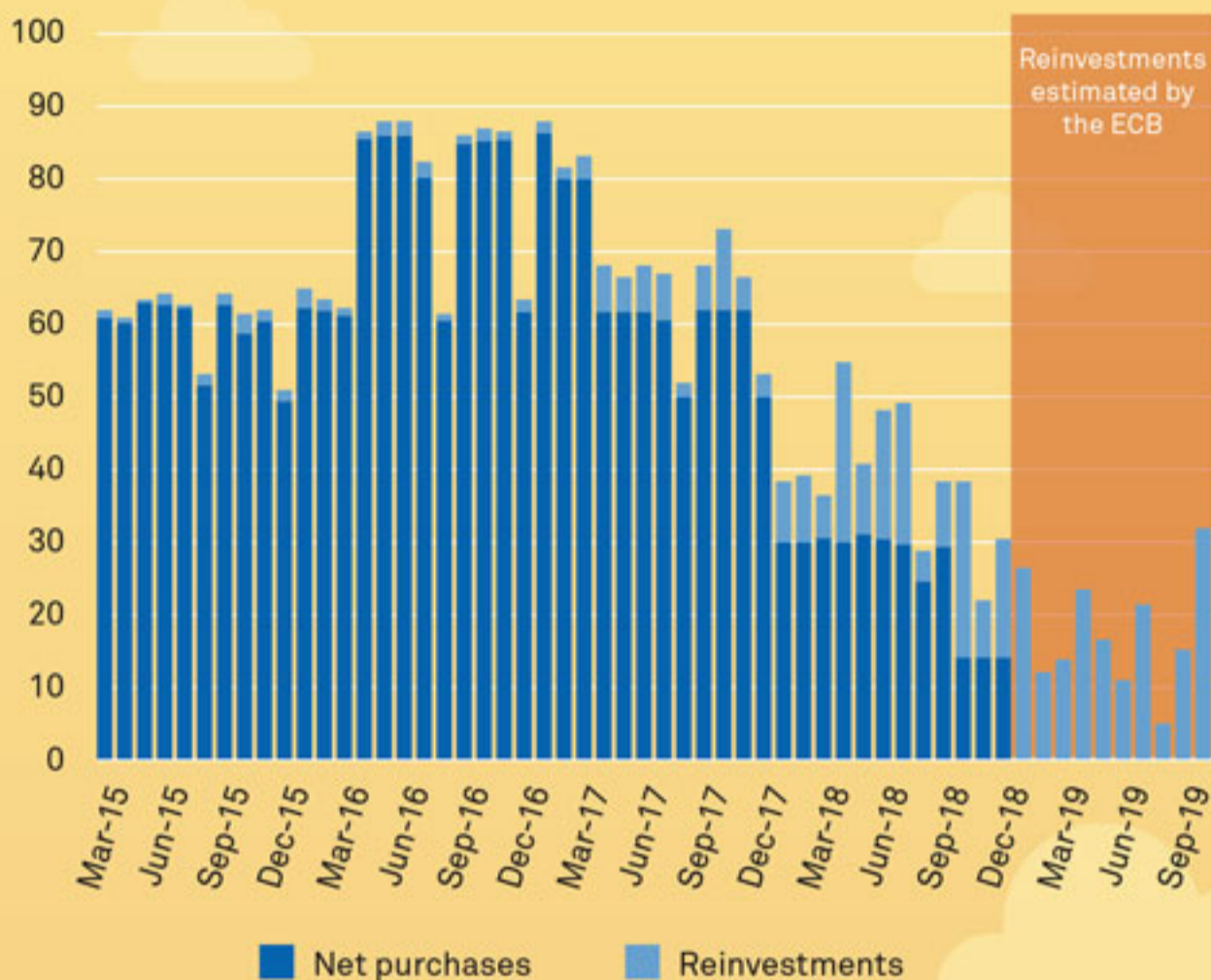


As the European Central Bank brings its asset-purchase program to a close...

