The EU's Keynesian fallacies. B*y Patrick Barron via Mises Canada*, 4 January 2015.

Draghi: ECB ready to initiate QE to counter low inflation

In an interview with Handelsblatt, ECB President Mario Draghi warned that persistently low inflation in the Eurozone meant that "the risk that we do not fulfill our mandate of price stability is higher than six months ago". Draghi reiterated that the ECB was ready to step in with a programme of Quantitative Easing, noting that "We are in technical preparations to adjust the scope, speed and composition of our measures for early 2015."

ECB President Mario Draghi's latest statement is full of Keynesian fallacies, to wit:

1. That price stability is a worthy goal. No, monetary stability is essential, so that prices may reflect the true preferences and productive limitations of the market in order to allocate scarce resources to their most important purposes as dictated by the market.

2. That low inflation or even deflation is harmful. No, in a economy with increasing productivity prices will fall, benefiting all of society. Preventing prices from falling or, as ECB President Draghi desires, encouraging price inflation, causes the Cantillon Effect, whereby early receivers of the new money benefit at the expense of later receivers. Continuing monetary expansion will cause the Austrian Business Cycle.

3. That GDP is a good measure of an economy's success. if this were the case, then Zimbabwe would be a huge success story. GDP simply adds up the monetary prices of goods sold, so higher prices on the same or even slightly lower volume of sales necessarily will be interpreted by Keynesian economists as success.

4. That monetary expansion can spur an economy to greater prosperity. If this were the case, then counterfeiters would be doing all of us a big favor. Monetary expansion distorts the structure of production, sending more resources to the expansion of enterprises further removed from final consumption. This malinvestment eventually will be revealed by losses in these industries. The current collapse of commodity prices and anticipated bankruptcies in commodity production industries are a good illustration of this process and are attributable to massive monetary expansion by central banks since the 2008 great recession.