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The last thing we need is new tools for central bankers.

What they have done to date has failed to restore strong and sustainable growth, in part due to the unexpected side effects of their own policies. More of the same experimentation threatens to dig the hole even deeper. Central bankers should have insisted years

ago that the global economy faces "real" problems that the provision of liquidity by central banks simply cannot solve. John Maynard Keynes himself came to this conclusion in his intellectual journey from the *Treatise* to the *General Theory*.

The recovery of the global economy since 2009 has been uncomfortably weak in spite of unprecedented efforts by central banks to stimulate demand. Increasingly, their efforts smell of panic, inducing those with the capacity to spend to just hunker down. Moreover, easy monetary conditions work by bringing spending forward in time, ratcheting up debt levels in the process. After seven years of this, the "headwinds" of debt are now blowing strongly in every part of the world. Whereas in 2009 the emerging markets were part of the solution, today they are part of the problem.

Among the many unexpected and undesirable side effects of easy money, two stand out. New tools will only increase their negative impact.

First, easy money threatens financial instability. Financial institutions are having their margins squeezed and their business models questioned. Financial markets are also being affected. With central bank policies so dominant, the price discovery mechanism has effectively disappeared. Dysfunctional market "anomalies" have become increasingly evident. Moreover, the high prices of many assets, both financial and real, are increasingly hard to reconcile with fundamentals.

Second, easy money threatens potential growth going forward. There was a serious misallocation of resources prior to the crisis—above all to construction. To some degree, easy money has helped lock in these misallocations as zombie banks have found it easier to support zombie companies. This impedes the growth of more efficient firms and also siphons funds away from new firms whose only collateral is the "next big idea." Moreover, with financial markets no longer working properly, the longerterm benefits of both financial diversification and value investing have been further impaired.

What should G20 governments do? A blend of Hayek and Keynes seems called for. On the supply side, the debt overhang problem must be solved in an orderly way. In many jurisdictions, we also need better insolvency laws, especially for financial institutions. Structural reforms also offer many low-hanging fruit. On the demand side, those countries with fiscal room for manoeuvre should use it. Redistributing income to the relatively poor, whether through higher wages or direct transfers, also has significant merit. None of this will be politically easy, particularly given the need for international cooperation. However, the first step in that journey must be dispensing with the dangerous delusion that central banks can sort things out, if they would only try harder. Giving central banks more tools only strengthens that delusion.