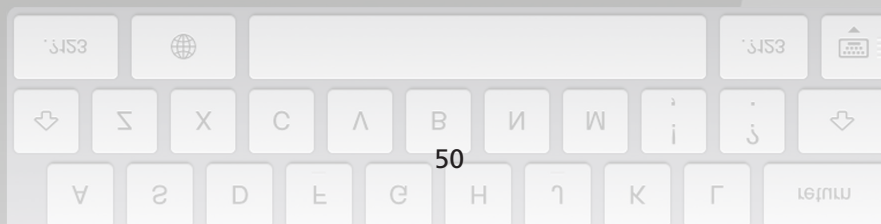
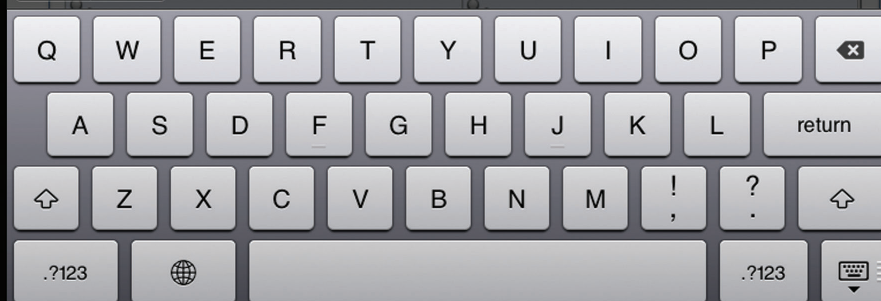


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In DEFENCE of CENTRAL BANKS...

At a time of increasing suspicion of 'experts' it should come as no surprise that the quintessential technocracy, the modern central bank, has come under fire.

Prime Minister Theresa May took aim at the Bank of England's prolonged monetary easing at her party conference speech last October. And gone are the days when the doyen of 20th-century central bankers, Alan Greenspan, could claim rock star status.

What explains the shift? It is tempting to ascribe it to the wider mood of discontent and anti-establishment sentiment claimed to have been behind the Brexit vote and Donald Trump's victory.

But the recent performance of monetary authorities is also likely to be a factor. In the 1980s and 1990s, central banks were widely perceived to have successfully vanquished inflation and enabled an extended period of growth and macroeconomic stability.

However, following 2008, central banks largely failed to see the downturn coming, they failed to adhere to the Taylor rule for monetary stability, and they failed

as regulators, whether by commission or omission.

After 2008, central bank activism has depressed interest rates to an unprecedented extent, with negative consequences for savers and with a potentially destabilising impact on asset prices. Yet, growth has been sluggish. It is no wonder that the public is losing faith in the wisdom of technocrats.

But one should be careful

not to draw extreme conclusions from the experience of 2008. It is convenient for politicians to call for a curtailment of, or even an end to, central bank independence.

However, central bank independence was arrived at after recurrent episodes of high and rising inflation, followed by recessions. These years confirmed the unsuitability of elected officials for interest rate

management.

The heart of the matter is what economists call the time-consistency problem, namely that it is optimal for politicians to promise one thing (to do whatever it takes to keep inflation low) and later do another (to ease interest rates in order to foster a short-term boom that will make them more popular).

What is good for the economy in the long term (price stability) can be in conflict with what is best for politicians' own prospects in the short term (re-election).

By making central banks independent, we not only can get lower inflation, but the markets will see that lower inflation is a credible promise.

Whatever the problems, recent experience of central banking does suggest that independent central banks, once given a mandate for price stability, are better able to meet it than politicians.

There are important questions about the extent to which central banks ought to

DIEGO ZULUAGA SAYS CENTRAL BANKS SHOULD BE KEPT OUT OF POLITICIANS' HANDS

be autonomous from elected governments.

Nonetheless, there should be no mistake that central bank independence, as far as maintaining a stable price level is concerned, has been an unambiguously positive development.

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CUBA after CASTRO

After Fidel Castro's death, my social media feed was dominated by Castro-apologists for well over a week. An unexpected exception was author and commentator Owen Jones, of all people. He wrote:

"Cuba [...] is a dictatorship. Socialism without democracy [...] [is] paternalism with prisons and persecution. Socialism means socialising wealth and power – but how can power be socialised if it's concentrated in the hands of an unaccountable elite? [...]"

