

# FINANCIAL TIMES

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TUESDAY MARCH 27 2007

## Time for action (not words) to end the liquidity party?

*From Mr Paul Hodges.*

Sir, Mohamed El-Erian provides a fascinating analysis today of why "In the new liquidity factories, buyers must still beware" (March 22).

It would seem that, individually, central bankers might well agree with him. Sir John Gieve of the Bank of England commented last December that one would expect mispricing of risk to be "counteracted by market forces", but then added that "in a world of short run return targets, it is not surprising to find this is unpopular".

Equally, Ben Bernanke of the Fed noted recently that "there seems to be little basis for concluding that globalisation overall has significantly

reduced inflation in the US in recent years; indeed the opposite may be true".

But collectively, central bankers seem unwilling to implement the famous dictum of William McChesney, the long-serving Fed chairman in the 1960s, that "the job of the Federal Reserve is to take away the punch bowl just when the party starts getting interesting". Instead, they seem to confuse being market-friendly with being friendly to markets. One doubts that Mr McChesney would have shared the worry of the Bank of England last week that "an unexpected move by the [monetary policy] committee could provide an unwelcome addition to the

uncertainty and volatility in financial markets".

Last week was also remarkable in that the BoE's minutes noted that the balance of risks to inflation was "to the upside in the medium term", while the Fed statement said recent readings on core inflation "have been somewhat elevated". If the authorities really believe their own analysis, then it is surely time for actions not words to reduce demand pressures, irrespective of whether this brings the current liquidity party to an end?

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