Not so long ago, central banks had a clear, but limited task. To be sure, there were small variations in terms of the mandate of central banks around the developed world. But essentially, monetary policy was a decision on when to adjust interest rates – ideally raising them before economic overheating and cutting them in time to mitigate or avoid a looming slump. How quickly an economy would grow in the longer term, though, was largely determined by other factors.

That last insight is important. We should remember that there may not be much central banks can do to boost potential growth. Perhaps we need to realize that potential output growth is lower than it used to be.

Blaming the Fed for lackluster potential growth is a bit like blaming a referee for the lack of sporting prowess you see among the players on the field. To be sure, a central bank can mitigate the lasting impact of a slump by trying to keep recessions brief, being mindful of the fact that workers who are unemployed for prolonged periods lose some of their skills. When young people struggle to find a job to begin with it can also hurt their prospects for many years to come. This has been a perennial problem in other parts of the world, and may be one of the root causes of economic stagnation in Southern Europe.[2] Arguably, the ECB made matters worse, when it prematurely increased interest rates in 2011.

By contrast, U.S. unemployment has more than halved since peaking in 2010, thanks in large part to decisive Fed action. Unfortunately, this translated into a mere 2.4% of growth in gross domestic product (GDP) for both 2014 and 2015, according to the latest estimates of the Bureau of Economic Analysis. For 2016, we now forecast 1.8%.

Potential U.S. growth is probably quite a bit lower still. The same is true in other developed markets that embraced QE early on. At 2%, growth remains disappointingly slow in the United Kingdom, if judged by historic standards. However, unemployment has fallen to 5.1 %, suggesting there is little slack left in the labor market. It appears that the United Kingdom, just as the United States, is no longer able to sustain the sort of growth rates familiar from previous cycles, without triggering inflation.

[2] Blanchard, Olivier J., and Summers, Lawrence H., Hysteresis and the European Unemployment Problem, NBER Macroeconomics Annual 1986, Volume 1, pp. 15 – 90.