# Helicopter Drop

A helicopter drop is a term used to refer to a possible solution to a deflation where money is dropped out onto the public from a helicopter. Milton Friedman, *Optimum Quantity of Money*. Aldine Publishing Company. 1969. p. 4.

# A breakthrough speech on monetary policy

By Anatole Kaletsky

February 7, 2013 <http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/>

**Tags:**[**ADAIR TURNER**](http://blogs.reuters.com/anatole-kaletsky/tag/adair-turner)**|**[**CENTRAL BANKS**](http://blogs.reuters.com/anatole-kaletsky/tag/central-banks)**|**[**QUANTITATIVE EASING**](http://blogs.reuters.com/anatole-kaletsky/tag/quantitative-easing)

[](http://blogs.reuters.com/anatole-kaletsky/files/2013/02/adair1.jpg)Wednesday night may have marked the “emperor’s new clothes” moment of the Great Recession, in which the world suddenly realizes its rulers are suffering from a delusion that doesn’t have to be humored. That delusion today is economic fatalism: the idea that nothing can be done to break the paralysis in the global economy and therefore that a “new normal” of mass unemployment and declining living standards is inevitable for years or decades to come.

That such economic fatalism is nonsensical is the key message of a [truly historic speech](http://www.fsa.gov.uk/static/pubs/speeches/0206-at.pdf) delivered on Wednesday by Adair Turner, chairman of Britain’s Financial Services Authority and one of the most influential financial policymakers in the world. Turner argues that a virtually surefire method of stimulating economic activity exists today and that politicians and central bankers can no longer treat it as taboo: Newly created money should be handed out to the citizens or governments of countries that are mired in stagnation and such monetary financing of tax cuts or government spending should continue until economic activity revives.

The idea of distributing free money to end deep recessions has been promoted theoretically by serious economists since the 1930s, when it was one of the few practical policies that Keynesians and monetarists agreed on. John Maynard Keynes proposed burying money in disused coal mines to be dug up by unemployed workers, while Milton Friedman suggested dropping money out of helicopters for citizens to pick up. Friedman also argued in a 1948 paper that governments should rely solely on printed money to finance their regular cyclical deficits. More recently, as conventional policies to revive growth have faltered, with widespread disappointment about the impact of zero interest rates and quantitative easing, proposals for distributing money directly to citizens have been quietly gaining traction among critics of orthodox central banks. I discussed this trend, sometimes described as “quantitative easing for the people,” in [several columns last year](http://blogs.reuters.com/anatole-kaletsky/2012/08/09/suddenly-quantitative-easing-for-the-people-seems-possible/).

A simple thought experiment shows why such “helicopter money” policies, which Turner calls overt monetary financing (OMF), would be far more effective than the conventional QE practiced by central banks today.

Consider the U.S. Federal Reserve. At present the Fed prints $85 billion of new money monthly and distributes it to banks and Wall Street investors by buying government bonds. And the Fed has promised to continue this monthly “quantitative easing” until such time as unemployment drops and is clearly and sustainably declining to more normal levels. Now suppose instead that the Fed divided its $85 billion monthly money production into 300 million checks of $283 each and sent these to every man, woman and child in America. Suppose, moreover, that the Fed promised to keep sending out these checks, worth more than $1,000 a month for a four-person household, until the United States reached its unemployment target – and the Fed chairman added that he would increase the checks to $1,500 or $2,000 a month for that household if $1,000 monthly proved insufficient. There can be little doubt that this deluge of free money would stimulate consumer spending and revive employment – and no doubt that it would be infinitely more effective than distributing money to bond investors and banks through QE.

Despite its obvious effectiveness – or perhaps because of it – public discussion of helicopter money has been taboo among economic officials. The one exception was a [speech by Ben Bernanke in 2002](http://www.federalreserve.gov/boarddocs/speeches/2002/20021121/default.htm), before he became Fed chairman. This speech offered the most detailed and eloquent justification of monetary financing prior to Turner’s, and it earned Bernanke the Wall Street nickname “Helicopter Ben.” Since then, however, helicopter money has never been seriously mentioned by any senior official in any advanced economy.

Until this week. Ten years after the Helicopter Ben speech, Turner has broken the taboo about monetary financing. The effect on economic debate around the world could be irreversible and profound. Turner’s 70-page paper presents the arguments for the many variants of helicopter money with unprecedented academic sophistication, financial detail and historical context. Even more important, his paper systematically and rigorously rebuts all the standard objections to helicopter money.

He shows that links between monetary financing and hyperinflation are theoretically dubious and historically unjustified. In fact, the most serious objections involve politics, not economics. The key risk is that governments will abuse their ability to print money, treating helicopter money not as an emergency measure but as a tool for distributing political largesse. But this risk is best handled by engaging in open and rational debate about the appropriate rates of money creation, not by pretending that monetary financing will never happen and then covertly conducting such operations without proper public accountability or rational economic analysis.

Although Turner is too diplomatic to say so, this is exactly what central banks have been doing since the 2008 financial crisis and what Japan has been doing for 20 years. As a result, the risk is steadily growing that many of the world’s largest economies will suffer a fate similar to Japan’s, their economies permanently distorted by decades of artificially low interest rates, their financial markets permanently manipulated and their national solvency permanently threatened by unsustainable burdens of government debt.

There is nothing inevitable about this grim scenario, however. Turner’s authoritative examination of the costs and benefits of monetary financing shows that long-term stagnation can be  avoided, as leading economists such as Keynes, Friedman and Bernanke have maintained. The choice of fiscal austerity or national bankruptcy often presented by politicians is a false dichotomy. The alternative to national bankruptcy is not austerity and permanent stagnation; it is for governments to finance tax cuts or public investment with printed money and thereby promote economic growth. Now that Turner has broken the taboo on helicopter money, the sound of monetary salvation should soon be heard round the world.

*PHOTO: The chairman of the Financial Services Authority, Adair Turner, leaves Downing Street in central London May  28, 2012.  REUTERS/Neil Hall*

# 52 COMMENTS

## Are you serious?

Feb 7, 2013

5:23 pm UTC

Are you serious?

Do you know ANYTHING about economics at all?

“He shows that links between monetary financing and hyperinflation are theoretically dubious and historically unjustified. In fact, the most serious objections involve politics, not economics. The key risk is that governments will abuse their ability to print money, treating helicopter money not as an emergency measure but as a tool for distributing political largesse. But this risk is best handled by engaging in open and rational debate about the appropriate rates of money creation, not by pretending that monetary financing will never happen and then covertly conducting such operations without proper public accountability or rational economic analysis.”

I offer a sampling of the real historical links between printing money to excess as an example of why you and that moron’s advice you are touting are wrong.

From Wikipedia, solely for ease of access:

Causes

Hyperinflation occurs when there is a continuing (and often accelerating) rapid increase in the amount of money that is not supported by a corresponding growth in the output of goods and services.

The price increases that result from the rapid money creation creates a vicious circle, requiring ever growing amounts of new money creation to fund government activities. Hence both monetary inflation and price inflation proceed at a rapid pace.

Such rapidly increasing prices cause widespread unwillingness of the local population to hold the local currency as it rapidly loses its buying power. Instead they quickly spend any money they receive, which increases the velocity of money flow; this in turn causes further acceleration in prices.[6]

This results in an imbalance between the supply and demand for the money (including currency and bank deposits), causing rapid inflation.

Very high inflation rates can result in a loss of confidence in the currency, similar to a bank run.

