REVIEW ON *GELDPOLITIK* de Leef H. Dierks (2022), Springer

PHILIPP BAGUS

Prof. Leef Dierks has presented a very helpful textbook on monetary policy published by the prestigious publishing company Springer. This work mainly presents the functioning and working of the European Central Bank and analyzes it against the background of orthodox theory. For Austrian monetary economists the book is valuable. Admittedly, it does not advance Austrian theory and analysis. For that, the reader is referred to Mises' *Theory of Money and Credit*, Mises' *Human Action*, Rothbard's *Mystery of Banking* or even Huerta de Soto's *Money, Bank Credit and Economic Cycles*.

Yet, it takes not only theory but also history to understand reality. And that history is what Dierks provides. Austrian monetary and business cycle theory must be applied and interpreted within an institutional framework and a specific historical situation. This institutional monetary framework is set in the Eurozone by the European Central Bank. Monetary policy makers act upon the prevailing opinion on monetary policy. If one only knows the Austrian theory of money, and the Austrian Business Cycle Theory, but are not familiar with the institutional design of the European Central Bank, the European banking system and with monetary policy dogmas, it will be difficult to understand the monetary reality in Europe in practice.

After an introduction to the subject, Prof. Dierks analyzes in chapter 2 from an orthodox point of view the functions of money, different kinds of money, the money multiplier, the structure of the central bank balance sheet and the delineation of the monetary aggregates M1, M2 and M3.

Chapter 3 is about inflation and deflation, and Prof. Dierks again presents the orthodox view of monetary policymakers, characterized, for example, by the fear of deflation. It is explained why monetary policymakers pursue the goal of price level stability,

Procesos de Mercado: Revista Europea de Economía Política
Vol. XX, n.º 2, Otoño 2023, pp. 535 a 538

how the inflation rate is calculated, and how these are linked to the ECB's mandate. Causes and effects of inflation from an orthodox perspective and the Phillips curve are likewise presented in chapter 3. Both monetarist and Keynesian theories are presented without being criticized from the perspective of the Austrian school. This is, however, not the purpose of this textbook and brings with it the advantage of emphasizing the strength of the book, namely, bringing the presentation of monetary institutions and the monetary policy framework in the euro area up to date. Austrian economists may then criticize these institutions on the basis of this account. But the critique just does not appear in this textbook.

The institutional and conceptual aspects can be found in the very valuable chapter 4. It deals with the structure of the ECB and its official tasks. It discusses in detail the independence of the ECB with orthodox arguments. Attached is chapter 5, which presents the ECB's instruments, i.e. how the ECB increases the money supply. It deals with conventional instruments such as open market operations with quantity and interest rate tenders, the various refinancing operations, the standing facilities, the minimum reserves as well as with newer unconventional instruments of monetary policy that have been used by the ECB in recent years. These include quantitative easing, targeted lending programs such as the TLTRO to encourage certain sectors, so-called forward guidance, and negative policy rates. The various securities purchase programs of the ECB such as the APP and the PEPP are also presented.

The following chapter 6 deals with the various transmission channels of monetary policy as they are conceived from an orthodox perspective. It is important to understand how modern monetary policymakers conceive of the effects of their decisions in order to better understand their actions. In the case of transmission channels, a distinction is made between the effects of interest rates, exchange rates, asset prices, lending and expectations on economic developments and the price inflation rate. Special attention in this chapter is paid to the so-called liquidity trap. In the liquidity trap, zero interest rates are not enough to encourage investment that leads to full employment. It is the nightmare for central bankers, who cannot lower interest rates any further and thus do not know how to stimulate the economy further and thus believe they have to take unconventional monetary policy measures.

Chapters 7 and 8 deal with monetary policy strategies. In chapter 7, the intermediate objectives, ultimate objectives and operational objectives of monetary policy are discussed. Exchange rate targets are discussed and ultimately the most popular strategies pursued by central banks are presented. The money supply strategy, which was pursued by the Bundesbank, and the so-called inflation targeting. In addition, impact lags of monetary policy are discussed. The debate between discretionary and rule-based monetary policy is presented in this chapter as well as MMT.

Chapter 8 deals with the monetary policy strategy to which the ECB is committed. In other words, it is about the way in which the ECB increases the money supply. It also discusses the contradictory two-pillar strategy, which seeks to combine economic and monetary analysis for the purpose of forecasting price inflation. As a result of the spiral of interventionism in the monetary system and the too-big-to-fail problem, central banks have turned to macroprudential regulation in a further step. Instead of going to the root of the spiral of interventionism and the evil, i.e. introducing a full reserve banking system and thus eliminating the banking system´s ability to create new money out of thin air, attempts are made to combat symptoms, for example by trying to conceal the too-big-to-fail and the problem of systematic risks. Systemic risks are risks that arise from the fact that the banking sector as such is unstable and the failure of one bank threatens the survival of the entire system. Macroprudential measures attempt to improve stability by regulating capital ratios, liquidity ratios and other factors. This macroprudential regulation is also the subject of chapter 8.

Chapter 9 presents several historical episodes. The first case study concerns the euro crisis starting in 2009, whose causes as well as the ECB's response and monetary policy measures are analyzed over time. The measures taken in the wake of the Corona crisis are also presented. It becomes clear that the ECB has reached its limits, both economically and legally, although it has probably long since exceeded the legal limits. Economically, more and more extraordinary measures have been pulled out of the hat, and their inflationary potential is currently unfolding.

In the last and 10th chapter, the topic of virtual currencies is tackled. Blockchain technology is explained, as well as the difference between Bitcoin/Altcoins and Stablecoins. The current, albeit not yet fully developed, plans for the introduction of the CBDC are also addressed.

Overall, Prof. Dierks presents a very helpful textbook that clearly explains the workings as well as the theories behind current monetary policy as well as the monetary institutions that currently exist in the euro area. To understand the actions of monetary policymakers, one must know their ideas. One learns these in this work. Perhaps in the future Prof. Leef could follow up with an Austrian analysis and write an Austrian textbook on European monetary policy, taking into account the current institutions. It would be another valuable help.