

ECOMENTARY™

ECOMENTARY™ is produced for clients of Munk Advisory Services (MAS), 955 Mt. Moro Road, Villanova, PA 19085. Reproduction in any form is by permission of MAS. Contact: munkb@ecomentary.com.

“Money is a Veil?” No, it is a Fig Leaf!

The ECB gave us a new perspective today on ‘credibility.’ Dr. Duisenberg took his cue from Humpty Dumpty.

“When I use a word,” Humpty Dumpty said, in a rather scornful tone, “it means just what I choose it to mean..neither more nor less.”

“The question ... The question is,” said Alice, “whether you can make words mean so many different things.”

“The question is,” said Humpty Dumpty, “which is to be ...

As Alice once said, “words mean what I want them to mean.”

After listening twice to Wim Duisenberg explain how it was that the ECB could reach a decision to lower interest rates by 25 basis points this week, when only last week, Otmar Issing could warn again on inflation, we are as much confused as the market was when the ECB wrong-footed us all...once again. **“Inflation is never dead,”** intoned Dr. Issing to a gathering of macroeconomists in Cardiff Wales on May 4th.

Today, not one week later, the second pillar of ECB monetary policy was relegated to a less threatening position. If you infer that this was a ‘reversal of fortune,’ give Duisenberg credit for his emphasis during the post-decision news conference that **he** had not spoken out during this fateful interim between the ECB meeting of the 25th of April and today. For his careful silence, grant him the right to wear a figleaf. ECB credibility was bare indeed, honored once again in the breach, not in the observance.

What struck us during the post decision news conference was the extent to which the ECB could attempt to bamboozle the assembled reporters with its new discovery that M3 didn’t mean what the ECB had thought it meant...ECB statisticians have found that non-Euro resident holders of mutual funds have been counted as part of M3. Properly corrected, M3 had not been growing as previously reported. The correction amounts to about 1/2% so that M3, suitably interpolated, is growing now at some 4.3%---and thus is below the ‘reference level.’ We are indeed grateful that monetary ease found such a capable support. And, you dear reader, thought monetary economics was not a precise science? To quote Dr. Duisenberg, ...the behavior of M3 is ‘no longer a risk to price stability.’

G-7 members who heard the ECB launch into a defense of its unwillingness to cut interest rates at last week-end’s gathering in Washington must also be grateful that these new data have suddenly appeared and caused the ECB to move against growing fears of a world-wide recession. When Duisenberg quoted adjusted M3 stats for January – March, nary a reporter questioned how it was that if the data were already known for the first three months of the year, they were only trotted out now to justify the change?

All's well that ends well, even if the wearing of a fig leaf is the new crown of monetary economics in EMU!

Perhaps, however, the most fascinating remark (repeated at least twice during the press conference was

“We do believe with our move today we have reached a level of interest rates for the given situation.”

Does that suggest more relief is one the way? The econometric elves have their work cut out for them. Let the ECB choose a policy and the elves can find the data to grow the fig tree!