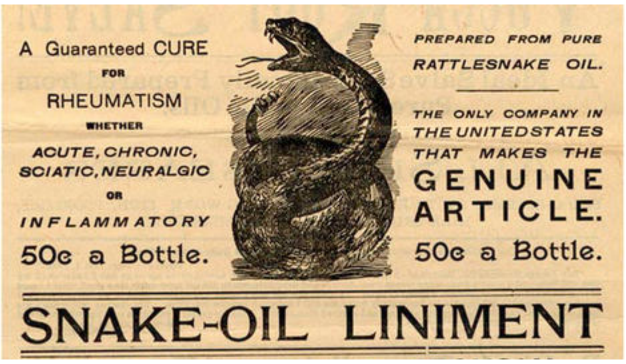
Frances Coppola's snake oil of conventional macroeconom...

//www.taxresearch.org.uk/Blog/2015/08/28/frances-coppolas-snake-oil-of-conventional-macroecono

Published: January 12, 2026, 8:18 pm

On Thursday night Frances Coppola and I walked through Bloomsbury to Kings Cross / St Pancras following an event on modern monetary theory at which I spoke and she attended, and where I made sure she got a chance to ask her question. I thought we had a good and useful conversation. I tweeted to thank her for it.

And then yesterday she published a blog by someone called Paddy Carter in which People's Quantitative Easing was described as 'snake oil'. For the sake of doubt the blog title (Frances' work, no doubt) was 'Monetary Snake Oil' and the image that accompanied it, again, no doubt Frances' work, was:



I think we can be pretty sure that Frances was not publishing opinion with which she differed. So let's for a moment remind ourselves what snake oil is:

Snake oil is an expression that originally referred to fraudulent health products or unproven medicine but has come to refer to any product with questionable or unverifiable quality or benefit.

And so:

By extension, a snake oil salesman is someone who knowingly sells fraudulent goods or who is themselves a fraud, quack, charlatan, or the like.

I think the intimation is pretty clear.

I have to admit that I'd have thought Frances might have raised the subject, and her intention to publish such a description of work intimately connected to me when she had the chance to do so on Thursday. She didn't. But if there is something I have learned from Jeremy Corbyn over the last few weeks it is 'don't do personal'. So I'll be letting the libel pass by. Which Paddy Carter might like to note too.

Who is he? I first came across him when he commented on this blog, supporting Chris Giles' view that tax is extortion. I now note that he is, according to his biography (linked from the Coppola blog) a development economist specialising in tax for the Overseas Development Institute. Now tax and development is something I know about. I have a track record there, and some (I went over-egg it) small record of promoting change. I have never heard of a Paddy Carter. And the ODI's contribution would be best described as an opportunity lost, but Paddy clearly feels PQE is his thing because, as he says of himself:

Paddy Carter is really a development economist but has been brainwashed by years of teaching undergraduate macroeconomics and absorbing more by osmosis, briefly having had an office down the hall from Tony Yates.

To contextualise: he is then a man who has taught the basics of macroeconomics under the influence of a man who left the Bank of England some time ago and who now thinks he is the spokesperson for 'the Bank view' of PQE, to whom it has provided an opportunity for comment the likes of which he has never enjoyed before. I think we get the drift: Paddy's a man who, like Prof Tony Yates, appears unable to appreciate that there might be a need for new fiscal tools to deal with the next economic crisis given that all the monetary ones we now have available have failed. That's the necessary starting point to contextualise discussion, but let's at least welcome a new voice to debate. There are few enough of them.

So let's now look at the economics on offer from Paddy. In doing so I can't help but start *with a quote from a Danny Blanchflower paper from 2012 in which he in turn quoted Oliver Blanchard's 2008 description of the standard macroeconomist' approach to an issue (Blanchard is now chief economist at the IMF):*

A macroeconomic article today often follows strict, haiku-like, rules: It starts from a general equilibrium structure, in which individuals maximize the expected present value of utility, firms maximize their value, and markets clear. Then, it introduces a twist, be it an imperfection or the closing of a particular set of markets, and works out the general equilibrium implications. It then performs a numerical simulation, based on calibration, showing that the model performs well. It ends with a welfare assessment.

