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REVIEW ARTICLE

Monetarism versus Neo-Keynesianism in Today's Monetary Policy

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Abstract

In a world economic environment of increased complexity and interconnectivity, the issues surrounding the way monetary policy is being conducted gain an increased importance, as the soundness of the economy is more and more dependent on central bank decisions. In this context, the paper aims at providing, from a doctrinarian perspective, a pertinent theoretical analysis on the topic of central bank monetary behaviour. With this in mind, we will examine the two major economic philosophies (monetarism and neo-Keynesianism) that have influenced capitalist practice in the last half a century and attempt at issuing some broad guidelines about the future monetary governance.

Keywords: *Monetary policy, Monetarism, Neo-Keynesianism, Quantitative easing, Monetary policy instruments, Economic doctrines.*

Introduction

During the last century, the capitalist economic governance has oscillated between the provisions of two great doctrines. These left their decisive mark on the development of the world: Keynesianism (interventionist) and monetarism (neoliberal). These two schools of thought dominated alternately the global economic scene; they had opposing visions regarding the course of the economy and, consequently, with respect to the optimum degree of intervention of the central bank. In today's economic environment, more complex and more interconnected than ever, a discussion on the subject of monetary policy from a doctrinarian perspective is perhaps more necessary than ever, as old ways of conducting monetary policy seem to have become obsolete in the face of the rapid financial development that has changed the way in which the economy functions. This paper is aimed at theoretically examining the general doctrinarian context of monetary policy and provide with some broad guidelines on how monetary governance should be conducted.

Monetarism and Keynesianism- A Theoretical Examination

Seven decades subsequent to the issuance of Keynes' theories [1], inflation and monetary policy interest rates had values far from zero; it is in this environment that the pioneers of monetarism (like Milton Friedman) developed macroeconomic theories which would form the basis of monetary governance corresponding to worldwide capitalist economies. The global macroeconomic context is now subject to a series of metamorphoses, as accentuated as they are complex. More accurately, the fail of traditional monetary instruments (among which – a reference interest rate at a level very close to zero) to reinvigorate the global economy, heavily affected by the crisis triggered in 2007, changed the rules of the game and pushed monetary authorities to relinquish the neoliberal approach and turn to a series of neo-Keynesian measures. A clear example of empirical phenomena that has reinforced the need of such a reaction lies fact that, despite neoliberal predictions, markets proved inefficient and prone to excess, while the economy faced often the threat of deflation, an economic phenomenon considered as having devastating potential. The lower price level leads to increasing debt, in real terms (and, consequently, to non-payment risks!) and suppresses funding as a result of spoiled balance sheets belonging to potential debtors. This leads to deep negative effects on the economy. The economy of Japan between 1990 and 2000 (also known as "The Lost Decade") is a sample of negative effects caused by the deflationist phenomenon. However, according to one pure monetarist theory, deflation on its own should not occur. This major difference between economic

theory and unquestionable reality forces central banks to change the paradigm and search for new solutions. Nevertheless, solutions cannot be found by reverting to the original Keynesian theory, because the crisis is not generated by a deep imbalance between offer and demand, as it

happened during Keynes' time. The scenario is now much more complex. The uncontrolled expansion of financial instruments, which have become more and more esoteric and difficult to analyse, triggered a massive quake in an economic climate where the numerous interdependences between its constitutive elements ask for a different approach. Consequently, such an approach should be adapted to a new macroeconomic situation, even if its starting point lies in a series of fundamental concepts belonging to the Keynesian economic philosophy.

Economic liberalism started with Adam Smith [2], acknowledged by the supporters of free markets as the founder of this approach to economy and its phenomena. In his most well-known work, "Wealth of Nations", published in 1776, Smith argues for an economy composed of rational actors; and where the most efficient outcome is when governing authorities do not intervene, relying on the collective rationale in the form of an "invisible hand" which directs markets to an optimum state of balance. As such, a reduced governmental involvement represents the best instrument for the harmonious development of the economy.

