POST-FINANCIAL CRISIS, UK GROWTH HAS STALLED, DESPITE HEAPS OF MONEY BEING PUMPED INTO BANKING VIA QUANTITATIVE EASING (QE). THERE ARE NOW CALLS FOR A 'QE FOR THE PEOPLE', BUT WHAT IS IT AND COULD IT BE THE SOLUTION TO THE LOW-GROWTH DILEMMA?

DO WE NEED PEOPLE'S QUANTITATIVE EASING?

Words:
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BETWEEN 2010 AND 2018, the average real annual GDP growth rate of Britain has been 1.8%, according to the UK's Office for National Statistics. This is well below the long-term average, which was 2.8% a year from 1948 to 2007.

This is despite a government-approved programme of quantitative easing (QE) that saw the Bank of England pump £445bn into the banking sector over the past nine years. Under QE, the Bank of England bought bonds from banks in exchange for funds, which were then used to buy more assets, pushing up the price of bonds, shares and property.

It's a pattern that was repeated in the US, Europe and Japan, leading to the view, popularised by former US Treasury Secretary Larry Summers, among others, that we're in a period of 'secular' or long-term stagnation. Similarly, others have argued that low growth rates are the 'new normal' for advanced economies.

Most worryingly of all, this injection of liquidity (now estimated to be a total of $15trn by economic research firm Minack Advisors) has failed to increase inflation in these economies. Indeed, despite near zero or even negative interest rates, these economies seem to be more at risk from deflation than inflation.

QE'S SHORTCOMINGS

Professor Steve Keen from Kingston University, among others, has pointed out that under conventional QE, the money created largely failed to go into the real economy, ending up instead in the financial markets and inflating asset prices.

Fran Boait is Executive Director of Positive Money, a not-for-profit group that campaigns for financial

INSTEAD OF PUMPING MONEY INTO FINANCIAL MARKETS, IT COULD BE SPENT ON INFRASTRUCTURE, GREEN TECHNOLOGY OR AS A DIRECT BOOST TO HOUSEHOLD FINANCES

reform. He explains that one of the ways QE was intended to work was via a ‘wealth effect’, with asset-rich people spending and borrowing more, boosting the economy. However, he points out that this ‘trickle down’ approach did not work.

Just how little actually did trickle down to the masses becomes clear if you examine real average weekly earnings in Britain, which have yet to recover to their pre-crash level. In February 2008, they peaked at £525 a week, including bonuses, then dropped to £466 a week in March 2013 and are now back to £496 a week.

In sharp contrast, Boait points out: “The Bank of England’s own analysis finds that the wealthiest 10% have benefited by £350,000 each as a result of QE.”

This analysis isn’t accepted by all, however. Justin Oliver, Deputy Chief Investment Officer at Canaccord Genuity Wealth Management, believes that QE has generally been successful.

“The fact that the US economy is now at near full employment, real GDP has consistently been in the 2%-3% range and the Federal Reserve had, until recently, been in a position where it was looking to raise interest rates, are all indicative that the actions of central banks post the 2008 financial crisis had the desired impact.”

That said, US economic growth has been markedly lower than before the crisis. Financial analyst Gerard Minack, who runs Minack Advisors, says: “While monetary policy appears exhausted, the blindingly obvious lesson of this cycle has been that fiscal policy works: fiscal expansion lifts growth, fiscal tightening dampens growth.”

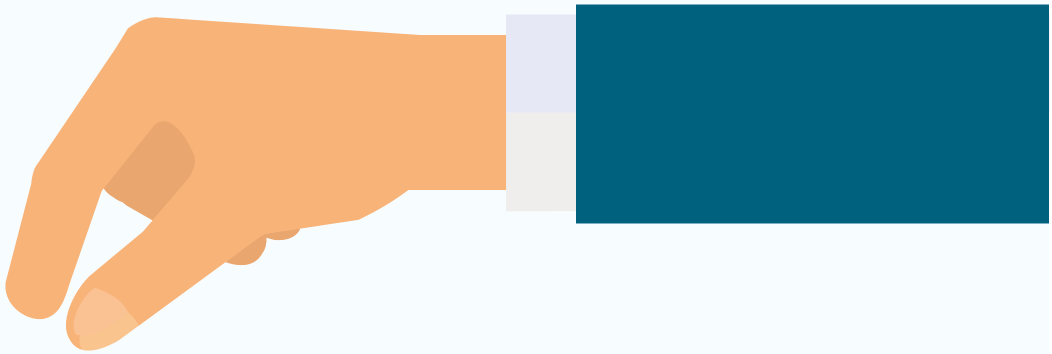
This view gives succour to proponents of ‘QE for the people’ such as Boait, who explains: “Instead of pumping money into financial markets, it could be spent via the government on infrastructure, green technology, or as a direct boost to household finances.” This is essentially direct central-bank funding of government expenditure.

It’s an idea that, during the last UK general election, found favour with Jeremy Corbyn’s Labour Party and is steadily gaining traction among economists, although it is probably fair to say it isn’t yet enthusiastically endorsed by the financial mainstream.

The view of Canaccord’s Oliver is more typical. “People’s QE or helicopter money [a term coined by Milton Friedman for an expansionary fiscal policy financed by an increase in an economy’s money supply] may well be a necessary response to the next financial crisis as the reaction of central banks and governments has had to be ever more extreme in each new cycle,” he says. “Right now, it isn’t required, as the economic picture doesn’t currently warrant this action.”

In extremis, perhaps following a stock market crash, this view might alter very quickly. Albert Edwards, Global Strategist at Société Générale, delivers depressing news for those who believe governments will ride to the rescue of financial markets for a second time.

“Those who believe that in the next recession more QE (or indeed modern monetary theory/helicopter money) can keep the US’s equity valuations from collapsing relative to bonds are living in a state of deluded optimism in my opinion. Those who



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followed Japan closely in the 1990s know exactly what will happen in the next recession – new cyclical lows in both US price-to-earnings ratios and bond yields."

REVIVE ECONOMIC GROWTH

For Boait, the attraction of People's QE is that it could help revive economic growth along sustainable lines. "Fiscal and monetary coordination, including via QE for the people or monetary financing, has been used successfully throughout history. Researchers at UCL have found a number of cases where fiscal-monetary coordination proved useful in stimulating economic growth, supporting industrial policy objectives and managing public debt without excessive inflation."

The UCL study in question, entitled *Bringing the helicopter to ground,* was jointly written by Josh Ryan-Collins, Senior Research Associate at UCL, and Frank van Lerven, Economist at the New Economics Foundation. It claims: 'The period of highest levels of domestic monetary financing (1940–1980) coincided with the longest period of sustained low levels of government debt-to-GDP in the 20th century and the highest levels of GDP growth.'

Certainly, runaway inflation would be a possible danger if such a policy were not managed properly. Yet, proponents believe this would be avoided if there were a robust institutional framework that kept decisions about the application of the central bank's money creation powers separate from short-term political considerations.

"For example, the Bank of England could determine the timing and size of any new monetary stimulus, with the government deciding how that money is spent," says Boait.

Given views on the failings of QE so far, there are a growing number of economists and policymakers calling for People's QE under some name or other. However, it may take another financial crisis before it is actually adopted as UK government policy by whoever is in power. ■

QE IN NUMBERS

£445BN

SPENT IN THE UK SINCE MARCH 2009

€2.5TRN

SPENT IN EUROPE BETWEEN MARCH 2015 AND DECEMBER 2018

$4TRN

SPENT IN THE US SINCE NOVEMBER 2008