

MoneyMarketing

'Central banks have no way of spotting bubbles'

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Central banks have no accurate way to spot an asset price boom, says Bank of England monetary policy committee external member Adam Posen.

Speaking to the Cato Institute in Washington last week, Posen said any action taken by the financial stability committee or the proposed financial policy committee may counteract helpful booms. He said a "robust and accurate" way of spotting bubbles had yet to be found.

Posen said: "Until such knowledge is provided by monetary policymakers, even the seemingly least controversial assumption required for leaning against the wind to succeed, that central banks can discern destabilising booms with sufficient notice to pre-empt them, will be invalid.

"The decision to pre-empt an asset price boom requires either a lot of additional information beyond price movements themselves, of nature as yet unknown on my reading of the research to date, to tell policymakers which booms to cut off or the willingness to cut off many harmless or helpful booms for every bubble pre-empted.

"Recessions beginning within a year of the end of an asset price boom are only a small fraction of the total number of boom cases.

"In other words, what goes up need not come down where asset price booms are concerned."

The Bank of England is planning to set up a financial policy committee to operate macroprudential policy.

Posen said the financial policy committee will face the same problems as the financial stability committee.

He said: "Since this argument is solely about the ability of monetary policymakers to recognise and react to asset price booms, this should concern advocates of discretion-ary macroprudential policymaking as well, even when using non-monetary tools."

