Banks used to give toasters away to customers who opened checking or savings accounts, but the world is changing. Soon, customers may need to give toasters to the bank.

Last week, the European Central Bank (ECB) created a “negative” interest rate of 0.1% annually on bank reserves. In other words, banks must pay the ECB to hold excess reserves.

The reason for this maneuver is to give banks an incentive to lend. European bank loans fell by 0.6% in 2012, 2.3% in 2013 and 2.5% during the year-ended in April 2014. Inflation is also so low in Europe that the ECB is worried about deflation. Many analysts are comparing Europe to Japan.

But it all may backfire. If banks are forced to pay the ECB to hold reserves, banks may start charging customers to hold deposits (with negative rates, more fees, or maybe even a toaster).

Doing this would boost the incentive for bank customers to hold more cash and fewer deposits. In turn, more cash and fewer deposits mean a shrinking money supply, which, in turn, can cause deflation. In other words, by trying to fight deflation, the ECB could actually cause deflation.

The real problem with Europe has nothing to do with money. It has to do with heavy labor regulations, high tax rates, government spending, and excessive redistribution. All of this is caused by political sclerosis, which then causes economic sclerosis.

And, like Japan, European population growth has slowed precipitously and is actually falling in some countries. Like we said, none of this has anything to do with a lack of liquidity from the ECB. European banks hold €104 billion in required reserves and €92 billion in excess reserves. While M2 growth has slowed, it is still positive – up 2.5% in 2013 and 2.0% in the past 12 months.

In other words, Mario Draghi is being asked to do the impossible. The ECB doesn’t have the authority to cut government regulation, spending, or tax rates. Draghi has provided lots of liquidity, but the demand for loans (driven by economic growth) is just not there. Europe, America, Japan, the world – none of these economic entities have a problem with liquidity.

The “myth” that central banks saved the world from calamity in 2008 has become conventional wisdom. The result is that people think central banks can impose their will. If only they get loose enough, their economies (real GDP) will grow faster, the theory goes. But central banks can’t do this.

Trying to force banks to lend, building massive balance sheets, manipulating interest rates…all of it…is futile. If the problems in the economy were actually due to a lack of liquidity, then some, or maybe all of these policies might help. But, liquidity is not the problem. The money supply is growing faster than loans. Central banks are pushing on a string.

What Keynesians call a liquidity trap is in reality a “fiscal policy trap.” Governments are just too big, they tax too much, they regulate too much, and they distort investment incentives in massive ways. If the world wants faster growth it needs a massive fiscal overhaul. The best thing to do would be to sunset every law on the books and re-think fiscal policy from the ground up.

Anarchists are few and far between. We don’t know any and think the government should provide basic services which it can do more efficiently than other societal institutions. The problem is that governments around the world exceeded those limits long ago and never looked back.

Using central banks to fix problems caused by fiscal mistakes just creates bigger problems. Negative interest rates are just such a policy. “Let them give toasters” is not much different than “let them eat cake.”