Two centuries later, neo-liberalism, the doctrine which dominated the economic scene subsequent to World War II by asserting that Keynesian visions and prescriptions are obsolete and claiming the merit for the most part of the economic and social progress registered after 1970, acknowledged Adam Smith's ideas and his "invisible hand" as the origin of their own beliefs.
Neo-liberalism promoted the transfer of control over economic processes from the public to the private sectors, alleging that this would determine a superior economic outcome. The final proclamation of actual policies envisaged by the neo-liberal doctrine is often considered to be "The Washington Consensus" of John Williamson [3]. Williamson's list contains ten points, covering a large area of economic issues from a fiscal, monetary, regulatory and legal point of view. Retrospectively, we are able to assert that it captures the governing principles of worldwide economy in the second half of the XX century, a period of sure progress. On the other hand, there is the question of up to what point is the application of such vision beneficial and where does it leave the tracks; this is caused by the emergence in the XXI century of the most acute economic crisis in the history of humanity, as sure as the progress period referred to above.

We will discuss below punctually some of the ideas belonging to the Washington Consensus, that we consider relevant in the context of the economic crisis which caused the need to re-evaluate the governing principles of economy:

- Interest rates must be positive and market determined, but moderate (in real terms).
- Regarding fiscal policy, governments must not tolerate high fiscal deficits implying refunding made by future generations, as expenses generated by such deficits have only short-term effects on unemployment rates. For this reason, the fiscal deficit instrument must be used only occasionally in order to stabilize the economy and only on the short term. Moreover, a long term fiscal deficit would lead, according to Williamson, to inflation and productivity decline.
- Market deregulation should be assured.
- Promoting financiarization. Epstein [4] indicated that financiarization refers to a system where financial markets, institutions and motivations have an increased importance regarding the functioning of the economy and its institutions, both at national and international level. Financiarization implies the abatement of the traded object (either tangible or intangible, current or future) to a financial instrument or derivative thereof. It is a practice which encourages leverage and promotes financial markets to the detriment of basic elements in the real economy.

However, in order to have a more consistent image, we need to add another central point of the neo-liberal doctrine, represented by the Efficient Market Theory [5]. This theory starts from *laissez faire*-type economic principles and claims that markets have the capacity to instantaneously incorporate in the price of an asset all existing information regarding it; consequently, its market price is always the correct one, and the cases where an asset is over- or under-valued are excluded. The theory was subsequently processed in the neo-liberal economists' "laboratories", who toned down things and concluded there are several market efficiency degrees, but the central idea remained the same, meaning not only that markets are able to accurately evaluate an asset,

but that they are in fact the only ones able to do this. Starting with the 70s, this theory, which had been deemed as revealing the supreme truth, became to be fervently "preached from the height of the economic altar at the University of Chicago (considered to be the centre of neo-liberal economic theory development – A/N) and from

many other places" [6]. The efficient market hypothesis is criticized by behavioural economics, which rely on psychological studies, such as those developed by the pioneers of this line of study, Daniel Kahneman, winner of the Nobel Prize for Economic Studies, and Amos Tversky [7] [8]. This critical approach explains in a most convincing way, in our opinion, how reasoning deviations of economic agents, as established by psychologists, inevitably lead to a lack of market efficiency.

Nowadays, neoliberal theories are more than ever in an extremely delicate situation. More and more voices deem neoliberals (especially Alan Greenspan, the governor of the Federal Reserve between 1987 and 2006) and their practices, implying cheap funding available for long periods of time and an excessive financiarization degree, as the main culprits for the economic crisis which swept the entire world with unprecedented virulence. Moreover, the extended period of lax regulation and apathetic intervention of the monetary authority, at least in some sectors, are regarded as the main factors which caused the weakening of the economic system and the triggering of the crisis in 2007. Ten years before, Alan Greenspan, the governor of the Federal Reserve at the time and the person who should have made sure that the American economic system (and, due to globalization forces, the worldwide one) is and remains stable, argued during a speech held at the prestigious Stanford University on the necessity of a deregulation policy, which later became catastrophic, declaring that: "The evolving patterns mean that the performance of the economy under any rule, were it to be rigorously followed, would deviate from expectations. [...] In an ever changing world, some element of discretion appears to be an unavoidable aspect of policy making" [9]. Apart from these, if we also consider the fact that both monetary and fiscal instruments recommended by neoliberals proved inefficient in the context of a massive crisis, it appears that discrediting their views and the emergence of a new and fundamentally different set of neo-Keynesian monetary policy instruments is the logical and imminent outcome.