Usually, the excessive money supply growth results from the government being either unable or unwilling to fully finance the government budget through taxation or borrowing, and instead it finances the government budget deficit through the printing of money.[7]

Effects

Hyperinflation effectively wipes out the purchasing power of private and public savings, distorts the economy in favor of the hoarding of real assets, causes the monetary base, whether specie or hard currency, to flee the country, and makes the afflicted area anathema to investment.

Enactment of price controls to prevent discounting the value of paper money relative to gold, silver, hard currency, or commodities, fail to force acceptance of a paper money which lacks intrinsic value.

If the entity responsible for printing a currency promotes excessive money printing, with other factors contributing a reinforcing effect, hyperinflation usually continues.

Hyperinflation is generally associated with paper money, which can easily be used to increase the money supply: add more zeros to the plates and print, or even stamp old notes with new numbers.[10]

Historically, there have been numerous episodes of hyperinflation in various countries followed by a return to “hard money”.

Older economies would revert to hard currency and barter when the circulating medium became excessively devalued, generally following a “run” on the store of value.

————————————

Apparently, you have never heard the expression “not worth the paper it is printed on”. Here is a classic example of where the expression originated and why.

“During the American Revolution, the colonies became independent states; freed from British monetary regulations, they issued paper money to pay for military expenses. The Continental Congress also issued paper money during the Revolution, known as Continental currency, to fund the war effort. Both state and Continental currency depreciated rapidly, becoming practically worthless by the end of the war.”

—————————————–

Other historical instances where hyperinflation has occurred.

“Examples of hyperinflation”

4.1 The Hanke-Krus Hyperinflation Table  
4.2 Angola  
4.3 Argentina  
4.4 Armenia  
4.5 Austria  
4.6 Azerbaijan  
4.7 Belarus  
4.8 Bolivia  
4.9 Bosnia and Herzegovina  
4.10 Brazil  
4.11 Bulgaria  
4.12 Chile  
4.13 China  
4.14 Estonia  
4.15 France  
4.16 Free City of Danzig  
4.17 Georgia  
4.18 Germany  
4.19 Greece  
4.20 Hungary, 1923–24  
4.21 Hungary, 1945–46  
4.22 Kazakhstan  
4.23 Kyrgyzstan  
4.24 Krajina  
4.25 North Korea  
4.26 Nicaragua  
4.27 Peru  
4.28 Philippines  
4.29 Poland, 1923–1924  
4.30 Poland, 1989–1990  
4.31 Republika Srpska  
4.32 Soviet Union / Russian Federation  
4.33 Taiwan  
4.34 Tajikistan  
4.35 Turkmenistan  
4.36 Ukraine  
4.37 Uzbekistan  
4.38 Yugoslavia  
4.39 Zaire (now the Democratic Republic of the Congo)  
4.40 Zimbabwe

========================

The problem I think you and most people have is equating electronic money with paper money — which are exactly the same in terms of their effect — and is why the US economy WILL crash as a result of Bernanke’s QE programs.

For example, if you go to a bank and get a home loan, the loan and the indebtedness are usually handled electronically at some point, as well as the monthly payments. Does that mean you don’t owe the bank a monthly house payment because the financial transactions are mostly electronic? If you answer yes, you are in a world of hurt from a financial perspective.

[http://en.wikipedia.org/wiki/Hyperinflat ion](http://en.wikipedia.org/wiki/Hyperinflation)

[http://en.wikipedia.org/wiki/Hyperinflat ion\_in\_the\_Weimar\_Republic](http://en.wikipedia.org/wiki/Hyperinflation_in_the_Weimar_Republic)

Posted by PseudoTurtle | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## How About the Wealthy Pay Their Fair Share?

Feb 7, 2013

5:41 pm UTC

How about this idea for a “breakthrough solution”?

Force the wealthy class to pay their fair share of taxes.

Here’s a reality check on where the wealthy tax rates have been as recently as post WWII.

The Missed Eisenhower Opportunity

by Martin Hutchinson  
January 28, 2013

U.S. lovers of high taxes frequently refer nostalgically to the glories of the Eisenhower years, when the top rate of tax was 91%, claiming their prosperity proves there to be no negative supply-side effects from high income tax rates. But if you look at the data more closely, the U.S. economy of the Eisenhower years was surprisingly unimpressive, while the supply-side Kennedy tax cuts of 1963-64 actually did “get America moving again.” Viewed from the light of 2013, with what we now know about taxes, the Eisenhower years become ones of enormous missed opportunity, with no supply-side incentives, very little entrepreneurship and abysmal growth in per capita income.”

Here is the link to the complete article:

[http://www.prudentbear.com/index.php/the bearslairview?art\_id=10753](http://www.prudentbear.com/index.php/thebearslairview?art_id=10753)

In my opinion, Mr. Hutchinson argues incorrectly that lower taxes to the wealthy class during the Eisenhower years would have produced more growth in the US than the conservative approach.

No doubt he is right about the higher rate of GDP growth. However, high GDP growth, combined with or due to a lowering of wealthy class levels of taxation WILL produce speculation, inflation and an economic crash — not jobs, as the wealthy typically argue. For example, the period during the 1920s, which was followed inevitably the the Great Depression.

Posted by PseudoTurtle | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Or Print Money to Pay Wages

Feb 7, 2013

6:31 pm UTC

Or, central banks around the world could hire people to complete tasks and print the money to pay the wages. Furthermore, they could loan directly to businesses to hire workers skipping the bank asset hoarding to attempt to solve the problem directly rather than indirectly.

Posted by M.C.McBride | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## I’d like some of what he’s smokin

Feb 7, 2013

6:32 pm UTC

“Now that Turner has broken the taboo on helicopter money, the sound of monetary salvation should soon be heard round the world.”

No, that’s the sound of governments collapsing because their money has become without worth. We’ve made it look like Monopoly money so now we’ll make it like Monopoly money in value.

So the world of Star Trek is here, where no one need work unless they want to, and only at things they like. “We don’t need no edjucation”.

“Monetary salvation? I’d like some of what he’s smokin.

Posted by OneOfTheSheep | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## So many views on – just printing money

Feb 7, 2013

6:37 pm UTC

The $85 Billion per month is going to fund the Federal Government! The banks get money to buy Treasury Bonds by selling bonds the the Fed! The $85 Billion is already distributed to the public but first passes through the hands of all Federal Government employees, employees being defined it the broadest possible way.

It is amazing to see so many views on printing money. Someone has theory or facts wrong!

Posted by ThinkEcon | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## This is simple foolishness

Feb 7, 2013

8:22 pm UTC

This is simple foolishness. The government prints the money to balance the budget. If they sent that money to the people directly, the country would have a deficit of 2 trillion a year, rather than the one trillion (or so) of the past several years. How is that supposed to help?

How about some fiscal discipline? Reduce spending and balance the budget.

Posted by stevedebi | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Is this part of an effort to create..? What strategy??…

Feb 7, 2013

8:43 pm UTC

I assume the author intended this to be a serious article? Are you kidding? Is this part of an effort to create a horrifying economic collapse that results in revolution / a new world order? What philosophy / strategy drives this article?

Posted by sarkozyrocks | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Precious Metals and Barter Goods, Me First

Feb 7, 2013

9:10 pm UTC

Hey as long as I get my 20 million before the hyperinflation sets in I’m all for it.

Just give me some time to buy up precious metals and barter goods and I’ll be all set for the economic “salvation”.

Posted by MikeyLikesIt | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## During the Eisenhower years the wealthy…

Feb 7, 2013

10:15 pm UTC

@ stevedebi –

Where did you get your degree in economics? Nowhere apparently, because your comment is “simple foolishness”.

If you seriously believe the government is “printing the money to balance the budget”, I have some “tidal property” for sale that you would be certainly be interested in buying for real estate development.

