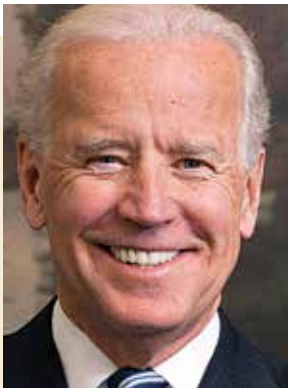




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# OFF THE NEWS



DAVID LENEMANN

Joe Biden



Mitt Romney

## Backroom Trump Chatter

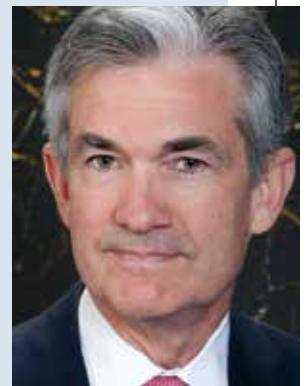
In late January, Vice President Mike Pence was supposed to be the main event at a Washington, D.C., fundraising dinner of about forty so-called “Washington heavy hitters.” To everyone’s surprise, President Trump showed up and essentially took over the event. (Mr. Pence is said to have moved quietly to the sidelines.) Along with Trump came a host of administration insiders. At the dinner, the informal political discussion is said to have focused on what appears to be two vital questions for the Trump team. First, will Special Counsel Robert Mueller end up targeting Donald Trump Jr.? Second, will former Vice President Joe Biden run for president? The discussion zeroed in on these questions, not much else.

On the second question, the feeling in the room was that if he runs, Biden’s past misstatements, mistakes, and hypocrisies would rise to the surface during the Democratic primaries, but a Biden general election campaign calling for a period of national healing would be quite formidable. The administration insiders saw only one Republican who could challenge Trump—Senator Mitt Romney. But Romney in his initiation into the United States Senate has made serious blunders. He is said to often sit alone, shunned by other Republican senators.

## Admirable Honesty

A number of Federal Reserve officials who often find themselves in proximity to Chairman Jay Powell say that the new chief is growing on them. Powell has made his share of communication mistakes, including over-promising the number of short-term interest rate hikes the central bank will deliver in 2019.

Yet in a recent meeting, a Fed underling was sugarcoating the institution’s performance, using benign phrases to describe the Fed’s recent forecasting record. Powell is said to have stopped the conversation. “You mean we were wrong,” he said, which is why Jay Powell, expressing a brutal honesty rare in Washington, D.C., policy circles, is said to be growing on his colleagues.



Jay Powell

## How the ECB Would Handle a Crisis

The European Central Bank's interest rates are already zero or negative. A resumption of its net asset purchases appears difficult due to a lack of suitable material and public resistance. And so-called OMTs, or outright monetary transactions, as announced in 2012 but never implemented, are considered too cumbersome, since OMTs must be accompanied by a European Stability Mechanism rescue program.

After looking into various alternatives, ECB strategists seem to have concluded that a promising way of battling the next crisis is through deeply negative interest rates. That, at least, is the conclusion to be drawn from recent remarks of a high-ranking ECB official stating that the ECB's interest rates will again become the central bank's main monetary policy instrument. But there is a problem with that approach. If the ECB lowers its interest rates too far into negative territory, the economic agents (banks, financial investors, depositors) will hoard large amounts of banknotes in order to circumvent negative interest rates. Only in the absence of cash is there no bottom to lower limits for interest rates.

There are two ways of dealing with this problem. The first would aim at reducing the use of cash step by step in the eurozone, following, for instance, the example of Denmark and Sweden, where the share of cash as a means of payment has come down significantly in recent years. The ECB has already been debating this option for some time. Whereas the recent abolishment of the €500 banknote has been justified

by the ECB, among other reasons, with the aim of battling money laundering, there is the welcome side effect of making the holding of large sums of cash more cumbersome. Banknotes with a high face value reduce the opportunity costs of holding cash. Depending on the degree of resistance by the public, the €200 banknote may follow at some stage in the future. In any case, the ECB's policy regarding the use of cash stands in stark contrast to that of the Swiss National Bank, which has just presented a new Fr1,000 banknote. Plans to end the issue of the €200 banknote, too, were put on ice following a public outcry. But it might be only a matter of time before new initiatives in that direction are launched.

The second way consists of dividing the money supply into two categories: electronic money, as it exists in the form of bank deposits; and cash. Cash would then be devalued, in case of need, to the same extent as the ECB's negative deposit rate. Assume a negative deposit rate of 3 percent. The prices of goods would need to rise by 3 percent over the period of one year. Hence, cash would decrease in value over that time, both in relation to goods and to electronic money. Losing the advantage over electronic money, there would therefore be no incentive for holding cash in lieu of bank deposits.

Devaluing cash would require profound and difficult adjustments to the financial and legal systems. Massive public resistance would need to be overcome.

—Stefan Schoenberg



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