Nevertheless, the excessive market liberalization is a phenomenon which did not seem to bother certain economists prior to the crisis which began in 2007; these were convinced of the supremacy of less regulated market. As such, in 2003, Gertrude Tumpel-Gugerell, a member of the Executive Board of the European Central Bank declared that [10]: "This volatility trading is carried out by means of dynamic trading strategies involving

options, mainly plain vanilla calls and puts, but increasingly more complex option structures. Such trading strategies are nowadays well mastered by market professionals." Moreover, the solution is given not by measures for limiting volatility, but by advising economic agents, a great majority of which operate in other areas than financial transactions, to turn to instruments "mastered by market professionals", the same professionals who would decisively contribute a few years later to triggering the most severe economic crisis subsequent to World War II.

The use of such mechanism has also contributed to furthering worldwide economy from creating actual value through production or services and nearing it to a financial world which extended far beyond its initial objectives related to insuring an efficient flow of capital for the purpose of developing production and services branches and entering more and more the territory of speculative actions, which had become more and more esoteric.

Today, the theories which stood at the basis of John Maynard Keynes' principles seem to have regained their place among the principles which direct the monetary governance of the world. They are synthesized in a neo-Keynesian-type applied philosophy, combining elements belonging to different streaks of economic thought originating in Keynes' works. As such, if we either speak of neo-Keynesian ideas from the 50s – 60s, as proposed by economists such as Samuelson, Hicks or Modigliani, who combined Keynesianism with Alfred Marshall's neo-classical principles, or if we refer to the neo-Keynesianism proposed in the 80s by researchers such as Stanley Fisher, John Taylor, David Romer or Olivier Blanchard, or even if we refer to Minksy and Robinson's post-Keynesian streak, who draw away from the neo-classical direction and plead for acknowledging the crucial role played by the connection between funding offer and funding demand in the economy [11], the economic thinking based on the principles substantiated by Keynes are once again

at the forefront of monetary practice. We will refer to such ideas in our work and identify them as simply neo-Keynesian, trying to simplify in this way references to what we consider as being a sole economic doctrine approached from several points of view and presented in various forms.

Within such a complex doctrinaire context, the discussion regarding the role which the central bank needs to assume – more precisely, its degree of involvement in the economy through monetary

policy and the efforts to link it to fiscal policy- is placed at the centre; the outcome proves to be crucial both for surpassing the generalized economic crisis affecting most world economies, as well as with regard to building a governance system for preventing such slips in the future.

Monetary Policy Instruments -An Overview

Understanding the instruments used by central banks in order to intervene in the economy represents a prerequisite for an efficient analysis of transmission mechanisms of monetary policy. Each central bank has its own set of instruments to use in order to fulfil monetary policy objectives; these vary from classical instruments, based on the neo-liberal monetarist philosophy (out of which we will review the most commonly used: open market operations, standing facilities and the mandatory minimum reserves level), and up to more innovative neo-Keynesian instruments, which started being used at large scale at the same time the disappointment regarding the efficacy of neo-liberal ideas occurred, as well as the new challenges caused by the global crisis which started in 2007. The new parameters set by the crisis changed the macroeconomic context in such a way that usual monetarist instruments which had been used for several decades proved inefficient when addressing new challenges. This led central banks to replenishing their monetary arsenal with instruments from the quantitative easing area.

