

Truculent view on Target-2

Greenspan points to 'destabilising' euro

by David Marsh in New York

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Rising creditor-debtor central bank balances in the euro area under the Target-2 overdraft system underline the 'destabilising potential' of the European single currency, according to Alan Greenspan, former chairman of the Federal Reserve board.

Greenspan, a sprightly yet wistful 92, used a New York dinner organised by the World Gold Council and NYU Stern Business School to repeat long-held truculence on economic and monetary union. He said the end-March figure of €923bn in non-interest-bearing advances by the Bundesbank to weaker central banks via the European Central Bank's Target-2 was a sign of 'something that's not going to work out [well] here'.

He told his audience that he watched the figures 'every day' as a sign that the architecture of the euro was 'not conceptually stable'.

Greenspan questioned who would stand behind the ECB in times of crisis. 'Where does the euro go if it's in trouble?' Greenspan's remarks were filmed and on the record, unlike earlier proceedings from a day-long WGC-NYU Stern conference entitled 'Tackling long-term global investment challenges'.

Part of Greenspan's thesis about the underlying fragility of the euro – although spelled out from a very different vantage point and for different motivations – broadly echoes the opinions of leading French and Italian policy-makers.

France has been multiplying pressure on Germany to reinforce the structure of the euro to withstand possible strains stemming from a combination of higher US interest rates and a coming European downturn that could leave some debtor states heavily exposed.

Christine Lagarde, managing director of the International Monetary Fund, Benoît Cœuré, an ECB board member, Jacques de Larosière, a former IMF managing director and former Banque de France governor, and François Villeroy de Galhau, the current French central bank chief, have all called for rectifying action. This is in line with a wider campaign launched by President Emmanuel Macron.

Both Cœuré, in January, and Villeroy de Galhau, in an OMFIF City lecture in London on 24 April, have warned that Germany should step up risk-sharing to forestall the danger that the ECB would enact more unorthodox monetary policy (anathema to many Germans) when the next international financial upset strikes.

In other comments in New York, Greenspan voiced apprehension about the ability of President Donald Trump's administration to 'come to grips' with the bloated US budget deficit and questioned whether the lull in inflation would last. 'When prices are stable, fiscal sanity is non-existent,' he said. While apologising wryly to his audience for his lack of cheer, he termed problems from US imbalances as not a short-term risk but 'scary' in the longer term.

Greenspan gave familiar support to gold as a monetary unit. A return to the gold standard was 'almost inconceivable' but central banks would not have more than \$1tn in their reserves if it were 'meaningless' as a reserve asset.

The former Fed chairman's views did not disappoint long-term Greenspan watchers. On the euro, his message well before the 2008 financial crisis, for which some critics hold him partly responsible, was that 'I was extremely sceptical whether a central bank with the same power as the celebrated German Bundesbank could impose itself on the whole continent. Besides, I had my doubts if such an institution was necessary, since Europe already had a de facto central bank, in the shape of the Bundesbank.'

In 1997, two years before the currency was born, he forecast, 'The euro will come, but it will not be sustainable.' He appears highly unlikely to deviate from this opinion as he heads further into his 10th decade.

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