

RALPH MUSGRAVE – WRITTEN EVIDENCE (QEI0008)

QUANTITATIVE EASING INQUIRY

1. Thanks for allowing a broad range of people to submit ideas.
2. The basic point I wish to submit is very short and simple: it is that the popular claim (e.g. made by Positive Money) that QE increases inequality is debatable. Reasons are as follows.
3. Clearly if the central bank (CB) creates fresh money and buys up assets like Gilts, that will leave more cash in the hands of saver / investors, and that spare cash will seek a home, e.g. in shares, property, etc. The initial effect of that is obviously to boost the price of shares and other assets, and thus increase inequality.
4. However, QE is simply a continuation of the CB's normal method of imparting stimulus, i.e. cutting interest rates. Indeed, one of basic ways in which CBs cut rates is to create fresh money and buy up government debt (and perhaps other assets). Put another way QE is an attempt to get interest rates as low as possible.
5. Now it can well be argued that governments should not in fact borrow ***anything***, and thus that in the long run, the entire stock of government debt should be QE'd. Milton Friedman argued that in his 1948 American Economic Review paper entitled "A Monetary and Fiscal Framework for Economic Stability" which is available for free online:
https://miltonfriedman.hoover.org/friedman_images/Collections/2016c21/AE-AER_06_01_1948.pdf
6. See his para starting "Under the proposal...".
7. Also advocates of Modern Monetary Theory tend to favour a permanent zero rate of interest on government / CB liabilities. See for example an article by the co-founder of MMT, Bill Mitchell, entitled "The Rate of Interest Should be Set at Zero": <http://bilbo.economicoutlook.net/blog/?p=1961>
8. Moreover, QE actually has an ***equality increasing*** effect and as follows. The more government borrows, i.e. the less QE there is, the higher will interest rates be, all else equal. Thus mortgagors and other borrowers will have to pay more by way of interest. That clearly hits the less well off home owners, i.e. those with relatively large mortgages.
9. The above points are not intended to play down the social costs of the above mentioned ***initial*** inequality increasing effects of embarking on QE. But that

inequality increasing effect is in principle easily countered via increased capital gains tax, estate duty, increased council tax on more expensive houses, and so on.

Endnote.

If you want a little information about me, I'm the author of a book on full reserve banking: <http://books.ksplibrary.org/978-605-2132-59-3/>

Plus I have an economics blog entitled "Ralphonomics". See: <https://ralphanomics.blogspot.com/>

25 February 2021