Cash piles [1]

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A series of news items on cash in recent days underscore the perversity of the world?s economic situation. What they all have in common is the growing piles of cash around the world that no one knows what to do with. Consider these items:

- Some fund managers like JPMorgan Chase, BlackRock and Goldman Sachs have closed some money market funds, notably those denominated in euros, to new customers. More money at current low rates would just hurt current holders.
- A survey by the Association of Finance Professionals which represents US corporate treasurers found that 41% of them have more cash than ever before and expect that to grow. More interestingly, they?ve more of that pile - over 50% - sitting in simple bank accounts than six years ago when it was just 23%. These treasurers are eschewing capital markets because returns are too low to justify the risk. In short, they?re more comfortable holding a depreciating asset (cash) than risky longer-dated securities.
- The European Central Bank reported that funds kept at its overnight deposit facility fell in the week after its rate cuts to €325 billion from €809 billion but it all merely moved to the ECB?s current account facilities. Jens Larsen, chief European economist at RBC Capital Markets said. ?The real concern for the ECB is not whether banks keep money in one account or the other, but whether the cut in rates has any effect on credit creation and real economic activity.? Clearly no.

Switzerland?s central bank is estimated to have spent some 62 billion Swiss francs (about $63.7 billion) buying up euros in June, up from CHF52 billion in May to prevent appreciation of the franc. One analyst said clients are wondering whether other policies will be needed ?to slow capital inflows either through capital controls or negative rates." Those diligent, hard-working and prudent Swiss are wasting their resources buying piles of foreign cash they don?t need.

These are vast sums sloshing around wastefully but in a completely rational response to utter fear of the future. Like medieval peasants hiding copper pennies from rampaging barbarians, some of the smartest people on earth are happier sleeping on a lumpy mattress than investing in the future.

Monetary policy has run its course. Zero interest rates and quantitative easing may have saved the world?s banks from collapsing but now there?s not much point in pushing those strings anymore. As for fiscal policy, that?s also been exhausted ? not even the mighty Keynes could have imagined the budget deficits and national debts from Japan to Europe to America.

Confidence in the productive sector remains low. How about some real-world policies that investors can believe in? Like completing Europe?s single market in services and unifying the disparate patent systems? Or simplifying tax codes that do away with special breaks, tax shelters and market distortions in favour of uniform but much lower tax rates ? Reagan?s wistful tax return on a postcard ? Or making it easier to fire redundant or poor workers to encourage hiring anyone the first place?

Any of these would do more for confidence and growth than yet more container loads of cash.

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