

## Quantitative Easing British Style

By Ian Griffiths

The simplest definition QE that we can offer is that it represents direct government intervention into the economy in an attempt to induce change.

Because - and particularly so in this recession- 'demand' suddenly grinds to a halt, the government is attempting to jump-start and then lubricate this side of the economy - the 'Easing' - with a 'supply' of manufactured liquidity - the 'Quantity'.

Before this technical age this would have meant printing more sterling denomination and swilling this into the system, through ordinary people's wallets and purses, so that spending would start with sufficient volume to stimulate new orders of manufactured 'things' - i.e. goods and services. (As an aside there are many economists who believe this should have been the approach this time. So far it would have meant about £3,300 for every man, woman and child to spend on whatever they like.)

The difficulty with this cash approach is that there is no guarantee that individuals will go out and spend the largesse they have been afforded in the way in which the government would like. For ex-

ample, they may just decide to stuff it under their mattresses for a future, rainier day than this one or, they may put in the bank or speculate on the stock exchange or, equally as risky, the next runner at Kempton Park. Even spending it on goods and services might not benefit the domestic economy. Many manufactured 'things' are now imported and thus the action of purchasing a particular range of goods only serves to stimulate some other nation's economy rather than our own (again, it is estimated that this has been the impact of much of the car 'scrapage' scheme). Then there is the big question of inflation. It is a 'proven' that when too much money chases too few 'things' in an economy the result is a rise in prices and once underway inflation is very difficult to control - think Zimbabwe!

So instead the government has created billions more of the now predominant 'electronic' money upon which we all depend. (Your bank account, whether it be in credit or debit, is nothing more than a series of numbers on a statement, the real money doesn't exist, its ethereal. All that there is a representation of its value and of what you are worth)

But this new money has not been pushed directly into the real economy, instead it has been distributed to the banks, financial houses and other bodies in return for their previously acquired government securities, or 'gilts' (these are forms of government stocks which are traded like other equities). The money exchanged is then placed in the general retail banking sector in the hope that it will be borrowed by businesses and even homebuyers in order to create and stimulate demand in the broader economy.

To date it has not "worked like that" to copy a phrase from a pre-crash banking advertisement. Instead it appears that much of the money has moved from the banks either into speculation on the stock, bond and currency markets or into the accounts of large banks and companies where it has been used to pay off debt and rebuild their own capital through new equity sales. At some stage it will find its way into the broad economy, many months or years from now when, in our opinion, it will create an explosion of inflation.