

Letters

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Monetarist tools have failed to lift economies

Sir, You report that Mark Carney, governor of the Bank of England, told MPs that the BoE is prepared to cut interest rates further from their historic low of 0.25 per cent ("Carney leaves open chance of more UK rate cuts", September 8).

This is unfortunate. In the face of overwhelming evidence that the exclusive reliance on monetary policy, both orthodox and unorthodox, has not only failed to secure a significant recovery of economic activity in the US, the UK or the eurozone, but is producing major distortions in financial markets, Mr Carney is promising yet more of the same.

The distortions created by policy include excessive asset price inflation, severe pressures on pension funds and a weakened banking system. The fundamental error derives from the exclusive role given to monetary policy.

This has led to loosening being pursued far beyond appropriate limits; the folly of negative interest rates being an extreme example. A balanced approach, with fiscal, regulatory, and tax reforms, would secure improved performance of the real economy and permit the return of a rational monetary policy.

Pursuing current policies is likely to result in serious instability as and when the monetary stance is adjusted and the distortions unwind. In addition to the negative impact on the recovery of the real economy there will be collateral damage to central bankers' reputation.

They are attempting the exclusive management of the economy with tools not up to the job, and, in consequence, central banks are pushed into being multipurpose institutions beyond their range of effective operation.

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