Carney announces the effective end of monetary policy

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Mark Carney made a speech in the USA today in which he said:

For the past thirty years, a number of profound structural changes in the world economy have pushed down on the level of world real interest rates perhaps by as much as 450bps. Researchers at the Bank of England have estimated a decomposition of these changes, suggesting, in declining order of importance: slowing potential growth, the rise in saving due to demographic forces; higher credit spreads, lower desired investment given a lower relative price of capital, changes in income distribution; excess saving in emerging markets, and declining public investment. Collectively these factors could account for the lion's share of the 450bp fall observed in the past 30 years and suggest that global real rates may remain low — perhaps around 1% — in the long term.

(For those not familiar a bps is 1/100 of a percent, so 450bps is 4.5%)

Four things are important about this. First, there is a clear signal here that if rates rise in the UK it is not going to be my much: assuming inflation remains low (and I think that will be the case) he thinks to 1% in real terms the long term, which may be little more than that in actual terms.

Second, that implies that in effect monetary policy - which requires scope for changes in bank rate - is dead as a tool for delivering economic policy. That blows a massive hole in the armoury of most macroeconomists who hanker for a return to 'normal' so that they can pretend that their theories work again.

Third, this means that fiscal policy is now the only tool in town. Call it People's Quantitative Easing if you like.

Fourth, this leads to the question, what role is left for Central Banks in economic policy? (Hint: the answer embraces the words 'not a lot')

To put it another way, all those who hanker after the old 'normal' had better think again: the new 'normal' is unconventional fiscal policy.