You also state that “If they sent that money to the people directly, the country would have a deficit of 2 trillion a year, rather than the one trillion (or so) of the past several years.” HUH? Can you explain how that would work?

Finally, you state “How about some fiscal discipline? Reduce spending and balance the budget.” To which I would reply that it is mathematically impossible to balance the budget by cutting spending alone without causing the US economy to crash.

What is NECESSARY is for the wealthy to pay their fair share of taxes — note in my comment above, back during the Eisenhower years, they were paying 91%, and the US economy was far sounder than it is now.

And that is coming off of a major world war, which would normally mean a very sharp recession or steep depression, but which never happened. Apparently, none of those magnificent economic minds out there even seem to realize that we have probably just passed through one of the largest economic anomalies in history.

And why would you want to balance the government’s budget, since that would only serve to exacerbate the economic cycles we have currently — and which is the major flaw of free market capitalism. (Capitalism and the free market system IS NOT self-correcting.)

Posted by PseudoTurtle | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Balance the economy, not the budget

Feb 7, 2013

11:16 pm UTC

Perhaps Turner realizes that with a non-convertible fiat currency, there is no need to “balance the budget”. Non-convertible fiat basically gives you an endless supply of your own national currency (just don’t try to SPEND an endless amount), which obviates the need for taxes as a source of federal revenue. Taxes can serve to cool an overheating economy, should demand-pull inflation threaten, but are worthless as “revenue” to the currency issuer. State and local governments, being USERS of the national currency still need taxes for revenue. The job of the Federal Gov’t is to balance the economy, not the budget.

Posted by MoveThroughIt | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Lord Turner is spot on

Feb 8, 2013

12:00 am UTC

Lord Turner is spot on. One of the benefits of using a non-convertible fiat currency (USD, Pound, Yen, Yuan, etc.) is that you basically have an unlimited supply of it and you don’t owe anyone for having created a unit of your currency (unlike representative, commodity-backed currency). It also obviates the need to collect taxes for “revenue” (what, oh yes, yes, just put that “revenue” over there along with my already unlimited ability to spend with keystrokes). This is true for the ISSUER of a non-convertible currency that is free-floating on the FX. Taxes are useful when it comes time to drain money from the economy in order to avoid demand-pull inflation, but we really haven’t seen any of that here in the US since the late 40′s. With the economy in it’s current state, we could eliminate FICA taxes for both employer and employee and let the Federal Gov’t step in and make the contributions. The Gov’t could increase spending, but should really cut taxes as well. We’re quite aways from where we would have to worry about demand-pull inflation and as employment levels pick up and those people bring goods and services to market, we’ll distance ourselves even further.

Users of the currency (you, me, biz, States, local gov’t) need revenue and need to “balance their budget”. The job of the Federal Government is to balance the economy, NOT the budget.

Posted by MoveThroughIt | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## This appears to be the above, but from a different sender

Feb 8, 2013

12:13 am UTC

“Lord Turner is spot on. One of the benefits of using a non-convertible fiat currency (USD, Pound, Yen, Yuan, etc.) …………”

BTW, an interesting bit about Weimar here:  
[http://www.wintersonnenwende.com/scripto rium/english/archives/articles/hyperinfl ation-e.html](http://www.wintersonnenwende.com/scriptorium/english/archives/articles/hyperinflation-e.html)

Posted by Safedoor | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## make responsible but underwater homeowners whole

Feb 8, 2013

3:54 am UTC

Perhaps instead of just mailing money out to citizens, we could make whole the responsible homeowners (like myself) who purchased their homes during the several years just before the Collapse of 2007.

I understand that there are about 11 million of us whose homes are underwater. There are even more whose homes are approximately equal in value to their mortgage balance, but their down payments vanished due to the fraudulently overheated housing market (50K in my case). I have never make a late payment and I bought my house to live in it, not to flip it.

It would be unfair/unreasonable to expect my fellow citizens to put up their tax dollars to cover such losses, but I would feel okay about being reimbursed by the financial institutions who made so much money with the fraud that caused people like me such harm such as banks, investment houses, Standard & Poors, Moody’s, etc.

When those institutions are fined for their illegal actions, the fines should go to those who were harmed, not into the federal coffers. It would even better to shove the SEC aside and recover assets under RICO prosecutions by the Federal Courts.

If all the money I lost to their fraud was returned to me, I would resume spending. Right now, responsible people like me are trying to save up enough money to cover losses and it’s a rather slow process.

Posted by breezinthru | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## When to stop printing

Feb 8, 2013

5:46 am UTC

Some of the comments are clearly from people not reading the article fully. The article talks about rationally debating how much money should be printed. All cases of hyperinflation involved governments printing money without any sense of when to stop.

But if we set a relatively modest inflation target of 2 or 3% and then printed money directly as payments to people, rather than as QE-style purchases of bank assets, we can put money directly in the hands of consumers. Right now banks simply aren’t lending, no matter how much money the government gives them. All this paper is suggesting is that we make our current inflationary tactics more effective at stimulating growth.

Posted by areddy831 | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Only a bureaucrat could convince himself that …

Feb 8, 2013

10:16 am UTC

“The key risk is that governments will abuse their ability to print money”  
A beautifully understated comment, slipped in to give the appearance of thoughtfull analysis.  
You know d\*\*\* well that every government in sight will abuse the process.  
Not only that, the citizens of such countries will begin to demand more and more handouts, and we’ll end up in hyper-inflationary ruin.  
Only a bureaucrat could convince himself that a system could be designed to prevent the obvious from happening.

Posted by bertibus | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## TARP should have targeted homeowners instead of financial institutions

Feb 8, 2013

12:44 pm UTC

Breezinthru,  
Remember the Troubled Assets Relief Program. At the time I thought it should have targeted homeowners instead of financial institutions. The 700 billions would have paid down 7 million mortgages to the tune of $100,000 each. That would have liberated a lot of purchasing power and boosted sagging demand. The money would have gone directly to the said financial institutions as a matter of course. As a one time deal it could have been justified on the grounds of national economic emergency .

Posted by Biscayne | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## the Money Printed in QE isn’t reaching the people

Feb 8, 2013

12:56 pm UTC

Excellent Article.  
Half of the reply posters don’t get it. Instead of concentrating on any particular item and objecting, the context is overlooked.  
What Turner is trying to say is that the Money Printed in QE isn’t reaching the people, and it is only the people which can instill a growing economy. Bringing down interest rates to Zero doesn’t help the masses purchase anything because they don’t have the money to buy anything in the 1st place.

All one has to do is see the picture how many people are behind in paying their mortgage and rent. (And rent has gone down rather than up.)  
Another sector are those over 65, (not sure, but I think it equates to 35% of the population). They live on fixed income which has dried up under QE Zero policy. So 35% of the population are saving to pay for food and bills, rather than help the economic picture buying goods.

Of top of that the IRS is instructed to do its dammest to bring in funds, hook or crook, so are disallowing legitimate business expenses, which creates a shrinking sector rather than a expansion. Hiring small contractors is what I do, and half are out of business or gone into another darker world. Same for small retail businesses from whom we used to purchase products. All one gets is sorry the number is no longer in service.

Something has to jump start the economy, someone has to hire, and every one has to spend. That’s what the subject is about. When fruit on a tree isn’t picked, one has to shake the tree, to allow new blossoms to appear, while appearing to be displeasing to allow all that fruit to rot on the ground, a new cycle of growth is created. That’s the key, how can we start the cycle of prosperity while fine tuning to minimize the damage done on the way.

Posted by DDavid | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## the Gov’t should be increasing spending and lowering taxes

Feb 8, 2013

3:57 pm UTC

As DDavid notes above, QE lops off interest income to the economy, while “austerity” compounds the problem by further reducing spending and hiking taxes. In this environment, the Gov’t should be increasing spending and lowering taxes.

