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Suddenly, quantitative easing for the people seems possible

Last week I discussed in this column the idea that the vast amounts of money created by central banks and distributed for free to banks and bond funds – equivalent to \$6,000 per man, woman and child in America and £6,500 in Britain – should instead be given directly to citizens, who could spend or save it as they pleased. I return to this theme so soon because radical ideas about monetary policy suddenly seem to be gaining traction. Some of the world's most powerful central bankers – Mario Draghi of the European Central Bank last Thursday, Eric Rosengren of the Boston Fed on Monday and Mervyn King of the Bank of England this Wednesday – are starting to admit that the present approach to creating money, known as quantitative easing, is failing to generate economic growth. Previously taboo ideas can suddenly be mentioned.

Rosengren, for example, suggested that the Fed should expand the money supply without any limit as long it sees unnecessary unemployment. Draghi has similarly promised to spend whatever it takes to prevent a euro breakup, although politically his ability to do this remains in doubt. Most interesting was a speech by Adair Turner, chairman of Britain's Financial Services Authority and leading contender to be the next governor of the Bank of England. This speech strongly challenged the pervasive complacency of central bankers and called for new ideas that might combine central-bank money creation with government decision making on how to bypass banks and inject this money into the non-financial economy of consumption, investment and jobs.

The radical alternative discussed here last week – QE for the People (or QEP, for short) – would bypass banks completely by distributing newly created money straight to the public. It is not yet on anyone's agenda, but neither is it any longer dismissed as a joke.

Given the clear political attractions of giving money to citizens, rather than bankers, it may start to gain attention, at which point there will surely be powerful objections to this idea. Apart from the obvious observation that bankers and financiers are very powerful interest groups, there are four genuine arguments against QEP as a way to stimulate economic recovery.

The first is that it wouldn't work. Since banks and bond investors simply hoarded most of the \$2 trillion delivered to them via QE, maybe citizens would do the same. Instead of spending their QEP bonuses to buy consumer goods and houses and create jobs, citizens scarred by the financial crisis might simply save their bonuses or use them to pay down debts. This could indeed happen. But if it did, economic prospects would still be transformed, since the debt burdens crushing many households would be lightened. If the \$2 trillion in QE had instead been used to repay consumer debts, U.S. household debt would be reduced from 83 percent to 70 percent of GDP, roughly

where it was in the 1990s. The excess leverage created by the housing and credit bubble would be eliminated at a stroke.

The second objection to QEP is that it would work too well. The present slump would turn suddenly into a boom and create inflation. Excessive inflation is always a valid argument against excessive monetary stimulus, but the problem with inflation today is that it is too low. Central banks all over the world are explicitly trying to increase it by reducing interest rates to zero, and the Fed is particularly adamant about this. If central banks print too much money for too long, then inflation will follow. But the same applies to the present policies of zero interest rates and standard QE. Nobody worries about the inflationary risks of these standard policies any longer because they don't seem to be working, but this may actually mean that an accidental monetary overdose is more likely if the central banks stick to standard QE.

Another, more powerful, version of the “works too well” critique relates to politics and moral standards. If distributing printed money proved successful, this discovery would corrupt society. Politicians would bribe voters before elections and citizens would stop working, preferring to collect handouts from the central bank. Of course, these things would happen if QEP continued forever. But the same is true of all popular policies, including tax cuts, welfare spending and low interest rates. What limits the moral hazard of these policies is not ignorance, but democracy. Governments that lose control of inflation get punished by voters – and the same would apply if central banks continued printing money for longer than required, whether this money went straight to voters or banks. Indeed, if QEP proved effective, central banks would have to print less money than under standard QE.

Which leaves the final and most persuasive objection: the idea that money could be given to citizens without raising taxes or increasing the government's debt burden seems too good to be true. Economists often say that “there is no such thing as a free lunch,” but this is not true. In fact, economics since Adam Smith has demonstrated that the world is full of free lunches. Free economic exchange means that one person's gain need not result in another's loss. When properly managed, industrial specialization, international trade, market competition and full-employment macroeconomic policies can all produce gains without any substantial losses. In the deepest and most protracted economic slump since the 1930s, QE for the People may be another such idea whose time has come.