As is the case with most inventions, the modern-day configuration of the banking system would certainly not be recognised by the 17th century pioneers of central banking. Also, the complexity of today’s global financial architecture would definitely have been outside the realm of their collective imagination. Yet, the fundamental concept of sound or debased money has hardly changed. Therefore, *Plus ça change, plus c’est la même chose*, to borrow the epigram attributed to Frenchman Jean-Baptiste Alphonse Karr. That is, *The more things change, the more they stay the same*.

**Déjà vu?**

To be sure, it would be naïve to imagine that the modern age has heard the last of the ‘Greats’ – the Great Depression of the 1930s, the Great Inflation of the 1970s or the Great Recession of the 2000s. Neither is it the ‘end of history’, as Francis Fukuyama provocatively suggested before the 9/11 disaster upended the emerging new world order. In the aftermath of the Great Recession, Donald Kohn, a former Vice-Chairman at the US Federal Reserve and later an external member of the Bank of England Financial Policy Committee, sagely crystallised the view that ‘Financial cycles, imbalances and asset bubbles will persist. It is human nature to become overly optimistic and pessimistic, to go through cycles of greed and fear. Herding behaviour in markets reinforces this tendency. The central bank should aim to create a financial system that can withstand sharp falls in asset prices, not to attempt the near-impossible task of stopping future bubbles.’

Therefore, he declared, central banks must remain extremely vigilant and focused to ensure that ‘credit standards remain tight and lenders are always well-capitalised to manage losses’.
The views of Donald Kohn reinforce the uncomfortable fact that no nation has discovered an antidote to ‘irrational exuberance’ (a phrase attributed to former US Federal Reserve Chairman, Alan Greenspan). Indeed, at the height of an economic boom when investors are making money hand-over-fist, rare is that individual who would court being labelled a *Cassandra*, by predicting the end to an inflating bubble.

Still on the subject of bubbles, in 1999, Mr. Greenspan testified before the US Congress that ‘policy should mitigate the fallout when it occurs’, which analysts interpreted to mean that the job of central banks is to ‘mop up after the bubble bursts’. His successor as US Fed Chairman, Ben Bernanke, echoed a similar view by saying that ‘leaning against the bubble is unlikely to be productive in practice’. The general consensus among central bankers is that the policy tightening required to gently deflate an economic bubble most probably will push an economy into recession. The problem is that no one wants to be held responsible for starting a recession.

Although conventional asset bubbles are linked to stocks and real estate, new technologies in the past like the railways, the telegraph or information technology have also triggered irrational optimism in investors. Since the future will not readily reveal what it has in store for the rest of this century, the fervour to ride popular waves of new inventions will remain undiminished, as long as there is money to be made. Hence, the unanswerable question is not *if* there will be further asset bubbles, but *when*?

In a way, the central bank is a product of specific eras and its roles can only reflect prevailing political and economic circumstances. Notwithstanding, international financial crises have tended to shape the direction of travel of central banking as an institution, and the expectation is that this will continue to be the case. However, no matter the depth of past crises and the degree of sophistication characterising the domestic or international response, it is noteworthy that the fundamental purpose of central banking is quite explicit.

First and foremost, a central bank’s core purpose is, and has always been, monetary policy (price stability). Second, it has a fiscal role that encompasses serving as the ‘lender of last resort’ and being ready to provide liquidity in an emergency situation. Furthermore, the central bank has a macroprudential obligation aimed at monitoring and mitigating systemic risks (linked to the functioning of payment systems, as well as the rising complexity and interconnectedness of financial systems). Last but not the least, central banks are charged with the supervision and regulation of individual financial institutions. Since these pillars do not exist in silos, how they interface and interact, the capabilities of the