The first important aspect connected to the issue which we wish to engage is the correlation between monetary policy instruments and its objectives. This subject was highly studied and debated by economists. To this end, Tinbergen, winner of the Nobel Prize for Economic Studies in 1969, enunciates a concept known in the economic literature as the Tinbergen Principle [12]. Using a suggestive terminology, Tinbergen makes a clear distinction between instruments, meaning the variables which may be directly and immediately controlled by the central bank, and objectives, which are those variables which cannot be directly controlled by the monetary authority. The main relationship between them is that the monetary authority uses the instruments in order to influence variables defined as objectives. Starting from such clearly established terminology, Tinbergen asserts that the number of instruments used must be at least equal to the number of objectives, or certain objectives may not be reached, as no instrument can efficiently serve for fulfilling two or more objectives.

Starting from Tinbergen's theories and taking them further on, according to Acocella, Di Bartolomeo and Hughes Hallet [13], the Dutch economist Henri Theil focused on studying a non-Tinbergen situation, meaning a situation where the monetary authority has less instruments than objectives, which is often the case in real life. The input of Theil's research is massive, as it indicates econometric solutions so that the monetary authority may nevertheless maximize its utility function in restrictive conditions based on available monetary policy instruments. The outcome is inferior to the one resulting from a Tinbergen situation, as the monetary authority is in a position to partially or entirely sacrifice certain objectives; however, according to this econometric model, the total utility is maximized. Moreover, Theil introduced the uncertainty principle in Tinbergen's model and adapted it in order to use it in a dynamic and multi-periodic context [13]; this adjusts the model even more for implementation in real life.

Although it did not succeed in generating consensus among economists and even if it holds weak points with respect to its actual application, due to deficiencies inherent to the econometric model in seizing the ever changing, extremely numerous and complex details of the real economic environment, Tinbergen and Theil's theories regarding the connections between instruments and objectives represent an important landmark in the mission of central banks to establish their monetary policy strategy and behaviour. With respect to this issue, Alan Blinder, former member in the Board of Governors of the USA Federal Reserve, ascertains: "in my view, we must use the Tinbergen-Theil approach – with as many of the complications we can handle - even if in a quite informal way. [...] We all follow something that approximates – philosophically, if not mathematically – the Tinbergen-Theil framework. Central banks do, too. Or at least they should..." [14]

Referring to the nature of monetary policy instruments, we notice that they may be included in two categories: monetarist instruments, whose name indicates the doctrinaire area which defines them, and instruments located under the umbrella of quantitative easing and whose intervention in the economy contravenes to monetarist prescriptions, being closer to a neo-Keynesian philosophy. The latter are the product of a neo-Keynesian philosophy and imply the direct involvement of the central banks on the markets and, as expressed by Blinder [15], "changes in the composition and/or size of a central bank's balance sheet that are designed to ease liquidity and/or credit conditions"; they are regarded by monetarists as breaches of capitalist principles. However, nowadays the two categories of instruments are used concomitantly and we might say successfully by central banks.

We will analyze below such instruments and how they are used by central banks in order to fulfil their objectives, by always considering the specifics of the transmission mechanism of monetary policy and the way in which these influence their efficacy and efficiency. We must stress that we do not intend to analyze all instruments, either formal or informal, which central banks use when trying to influence the economic environment; such exhaustive analysis is not among the objectives of this paper. Consequently, we keep to discussing about what we consider as being the main instruments, with a view to the frequency of their use and the potential magnitude of their effects; this analysis is useful for a better understanding of how the transmission mechanism of monetary policy works.

Monetarist Instruments

Monetarist instruments include three types of main instruments and three secondary instruments, as follows. The main instruments are: open market operations, roll-over and deposit facilities (also known as standing facilities) and mandatory minimum reserves. Such instruments are used by the majority of worldwide central banks [16].

Secondary instruments include the handling of directing interest rates by the central bank (through discount rates and repo operations), modifying exchange rates for the national currency (by intervening on the currency market) and persuasion, meaning the use of influence and credibility of the central bank in order to determine banks and other economic players to adopt a certain behaviour, without relying on coercion [16].

We will refer below in detail to the main instruments mentioned above.

