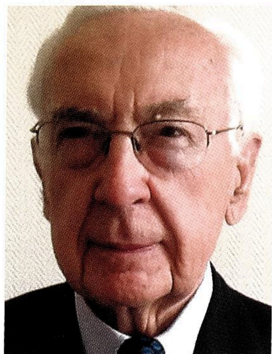
In these extremely demanding circumstances, I would express two wishes. First, central banks should ensure credible anchoring of inflation expectations in line with their medium-term goal. This is absolutely key for the support of fellow citizens.

And second, central banks should not be forced to battle today's problems alone, as well as the new major difficulties that are likely to materialize in the future. If this becomes the case, I expect them to be more eloquent than in the past in calling upon all their partners, including political authorities and social partners, to step in and help.



All the disruptions we are witnessing have been carefully prepared over the last fifteen years.

JACQUES DE LAROSIÈRE
Former Managing Director, International Monetary Fund, and Honorary Governor, Banque de France

What is strange is not so much the current outburst as the astonishment it arouses. All the disruptions we are witnessing—particularly inflation's upsurge—have been carefully prepared over the last fifteen years.

I personally have never understood the "rationale" behind the major central banks' policies. These have been continuously accommodative, regardless of the cyclical positioning. Policy rates remained negative for twenty years in real terms, dictating their "guidance" to the markets.

The reason for this stimulating obstinacy? Inflation was below the 2 percent target set by the central banks. Achieving such an objective—which is obviously arbitrary and cannot be equated with the economic optimum—should never have been the single and absolute guide for policy.

For a number of reasons, break-even inflation (which prevented both deflation and excessive inflation) had been around 1 percent. And it is this, insignificant, disparity that "justified" the ensuing debauchery of monetary creation.

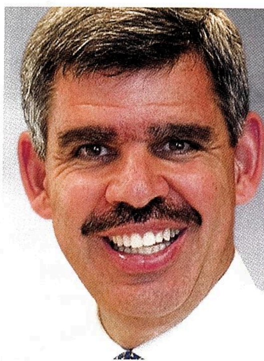
The consequences were of immense severity, which few observers denounced. First, the prolonged existence of zero or even negative rates has been disastrous. It has exacerbated the search for yield, propelling the value of junk bonds, stock exchanges, and most financial assets beyond reasonable limits, thus preparing for the severe adjustments that will follow the inevitable corrections to come.

This policy has allowed our world to accumulate the most phenomenal global debt ever observed in peacetime, with all the vulnerabilities it entails. It has also been accompanied by an extraordinary increase in income inequality.

Has the abundance of zero-rate liquidity at least promoted productive investment? No. In a system in which savings are no longer remunerated at all, economic agents prefer to keep riskless liquid instruments and turn away from long-term investments. This is the "liquidity trap" that Keynes was afraid of and in which we find ourselves, especially in Europe. Actually, global productive investment fell significantly during the period of extra-low interest rates while share buybacks flourished.

Why such dangerous developments and such disregard for the objective of financial stability? Basically, our decision-making system, faced with the existential challenges of our time, prefers the old, easy, short-term recipe of continuous monetary stimulus to structural effort. And governments, having sucked the milk of borrowing at no cost, would be happy to continue their "fiscal dominance."

But we still have to learn, once more, that structural problems call for structural remedies, and cannot be solved by more and more cheap money.



The Fed got sucked into an unhealthy co-dependency relationship with markets.

MOHAMED A. EL-ERIAN
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Well-intentioned interventions by central banks, including in particular years of massive and predictable liquidity injections by the Federal Reserve, have distorted the functioning of financial markets in ways that could well come back and bite economic wellbeing in the years ahead. Fortunately, there is a window—albeit a small and shrinking one—to avoid collateral damage to livelihoods and financial stability.

Forced by political polarization into being the "only game in town" policy-wise, the Fed got sucked into an