The Future Course of Monetary Policy

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Underlying trends have been favourable for Central Banks and their operational independence.

A) Interest rates, both nominal and real, have trended down over last 30 years.

B) As a result, although debt ratios have been rising, (except banks since 2009 and Germany), debt service ratios have remained low and steady.

C) Borrowers, especially public sector and corporates, have gained. Those already holding assets, e.g. old and rich, have gained.

D) Losers have been savers without assets, e.g. young and poor, but these have tended to blame governments, not Central Banks.
Source: National sources
Source: National sources, Fred
Source: National sources, IMF, WB
Such trends are likely to reverse as demography worsens and China effect wears off. Can India and Africa take China’s place?
What determines net surplus of corporate sector?

1) Technology
2) Monopoly
3) Managerial incentives
4) Cheap labour
Assuming normalisation of monetary policy

1) Central Banks no longer best friends of borrowers:-
   a) How will politicians react?
   b) How to handle corporate insolvencies?

2) Debt trap. What way out?
   a) Growth       No
   b) Cancel debt  Hardly
   c) Inflation    ?
   d) Default      No
   e) Switch to equity  Perhaps