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Jeremy Corbyn's "Quantitative Easing for People": The UK Labour Frontrunner's Controversial Proposal

By Ellen Brown
Global Research, September 04, 2015
The Web of Debt 2 September 2015

Region: Europe
Theme: Global Economy

British MP Jeremy Corbyn has proposed a "People's QE" that has critics crying hyperinflation and supporters saying it's about time.

Dark horse candidate Jeremy Corbyn, who is currently leading in the polls for UK Labour Party leadership, has included in his platform "quantitative easing for people." He said in a July 22nd presentation:

> The 'rebalancing' I have talked about here today means rebalancing away from finance towards the high-growth, sustainable sectors of the future. How do we do this? One option would be for the Bank of England to be given a new mandate to upgrade our economy to invest in new large scale housing, energy, transport and digital projects: Quantitative easing for people instead of banks.


As his economic advisor Richard Murphy further explains it:

> People's quantitative easing is . . . a highly directed process where the debt that is . . . repurchased has been deliberately created and issued either by a green investment bank or by local authorities, health trusts and other such agencies for the specific purpose of funding new investment in the economy at the time when big business and financial markets are completely failing to deliver the scale of investment that is needed to get the UK working again and to restore our financial prosperity.

According to the *Positive Money* group:

> Ideas in a similar vein have been advocated or at least suggested by notable economists including J M Keynes (1), Milton Friedman (2), Ben Bernanke (3), William Buiter (4) and Martin Wolf (5). Most recently, Lord Adair Turner (6) has proposed similar ideas, highlighting that 'there are no technical reasons to reject this option'.

Perhaps, but critics have found plenty to criticize. Peter Spence writes in the UK Telegraph:

> A victory for Jeremy Corbyn in the next general election would put Britain on a collision course with Brussels and condemn the UK to "Zimbabwe-style ruin", experts have warned.
>
> . . . Tony Yates, a former Bank economist and now a professor at the University of Birmingham, said: "Down that road leads monetary policy ruin. . . . That's what Zimbabwe was doing, where they ended up paying all their bills by printing new money."

Spence also quoted Bank of England Governor Mark Carney, who said, "The reason why one doesn't even start on this conversation is the removal of any discipline on fiscal policy that comes from that."

The Bogus Hyperinflation Threat

Dire warnings of Zimbabwe-style hyperinflation have been leveled against quantitative easing (QE) ever since the Federal Reserve embarked on it in 2008. When the European Central Bank announced in January 2015 that it, too, would be engaging in QE – along with the US, the UK and Japan – alarmed commentators warned of currency wars, competitive beggar-thy-neighbor devaluations and hyperinflation. But QE has been going on since the late 1990s, and it hasn't happened yet. As Bernard Hickey observed in the New Zealand Herald on August 30th:

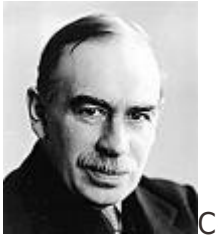
> The US Federal Reserve cut its Official Cash Rate to almost 0 per cent in 2008 and has left it there. It launched three rounds of so-called quantitative easing and has only just stopped printing money to buy Government bonds.
>
> The Bank of Japan has been printing for years and only recently ramped that up to try to lift its economy out of decades of perma-recession. The European Central Bank has cut its deposit rate to minus 0.2 per cent to try to force savers to invest. That means savers have to pay the bank to mind their money. . . .
>
> China has blown $310 billion propping up a stock market that has fallen at least 43 per cent from its peak. It pushed the Chinese yuan lower and spent another US$200b to stop further falls.
>
> This week the People's Bank of China cut its main lending rate to 4.6 per cent and loosened lending rules for banks.

Yet there is no sign of the threatened hyperinflation:

> All this rate-cutting and money printing has made it attractive to buy stocks, property and bonds that produce a regular income greater than the near-zero interest rates. . . .
>
> But, curiously, all this money printing and 0 per cent interest rates have yet to unleash the inflation dragon, at least for goods and services. Asset prices are pumped up and juicy, but goods manufactured in factories and in cloud services are firmly in deflationary mode.