Posted by Safedoor | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## PRINTING MONEY IS ALWAYS WRONG

Feb 8, 2013

4:30 pm UTC

@ DDavid –

Of course the money isn’t reaching the real economy, because the wealthy are hoarding it. The ONLY way to stop that is to mandate changes on what can be done with the money that is being given away “free” (i.e. at the taxpayers’ expense) by the central bankers. That is why the stock markets are back to their pre-crash levels of 2008, while the real economy languishes.

Clearly, you don’t understand the problem any more than Turner or his apostle Kaletsky. The issue is not a lack of money reaching the real economy, because there are no jobs to support economic growth. The ONLY way real growth can occur is from economic expansion due to production. The manufacturing jobs have all gone to third world countries — which is where most of the QE is going also — because of cheaper labor and higher returns on investment.

Put simply, this requires a POLITICAL solution, not a monetary one, which is where the central banker are making their fundamental error — substituting economic decisions for political ones — and the only reason the economy is not recovering. It CANNOT recover as long as this continues. It will grow worse exponentially as the deficit spending continues, which is the hallmark of hyperinflation.

The central bankers CANNOT implement fiscal policy, only the various governments can do that. As long as the central bankers are “covering” for the politicians, there is no pressure on them to stop what they are doing.

Simply stated, PRINTING MONEY IS ALWAYS WRONG, NO MATTER WHO THE RECIPIENT IS.

When a nation begins to print money it is a “final warning” of impending economic collapse, no matter what the supposed reason or the country involved.

I can’t state it any simpler than that.

i stand by what I said above, and suggest you read my comment again.

Posted by PseudoTurtle | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## -- IN EXCESS OF CORRESPONDING REAL GROWTH TO SUPPORT IT

Feb 8, 2013

4:52 pm UTC

@ areddy831 –

You state “The article talks about rationally debating how much money should be printed. All cases of hyperinflation involved governments printing money without any sense of when to stop.”

Have you been paying attention to what is happening in the US Congress lately?

Care to rethink your suggestion that governments can sit down rationally and discuss how much money to print that isn’t backed by anything at all?

I answered the rest of your comment in my comment to DDavid above as to why printing money in excess is always wrong.

All of this is really quite simple, so I have trouble understanding why people do not seem to understand the basic principles of what I am saying.

Let me quote from comment above: “Hyperinflation occurs when there is a continuing (and often accelerating) rapid increase in the amount of money that is not supported by a corresponding growth in the output of goods and services.”

Therefore, PRINTING MONEY IN EXCESS OF CORRESPONDING REAL GROWTH IN THE ECONOMY TO SUPPORT IT IS ALWAYS WRONG, NO MATTER WHAT THE REASON.

Posted by PseudoTurtle | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Kaletsky reminds me of Greenspan

Feb 8, 2013

5:50 pm UTC

This Mr. Anatole Kaletsky reminds me of Alan Greenspan. He [lived in his theoretical world, one only as complex as his own mind](http://en.wikipedia.org/wiki/Anatole_Kaletsky), and eventually admitted to congress that his understanding of economic reality was fundamentally flawed. It took the consequences of his theory and implementations, the result being world financial collapse, to shake his tree and allow the stupidity fruit to fall to the ground.

Now this guy wants us to believe in a world that is not corrupt to its eyeballs and start handing out free money as if that is a solution to anything. Now I will be quiet and hope Mr. Anatole Kaletsky and his theories are implemented. Just give me enough money to buy that remote island I always wanted so I can escape the craziness that ensues.

Posted by keebo | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## makes no economic sense whatsoever

Feb 8, 2013

5:54 pm UTC

Mr. Kaletsky –

Your article is not only naive and makes no economic sense whatsoever, but is also “disingenuous” — to put it politely — since your comments about other economists agreeing with Mr. Turner are as incorrect as his.

“The idea of distributing free money to end deep recessions has been promoted theoretically by serious economists since the 1930s, when it was one of the few practical policies that Keynesians and monetarists agreed on. John Maynard Keynes proposed burying money in disused coal mines to be dug up by unemployed workers, while Milton Friedman suggested dropping money out of helicopters for citizens to pick up. Friedman also argued in a 1948 paper that governments should rely solely on printed money to finance their regular cyclical deficits.”

(1) Per Mr. Turners speech (which I read), “And there are certainly good reasons for being very fearful of the potential to create paper or (in modern terms) electronic money. In a post-gold standard world, money is what is accepted as money: it is simply the “fiat”, the creation of the public authority. It can therefore be created in limitless nominal amounts2. But if created in excessive amounts it creates harmful inflation. And it was John Maynard Keynes who rightly argued that “there is no subtler, no surer means of overturning the existing basis of society than to debauch the currency”.

What Mr. Turner is arguing is that there are exceptions to what Keynes said, but in fact there are no exceptions.

Mr. Turner’s speech is written soley in response to the media criticism he received for public comments on “OMT” (Overt Monetary Policy). This is fringe group “economics” and totally without merit. It has never been mainstream economics.

(2) Your state that “it was one of the few practical policies that Keynesians and monetarists agreed on”. Then you go on to quote Milton Friedman, a noted “monetarist” as being in agreement, but the comments are from 1948, which is from a prior period in Mr. Friedman’s life. The real truth is Milton Friedman later “recanted” and totally rejected his own earlier views and agreement with Keynesian policies.

————————————

(From Wikipedia) “As a leader of the Chicago school of economics, (**Milton Friedman**) influenced the research agenda of the economics profession. A survey of economists ranked Friedman as the second most popular economist of the twentieth century behind John Maynard Keynes,[2] and The Economist described him as “the most influential economist of the second half of the 20th century…possibly of all of it.”[3]

============================

Friedman’s challenges to what he later called “naive Keynesian” (as opposed to New Keynesian) theory[4] began with his 1950s reinterpretation of the consumption function, and he became the main advocate opposing activist Keynesian government policies.[5]

In the late 1960s he described his own approach (along with all of mainstream economics) as using “Keynesian language and apparatus” yet rejecting its “initial” conclusions.[6]

During the 1960s he promoted an alternative macroeconomic policy known as “monetarism”.

He theorized there existed a “natural” rate of unemployment, and argued that governments could increase employment above this rate (e.g., by increasing aggregate demand) only at the risk of causing inflation to accelerate.[7]

He argued that the Phillips curve was not stable and predicted what would come to be known as stagflation.[8]

Though opposed to the existence of the Federal Reserve, Friedman argued that, given that it does exist, a steady, small expansion of the money supply was the only wise policy.[9]

=======================

THAT IS THE REAL TRUTH ABOUT WHAT WAS SAID AND WHY. CLEARLY MR. TURNER IS A FOOL, AND YOU ARE EITHER A FOOL OR A LIAR — IN EITHER CASE YOU ARE TOTALLY INCOMPETENT TO PRESENT ECONOMIC VIEWS ON REUTERS SINCE THEY ARE UNIFORMLY GROSSLY MISLEADING.

Posted by PseudoTurtle | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Friedman’s Quip

Feb 8, 2013

6:10 pm UTC

Mr. Kaletsky –

You should also have known that Milton Friedman’s comment about “helicopter money” was a derisive comment, not one that agrees with what Bernanke is doing.

“**Friedman** was the main proponent of the monetarist school of economics. He maintained that there is a close and stable association between price inflation and the money supply, mainly that price inflation should be regulated with monetary deflation and price deflation with monetary inflation.

