The FT says its time for the Bank of England to start d...

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The FT is continuing to face reality as it considers what to do in the face of the coronavirus crisis. It has an editorial today that concludes:

The scale of today's downturn means even the most direct monetary financing, such as "helicopter money", or handing cash to the public, should remain an option.

That's pretty radical, and I rather strongly suspect suggests that this editorial reflects the views of Martin Wolf, who has always had sympathy with helicopter money, when I have had my doubts, believing it for government to manage our social safety net.

Rather more importantly, they go out of their way to make clear that they support direct monetary funding (DMF) of the government by its central bank. As they say:

There is no clear distinction between quantitative easing and monetary financing.

They clarify this by suggesting that the only obvious difference is whether unwinding is possible, or not. But as they then note, the original national 'debt' of 1694 was not unwound. Nor has any UK QE been unwound, and the idea that very much of that now in existence in the world might be unwound is now ludicrous: the capacity to do so simply does not exist. Most QE is DMF already.

So the risk in new DMF is not really messaging, which they think was Andrew Bailey's concern in his bizarre article that I noted yesterday. Rather, they think that the risk might be inflation. As they note:

Without limits, allowing a government to finance itself by creating money can lead to hyperinflation. But these risks can be manageable: the quantitative easing of the past decade, despite predictions, has not lifted inflation above the main central banks' 2 per cent targets. The money pumped into rich-world economies has been met by increased demand, perhaps permanently, for precautionary saving.

Private wealth has, in other words, been increased. That, of course , was not the aim, and needs countering now with weaklth taxes. But in any case, as they also note:

If trends restraining inflation go into reverse, central bankers have tools to combat rising prices, whether through raising interest rates or unwinding QE. The present crisis may even be deflationary and central banks' targets are, with the exception of the European Central Bank, symmetric in promising to tackle inflation that is both below and above their stated goal.

I think the note about deflation particularly apt: I really fear the likelihood of this right now.

So, is direct money funding ('money printing' in common parlance) on the FT's agenda right now? It definitely is. As it should be on the Bank of England's agenda. Our economy is going to need all the help it can get for a long time to come. I am talking years here. The availability of money is the last thing that should constrain it.

I hate to say it, but my 2015 prediction that this would be required by 2020 has been proved to be right. Modern monetary theory and People's QE have won the day.