Adam Posen on CNBC Worldwide Exchange  
August 28, 2012

1st part - Transcript

Ross Westgate: We're delighted. Thanks very much for joining us on CNBC. We're delighted to have you on. There's indeed an awful lot to talk about. As you leave, what's your single biggest regret?

Adam Posen: I wish I had been more persuasive in getting the other members of the committee to vote for quantitative easing (QE) earlier in 2010 or 2011. I think that could have made a difference to the outcomes in the British economy. A close second regret is that starting about a year ago I pushed very hard for specialized institutions and purchases to help small and medium business lending. There seemed to be lot of support for that within the committee and among politicians but we're still not there yet.

Ross Westgate: You raised two very good points. Let's raise the first one. More QE earlier on. There's now a view that more QE now, while good sentiment, won't deliver very much in terms of real results. Do you share that sentiment?

Adam Posen: I think that view is exaggerated. It's better that people are realistically saying QE effectiveness depends on the state of the economy, state of the financial system, than the nonsense people initially were saying about QE that it would lead to hyperinflation or crazy things would happen. None of that is true. I would rather have people focus where they are now which is how to make it operationally effective. They overshot a bit with their concerns. No question, additional QE has a positive effect on the economy. That said, there may be better ways to deal with problems.

Ross Westgate: That brings to us the second point. Doesn't the fact that we now have a funding for lending scheme, you were talking about this a year and a half ago, does that tell us that QE does not fully deliver?

Adam Posen: Well it's just like I'm trying to get a bunch of things done at once and as I've said in the past we may need a hammer for one job, a wrench for another job, though they are both about getting the flow of water out there through your plumbing system. QE does deliver but in the United Kingdom in particular we have a damaged banking system. I give credit to my colleagues that they came up with funding for lending scheme to force things through the banking system. My concern is rather than going through the system it would be better to go around it.

Ross Westgate: If the banking system is damaged surely having a scheme that relies on that damaged banking system is the wrong way to go?
Adam Posen: I would prefer we went around the banking system or went to new competitors in the banking system and new products.

Ross Westgate: There was an article this morning, John Longworth of the British Chambers of Commerce (BCC), saying we should have a British business bank. Do you agree with that?

Adam Posen: I've been talking with people at the BCC and elsewhere. There's a credible case to be made for one. A lot of other countries are doing this. We overshot on having too much worry about wasteful public sector financing. You look at the Kreditanstalt fuer Wiederaufbau in Germany, the small business administration in the United States, you look at the various schemes the French have, and meanwhile, the United Kingdom for a hundred plus years has under-funded domestic small businesses. There's an argument for it.

Ross Westgate: Also with QE should we be buying other things than just government debt? As you well know and suggest the problem is that they are still sitting on a lot of bad debt that they haven't fessed up to. What we should be doing is set up a bad bank and QE funds that bad bank. Then once you clear that out they will go back and lend?

Adam Posen: It's not just that, but that's essentially what I said when I first joined the committee and I think there's a lot of sympathy for that assessment. To set up a bad bank is not something Bank of England can do. Properly elected officials have to do it. We've been clear and I certainly believe the Bank of England and certainly the MPC (Monetary Policy Committee) would act to support a bad bank by actively intervening to make the bad bank work if the government decided to go down that route. As long as you think, as you just said Ross, the banks, part of the reason they are not lending, they have a bunch of junk. It's worth the supervisors going in and forcing them to own up.

Ross Westgate: That the bank can't decide on its own. What other assets could the committee buy?

Adam Posen: There's still room for the bank to be more aggressive. We have legal room and done on a very small scale in the past buying corporate bonds. Why we haven't done that is the domestic sterling corporate bond market is still small. But there comes a point where if we buy more it will also create more supply in corporate bonds. I would like us to look at that. A particular thing which the business bank the BCC is talking about, doesn't replace is, I talked about a two pronged approach. Something like Fannie Mae and Freddie Mac or the good version of Fannie Mae and Freddie Mac, call it Bennie, to bundle and sell small business loans, which the committee could buy.
Ross Westgate: Adam, great to have you on today. Thanks very much.