He famously quipped that price deflation can be fought by “dropping money out of a helicopter.”[37]

Lest there be any mistake as to what Mr. Friedman meant, here is a dictionary definition of a quip.

quipped, quip

1. a clever or witty remark or comment.  
2. a sharp, sarcastic remark; a cutting jest.

Finally, regarding Mr. Bernanke and his relationship to Friedman’s remark about dropping money out of a helicopter as a ludicrous solution:

“In 2002, following coverage of concerns about deflation in the business news, Bernanke gave a speech about the topic.[50] In that speech, he mentioned that the government in a fiat money system owns the physical means of creating money. Control of the means of production for money implies that the government can always avoid deflation by simply issuing more money. He said “The U.S. government has a technology, called a printing press (or today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at no cost.”[50]

He referred to a statement made by Milton Friedman about using a “helicopter drop” of money into the economy to fight deflation.

Bernanke’s critics have since referred to him as “Helicopter Ben” or to his “helicopter printing press.”

In a footnote to his speech, Bernanke noted that “people know that inflation erodes the real value of the government’s debt and, therefore, that it is in the interest of the government to create some inflation.”[50]

======================

There, the “dumbed down” version of the truth to the lies above. Maybe now you can understand.

Posted by PseudoTurtle | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## to erode the value of [government] debt

Feb 8, 2013

6:26 pm UTC

In simple terms, what the government is doing through the fed is to “erode the real value of the government’s debt”, which means it is deliberately creating inflation in the US economy.

The government is doing this to reduce the amount we owe to the global economy, especially to China, in an effort to “inflate ourselves our of debt” by driving down the value of the US dollar.

This has NOTHING whatsoever to do with helping the US economy or creating jobs (which the fed cannot do anyhow).

The proof of that inflation lies in the size of the fed’s balance sheet, which will soon be in excess of $3 trillion.

That is money the US taxpayer will have to pay for, probably quite soon since we are rapidly approaching the limits of our ability to go into debt before there are economic consequences.

It is NOT “free” money.

Any talk about US recovery is a lie.

Posted by PseudoTurtle | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Anatole -- naked and no clothes

Feb 8, 2013

10:22 pm UTC

ahhh, no need to comment, anatole has revealed himself

naked and no clothes

Posted by scythe | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## I agree; this was a breakthrough speech

Feb 8, 2013

11:59 pm UTC

I agree with Anatole Kaletsky that this was a breakthrough speech. It is still out of paradigm because central bank buying government bonds or private sector financial assets is not going to help the private sector. Governments need to deficit spend more in this enviroment. That is a key issue. Mario Draghi showed the world with his OMT that central bank money printing is a total nonsense that belongs to the gold standard. Even Milton Friedman could not get money into economy without his helicopters because central banks cannot do It (they could if they started buying real asssets or foreign currencies). There is a chronic lack of aggregate demand in the economy right now, that’s why businesses are not hiring and not because taxes are too high, there is not enough demand for their products. Government deficit spending adds aggregate demand to the economy and government taxation removes aggegate demand from the economy. If you get too much aggregate demand then you get demand pull inflation, if too little then economic slump and high unemployment. I don’t know of a single case of hyperinflation that was caused by central bank buying government bonds and at the same time government was not running huge deficits. Government deficits add to private sector savings. If you are private sector and I am government, then me deficit spending causes your financial wealth to go up. Right now private sector wants to save more than It wants to spend and this has to be offset by the fovernment deficit. If I am government and you are private sector and this is closed loop, then both of us cannot be in surplus. Us government is currency issuer and there is no possibility of involuntary default. Europe’s story is messier. The media, politicians and academia don’t understand simple facts about our financial sustem. Good article. I suggest some of the commenters here read about MMT. [http://moslereconomics.com/wp-content/po werpoints/7DIF.pdf](http://moslereconomics.com/wp-content/powerpoints/7DIF.pdf)

Posted by money4nothing | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## if so inflationary, why Japan deflation

Feb 9, 2013

12:06 am UTC

FEB wrote: Mr. Kaletsky –

“You should also have known that Milton Friedman’s comment about “helicopter money” was a derisive comment, not one that agrees with what Bernanke is doing.”

No, Friedman was monetarist and advocated QE in Japan, and was blaming Fed for not doing QE during the Great Depression.

QE does almost nothing. Friedman has discredited himself. QE has been declared a failure in Japan, if It was so inflationary then how is Japan struggling with deflation?

Posted by money4nothing | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Not so, scythe!

Feb 9, 2013

4:12 am UTC

Not so, scythe!

Posted by Safedoor | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## misallocation of capital

Feb 9, 2013

4:49 pm UTC

I know I said I would be quiet but just one more thing so please bear with me – misallocation of capital – thank-you.

Posted by keebo | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## just give everyone a million bucks from the get go

Feb 9, 2013

10:49 pm UTC

Why not just give everyone a million bucks from the get go? Think of all the millionaires. I’m sure the price of gas and other commodities would drop lol. Zimbabwe has more billionaires than any nation on the planet. Worked for them.

Posted by robertsgt40 | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Zimbabwe

Feb 10, 2013

1:18 am UTC

But you don’t really know what caused hyperinflation in Zimbabwe, do you?

Posted by Safedoor | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Turner – creating money only a potential poison

Feb 10, 2013

5:51 pm UTC

Who said this?

‘The ability of governments to create money is a potential poison and we rightly seek to limit it within tight disciplines, with independent central banks, self-denying ordinances and clear inflation rate targets. Where these devices are not in place or are not effective, the temptation that Mephistopheles presents can indeed lead to hyper-inflation – the experience of Germany in 1923 or Zimbabwe in recent years.’

Why, Mr. Adair Turner said it a few days ago, in the speech glowingly quoted in this very column. Those holding the spectres of Weimar Germany or Zimbabwe over our Anatole’s head might bother to read some of it before braying a message of instant doom…

Posted by sphaerenklang | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## also must outlaw money that stores value - negative interest on savings (demurrage)

Feb 10, 2013

9:37 pm UTC

This article is essentially proposing a “trickle up” solution rather than its opposite – which has proven to be such a stunning failure. The unstated other half of the equation that could actually make the above system work is a progressive negative interest charge on long-term savings (a.k.a demurrage) – progressive in that the longer money is held, the higher the charge. This would naturally draw of excess funds that would otherwise lead to inflation. Money currently serves two opposing functions: medium of exchange and a store of value. Money really ought to be viewed as a public utility that must be circulating and doing work – not a hard asset that can be hoarded by an aggressive few.

Posted by bpmiller | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## the pejorative notion of free money

Feb 10, 2013

9:49 pm UTC

… furthermore, I suggest that we can reframe the pejorative notion of “free money, given away for nothing” (further implying: “… to undeserving masses”). Instead, look at it as the federal government \*hiring\* millions of venture capitalists whose job it is to invest funds in thousands upon thousands of businesses, both small and large. Of course there will be some unfortunate investments, but our current mega-insititutions are no strangers to bad investment – and in the latter case, it can cost billions.

If you want to see broad-based economic recovery, please give the above proposal further thought and refinement.

Posted by bpmiller | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## why repay debts?

Feb 10, 2013

10:00 pm UTC

UTC – you assume that debts need to be paid. Why? To whom and for what?

Assumptions are rampant in your comments.

You assume people must work. You assume humans actually own things like land, houses and banks etc. You assume humans do not have an innate desire to be creative and productive and beautiful. You assume humans are insensitive to the fact they have been forced into economic slavery and are not revolted by such a scenario. You assume humans do not react to forced slavery by resistance to participate. You assume that the way this planet has been run in the past has been successful.

Try to be open to other possibilities and other beliefs.

