

Review for Central Banking

Jonathan Ashworth, **Quantitative Easing: The Great Central Bank Experiment**, Agenda Publishing, 2020, 176 pages

Twenty years ago, in March 2001, grappling with the apparent limits of conventional monetary policy and persistently low inflation, the Bank of Japan launched the first modern quantitative easing programme. For most other central bankers it remained something of a Japanese oddity for several years, but since the crisis and recession of 2008/09, as many other advanced country central banks found that they had lowered policy interest rates as far as they then believed it was prudent or possible to go, quantitative easing has become a big part of their policy arsenals. Faced with the Covid recession of the last year or so, even more countries – including those which historically have had quite high interest rates - have joined the company of those deploying large-scale asset purchase programmes.

In his new book the independent UK economist Jonathan Ashworth describes and reviews the use of quantitative easing programmes by the Federal Reserve, the ECB, the Bank of Japan and the Bank of England, over the period to the end of 2019 (the book has a couple of 2020 references but was clearly finalised before Covid had become a consideration for monetary policy).

Quantitative Easing is the first in a new series (“Finance Matters”) from the publisher, offering “advanced introductions” to aspects of the global financial system. The publisher looks to be aiming primarily for a textbook market (upper-level undergraduate and taught graduate courses) but Ashworth’s contribution should be of use to anyone, including central bankers, wanting an overview of how monetary policy has evolved in recent decades and the place the various types of quantitative easing programmes have come to have. The book is all the better for engaging not just with the experience when programmes were announced and were being implemented, but also (at least for the US) when central bank balance sheets were being shrunk again and policy interest rates were being lifted off the floor. It is well-documented and fairly comprehensive, nicely illustrated, and written sufficiently accessibly that it would be useful to any serious reader coming fresh to the topic. I certainly expect to refer back to it in years to come.

In the course of preparing this review I looked at publisher’s web page for the series, where they describe an aim to be “resolutely heterodox in approach”. But if I have a criticism of Ashworth’s book it is that it is perhaps just a little too “resolutely orthodox”. His summary of the experience is quite conventional, putting most weight on the contributions made by the early US and UK programmes amid the 2008/09 recession, while suggesting that other programmes may have had less significant macroeconomic benefits (and rightly noting that early concerns in some quarters about risks of an inflation blowout proved to be deeply misplaced). But if he occasionally mentions critics and sceptics of the asset purchase programmes, there seems to be little engagement with the specifics of the more serious critiques (whether around details of the event studies he relies on, or more broadly). And if he ever concedes any unease, it isn’t always clear that he has differentiated between low global interest rates more generally - a decades long trend, clearly not primarily determined by central bankers - and any contribution of central bank asset purchase programmes. And if Ashworth is correct, as he appears to be, that the wind-down of the Federal Reserve’s balance

sheet, as maturities were not all reinvested in further bonds, had little or no apparent adverse economic effects, should not that prompt some re-engagement on whether the earlier, intended as stimulatory, phase really made as much enduring macro difference as he suggests, at least for programmes launched outside immediate crisis periods?

As Ashworth notes, the details of each asset purchase programme differ (which assets, who typically holds those assets, etc), as do the financial systems of each country (in some, long-term rates and bond markets generally appear to play a larger role in the transmission mechanism than others), but when the details are reduced to their essence, central bank asset purchase programmes mostly involve a large scale swap: central banks buying one lot of (mostly) government liabilities (bonds) and issuing in exchange another set of government-backed liabilities, central bank settlement account deposits. With interest rates near-zero, and settlement cash balances often now bearing near-market interest rates, that sort of exchange wouldn't normally be expected to have large-scale macroeconomic effects.

The alternative perspective is perhaps summed up most nicely in the Foreword to Ashworth's book by his former colleague, and the eminent economist and former central banker, Charles Goodhart. Goodhart acknowledges the ongoing debate and urges us to read Ashworth's book but observes that in his view once the immediate intense liquidity pressure in 2008/09 had passed, "the direct effect on the real economy via interest rates, with actual or expected, and on portfolio balance, was of second-order importance, QE2, QE3 and QE Infinity are relatively toothless".

With a whole new set of experiences with large asset purchase programmes over the last year, we can look forward to fresh wave of competing studies and literature over the next few years. In the meantime, Ashworth's summary is a valuable reference point and should find many readers.

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