Funding the Future

Nailing the critics of People's QE

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There are rare moments in life when you read something that approaches what you think genius. Scott Fullwiler provided one on the Naked Capitalism website this morning. The article in question, entitled Corbynomics 101: A Guide to People's QE argues that:

The controversy, beyond the typical concerns with greater government spending of austerians, are fairly predictable for anyone who has taken a standard macroeconomics course (usually with a textbook written by someone who didn't see the financial crisis coming)—

* *first, the often heard QE = "printing money" = massive inflation argument is pervasive here with regard to PQE, as well;*
* *second, there are substantial concerns being voiced that "forcing" the BoE to finance the NIB will undermine the "independence" of the central bank and monetary policy;*
* *third, PQE gives the government free reign to spend by eliminating the need to fund its deficits in the financial markets.*

So, here I want to look at the accounting and some basic operational realities of this proposal in order to understand how PQE does or does not do what the naysayers say it will.

And after a long, detailed, clear, and technical argument Scott's conclusions on these points is unambiguous:
So, in the end, all three arguments against PQE are incorrect.

* *Is PQE inherently inflationary? PQE is only as inflationary as the spending itself.*

* *Does PQE limit central bank "independence? The BoE's ability to set rates is not affected, and if it sets IOR = target rate, it can target the quantity of reserve balances and/or carry out non-traditional operations like QE, etc., just as without PQE.*

* *Does PQE encourage profligate government spending?   A monetarily sovereign government spends and taxes as it chooses through the political process (i.e., Parliament/Congress, Prime Minister/President) laid out in the nation's laws, and this is so whether it deficit spends via PVDs or OMFGs via PQE. The central bank for such a government sets an interest rate policy that effectively determines the interest rate on the national debt; again, this is so whether government deficits are of the PVD or OMFG variety.*

In other words, PQE via OMFG changes very little, if anything, operationally. That is, PQE is not significantly different from PVD once we consider accounting and operational realities. The key is thus not that PQE or OMFG creates "money" directly relative to PVD, but that PVD, PQE, and OMFG all directly create spending and net worth for the private sector—this is what fiscal policy in any of these forms brings to macroeconomic policy that monetary policy alone via interest rate changes or QE operations cannot.

While PQE does not change the nature of fiscal policy, it does change the framing of the debate about fiscal policy, or attempts to do so, to show that the government doesn't have to finance itself, ever. If it works, it would be a tremendous improvement on the more standard discussions we see regarding fiscal policy. Unfortunately, the economics establishment's understanding of monetary operations is so poor that we are inundated by objections to PQE based on the more standard framing shown here to be incorrect

I could not have written the argument Scott has presented. But I appreciate it enormously.   And the conclusion recognises just what the objections to PQE really are. PQE has always been about reframing, or new understanding, as a way of delivering a core feature of fiscal policy - which is the investment in infrastructure that is essential for any economy to thrive. We have a massive shortage of that investment now. Scott shows it can be done so long as there isn't full employment without inflationary risk, without limiting central bank independence and without in any way encouraging profligate spending and does so with extraordinary clarity (if you can get your head round the nomenclature). I am very grateful.