Open Market Operations

Open market operations are indispensable to monetary policy promotion. They are used in order to control the monetary mass so that the balance between the money supply and demand leads to the desired interest rate, the management of liquidities available on the

market and to indicating the orientation of the monetary policy [17]. As such and with respect to controlling the monetary mass, once it increases (leading implicitly to a rise in supply), the interest rate will decrease, while an open market operation of contraction will lead to an increased interest rate by diminishing the money supply.

Usually, such operations are performed by purchasing or selling bonds; in the first case, the central bank injects cash on the market (the monetary mass increases, which leads to decreasing the interest rate); the latter case implies absorbing the cash on the market (the monetary mass decreases, leading to an increased interest rate).

As the principles at the base of such operations are highly similar, irrespective of the monetary authority which uses them, we will analyze in depth the case of the Euro Zone, which is relevant at general level.

In the Euro Zone, the European Central Bank initiates a series of reverse operations (defined in the European Central Bank Official Glossary as transactions whereby the central bank buys or sells assets under a repurchase agreement or conducts credit operations against collateral); the reference interest rate is influenced through the monetary mass very similarly as described above with respect to transactions with bonds.

For monetary mass operations, the Euro System uses four types of sub-instruments which belong to the open market category [18]:

Reverse transactions, whereby the monetary authority either buys or sells financial assets, following that such transaction is reversed at a specified date, and the effective interest rate is given by the price difference between the initial and the reverse transaction, or through funding operations guaranteed by assets, without actually changing the owner of the latter;

Outright transactions are performed for structural and fine-tuning purposes and imply the definitive trading of some assets;

Issue of debt certificates, where the central bank is the debtor, for the purpose of managing the liquidity deficit on the market;

Foreign exchange swaps are used for adjusting the level of liquidity of different currencies and imply the simultaneous spot currency transaction and its reverse futures transaction;

Fixed term deposits, offered by the central bank at fixed due date and fixed interest rate and intended to absorb the cash surplus on the market.

Similar sub-instruments, even if they are not alike in the smallest detail, but having the same operating principles, are used for implementing open market operations by most central banks which run their activity in market economies. For instance, the American Federal Reserve labels open market operations (selling and buying credit instruments issued by the US Treasury or other American public institutions) as the most important instrument available for performing its monetary policies.

Roll-over and Deposit Facilities

Roll-over and deposit facilities, also known as standing facilities, are facilities made available by central banks to credit institutions, which the latter may access freely at any time.

For instance, the Euro Zone offers two types of such facilities, both overnight: the marginal lending facility, whereby credit institutions take loans from the central bank against a pre-established interest rate, and the deposit facility, which is the reverse operation, whereby credit institutions make overnight deposits against a pre-established interest rate.

With respect to the American Federal Reserve, the standing facilities take the "discount window" form. The name derives from the beginning of the central bank activity, when operations were performed in hard copy, due to the lack of the nowadays existing informational technology; the central bank issued or took over funds from banks in cash, at this window. Today, the Fed offers three types of such operations, which are differentiated by the due date of the investment and the nature of the entity which accesses the facility. As such, the primary credit facility is a short-term facility, usually available overnight, which is accompanied by certain so-called eligibility conditions. The secondary credit facility is similar to the primary credit facility, but it is destined for credit institutions which are not eligible for accessing the primary credit facility, while the interest rate required by the Fed for funds loaned through this facility is higher than the one used for primary credit facilities. The third type of Fed standing facility with its own interest rate is the seasonal credit. This facility has a medium-term due date and it is destined for relatively small credit institutions and which are subject to intra-annual cash fluctuations [19].

Irrespective of the technical details which are often different as per the monetary authority that creates and uses them, but which are similar in essence, these facilities operate as monetary policy instruments in the same way. This means that the establishment of the interest rate for deposit facilities and loans offered by the central bank creates an interval (between the credit and the deposit rate) which will influence the interest rate of market operations (mainly those on the short term or overnight) and, implicitly, the way in which credit institutions fund themselves or place their cash surplus.

Minimum Reserve Requirements

Minimum reserve requirements represent the minimum value of funds which a banking institution must own at the central bank as cash or deposits. The minimum reserve to be owned by each credit institution in the accounts of the central bank is established according to the liabilities in the balance sheet [19]. Over 90% of worldwide central banks force banking institutions under their control to hold a certain minimum level of mandatory minimum reserves [20].