Posted by bubbi | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## keep that crap on their books

Feb 11, 2013

1:21 am UTC

The Fed is not just buying back government bonds. They are also buying up the bad mortgage bonds the banks created in the first place. Reuters should have to report this to us. The shareholders should have to keep that crap on their books since they obviously weren’t asking any tough questions at annual meetings for years and years. And, certainly the shareholders with enough % of voting stock to control board seats should have to lose their shirts, their trust funds, their foundations, etc. In fact, they are what these bailouts have always been about! Bailouts that effectively contravened 100 yrs of bankruptcy law and precedent.

Posted by Planck | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## moon, earth

Feb 11, 2013

3:00 am UTC

Hey, you doubters. Look out your window and tell me whether its the moon that circles the earth or the other or the other way around.

Posted by BiggJerr | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Maldistribution of wealth and power

Feb 11, 2013

3:13 am UTC

The hysteria of commentators against government money created without debt is palpable in the insults. Such money could be used for stimulus through controlled, targeted reflation of employment. The government that creates it could establish a program of grants to small and medium sized businesses and individual entrepreneurs to subsidize wages and benefits for new 1-year hires. There was a small program of such subsidy, by means of the TANF Emergency Contingency Fund in the ARRA. It was successful, so it was shut down!

Your bloviations against hyperinflation just show that government creation of money is a TABOO. AS one author put it, “Continentals became worthless, but they bought us our freedom and independence.” Government money creation without debt (see Wikipedia “United States Notes”) was successful twice in American history when the nation was much worse off, under existential threat. Such greenbacks helped win the Revolution, the Civil War, and freed us from slavery.

Maldistribution of wealth and power in the US has become so great that we will never return even to “normal” employment and consumption levels unless something like this is done.

Posted by Counselor1 | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## it’s the interest, stupid!

Feb 11, 2013

5:11 am UTC

My, the bankers’ trolls are out in force at any sign of some threat to their golden goose. What nobody is mentioning here, that really needs to be understood, is that the government created money would not need to be ‘new’ money, just a new kind of money. If we create a billion dollars in debt-free government money, we stop the banks from creating exactly the same amount of interest-demanding bank credit. If it isn’t inflationary for the bank to create interest-demanding money, why would it be inflationary for the government to create interest-free money? Actually, it is less inflationary for the government to create money – when you create your money supply as interest bearing debt, the interest creates systemic inflation. And fears of government creating money to buy votes needs to be watched – but commercial banks creating trillions for asset-inflation bubbles is even more damaging.

Posted by Anonymous | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## a grab-bag of thoughts

Feb 11, 2013

8:51 am UTC

The hysteria is laughable if it was not so sad.

Worried about printing “too much money”? Don’t print “too much”. Don’t do Zimbabwe. Don’t DESTROY THE REAL ECONOMY.

(Ironically, the unchecked recession IS destroying the real economy. A crash of FINANCE — numbers — has been allowed to cause REAL production and REAL sales to decline. TEN BILLION DOLLARS worth of real wealth in lost productivity are destroyed every day.)

Don’t print money and give it to speculators.  
Give it to consumers who in fact CONSUME.

Rein in spending and balance the budget? EVERY net US Dollar in savings that exists is created by a past budget deficit. Try this: US pays Boeing $1.4 Billion for a fighter jet. In a “balanced budget”, Congress would have to tax back the entire $1.4 Billion from Boeing. Why would Boeing build a plane for free? They only profit for Boeing would have to come from a federal budget deficit, OR ELSE the US Govt would have to tax others to make up for Boeing’s tax break.

In reality, Federal Taxes could have been all but abolished since 1946, moreso since 1971.

Taxes for Revenue are Obsolete!  
  
NY Fed Chairman B. Ruml, January 1946  
[http://www.save-a-patriot.org/files/view  /ruml.html](http://www.save-a-patriot.org/files/view/ruml.html)

Nixon ended budget deficit concerns forever.

Adding $1 Trillion to the economy is a crisis? What about the $4 Trillion (I also heard $12 Trillion) that vanished from the US economy when banking collapsed? The Obama “stimulus” was like if you lose your house in a fire, and the insurer reimburses you 1/4 or 1/12 of a house. Cramped living?

What about REMOVING $4 Trillion from the economy, then destroying it? Isn’t that a real crisis? That’s what federal taxes do, destroy money.

Worried about creating money out of thin air?  
Banks create money out of thin air (essentially). Abolish banking?

Adding money to an economy leads to inflation?  
That’s called MV=PT. The author was Irving Fisher. Fisher refuted his own theory when he wrote it (Steve Keen checked the orignal), stating that they equation did not apply to a real economy and should never be used thusly.

The AUTHOR of it said that. Yet we use it. Stupid?

The original said, if we ASSUME that V and T are static, then a rise in M (money) will produce and equal rise in P (prices). That’s not economics. That’s an 8th grade algebra “story problem”. Why would anyone ASSUME A STATIC MARKET ECONOMY? When has a market economy ever been stagnant, incapable of responding to changes in demand levels?

QE is going to “bankrupt the economy”?  
QE is doing NOTHING AT ALL! That’s why it’s not helping. QE is simply a SWAP: Fed debits account balances of US Securities, credits account balances of US Dollars in reserve accounts. Both are nearly functionally-identical instruments, the former pays interest. All occurs within the confines of the Fed’s computer system.

QE \*was\* Friedman’s monetarism ideal, drop money from helicopters, but not on consumers, only into banks. The \*ideal\* is this: higher reserve balances will spur lending, into the real economy, on capitalism, on industry, on business, or at least on real estate. (They wanna re-inflate home prices above what people already can’t afford. They wanna re-do the “boom” of 2000-07.

This is nonsense. CONSUMER DEBT to BANKS is what’s unsustainable. We’ve known since at least 1969 when Friedman was refuted by Holmes (sic?): Banks do not create loans out of reserves. Ergo, increasing reserves balances does not create “pressure” to issue loans. Banks create loans out of the “asset” which is the loan agreement itself. That means banks already possess the ability to create INFINITY loans. Infinity plus 1 Trillion is not a real number.

Posted by dilbert\_g | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## governments must take back the right to create debt-free money

Feb 11, 2013

1:14 pm UTC

A growing economy needs a growing supply of money.  
Creating the needed amount of money is a fundamental right and duty of government.  
However, in most countries this role has been usurped by the banking system.  
Not only do banks profit unjustly, but they create new money as debt to themselves – which is why nearly all governments are now drowning in “debt”.  
This system is not sustainable: governments must take back the right to create debt-free money, thereby liberating their peoples from the present bankster-imposed recession.

Posted by SPScout | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## private banks have already ‘printed’ 10s of trillions

Feb 11, 2013

11:38 pm UTC

Every time a bank makes a loan or purchases a government security, the bank funds the loan or asset purchase by “creating” new bank deposit money. In our banking and money system as it has been operated these past 100 years, our money “comes from” bank lending, which is bank money creation. The critics of Turner’s proposal that the government create some money of its own, rather than continuing the practice of allowing private bankers an exclusive monopoly on money creation, seem unaware of the simple fact of where our money currently comes from. Every bank loan is essentially the “printing” of new money. Where is the shock, where is the outrage, where is the shrill fear of hyperinflation, when private banks create tens of trillions of dollars to fund mortgage lending and consumer loans and government bond puchases? Why is it not frightening that private banks have already ‘printed’ 10s of trillions of dollars, but the end is surely nigh when someone suggests that maybe the government should print a few trillion of its own?  
Or do you guys simply not know that banks create the money that they lend?