Why? According to conventional economic theory, increasing the money in circulation has only one effect: when the quantity of money goes up, more money will be chasing fewer goods, driving prices up. Why hasn't that happened with the massive rounds of QE now gone global?

A Flawed Theory

 Conventional monetarist theory was endorsed until the Great Depression, when John Maynard Keynes and other economists noticed that massive bank failures had led to a substantial reduction in the money supply. Contradicting the classical theory, the shortage of money was affecting more than just prices. It appeared to be directly linked to a massive wave of unemployment, while resources sat idle. Produce was rotting on the ground while people were starving, because there was no money to pay workers to pick it or for consumers to buy it with.

Conventional theory then gave way to Keynesian theory. In a March 2015 article in *The International New York Times* called "Keynes Versus the IMF," economist Dr. Asad Zaman writes of this transition:

> Keynesian theory is based on a very simple idea that conduct of the ordinary business of an economy requires a certain amount of money. If the amount of money is less than this amount, then businesses cannot function — they cannot buy inputs, pay labourers or rent shops. This was the fundamental cause of the Great Depression. The solution was simple: increase the supply of money. Keynes suggested that we could print money and bury it in coal mines to have unemployed workers dig it up. If money was available in sufficient quantities, businesses would revive and the unemployed labourers would find work. By now, there is nearly universal consensus on this idea. Even Milton Friedman, the leader of the Monetarist School of Economics and an arch-enemy of Keynesian ideas, agreed that the reduction in money supply was the cause of the Great Depression. Instead of burying it in mines, he suggested that money could be dropped from helicopters to solve the problem of unemployment.

And that is where we are now: despite repeated rounds of QE, there is still too little money chasing too many goods. The current form of QE is merely an asset swap: dollars for existing financial assets (federal securities or mortgage-backed securities). The rich are getting richer from bank bailouts and very low interest rates, but the money is not going into the real economy, which remains starved of the funds necessary to create the demand that would create jobs. To be effective for that purpose, a helicopter drop of money would need to fall directly into the wallets of consumers. Far from being "undisciplined fiscal policy," getting some new money into the real economy is imperative for getting it moving again.

According to Social Credit theory, even creating more jobs won't solve the problem of too little money in workers' pockets to clear the shelves of the products they produce. Sellers set their prices to cover their costs, which include more than just workers' salaries. Chief

among these non-wage costs is the interest on money borrowed to pay for labor and materials before there is a product to sell. The vast majority of the money supply comes into circulation in the form of bank loans, as the Bank of England recently acknowledged. Banks create the principal but not the interest necessary to repay their loans, leaving a "debt overhang" that requires the creation of ever more debt in an attempt to close the gap. The gap can only be closed in a sustainable way with some sort of debt-free, interest-free money dropped directly into consumers's wallets, ideally in the form of a national dividend paid by the Treasury.

As Keynes pointed out, price inflation will occur only when the economy reaches full productive capacity. Before that, increased demand prompts an increase in supply. More workers are hired to produce more goods and services, so that demand and supply rise together. And in today's global markets, inflationary pressures have an outlet in the excess capacity of China and the increased use of robots, computers and machines. Global economies have a long way to go before reaching full productive capacity.

Running Afoul of the EU

A more challenging roadblock to Corbyn's proposal may simply be that there are rules against it. Peter Spence writes:

> Key parts of the Labour leadership frontrunner's plans would fall foul of EU laws intended to avoid runaway inflation, and consign the UK to a three-year legal battle with the European Court of Justice (ECJ). . . .
>
> Mr Corbyn's proposals would clash with Article 123 of the Lisbon Treaty, which forbids central banks from printing money to finance government spending.

Perhaps; but the ECB has already embarked on a QE program involving the purchase of government securities. What are government securities but government debt used to finance government spending? The rule has already been bent. Why not bend it in a way that actually benefits the economy, the people, and the nation's infrastructure? Corbyn's proposal is needed, it will work, and it is an idea whose time has come.

Ellen Brown is an attorney, founder of the Public Banking Institute, and author of twelve books including the best-selling Web of Debt. Her latest book, The Public Bank Solution, explores successful public banking models historically and globally. Her 300+ blog articles are at EllenBrown.com. Listen to "It's Our Money with Ellen Brown" on PRN.FM.

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