

INFLATION AND THE BOOM-BUST CYCLE IN CORPORATE LEVERAGE

Brendan Brown*

IAES, Friday, October 12, 2018

*Author of “The Case Against 2 Per Cent Inflation” Springer
(Palgrave), September 2018

Historical perspective

In every modern episode of asset inflation there is a boom in leverage

Strengthening of irrational forces play a role

Financial engineers work their apparent magic

Key questions:

Why does demand for financial engineers boom under monetary inflation?

How much damage long-term from the engineers?

Why are the engineers so active in emerging market debt?

Are there monetary policies which the EMEs could adopt to reduce vulnerability to engineers?

Definitions and concepts

Asset inflation

Financial engineering

Modigliani-Miller



Engineers, equity buy-backs & private equity

Rising equity values camouflage underlying increases in leverage

Making hay from hullabaloo about cash pay-outs in equity buy-back

Private equity bubble – how to explain and what end?

Emerging market bubble and bust

Speculative narrative about economic convergence

Hypothesis of permanent shift in exchange rates

The related dollar debt boom and what it finances

Could EME sound money policy provide defence?

Lessons from the 1920s

A summing up of the present situation