Posted by derryl | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## “free money” eliminates the one thing that encourages people to produce

Feb 14, 2013

8:14 pm UTC

Wow, people this is much more simple than yall are making it…

Production = Wealth  
Consumption != Wealth

Doesn’t matter how much fiat money you give people in a specific country (USA, UK, whoever); the simple fact is that production leads to wealth. Eventually the countries that are producing goods will refuse to accept the currency of non-producers (consumption societies, aka USA more every day). Their currencies are not backed by any real value (produced goods and service, etc.).

And before any of you can say it, “free money” consumption does not stimulate production because why would people work if they can get money for free? You eliminated the one thing that encourages people to produce: a “not free” paycheck.

This argument over who should get the free money is moot since it completely ignores this most basic and obvious economic law (not theory): Production = Wealth.

Posted by scipw | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Helicopter drops are better than bank bailouts

Feb 15, 2013

11:43 am UTC

At last. Not only did some economists see this crisis coming usng accounting models (Bezemer, 2009), but those same models show that QE is ‘pushing on string’…. keeping asset prices high, and yields low. It only takes a simple accounting model, with a few assumptions about wages, spending and prices, to show that bank bailouts are less effective at increasing GDP than a straightforward Keynesian boost

(more business lending) and bailing out households:  
[http://www.economics-ejournal.org/econom ics/journalarticles/2012-34](http://www.economics-ejournal.org/economics/journalarticles/2012-34)

I can only hope that these models become more mainstream, and the idea that deposits create loans gets consigned to the dustbin. Let’s start a grown up conversation about how to restructure domestic debts… and how to ensure equity for those more cautious (hedging) households and firms that didn’t jumped on the leverage/capital gains bandwagon.

Posted by NeilLanc | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## Tread carefully

Feb 17, 2013

1:56 pm UTC

WHY THIS CAUSES MORE HARM THAN GOOD:

1. Let’s say you have 10 people group A with $100 and group B with $100. You print $100 and hand it to group A. Group A now has $200/man and group B still has $100 a man.

The net result is \*precisely\* the same as having taken $50 from Group B!

PRINTING MONEY IS A TAX on holders of money.

So when group A and group B go to the grocery store to buy milk, they suddenly find it has gone up dramatically! Why? Because the store owner knows they were given more money. So group A now pays $7 for milk instead of $3.50. Then, when group A has bought all its milk, group B (if they have succumbed and purchased half-gallons), will see the price lowered – AFTER the printing of money stops.

This is the very definition of not only hyper-inflation but theft as well as moral hazard as speculators and debtors are repeatedly favored over savings and SAVINGS is supposed to form the basis for investment and growth.

Printing money not only has never worked, it NEVER WILL. There is ZERO serious economic support for printing. The Fed’s QE amounts to a monstrous credit injection and potential money in the economy.

But printing money is theft of mine and was once punishable by death. I hope those who support such madness accept the results (anarchy, collapse of governments and civil wars) rather than the simple (but painful) burning off of excess credit.

Societies suffer greatly from credit collapses. Societies are TORN APART by deficits supported by raw unsupported printing.

Tread carefully, keyboard jockeys.

Posted by MayorJoeQuimby | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## From Bank to Individuals if not Lended

Feb 21, 2013

8:20 pm UTC

Perhaps we now need a stimulus program that requires banks to start crediting individual bank accounts to the tune of $300 per month unless they meet a certain lending threshold.

Posted by changeling | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## all money should be created by government rather than commercial banks

Feb 25, 2013

11:19 pm UTC

The good thing about the article and some of the comments above is the focus that \*\*\* in theory all money should be created by government rather than commercial banks (who got the bulk of the money for centuries) \*\*\*. but time will be required to adjust. great strides have been made in UK to get perceptions altered – but confusion still reigns.

At first they (commercial banks mainly get the interest, then as loans (credit money) are paid off, usually money devalues all the while – the principal payments get bigger in proportion. I have not seen this pointed out clearly yet. Economists commentators (and politicians) rely on confusion to maintain their roles in an inefficient system. It is not economical at all at the moment in the West and \*\*\* the Far East are chasing after an outdated model ! \*\*\*. INSTEAD why not use the system as it could have been intended for much less inflation, even if it takes time to get there. Europe to contract: YES as should the USA! A lot. BELOW is a solution for a balanced economy and an accelerated investment with More QE money but only for the Green kind of Transition investments (i.e. only to get us off oil quicker and into a more careful use of stable money value that encourages savings Only slight growth in house prices, say less than 1% p.a. and solid investments – particularly renewable energy, heat store floors from solar, sustainable transport (and a lot less of it) that increase their real value. Here is the SCRIPT: in steps

Towards a Fairer Society, Gas security and Warmth 1page  
Given that as bank lending recovers the commercial banks will be making substantial amounts of new money by this process without any of this being diverted to the public purse except for normal taxation, why not create some warmth of feeling? As Mervyn King, Governor of the Bank of England has said in 2007 “there’s an un-level playing field between the finance sector and other businesses”. Government could get a bit more revenue by these means without a tax increase and a fairer return to small savers:

1. Government amending the rules to get a clear separation between new money and existing money, at the same time protecting all deposits of cash (whether electronic or otherwise ) to protect the public/small businesses – see “100% Registered Money” TWD Davies (available by return, just by emailing ian[dot]greenwood[at]phonecoop[dot]coop) . In this way protection can return – cost-free.  
2. Government setting a flow of some of all commercially-created money to the public purse. This could be done by the Bank of England setting up a new account to ensure ring-fencing and charging the base rate of interest for all new money created each year by commercial bodies including supermarkets and finance cos such as general motors. Over time this will grow and then stabilise as all the new loans are accounted for, allowing specific public investments and offsets as needed for poorer folk – for example if “luxury” taxes were implemented. [there also could be some claw-back of previously created money in some cases] \*\*\*\*!!This then offers the huge advantage of a feedback mechanism for less to the banks in bouyant times – i e to stop overheating of the economy in future !! \*\*\*\*. The main cause of the credit bubble was the inability of being able to quickly control the economy when it began to “heat” and then “cook”. Indeed the immediate effect of raising base interest rates is currently to increase commercial bank profits – at least in the short term, making it harder to control inflation as the money cycles back through. With this new measure, inflation could be easier to control due to rectification of a missing feedback loop. As bank profits get bigger they could be made to pay a higher proportion (as base rate goes up) AUTOMATICALLY. Who got the money from house price booms when it’s only a house-worth of money but the value of that money in house-price terms is declining? Only banks. This has been a cause of divides within what should be a global and happy society – once a well-rounded set of facts are fully understood.  
Economic cycles could do with being moderated and these proposals offer a simple way to achieve that and a way to immediately start it. Feeling warm?.

