The limits of monetary policy

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I'm concerned because we're now getting to the point where we're also dependent on that level of distortion, that level of exceptional interest rate policies. It's no longer a temporary treatment but it has become almost the base case.

People are just uncertain about the future, the assumptions about long-term growth and there's also the fear of some threat to that growth. Central banks have an impact in my opinion on easing that fear factor, that risk factor. But when we talk about these additional stimulus tactics, I believe for years now we've been seeing that they are relatively ineffective in creating growth. I struggled in trying to explain that to those in the central banks that will listen to us, but I do not believe that further central bank stimulus is necessary or effective in helping create further growth. Think of it this way. You're saying to someone, "I'm creating these extraordinary measures, creating negative interest rates in certain countries, but you should feel confident about going out and building a new factory or hiring new people. I want you to invest in the future even though I'm telling you that I'm creating extraordinary measures to combat a potential crisis." Those two are just not behaviorally consistent. So while theoretically low interest rates are a necessary condition for good growth, they seem to ignore at this level the behavioral aspects.

The essential element of evaluating any investment is understanding what the risk free rate is. Whether it's a bond or whether it's an equity, whether it's buying a new house, you have to have some sense of what your required return is. That required return is a combination of the risk free rate, which is usually taken from 10-year government bonds, and then you add what you need on the top to cover your costs or cover your expectations of risk. If that risk free rate is being distorted in some way, then essentially how do you evaluate things? If you looked at the U.S. economy at the moment and you looked at unemployment being under 5%, you would not predict that interest rates would be where they are. So I am quite troubled by it. I think it's this insistence that rates are the way to stimulate growth and I don't believe that is the case.

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