Memo to the IMF: why do you find the glaringly obvious ...

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I hope the Guardian will forgive me for posting the following from their web iste this morning. My defence is that the issues raised are pretty fundamental:

A prolonged period of ultra-low interest rates poses the threat of a fresh financial crisis by encouraging excessive risk taking on global markets, the International Monetary Fund has said.

The IMF said that more than half a decade in which official borrowing costs have been close to zero had encouraged speculation rather than the hoped-for pick up in investment.

In its half-yearly global financial stability report, it said the risks to stability no longer came from the traditional banks but from the so-called shadow banking system — institutions such as hedge funds, money market funds and investment banks that do not take deposits from the public.

JosÃ© ViÃ±als, the IMF's financial counsellor, said: "Policymakers are facing a new global imbalance: not enough economic risk-taking in support of growth, but increasing excesses in financial risk-taking posing stability challenges."

So, the IMF has proved it can spot the risks. Half marks for that.

But they get no marks at all for then going on to discuss changing interest rates as if that is a solution. It isn't, not least because it will tip millions of households into debt, bring on mortgage foreclosures and create another banking crisis on not time at all, and that's before the impact on spending and investment. To go down that route is insanity.

So the answer has to be different and those alternative answers are available. First, there's a need for a financial transaction tax (FTT or Robin Hood Tax) to curb the activities of the shadow banking sector. And if that FTT had an inbuilt clause (the so-called Spahn variation) which increased rates in the event of financial volatility precisely designed to slow down contagion in the event of financial panic, so much the better. This simply works by making trades in that situation very much more expensive and so prevents wild market excesses.

Second, if business will not borrow to invest and yet there is unmet capacity in the economy (and there is) and real need to be met then the obvious answer in an era of exceptionally low interest rates is that government must invest instead. It really is that glaringly obvious. It's not rocket science. It's just plain common sense.

What is so hard to work out is why the glaringly obvious is so hard for the IMF to spot.