Cuba could democratise and grant political freedoms currently denied as well as defending [...] the gains of the revolution. [...] [T]

democracy and civil liberties. Could that work?

Let's imagine the Cuban government took up Jones's advice, and allowed a free press (including foreign newspapers), internet access for private households, freedom of assembly, freedom of speech, freedom to travel, freedom to emigrate, and so on.

This would undoubtedly make Cuba a much better place in many ways. But it would not solve the country's economic woes, because these have nothing to do with the fact that Cuba is not a democracy.

China is not a democracy, but that has not stopped it

Cuba's under-development has nothing to do with the lack of democracy, and everything to do with the fact that it is a socialist economy.

So imagine this scenario: Cuba would still be as poor as it was before, but people would now have unlimited access to American and European newspapers, websites, movies, social media, etc.

News sources, including foreign-owned ones which might have an overt anti-socialist agenda, would be free to remorselessly expose the scale of economic failure. They would be free to attack the government, including in a sensationalist way.

Imagine Sun-style or Daily-Mail-style headlines, denouncing shortages of goods and services. And, crucially, people would now be free to leave. Indeed, some news sources, perhaps owned by exiled Cubans living in Florida, might explicitly encourage them to leave, perhaps by painting an overly rosy picture of life in Miami.

How likely is it that Cuba could remain *both* socialist and politically liberal for longer than five minutes?

Jones's ideas are not new. What he describes is essentially the agenda of East German protest groups in the 1980s: they wanted to keep a socialist economy, but combine it with civil liberties, political freedoms and human rights.

But it turned out that as soon as the Berlin Wall was open, the game was up. Socialism and freedom just do not mix well. They did not mix in East Germany, and they will not mix in Cuba.♦

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IS 'DEMOCRATIC SOCIALISM' A REALISTIC OPTION FOR CUBA? ASKS KRISTIAN NIEMIETZ

his is the next stage of the revolution."

Jones wants to leave Cuba's economic system more or less as it is, but he wants to combine it with Western-style

from growing at phenomenal rates since the 1980s. South Korea and Chile only became democracies when their economic take-offs were already well under way.

Full version at: www.iea.org.uk/

cuba-after-castro-democratisation-as-the-next-stage-of-the-revolution-not-happening-comrade-jones/

Not such a TARIFFIC idea...

Tariffs primarily hurt the consumers of the country imposing them on imported goods. That is such an important insight that it deserves reiterating.

Both the Remainers who want us to stay within the EU's customs union, as well as Brexiteers who advocate using tariffs to "punish" the EU in the event that it turns down tariff-free trade arrangements, seem to completely misunderstand this crucial point.

A report from the think tank Civitas, for example, purports to show that the UK is in a position of huge strength in seeking a free trade deal with the EU.

Why? "If we leave the EU without a trade agreement," it says, "it will cost the remaining EU members £12.9bn in tariffs whereas it will cost us only £5.2bn".

No. The implicit assumption here is that the cost of tariffs is borne by exporter producers rather than our

domestic consumers.

Certainly, in the short term, it would be extremely inconvenient for UK and EU producers to find tariffs applied to their goods as this would affect demand patterns.

in consumer income and choice – it hurts the economy negatively twice: first through raising consumer prices directly and secondly through insulating domestic firms from competition in a way

RYAN BOURNE FEARS CONSUMERS WOULD PAY THE PRICE FOR PROTECTIONISM

But producers can ultimately sell their goods elsewhere and, if they cannot, post-tariff prices will almost certainly rise. Consumers, on the other hand, cannot avoid tariffs.

As tariffs raise prices, the consumer is forced to either buy less of the relevant good or less of some other good (or substitute inferior goods for the goods with the tariffs applied).

The price increase can be thought of as a reduction

that reduces innovation and productivity.

The £12.9bn figure, far from showing the cost "to the EU" of us imposing tariffs, shows the huge cost the UK government would impose on its own domestic consumers were it to be stupid enough to participate in tit-for-tat protectionism •

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