2nd part - Transcript

Ross Westgate: And all eyes will be on Jackson Hole this week. Ben Bernanke and the rest, we are expecting the Fed chairman could announce a third round of quantitative easing. Minutes from the last fed meeting showing policymakers were standing ready to provide new stimulus fairly soon. With us, Adam Posen will be speaking right after Ben Bernanke. Will the fed announce in its next meeting more QE, should they?

Adam Posen: They should. First, the signalling that the chairman and other members of the FOMC (Federal Open Market Committee) has given has been pretty consistent and they haven't painted themselves in a corner but unless there's some new ridiculous information between now and Friday they indicated they are leaning that way. More importantly, they should go on the merits. There is no inflation in the United States, a mess in the mortgage market, and higher unemployment than their mandate. So they should do their QE.

Ross Westgate: How effective will it be?

Adam Posen: Very effective. Not like here in the United Kingdom, while the United States has a bunch of bad banks, but those banks play a much smaller role in the whole banking system and financial system overall. You still got mortgages to restructure and buying and selling the securitized mortgages, the Fed has the ability to do that. That can affect that as well as the overall interest picture.

Ross Westgate: The reason the US economy is weak is because of external factors. China slowdown. Eurozone debt crisis. Should a central bank be targeting the domestic economy that's been slowed down by external factors it can't control?

Adam Posen: not so much targeting but can you offset them. There's stuff you can't do anything about. The bank of England, the Fed, ECB (European Central Bank), everybody copes with oil prices and no point in trying to offset oil prices because they could reverse in three months or six months. But there are things like, if the world is in a global slowdown, then it makes sense that you should be trying to offset demand and bring it up at home, particularly for the United States which is a large part of the global economy and for the United States, more than the United Kingdom, more than the ECB zone, is more of a closed economy. Depends a lot on the rest of the world but it has more impact at home than the Bank of England does.
Ross Westgate: What do you think about the argument the fed shouldn't do anything because there's an election coming up?

Adam Posen: Yeah. I think that's the wrong argument. The chairman has been very clear and rightfully so. They can't let the elections make their decisions. They have to make decisions as if there was no election. The central bank has to take fiscal policy as given, not mess around with elections, not make statements about it. Play a straight bat.

Ross Westgate: You mentioned fiscal policy there. How much has the bank felt it's had to offset in the United Kingdom, the Bank of England, fiscal policy here, whether you agree with it or not, how much have you felt our job is to offset government policy?

Adam Posen: Our job is to get the economy on a relatively stable track. That meant taking into account what the fiscal contraction would be. One of the arguments I had was my saying I think whatever its merits, the fiscal contraction will be stronger, bigger, more of a drag than people think. That's one of the reasons why I was arguing for more QE earlier.

Ross Westgate: Even though they are spending—

Adam Posen: You have to control for the business cycle. When times are bad, unemployment goes up, you spend more. What's going on with public investment and the structural deficit and that's been cut.

Ross Westgate: ECB, will they start—are you confident they will start buying Spanish and Italian debt? Is it the right thing to do to target—

Adam Posen: Absolutely I think it would be the right thing to do. As I said the other day, they said that they will do whatever it takes to save the euro. Then it's time for them to get on with it. Right now you mentioned the good auction in Italy today. The ten year bond is still above five. Ten year bond in Spain is above six. There are no economic fundamentals to justify that.

Ross Westgate: You don't share concerns with Bundesbank about exceeding mandates?

Adam Posen: No, they are exceeding their mandates when they say we'll with sit tight with monetary policy until somebody we like gets elected, does the budget we want. The central bank’s job is to provide monetary and financial stability. Full stop. Their mandate now is to stop the panic in sovereign debt. Buying and selling sovereign bonds is what central banks are supposed to do. No, this is their mandate.

Ross Westgate: The Fed, the ECB, they should all be acting soon?
Adam Posen: They should all be acting to loosen this month and in targeted way. Bank of England should be looking at enterprises. ECB should look at sovereign debt. Fed should be looking at mortgage market. Do quantitative easing, but do it on the structural area that means most to your economy.

Ross Westgate: Adam, great to have you on today. We wish the best. When you come out come straight back.

Adam Posen: Love to.