

FINANCIAL TIMES

Home World Companies Markets Global Economy Lex Comment Management Life & Arts

Columnists || The Big Read || Opinion || The A-List || FT View || Blogs || Letters || Corrections || Obituaries |

Tools |

November 12, 2014 10:57 pm

Lord Turner's proposal should be treated with caution

Sir, Adair Turner (November 11) tempts us with the seemingly unmitigated benefits of breaking the taboo against printing money to pay the government's bills. According to him, monetising debt will extend the benefits of deficit spending without creating debt, and it will cure the curse of low interest rates, via the "Fisher effect" of increased inflationary expectations. He argues there are no "technical reasons to reject this option", except for the fear of going bonkers once the restraining influence of the taboo has been cast aside.

Sign up now



FirstFT is our new essential daily email briefing of the best stories from across the web

I think Lord Turner's proposal, while intriguing, should be treated with caution for two reasons.

One is that taboos often exist to counter destructive impulses. The track record of debt monetisation is not a good one. It generated hyperinflations that destroyed civil order in central Europe and Latin America in the 20th century. The other reason for caution is that helicopter money is very difficult to take out of circulation once it has been created. In open market operations, the central bank purchases bonds in exchange for the money it creates. It can reduce the money supply by reselling the bonds or by retiring the money paid in as the bond debt is serviced and retired. With helicopter money, by contrast, the central bank does not acquire debt and so has nothing to offer in exchange for the money in circulation.

The medium-term risk of inflation – in the US and the eurozone – remains real, notwithstanding the deflationary forces that now predominate. The money multiplier collapsed during the financial crisis and it has not recovered since. In response, central banks massively increased the supply of high powered money. Yet when deleveraging has run its course, and when animal spirits recover, the money multiplier might rebound like a coiled spring. In order to counter the inflationary effect, central banks will need to take money out of circulation by shrinking their balance sheets; and to do that, they must have bonds to sell. Lord Turner suggests the money multiplier could be held down another way; by increasing reserve requirements on banks to slow credit creation. But that is an untested course which might not work, and it would distort credit markets.

Daniel J Aronoff

President, The Landon Companies,

Birmingham, MI, US

Letter in response to this:

Liability could be issued as zero-coupon irredeemable bonds / From Fran Boait

Content recommended for you

Based on your browsing history

Half of Europe's biggest lenders face EU curbs

Lew warns of European 'lost decade'

Oil and gold slip after overnight rebound

Hope for the best on productivity, but prepare for the worst

Pimco suffers \$100bn in redemptions from top funds

The wacky economics of Germany's parallel universe

Object 2014-28E – Space junk or satellite killer?

Russian 'UFO' intrigues astronomers

Lucy Kellaway v Tyler Brülé on design's role in the workplace

Putin's Turkish trip underlines economic ties

Exit will be a disaster for UK and Europe, say City grandees

Printed from: <http://www.ft.com/cms/s/0/9be35f78-69a9-11e4-8f4f-00144feabdc0.html>

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

© THE FINANCIAL TIMES LTD 2014 FT and 'Financial Times' are trademarks of The Financial Times Ltd.