The instrument of minimum reserve requirements is extremely important for controlling the level of cash available on the monetary market. The provisions regarding mandatory minimum reserves impact on interest rate levels (by adjusting the cash level available to credit institutions) and its stability (as it helps to regulate cash fluctuations).

Quantitative Easing

Quantitative easing (QE), a monetary instrument of Keynesian origin, implies the direct buying by the central bank of assets, thus directly and specifically injecting cash in the economy and granting funds to an important part thereof [21]. Bernanke [22], the governor of the American Federal Reserve, defines such actions performed

by the central bank of the United States as the aggregate operations whereby financial assets are purchased and funding facilities are granted; he also insists on the "credit easing" term, which is better suited for measures taken by the Fed rather than the traditional "quantitative easing" term. However, as Blinder [15] noted, the terminology proposed by the governor of the American Federal Reserve could not be enforced and entered under the umbrella of quantitative easing.

The severe economic crisis which started in 2007 also brought about substantial changes with respect to the activity of monetary authorities; such changes in vision and behaviour are the result of the rapid and significant spoiling of the economic climate, on one hand, and on the other, the belief that the onset of the crisis was caused precisely by erroneous behaviour and doctrinaire principles.

With respect to the instruments of monetary policy, the main effect of the approach change mentioned above relates to instruments of quantitative easing; it is a type of instruments whereby the central bank injects directly liquidity in the economy, by purchasing government or private credit instruments. Such purchase is performed by using fiduciary currency created for this purpose, which also implies the increase of the monetary mass.

Quantitative easing is used when all other measures of monetary policy have already been drained; precisely, when the inflation rate is alarmingly low, although the monetary policy interest rate is already close to zero and there is a possibility to end up in deflation, while expenses and investment are at low values. As noticed by Nouriel Roubini and Stephen Mihm, central banks change their traditional role they had during financial crises by applying such measures. Thus, the classic role of lender of last resort of the monetary authority turned into a not long ago inconceivable role of investor of last resort [6].

One of the main advantages of this type of instruments is its high flexibility, as the measures may be applied with respect to those areas of the economy from where their effects are propagated within the entire economy at optimum levels. As such, bonds issued by private entities (such as pension funds, insurance companies, banks or non-financial institutions) or government bonds may be purchased. In the first case, the newly-created funds are made available to private institutions in order to re-launch funding operations or for investment; the beneficiaries are often institutions encompassing financial issues, but which are "too big to fail". In this way, their bankruptcy is avoided, as this would cause a powerful shock wave in the economy. In the second case, the funding of the state budget is assured, by transferring the decision to subsequently allocating funds to the government; the latter will act in a Keynesian manner, trying to actuate consumption by launching public acquisition and investment programmes.

A collateral effect of quantitative easing, deriving from its application, is the enhancement of the funding capacity of third banks. Thus, while the bank account of the beneficiary (the seller of bonds or of other financial assets) is funded by the central bank, the corresponding commercial bank where the account is opened faces an improvement of its indicators on the basis of which the level of mandatory minimum reserve levels frozen at the central bank are calculated. This increases the level of liquidities available for funding activities.

Following these basic principles, the central bank develops quantitative easing instruments in such a way that issues related to the specific climate of the respective economy are solved as efficiently as possible. As such, the Unites States Federal Reserve, facing the pressure of the economic crisis, changed rapidly from a monetary institution managed as per neo-liberal principles into one of the most aggressive users of neo-Keynesian monetary policy instruments of quantitative easing. Such monetary programmes are implemented through the Term Asset-Backed Securities Loan Facility or, in short, TALF. The programme is implemented through the Federal Reserve Bank of New York and consists of loans guaranteed by financial assets rated AAA (or its equivalent) and by-products based on loans to natural person consumers and small enterprises. In order to ensure an enhanced result, TALF takes place simultaneously and closely connected to a similar programme conducted under the management of the American Treasury, the Troubled Assets Relief Program or, in short, TARP [6].