And that is, almost exactly, what Paddy Carter does. I will come back to all his other assumptions in a minute. What is most telling to me about Carter's whole approach is that is his whole criticism of PQE is based on the logic of this paragraph:

And here’s why People’s QE (PQE) is snake oil. So long as the BoE is still targeting inflation, it will still be pushing and pulling money in and out of the system, as required to meet demand for money at the interest rate it has set. If the BoE is still targeting inflation, then whatever money PQE puts into the economy on one hand, the BoE is going to be taking out with the other. Or, if the BoE happens not to take the money out, that implies it would have been putting it in, anyway. And that means that over the long run the rate of seignorage, or the extent to which the government is able to spend without borrowing, is not affected by PQE.

For the sake of doubt, let me deconstruct that. What Paddy Carter is assuming is that at the moment PQE is introduced the economy is in equilibrium (the first Blanchard condition). In other words, Carter assumes PQE would be introduced into what he thinks is an already perfect world - because that's what he has apparently taught piles of students is what exists in the macroeconomic world. The consequence is that he assumes that the only need the Bank of England would have if PQE was introduced would be to immediately cancel the consequence of it because the world was perfect before PQE happened. This is the fulfilment of the second Blanchard condition: introducing PQE is to create an imperfection in an already perfect world. And the third Blanchard condition requires that the imperfection must be addressed, which is why the impact of the PQE funding must be cancelled by pulling it out of the economy as fast as possible in Carter's opinion by selling bonds. And then in the final sentence we get the fourth and fifth Blanchard conditions combined: there is no impact on ability to spend without borrowing as a consequence and so no net welfare change, it is claimed.

Give Paddy Carter his due: he'd get a good 2:1 for that on any course he taught. He's followed the rules of the great and good of macro really rather well and as a result to his own satisfaction, and no doubt that of Prof Yates, proved his case beyond all reasonable doubt.

And now let's explore why that is total nonsense.

First, we are not in a state of general equilibrium. We are very far from it. We have (to list just a few of the reasons why this assumption is not true):

* Unemployment

* Low productivity

* Limited investment by business

* A chromic shortage of necessary social infrastructure like affordable housing

* A market unable to price minor issues like climate change and the funding needed as a consequence

* An impending exogenous shock in the form of China

Second, we do not have inflation and are likely to have deflation.

Third, monetary policy has not worked for more than six years because we are at the lower bound of interest rates and there is little sign that is going to change.

Fourth, the money supply has been falling for several years although we have had growth in GDP.

So, in summary, we have unmet need in the economy (for investment) and the resources available to meet that need (under- and unemployed people plus spare business capacity) but we have no mechanism to match them despite deflation looming and a likely decline of export markets on the horizon. And in response to this Paddy Carter says:

In theory PQE is [entirely unnecessary]

Well on your logic Paddy, I agree.

But in the real world where none of your assumptions hold true and those I note do then we definitely do need it.

In fairness I should add Carter then said:

and governments can finance investment during downturns by borrowing when rates are low

And actually, we do, in theory, have a point of agreement there. But let's be clear why theory fails again. First, Carter (and Yates et al) have apparently not noticed the austerity and anti-debt narratives to which they, no doubt subscribe. These mean that whatever the theory the political reality is that issuing bonds is politically hard to sell right now, precisely because conventional macroeconomists have worked hard to feed that cause.

Second, this ignores the fact that right now PQE is significantly cheaper in interest terms than gilts, and I think it will remain that way for some time.

Third, not selling gilts breaks the narrative of the importance of the bond markets: something that has to be done once and for all.

Fourth, the potential that PQE provides to sell a positive narrative of investment is wholly ignored. These things matter in the political economy, where I think.

And finally, because of the real world conditions I note PQE will not need to be withdrawn by bond funding (or taxation: Carter has not noticed the impact is the same) because:

* The money supply is needed

* There will be growth without beating inflation targets, and

* Unemployment will reduce, yielding net tax flows that do actually, although (I stress) not necessarily, at least partially and potentially also more than cancel the PQE injection in any event. Carter has forgotten the wonders of the multiplier.

So, let's summarise this. First, Carter's macroeconomics is a proof existing solely in its own fantasy world that in turn exists solely in his imagination and that of his fellow so-inclined macroeconomists.

Second, in the real world the conditions for PQE exist.

And third, the reason why that is the case is a) cost b) the need to reframe the narrative and c) technical feasibility.

So why, in that case, would the central bank want to neutralise the money injected by PQE? It would do so only if it wished to undermine the will of economic policy of the democratic government. We got rid of the House of Lords to do that more than a century ago. The time has come to make quite clear that a central bank cannot now play the role of blocking democracy that *constitutional reform supposedly ended in 1911*.

But let's step back to the economics for a minute. In the light of all this who is selling snake oil? Not me: of that I am quite sure.