REVIEW ON *MONETARY POLICY AFTER THE GREAT RECESSION: THE ROLE OF INTEREST RATES* by Arkadiusz Sieron (London: Routledge 2021)

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In his worth-reading book, *Monetary Policy after the Great Recession: the role of interest rates*, Arkadiusz Sieron looks at the limits of monetary policy and, in particular, the effectiveness of unconventional monetary policy. Sieron takes a close look at the unconventional monetary policy measures used after the Great Recession. He begins his book with an analysis of the so-called transmission channels of monetary policy. In the mainstream, there are several theories of how monetary policy affects or transmits to real variables such as employment and economic growth. Chapter 1 begins with the so-called interest rate channel. According to this theory, a change in the monetary base or policy rate also affects long-term interest rates and thus real variables in the economy. Sieron criticizes the interest rate channel theory in that long-term interest rates are not necessarily controlled by central bank policy and that there may be creditworthiness problems or debt overhang. The private sector may want to reduce its debt. In that case, Sieron said, the interest rate channel would not work because cuts in the policy rate would not stimulate credit expansion and the economy. Indeed, central bank rate cuts during the Great Recession did not stimulate lending to the private sector.

In chapter 2, Sieron presents the portfolio balance channel advocated by monetarist economists. When central banks buy securities, the sellers of those securities have higher cash balances and want to rebalance their portfolios by buying other securities and reducing their cash balances. As a result, they raise the price of these other securities and lower their yield, which reduces the cost of funding for issuers. At the same time, there is a wealth effect, which Sieron

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says stimulates investment and consumption. Sieron aptly points out that the real reason for unconventional measures like quantitative easing is to help governments and the banking system. Banks benefit from quantitative easing because they hold securities whose price is driven up, effectively injecting capital.

In Chapter 3, Sieron looks at risk-taking and how unconventional monetary policy measures affect the economy through the so-called risk channel. The search for yield increased risk-taking in the years following the Great Recession, as Sieron documents. Significantly, Sieron engages with the extensive mainstream literature on these issues, including the empirical literature, in all chapters of his book. This is very helpful for the Austrian economist interested in monetary policy who wants to keep up with the latest mainstream theories.

Chapter 4 addresses a topic that has recently become popular in the mainstream literature, that of zombification. For Austrian theory, zombification of the economy is a negative side effect of expansionary monetary policy when the structure of output is distorted and there are many malinvestments that need to be liquidated. In other words, zombification is an issue that has long been familiar to Austrian business cycle theorists, albeit under a different name. Zombification occurs when malinvestments are artificially propped up by expansionary monetary policy after an economic bust. In this chapter, Sieron, as usual, reviews the mainstream empirical literature, which in this case also examines the size and extent of zombie firms in the European economy. Zombification theory is an alternative explanation to the secular stagnation theory and the liquidity trap theory to explain the sluggish recovery after the Great Recession.

In chapter 5, Sieron criticizes the idea that the neutral interest rate has fallen. Modern mainstream theories view the neutral interest rate as the policy rate that brings the economy to its full potential output and maintains a stable rate of price inflation. The mainstream theory implies that this interest rate can be negative. Sieron criticizes this view by arguing that central banks can lower this neutral interest rate, which exists only in mathematical models, in a vicious circle. Thus, Sieron argues for the monetary drag hypothesis, which states that monetary policy has lowered interest

rates in the long run. Sieron contrasts the neutral interest rate with the natural Austrian interest rate, i.e., the interest rate that would prevail in a free market. In this context, he critically examines the global-savings-glut hypothesis. Again Sieron deals intensively with the relevant mainstream literature.

Chapter 6 is devoted to the problem of negative interest rates. Sieron describes the transmission channels through which negative interest rates are supposed to operate. He also addresses the negative effects on bank profitability. He points out that negative interest rates policies support governments by lowering the interest rate they paid on their debts, crowded out private investment, and impeded structural reforms.

The next chapter addresses the problem of the debt trap and how low interest rates increase debt. The chapter also addresses the consequences of high debt for economic growth. After a summary and a conclusion, the book ends with two interesting appendices. The first deals with possible future changes in monetary policy through new unconventional measures that are discussed, such as lowering interest rates to a more negative range, NGDP targeting or helicopter money, and others. The second appendix attempts to find an appropriate response of monetary policy to the Covid crisis.

After reading the book, the reader remains somewhat unsatisfied. This is so, because the book is difficult to classify. Sieron attempts to synthesize Austrian theory with mainstream theories by combining concepts and theories from both approaches. This has important advantages that make the book an important contribution. It has the advantage of building bridges and possibly attracting mainstream economists to Austrian theory. It is enriching to see different points of view, and empirical data help to illustrate and verify the monetary past. For Austrian economists interested in the history of monetary policy and recent monetary theories the book is very enriching.

However, the book is aimed at all economists, not just Austrian economists. This eclectic approach also has a downside. The reader lacks a consistent and solid theoretical foundation. Mainstream theories are not consistently critiqued from an Austrian perspective, and the reader is left with a potpourri of approaches (albeit an interesting one).

As a result, Sieron sometimes resists taking a position and uses terms like "would" or "could" and remains somewhat vague. Sometimes one wonders what the author's point of view is. Sieron uses neoclassical terms such as potential output, economic growth, or GDP without radically criticizing them.

He gives the impression that monetary policy sometimes works and could produce real economic growth, and that it only did not work as usual after the financial crisis because of the special circumstances of the Great Recession. There is no fundamental critique of monetary policy as always distorting.

Sieron´s summary again highlights the problematic synthesis between the mainstream and the Austrian school. Sieron shows sympathy for bailing out banks that are too big to fail in a crisis, but disagrees with manipulating interest rates when there is no crisis:

> "During the crisis, it might be understandable to aid certain systematically important institutions, but it is certainly not appropriate to manipulate interest rates." (p. 167)

Similarly, he claims:

> "The central bank should not only avoid taking rates into negative territory but should cease to manipulate them at all or at least set a floor at a level high enough above zero. If central banks should exist (which we cannot assume), they should limit themselves to providing liquidity in times of crises. But they definitely should not suppress market interest rate, thereby impairing their allocation and signaling functions." (p. 165)

From an Austrian perspective, these statements are problematic. Bailing out banks and interest rate manipulation are linked. When a central bank creates a crisis, it is because of the manipulation of interest rates. Bailing out banks manipulates interest rates as well.

If there is a central bank that is able to bail out banks that are too big to fail, there is also a distortion of interest rates. Moreover, it is central banking that causes banks to be too big to fail in the first place. There is no way for a central bank not to distort or

manipulate interest rates as Sieron seems to imply. Central bankers cannot know the free-market interest rate. Central bankers also do not know whether they are bailing out the banks with their monetary policy. And how is it defined when there is a crisis, which would allow the provision of more liquidity?

Sierra's statement that a central bank, if it exists, should provide liquidity in a market crisis is highly questionable. It is precisely the existence of a lender of last resort that leads to moral hazard, as Sieron himself notes in the book. If market participants know that a central bank will provide liquidity in times of crisis, they will behave more riskily. And in practice, who determines when a crisis occurs? How can central bankers know that they "must" inject liquidity to prevent a market collapse, and how can they know how much liquidity they "need" to invest. All of these uncomfortable questions arise from Sieron's attempt at synthesis of something that cannot be combined.

Nonetheless, *Monetary Policy after the Great Recession* is a book worth reading. It presents the unconventional monetary policies and the mainstream theories about their effects and offers valuable critiques of them.