In the Euro Zone, the European Central Bank has so far conducted two actions of quantitative easing, in 2009 and 2012. These substantiated in granting the banking sector unlimited loans at a three-year due date and a reduced interest rate of 1%. This practically implied the flooding of the

market with liquidity, in a trial to help a jammed banking system and to relieve lending markets. Although it did not directly buy financial assets, the action of the central bank had a similar effect thereof by "commissioning" this operation to banks, which benefitted from cheap loans from the central bank. They were afterwards able to use at least part of such funds in order to purchase government bonds at higher prices and thus contributing to the relief of bond markets in affected states (such as Italy, Spain, Ireland or Greece), and to implicitly fund the issuing governments. Such practice led also to disapproving opinions, which ascertained that this type of facilities encourages recipient banks to make hasty decisions and take risks at the expense of the central bank. Another criticism which emerged was that through quantitative easing the healthy economies in the North of the continent and their tax payers would subsidize indirectly the banking system of less competitive countries and their profit-generating activities through an inferior interest rate as compared to the one on the market.

There are cases in other economies, even though isolated, where quantitative easing programmes went further than this. In 2009, the Central Bank of Japan intervened directly on the capital market and supported the price of shares belonging to banking companies, by directly purchasing them and as per the method applied for the first time seven years beforehand in Hong Kong [6]. Nevertheless, such measures are avoided by most central banks, as they are considered to be too aggressive.

Evaluation and Final Remarks

Today's economic environment, developed for several decades mostly by following a monetarist governance approach, is more complex and, due to an unprecedented level of globalization (of social, economic, political nature), more interconnected than ever, this situation calling for a new practice of monetary policy, which, ironically, due to applying monetarist prescriptions can no longer be efficient by using only monetarist monetary instruments. Consequently, this context does not mean that past monetary instruments should be discarded, but that new types of actions, namely what we generically call quantitative easing, should be added to the central bank's portfolio in an attempt to find the effective and efficient combination. Also, it is our belief that central banks should continue, like they did in the last couple of years, to play an active role in moulding the macroeconomic environment and, together with other public institutions, should implicate themselves in the market regulatory process, as, as the occurrence of the recent world economic crisis has demonstrated, if left alone, markets will not auto-regulate themselves towards balance.

Such a view on monetary governance is confirmed by recent macroeconomic developments and effects of sustained quantitative easing actions. On the short term, such a monetary behaviour of central banks solved to some extent the acute issues of worldwide economies, helping them overcome critical stages. Subbarao [23], referring to the "first wave" of such actions, observes: "QE, in all its variations, was able to halt the downward deflationary spiral (...).It kept sovereign borrowing rates low in the face of a market revolt. It helped clean up the balance sheets of stressed financial institutions through cheap funding." Such positive conclusions can also be drawn with regard to the quantitative easing measures that are currently in force in the United States (it is the third round of QE), where the Federal Reserve's decisive actions have had positive impact on unemployment, triggering a decline from 8.1% in August 2012 (QE3 was announced in September 2012, so the August unemployment figures are the last known at that point) to 6.7% in December 2013, according to the United States Department of Labour [24], and the real estate market, while not posing significant threats on inflation, the December 2013 inflation rate measuring a healthy 1,5% [25].

As a final remark, we must underline that that, even though, at least from a tinbergenian point of view, the variety of monetary policy instruments represents an additional chance for the monetary authority to reach its objectives, the same variety, together with the high degree of complexity and somewhat esoteric nature of quantitative easing (whose prior uses are few and thus contesters may accuse the lack of extensive empirical experience) makes monetary policy decision-making dependant on a deep understanding of how the transmission mechanism of monetary policy works. The structure and functioning characteristics of the mechanism represent a decisive factor regarding the efficiency and efficacy of the instruments used, offering implicitly arguments in favour or against monetary intervention for reaching objectives. However, the broad range of monetary instruments available to the central bank represents a tinbergenian (and not only!) argument for an increased degree of involvement of the monetary authority in the economy, without making a decisive claim in this respect.

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