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Mark Carney bottles it with baby steps [1]

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Mark Carney had the leeway to make radical change here [3] but he's bottled it with baby steps.

The 'Carney rule', promising low interest rates and the possibility of more quantitative easing (QE) until unemployment is low or inflation rises, is definitely an improvement on the current regime. It gives firms clearer guidance on the future stance of policy, removing some of the uncertainty in the world economy today. I expect it to deal with some of today's demand shortage, and more importantly tomorrow's expected demand shortage.

But unemployment and inflation come from both aggregate demand (which the bank can control) and aggregate supply (which it has essentially no control over). Since neither of these numbers distinguish between changes in supply or demand, the Bank is still fumbling in the dark with its guesses over whether a change in inflation comes from demand (which means it should react) or supply (which means it shouldn't). This means firms are still left guessing, and it means that uncertainty still reigns.

What we really need is a truly rule-based system that takes discretion away from nine 'wise men' and uses market forecasts to create real stability. That system is nominal income targeting. [4]

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