3. a) With limited initial grants available to all for fuper-insulation, the economy could be quite quickly regenerating in a more wholesome direction towards sustainability by a much bigger effort of retro-fitting houses and other buildings (see “Every Town an Eco Town” offering 50% gas savings (and walls at a tenth or twentieth of current losses – same email). –We prepared how to do this for the Office of Climate Change now DECC in UK who appear to have pretty well gone off on a wrong (slow) track with the so-called Green Deal to the glee of big companies who will make a packet (like EAGA previously. It is a deal to mainly support big business and finance. Whereas we could be training people and getting on with a more widespread info and do-it programme – be in touch for honest good-value advice much of it over the phone! as for the number/appointment time by email if necessary]. Training people to do it, whether as builders or as DIYers, reducing “impulse” journeys in vehicles and shopping/drinking themselves to oblivion as a pastime, with savings resulting – invested COULD BE A MAJOR SOCIAL BENEFIT. 3b) A new [even voluntary?] code could be introduced for banks to encourage their customers to borrow for the retro-fit purpose if the banks were to offer some of their resulting “free” money as a refund towards such a purpose. Our points 1-4 could stimulate healthy \*\*\* degrowth in the purely frivolous areas \*\*\* as well as regrowth in the right direction by helping energy efficiency, saving gas. Why not be in touch for free advice/details – how this all works, both financially and technically? a simple set of diagrams.  
4. As an extra bonus to working people why can not government put a floor on interest rates below which savings interest cannot go to reduce reliance later on declining pensions. that would be GOVERNING what they are supposed to be for. The “fat-cat” pensions can afford to come down, while those with meagre savings or wishing to make wholesome investments need to be rewarded more.  
The NEW Make-It Zone IN UK shows how with a bit of extra help such energy efficiency then allows a sensible underground heat storage system (of summer-solar = Central Warming). This new Centre for on-the-ground Education for youth is also FOR Designer-Makers oldprintworks.org – while making a living. Helping others can then become a valuable contribution to quick understanding/global security (especially needed for Youth) – to avoid further climate change and energy/”security” stress.  
For more information, Ian Greenwood, Founder: make-it sustainable ltd STEERglobal and Greenwood Structures, civil engineers. +44 (0)121 449 0278 [or +44(0)7702 569 077].  
“We ignore the rise of the super-rich at our peril” in the book “Who Runs Britain” 2009 Robert Peston BBC

Appendix 1 The making of New Money:  
Money creation as loans are issued  
“A deposit created through lending [via the banking system] is a debt that has to be repaid (if demanded by the lender – but why would they do it – it kills the goose that is laying the golden money eggs) just the same as a debt that has been created through the re-issue of another customer’s deposit of loans or checks with the bank. Of course they do not really pay out loans [entirely] from the money they receive as deposits. If they did that no additional money would be created. What they do when they make loans is to accept promissory notes as credits to the borrowers transaction account.” Federal Reserve Bank, Chicago, Modern Money Mechanics p 6.

Statistic: £1.5 billion in hard cash created by the UK government/Bank of England in 2006 [website statistic] was trivial compared to an estimated £30 billion from housing loans and £80 billion total created by the UK’s commercial banks in the same year (James Robertson’s estimate) some of which would be for international purposes. This built up to create the unstable situations of recent years. In the UK domestic economy it is estimated that in 2006 an amount of “free” money created as housebuyer loans might be in the region of £30 billion – see below. But without a clear separation by registering money creation this is difficult to pin down exactly. While this was going on, the numerical value of the housing stock may have risen but its real value was also overblown by the reselling of imports – FALSE VALUE (going in GDP statistics) into importers pockets, but much of it also offshore. Lack of clarity concealed by inefficiencies in the banking system allowing these higher prices to be paid (high expenses/bonuses paid to bankers trickle down)and created extra “services”. In 2010/11/12/13 and beyond we need a steady contraction of house price multiples – back to 2 and 3 times first-time buyers’ typical annual incomes and this is slowly being achieved as wages catch up a bit for them (the super-rich still clean up) (See Housing Minister’s comments reported in Observer on 2 -1-2011) Affordable in the late 1970s if one was frugal as the UK will have to be. Rather than the high interest rates then to try to control inflation, why not in 2011 aim for a few percent Base Rate directed to the public purse allowing the finance markets to compete around 1% or two percent mark-up as the building societies used to do? They were well rewarded before they were allowed to create money, so if that privilege is maintained, they should also pay base rates to the public purse. (Aim for base rate of 3% to encourage investment and max mark-up to banks of 2% for secure loans and 3% for less secure loans? They can compete around those levels.)

The amendment proposed by our STEERglobal group to the UK government (first made in April 2007) is that a charge should be made for any element of free money created by banks thus reducing inflationary tendencies because of the long-term investments then enabled. This charge can be altered up or down. Instead of Quantitative Easing by supporting bond prices and therefore bank profits, wouldn’t it be better to directly fund suitable projects or at least the materials for them? Such a move to charge was proposed initially before the credit crunch [the “sub-prime crisis” began shortly after our suggestion] wiped out large amounts of credit money. A simple diversion should be made of the Base Rate of interest on any “free” money. “Growth can then be focussed on REAL GROWTH as much as possible. and back to work FOR LESS. eg a weekly visit to the swimming pool and running/cycling as a means to get places. minimal energy use with Super-insulation – references available.

By fixing the diversion to follow the Base Rate as set by the Bank of England’s Monetary Policy Committee from time to time, there would be an automatic feedback loop to reduce “froth” (Professor Congdon’s words [LSE] in a letter to Financial Times around 2006 after the economy had been overheating for years). As we say in our conclusion below there is unnecessary hesitation and confusion over investment policy because of the lack of clarity over money creation.

It is perfectly possible for the existing system to issue money as current practice and government to charge for it via the central bank with minimal inflation using QE and the above system of return of some of the commercial money as it is created via base rates. that would bring stability to the EU and USA as well as AUStralia etc. i offer it as Balanced Economics.

Posted by iangreensteer | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## ‘paid’ in funny-money for undertaking work that benefits local communities

Feb 27, 2013

12:19 pm UTC

Simply giving money to people without expecting anything in return misses a much bigger opportunity.

People could be ‘paid’ in funny-money for undertaking work that benefits local communities. Community hubs could be charged with distributing the money and the amount of “pay” would represent the amount of time given by the person to the community.

This has the advantage of making local economies more productive and more competitive, as well as acting as a kind of rewards or incentive scheme that motivates people to contribute to the common good.

If this ‘ethical’ currency were to be digitised, then it could be used by its owners to buy things from vendors that are eager to sell excess stock or spare capacity without having to go ‘on-sale’ and thus eroding brand value.

In other words, the currency would disguise the discount and in the hands of the merchant represent positive social impact also known as corporate social responsibility.

@mikeriddell62

Posted by MikeRiddell | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## First step: Cure the recession

Mar 18, 2013

9:24 pm UTC

@PseudoTurtle..

Are you serious? Using Wikipedia as your go to source? Your stupidity is beyond reproach!

Inflation is based on these variables:

Supply and demand for money vs. supply and demand for goods and services — four variables. The supply of money is only one of those variables.

Changing any of the other variables could prevent/cure inflation.

Not to say that at some time in the future, sufficient economic stimulus couldn’t cause inflation. It could. However, we are a long way from that point, as witness long-term interest rates. The immediate problem is recession.

Since millions of people suffer today because of recession, why be afraid that the “medicine,” at some distant point, would cure the recession so well, we’d have inflation?

First step: Cure the recession. If and when inflation occurs, we have plenty of tools to cure it.

Posted by bambi60 | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## ability to tax a citizenry is what gives a government’s currency value

Mar 22, 2013

2:07 pm UTC

@PseudoTurtle

Hyperinflation, as opposed to low normal inflation, is caused by a government that is weakened in some way so as to lose its power to tax its citizens, such as losing a war or extreme corruption.

The ability to tax a citizenry is what gives a government’s currency value.

Read, for example:

Hyperinflation – It’s More than Just a Monetary Phenomenon

[http://papers.ssrn.com/sol3/papers.cfm?a bstract\_id=1799102](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1799102)

Cheers, Clint Ballinger <http://clintballinger.edublogs.org/>

Posted by ClintBallinger | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)

## buy things … M2 will rise, …… so will prices

Jun 15, 2013

8:52 pm UTC

No need to give it away. Use it to fully monetize the deficit and then to buy things such non-bank assets as houses, land, etc. M2 will rise, and so will prices.

Posted by nixonfan | [Report as abusive](http://blogs.reuters.com/anatole-kaletsky/2013/02/07/a-breakthrough-speech-on-monetary-policy/)