“QUANTITATIVE EASING” – A FASCINATING EUPHEMISM

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The rich countries are facing serious difficulties after 2008 financial crash. In fact, they are experiencing a long-term recession, in which high unemployment rates and low growth rates prevail, and the risk of deflation is high. On the other hand, they feel their hands are tied, because they have adopted a highly expansive fiscal policy after the crisis – which resulted in very high rates of public indebtedness. This is the reason why several major European countries, such as Germany and Great Britain, are willingly involved in a violent process of fiscal adjustment. The United States hesitate. By choosing this path, those countries will simply deepen the recession they are in.

There is, however, a way out. It is the “quantitative easing”, already adopted by the Federal Reserve Bank at the height of the crisis, and that its president, Bernanke, now wishes to adopt again. “Quantitative easing” is a fascinating euphemism for the old and condemned practice of money printing by governments. The declared goal is to increase the liquidity of the economic system. The method consists in the Fed buying American Treasury bonds on the market. With this strategy, the market is flooded with liquidity and, thanks to that, the economy may react, as long as investors and consumers warm up and the banks are able to finance investments and consumption rather than being forced to sterilize resources in their safes.

There is, however, a second goal that no one likes to discuss, but that is very important. If the Federal Reserve buys Treasury bonds at the Federal Reserve, the public debt decreases. This purchase amounts to the payment of part of the debt. Of the net debt: the Treasury debt minus the amount of its bonds bought by the Federal Reserve. As a trade-off, one may argue, the Federal Reserve's debt increases. But which debt? Only if we consider as debt the amount of money in the public's hands. In fact, “quantitative easing” has and must have a second goal: to reduce the public debt and, therefore, to allow the governments to go back to an expansive fiscal policy and thus overcome the crisis once and for all. If the quantitative easing is equal to the year's public deficit, there will be no increase in the public debt.

But wouldn't it cause inflation? The Fed is not concerned about that. The danger, today, is not inflation but rather deflation. The prices of many economic sectors are falling in the United States – which is very distressing. It is not yet clear the amount of reduction in the public debt. But isn't this an unacceptable heterodoxy for right-minded people? It may be, but there is no populism involved in the process. The world has not progressed thanks to right-minded people, but rather thanks to those that had the courage and the firmness to face new and major problems with determination. Common sense tells us that we should keep our accounts in order. But the real order in moments of crisis is not as simple as right-minded people believe.