The Bank of England votes for more QE - but this is a r...

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The Bank of England has just announced that:

At its meeting ending on 17 June 2020, the MPC voted unanimously to maintain Bank Rate at 0.1%.

The Committee voted unanimously for the Bank of England to continue with the existing programme of £200 billion of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves.

The Committee voted by a majority of 8-1 for the Bank of England to increase the target stock of purchased UK government bonds, financed by the issuance of central bank reserves, by an additional £100 billion, to take the total stock of asset purchases to £745 billion.

So QE is to increase by £100 billion, and the total corporate debt owned is to be left at £10 billion, meaning that the Bank of England will now own £735 billion of UK government debt.

To put that in context, even assuming £300 billion more debt will be issued this year (by no coincidence, the exact sum that the Bank has agreed to buy) this means that the Bank will now own more than a third of UK national debt.

And, as importantly, this also means that all the government deficit for this year will be funded by the Bank of England and none by private savers, which appears to be a quite extraordinary move when it would seem as if financial markets are anxious for that debt.

So what is happening here? First, there is direct monetary finance of the government by the Bank of England going on, whatever the Bank and the government might like to say.

Second, because quantitative easing is being used private markets are involved and a rake-off from the QE programme will go to the financial services sector, entirely unnecessarily.

Third, quantitative easing does have a history of inflating private sector asset prices, and so of massively contributing to growth in inequality in the last decade. This is likely to happen again.

Fourth, it would seem likely that there are now too few gilts in the market to meet private demand: that may leave private savers exposed to unnecessary risk right now.

Fifth, the charade that the government is not funding itself goes on, and so the pressure for austerity is wholly unnecessarily maintained.

Sixth, nothing in this programme requires that actual investment takes place: this is merely a money generation programme. That is, of course, what MMT says a government can do - albeit it would much prefer that it did not happen behind these sham arrangements and was instead out in the open for all to see - but what MMT also says is that such programmes need to be targetted to work. That means that they need to be designed to have an impact in the real world where people work, whoever their employer might be. And so far there appears to be no plan to back up this level of spend, which is what is troubling about it.

And that is why I think that QE is running out of road. I have used the word unnecessarily in this post a surprising number of times. That is because that is precisely what quantitative easing is: unnecessary.

What we need is an honest economic policy that explains precisely how in the current situation government is funded, so that people know the truth. And what people need to know is precisely how the government is going to spend to support them in the crisis that we are facing. QE lets the government hide from this degree of honesty, and that is unacceptable when very high trust is required right now.

QE has done its job.

Can we now have some honesty about how we move on from here?

And might we then talk about green QE and direct funding for the government? Because that way the government cannot hide from accountability for what it is doing.