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ECB policymaker warns central banks on verge of currency wars

By Andrew Moran
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Unless central banks across the globe cooperate and they take into account exchange rates in monetary policy, the European Central Bank (ECB) and other banks could be embroiled in devastating currency wars in the near future, says ECB policymaker Benoit Coeure.

Delivering a speech Friday entitled "Currency wars and the Future of the International Monetary System," Coeure said that central banks are not yet in a currency war but they could be coming soon unless a framework is established.

"No. But it may come, so we need a framework for cooperation to prevent it occurring," said Couere at a Paris conference organized by the Fondation Maurice Allais. He added that the current situation is a "positive sum game."

The ECB, meanwhile, is producing a policy package for its meeting in June, which would consist of a number of options, such as interest rate reductions and targeted objectives to incite financial lending to small- and medium-sized firms.

It was reported last week by the *Financial Times* that currency wars might be heating up again. One year after G20 finance ministers concurred to end any signals to a currency war, competitive devaluations by central banks and federal governments have apparently been restarted.

ECB president Mario Draghi has been concerned over the supposed strength of the euro, while several officials in Australia, Canada and New Zealand have warned that they could take part in weakening their respective currencies. In addition, emerging markets are also worried about currency strength and have hinted at currency depreciation, including Brazil, India and South Korea.

A government might seek to weaken their currency because it is believed it would give the nation's exports a boost by making them cheaper in other foreign currencies. Finance experts also argue that a devalued currency can also help avoid deflation by increasing import prices.

Although the smartest men in the room might believe inflating the money supply and hurting the value of a nation's currency is the best measure moving forward, the citizenry is often neglected in targets and initiatives.

The United States is a perfect example of this. Former Federal Reserve Chair Ben Bernanke has noted that his primary objective was to weaken the dollar and maintain a weak dollar platform – what past Fed Chair hasn't had one?

"The Chairman of the Federal Reserve Ben S. Bernanke has embraced a weak dollar policy. And he is not alone. The weak dollar mantra is very much in evidence on most of the boulevards and in the back alleys of Washington, D.C. The idea even has a certain appeal to the common man on the street. After all, a cheap dollar is advertised as an export stimulant and the fuel for an economic boom. But, the common man is often wrong, and so is Chairman Bernanke," wrote Steve Hanke of the Cato Institute in a 2011 article.

Over the past century, the U.S. dollar has lost 90 percent of its value, while citizens have had to deal with the effects of these policies by having a diminished purchasing power and higher prices in the marketplace. Essentially, the lower- and middle-classes are wiped out because of higher inflation.

As Peter Finch said in "Network," "a dollar buys a nickel's worth."