going into these meetings who believed that the currency wars, which are basically what you're alluding to, were going to be one of the major topics of conversation and discussion. They weren't. That was the dog that didn't bark too. Japan has, as you suggested in the question, taken some very aggressive steps. Some would say the Bank of Japan's steps are into shock and awe and their currency has suffered as a result or benefited…

Steve Weisman: Depending on how you look at it.

Douglas Rediker: Absolutely. What that really meant was people thought, OK, if a country like Japan, the world's third largest economy, can take these enormous steps in which the currency moves dramatically, then the IMF and the policy-making community that gets together around these meetings ought to be thinking about what it means and what to do about it. And certainly the "what it means" part was discussed. But the "what to do" about it ended up being "not much." There were a lot of arguments as to why this is the right outcome.

But it was striking that the broad discussion around these meetings did not focus very much, if at all, on these issues of competitive devaluation and other central bank initiatives again exemplified most acutely by the Bank of Japan. They sort of accepted it as part of the broad return to growth agenda that we discussed before, as inflation is largely in check. The IMF itself used that phrase, "The dog that didn't bark," in describing the inflationary environment: a healthier Japan is better for everyone and so let's move on.

But it was striking because for the purist out there, they really expected that this was going to be a, if not the, major topic of discussion and it really wasn't.

Now just on the extended point, the role of Central Banks has become a very major topic of conversation.

Steve Weisman: How so?

Douglas Rediker: Central Banks have stepped into the breach, not only in Japan because that's a unique situation, but certainly in the case of the U.S., with the Fed over the past several years and our quantitative easing strategy. In Europe most acutely, the inability of the political actors within the European Union and particularly the euro area, to step up and address the euro crisis has put an enormous amount of burden and pressure on the ECB [European Central Bank] to take steps that two years ago would have been unthinkable. And it's not just one step, it's a series of steps, so the ECB has found itself the major policy crisis manager within Europe and many would argue that's not what it's there for, or at least not explicitly so.

So the role of Central Banks, which are nondemocratic and largely nontransparent and to some degree less than fully accountable, as the tools by which Europe and other parts of the world are really addressing their economic crises, it is the subject of some very interesting conversational analysis.

Steve Weisman: You were hearing criticisms or questions that the ECB has not done enough and should do more in terms of monetary expansion?

Douglas Rediker: No, I wouldn't say it's criticism. I'd say most people applaud the ECB for what it's done so far, both in terms of its standard measures and its nonstandard measures; meaning standard measures are traditionally using the interest rates.

Steve Weisman: The interest rates, right.

Doug Rediker: And nonstandard are, in the words of the ECB, when the monetary transmission mechanism is broken – that is, the link between raising or lowering interest rates at the Central Bank level and its impact on the real economy. When there's a break in that transmission mechanism, they have to do other things to try and make the same impact, and that's what they're trying to do. So I certainly don't want to give the impression there was criticism that they're not doing enough. But what's being called into account is, how long do they get to do what many people believe elected government officials are supposed to do?

Steve Weisman: Right.

Doug Rediker: And what's that proper balance?

Steve Weisman: That question is being asked more and more of the Federal Reserve. There is a lot of criticism in the press on the other side, in the case of the Fed, what's going to happen when they back out of this policy of quantitative easing? Will that disrupt the world economy? Did you hear much talk about that?

Doug Rediker: The Fed wasn't as big an individual target as Central Banks broadly and the role of Central Banks and fiscal policymakers. As I say, I think Bank of Japan and the European Central Bank were certainly more acutely discussed than the Fed, but the broad discussion certainly includes the Fed. The Fed is the Fed, after all, and when it comes to Central Banks around the world, it is the largest and most influential Central Bank there is. Clearly policies that the Fed embraces have an impact on the thinking of other Central Bankers around the world.

Steve Weisman: Doug, thanks very much for walking us through some of the interesting issues at the meetings.

Doug Rediker: My pleasure, thanks.