Adair Turner: A New Debt-Free Money Advocate

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Econintersect: This past week one of the leaders in global finance, Adair Turner, chairman of the FSA (Financial Services Authority), gave a speech of historic importance. In an address to the Cass Business School, 06 February 2013, Turner proposed that governments should use money for themselves and for ordinary citizens that is directly produced and not be restricted to that obtained via issuance of private bank credit as the global financial system has operated by and large for 100 years. He said that we are only slowly learning what factors got us into the financial crisis and how they "*constrain recovery*." And as we learn more he thinks the evidence indicates there are options that should be considered and have not been on the table.

Adair Turner

Here is a quote from the introduction to the talk:

We must think fundamentally about what went wrong and be adequately radical in the redesign of financial regulation and of macro-prudential policy to ensure that it doesn't happen again. But we must also think creatively about the combination of macroeconomic (monetary and fiscal) and macro-prudential policies needed to navigate against the deflationary headwinds created by post-crisis deleveraging.

Turner says that monetization of government debt should not be excluded. He referred to "*helicopter money*", obviously thinking of the U.S.'s "*Helicopter Ben,*" Federal Reserve Chairman Ben Bernanke. He went on to say that the process of printing money to finance deficits has "*the status of a moral sin - a work of the devil*."

Turner rejects the moral sin status. He invokes Milton Friedman (an ultimate exorcist):

Friedman argued in an article in 1948 not only that government deficits should sometimes be financed with fiat money but that they should always be financed in that fashion with, he argued, no useful role for debt finance. Under his proposal, "government expenditures would be financed entirely by tax revenues or the creation of money, that is, the use of non-interest bearing securities" (EXHIBIT 1) (Friedman, 1948). And he believed that such a system of money financed deficits could provide a surer foundation *for a low inflation regime than the complex procedures of debt finance and central bank open market operations which had by that time developed.*

Later on in this article we will see that Ben Bernanke did not develop the concept of dropping money out of helicopters - it was actually Milton Friedman.

Turner also cited the work of Chicago School founder Henry Simons in support of direct government fiat money creation. And, of course, as readers of *GEI* contributor Derryl Hemanutz will be aware, Irving Fisher also supported the creation of debt-free money and was cited by Turner as well.

Turner said:

As for debt contracts between private sector agents and in particular bank loans that create matching quantities of bank credit and bank money, they are not mentioned in Goethe's Faust. But as great economists of the 1930s such as Irving Fisher and Henry Simons correctly pointed out, uncontrolled creation of bank credit and money can be a major driver of financial instability and subsequent economic harm, even when the creation of irredeemable fiat money is tightly controlled, with fiscal deficits small or non-existent and inflation low.

Turner's two conclusions:

- *First, that in the deflationary, deleveraging downswing of the economic cycle,we may need to be a little bit more relaxed about the creation, within disciplined limits, of additional irredeemable fiat base money.*

- *But second, that in the upswing of the cycle we should have been massively more worried than we were pre-crisis about the excessive creation of private debt and private money; and, that we should be wary of relying on a resurgence of private debt and leverage as our means of escape from the mess into which excessive debt creation landed us.*

Turner suggests that the QE activity of the U.S. Federal Reserve may end up being the equivalent of providing additional fiat money to finance deficits if the Fed balance sheet is never completely unwound. The alternative discussed by Turner, OMF (overt money finance), which is just directly "printing" money to finance deficits, he finds has situations of merit. He does discuss the problem of containing inflation if OMF is done "*irresponsibly*."

Editor's notes: *The word printing is placed in quotation marks because little currency is actually printed - it's all just electronic debits and credits.*