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OFF THE NEWS

Phil Lane, the Prophet?

Shortly before Christmas, the European Central Bank published an analysis by seven of its economists about the last twenty years of ECB monetary policy. The study is a "working paper" of almost 350 pages entitled, "A Tale of Two Decades: The ECB's Monetary Policy at 20."

The report concludes that in the absence of enhanced forms of forward guidance, the large asset purchase program, and targeted long-term loans to banks, eurozone GDP would have been at least 2.7 percent lower at the end of 2018. For the period from 2015 to 2018, inflation would have been one-third of a percentage point weaker on average.

Frankfort insiders diplomatically describe the report's conclusions as at or beyond the upper limits of reasonable expectations. Recently, ECB chief economist Philip Lane doubled down with his own rosy assessment of the effectiveness of the policies. Lane's assessment drew a negative, perhaps even bitter, response from some colleagues on the ECB Executive Board. Such a reaction is unusual because the board is normally a highly cohesive group.

Then the coronavirus hit and the eurozone became the epicenter. The rest is history.

ECB Chief Economist
Philip Lane.

Jay Powell, Pragmatist

Federal Reserve Chairman Jerome Powell arrived in Washington in February 2018 open to a wide variety of opinions both about macroeconomic policy and the conduct of monetary policy. He intended to be like the chair of a distinguished university economics department. Powell initially bought into the Fed staff's arguments based on the Phillips curve and secular stagnation theories. The Fed raised interest rates four times in 2018.

Since then, Powell has distanced himself from these theories, becoming a convert to the notion that the Fed's number-one goal should be to avoid a scenario like in Japan and the eurozone of perennially undershooting its inflation target. Like most converts, Powell is said to be strong in these convictions, even before the coronavirus hit.

The big unexpected development was the surprise increase in the labor participation rate, thought to be theoretically impossible. This development is why Powell recently said that in effect there is no theoretical ceiling holding back the creation of jobs in America.

Powell looked carefully at the Japan and eurozone experiences of trying to target a 2 percent core inflation rate. That target was deemed essential. But then the core rate came in at 1.5 percent. Japanese and eurozone central bankers mistakenly convinced themselves that level was close enough. Then the core rate dropped to 1 percent. Still close enough, and so forth. Powell is said to be determined to avoid a similar situation of falling behind the curve. As a Fed strategist put it, "In today's conditions you have to keep running just to maintain your position." Of course, since then the coronavirus pandemic has completely reshuffled the monetary cards.

Powell's pragmatic, "try anything" approach rose to the surface big-time, of course, in the Fed's reaction to the economic catastrophe brought on by the coronavirus crisis.

Putin's Goal: Bankrupt the U.S. Shale Industry

U.S. Secretary of State **Mike Pompeo** *met with Russian President* **Vladimir Putin** *in May 2019 as part of a renewed effort by the White House and Kremlin to improve relations following the publication of the Mueller report.*

The International Energy Agency's executive director, Fatih Birol, warned Russia and Saudi Arabia on March 9 that "playing Russian roulette in oil markets may well have grave consequences." He added, according to Reuters, that new U.S. shale development would stop if prices fell below $25 per barrel.

Hello, Fatih. You have just identified President Vladimir Putin's goal.

The Mueller report, along with many articles and books, has made it clear that Russia's President Putin wants to create as much chaos and discord as possible in the Western alliance and the U.S. economy. The coronavirus presents him with the ultimate opportunity to wreak havoc.

COVID-19's impact on the oil market gives Russia a way to respond to U.S. sanctions imposed on the Nord Stream 2 natural gas pipeline's construction and Russian trade with Venezuela, as well as to plans by U.S. oil companies to drill in the Russian Arctic. The global demand for oil has dropped precipitously. In response, Saudi Arabia proposed that OPEC members and the other producers that work with OPEC (OPEC+) cut production to maintain crude oil prices.

Russia and especially President Putin (who once wrote a dissertation on mineral economics) had other ideas. Putin has very likely been galled by U.S. Secretary of State Mike Pompeo's demands that Europeans buy U.S. "freedom gas" rather than Russian gas. Furthermore, U.S. Secretary of Energy Dan Brouillette's statement that Russia could not complete the pipeline because the country "did not have the technology" must have stung.

Russian authorities do not make braggadocious statements the way Trump, Pompeo, and other members of the Trump administration do. Instead, they act somewhat like the KGB agents many once were. Had they adopted the approach of U.S. officials, though, they would have announced that "U.S. and multinational oil companies are so financially weak today that we can cause them all to fail or shut down activity. Enjoy the extra vacation time!"

Russia has declared economic war on the U.S. oil industry. Closings will follow.

This is not Russian roulette. This is war.

—Philip K. Verleger, Jr.

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