ECB asset purchases

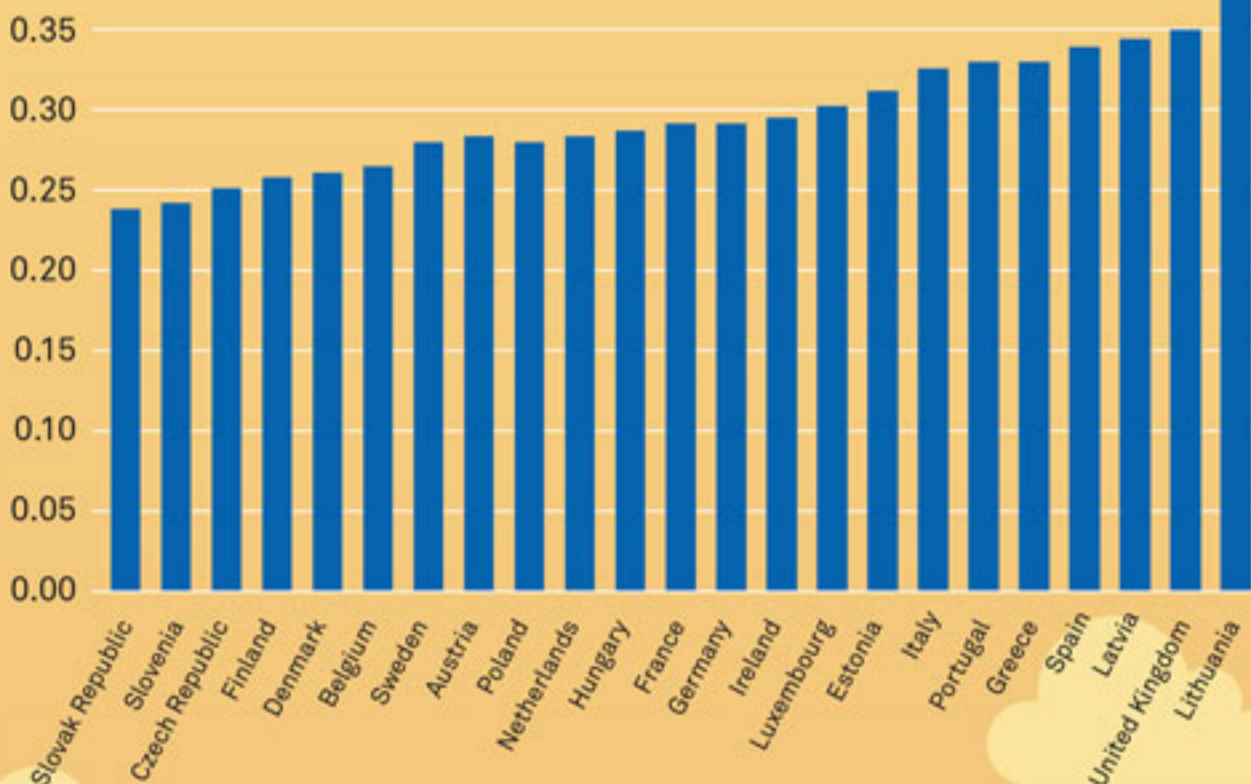
€ billions



Source: ECB, January 2019.

... it has done little to alleviate inequality in Europe and may even have exacerbated it...

Income inequality across the European Union



Gini coefficient, 0= complete equality: 1 = complete inequality, 2016 or latest available.

Source: OECD Social and Welfare Statistics: Income distribution. January 2019.

...which may in turn have helped stoke political and social upheaval...

As the European Central Bank (ECB) brings its asset-purchase program to a close, it is worth reflecting on the continuing political upheaval across Europe. It serves as an important lesson to those who champion inflationary policies. Proponents of quantitative easing (QE) no doubt expected the printing of €2.6 trillion of new 'money' to have, at least for a period, worked to pacify the masses over which the ECB presides, by boosting demand. Detractors of unsound money and credit are anything but surprised by heightened political instability throughout the eurozone.

In our view, asset bubbles are instruments of redistribution and the bubbles inflated by QE have only served to exacerbate inequality. As such, those with assets have seen their wealth inflated, while those without have seen them become increasingly unaffordable. We believe politicians have been complicit, with inflationary policies perpetually alleviating policymakers of the need to address structural issues requiring difficult choices and reform.

However, such short-termism has only exacerbated structural challenges in our view. By preventing the purging of misallocated capital, and sustaining excesses, central banks have ensured the factors of production are structured in a fashion that does not produce the output necessary for governments to deliver on their respective social contracts.

Global Real Return team at Newton, a BNY Mellon company

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