

## Setting interest rates

SIR—In your leader “New Labour, new Old Lady” (March 1st), you argue that the Bank of England, rather than the chancellor of the exchequer, should set interest rates. Yet you ignore a third option: let the financial markets set interest rates, without any guidance from the chancellor or the Bank.

One of the fundamental lessons of the collapse of communism and the centrally planned economies is that markets do a much better job than bureaucrats in setting prices. Interest rates, of course, are merely the price of credit, so why do you believe that bureaucrats are better equipped than the financial markets to set them?

Implicit in your argument is the notion that central-bank bureaucrats are more committed than the markets to minimising inflation. But in a vibrant financial market such as London, the balanced yet opposed interests of creditors, who like deflation, and debtors, who favour inflation, will produce interest rates that foster non-inflationary credit growth. Central bankers and their political masters lack that balance of power, which is why neither the bank nor the chancellor can be relied upon to do a better job than the marketplace at minimising inflation.

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