

**Asset Price Inflation**  
**– a global economic virus**  
**which has its origins always**  
**in the Federal Reserve**

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# WHAT DO WE KNOW ABOUT THE DISEASE OF ASSET PRICE INFLATION?

- **Asset price inflation is an economic disease about which we hear a lot**
- **Yet no common definition and no consensus agreement on cause**
- **Virulent form of the disease gives rise to market bubbles**
- **Many economists, monetarist and Keynesian, are in a state of denial about the disease**
- **Old Bundesbank did not recognize the disease but knew how to prevent it**
- **Old Austrian school concept flawed but introduces monetary origins**
- **Behavioural finance theorists contribute important understanding but they deny monetary cause**
- **Two forms of monetary disease which plague the modern economy**
- **Long-run damage of asset price inflation disease – sick risk appetites and mal-investment meaning diminished prosperity**

# Friedman quotes J.S. Mill, a rephrasing

**MOST OF THE TIME THE SOFTWARE OF MONEY DOES NOT MATTER BUT WHEN IT MUTATES IT SPREADS A VIRUS WHICH ATTACKS ALL THE OTHER SOFTWARE BEHIND PRICE SIGNALS (IN GOODS AND CAPITAL MARKETS) THAT GUIDE THE INVISIBLE HANDS OF THE CAPITALIST ECONOMY**

- **An economy afflicted by monetary disequilibrium will eventually display symptoms of one or both types of virus**
- **The two diseases and their progression largely define the business cycle**
- **Yet each cycle is unique in that the paths taken by each disease and their relative strength are never identical**

# **HOW DOES THE DISEASE OF ASSET PRICE INFLATION SPREAD?**

- **The spread depends on catalysts to irrational exuberance**
- **How to define irrational exuberance and speculative fever?**
- **Monetary disequilibrium fuels irrational exuberance in 3 ways:**

**Channel 1: manipulated rates and positive feedback loops**

**Channel 2: yield desperation**

**Channel 3: inflation terror**

- **Why the disease is hard to detect at early or mid-stages**
- **Speculative temperature hard to measure**
- **Asset price inflation attacks in rotational fashion**
- **Carry trades boom under asset price inflation**
- **The virus progresses to asset price deflation endogenously**
- **How central banks always misdiagnose and worsen the final outcome**

# **Asymmetric power of the US to spread asset price inflation virus**

- **Asymmetry is greater than for goods inflation, why?**
- **Monetary terror throughout the dollar and quasi-dollar zone**
- **Huge weight of investors chasing speculative stories inside and outside dollar area**
- **Dilemma for central banks of small and medium-size economies attacked by the Fed-virus**
- **Deflation phobia has weakened defences against the virus**
- **Historical and contemporary examples of US power to spread asset price inflation (Germany in the 1920s, Japan in mid-1980s, emerging markets in 2010s)**

# **The Obama Federal Reserve's virus of asset price inflation**

- **The nature of the US monetary disequilibrium**
- **Emperor's new clothes myth**
- **A Grand Experiment**
- **The first fully anticipated asset price inflation**
- **Why anticipated asset inflation does not stimulate business spending**
- **How asset price inflation virus was created**
- **Virus attack on emerging market economies and dynamic small economies**
- **Virus role in stock market "booms" in US, Europe and Japan**
- **Infection of high-yield credit markets, including European sovereign debt**
- **How will this asset price inflation end?**
- **Parallels from 1937 or 1953**