The Social Legacy of Quantitative Easing

Responses to financial market fragility.

Peter Willans PhD – University Associate-University of Tasmania

Research Fellow – City University - London.

The Quantitative Easing (QE) Experiment.

- Globally, many developed nation states have introduced QE.
- As a response to the Global Financial Crisis (GFC),and its resultant meltdown of financial markets.
- In the US, UK, and European countries, political responses favoured corporate bailouts rather than structural reforms.
- (Market) lobbyists over-ruled reform, and progressively integrated shadow banking sectors into new financial system architecture. Banks and financial institutions (merged) into a “parallel financial universe”. (Anastasia Nesvetailova)

Deferred reforms. Continuing downturns.

- QE has been discriminatory by favouring the financial sector over real nation state domestic economies.
- Post GFC, advanced economies growth rates are considerably volatile
- The average growth rate in developed countries has declined by more than 54% since the onset of GFC.
- An estimated 44 million people are unemployed (or underemployed) in developed countries.
- This is 12 million more than at the start of the GFC in 2007. (U.N. World Economic Situation and Prospects 2016).

The GFC and Global Debt.

- By 2009, half of all developed economies were in recession
- Three quarters of global GDP was situated in economies that were contracting.
- In 17 of the 20 largest developed countries investment growth remained lower than during the post-GFC period.
- In 2008 global debt totalled US$142t. or 269% of global GDP. US$68t. has been added since the financial crisis. The total of global debt in 2015 is US$210t. or 286% of GDP. (McKinsey & Co).

The Rationale of QE.

- During the period (09-16) the (QE stimulated) financial sector experienced increases in leverage, and market capitalisation.
- Policy priorities of QE have created massive money supplies to purchase long-term assets (bonds and mortgage backed securities) from banks and financial institutions.
- In theory stimulus flows designed to create a resurgence of system based finance, should lead to confidence and employment stimulus.
- In effect, QE "went in but never came out." without encouraging governments to borrow, invest into infrastructure, and social capital.
- In practice, stock markets rallied and employment flat-lined.

QE and Expanded Wealth Inequality.

- QE has expanded wealth inequality through boosting financial assets disproportionately owned by wealthy firms and individuals.
- Former Fed. Chair Bernanke argued "Through the distributional impact of monetary policy the Fed mandate was to "achieve price stability."
- Kevin Warsh (former Fed Reserve Board member) argued that QE (as a policy) works purely through an "asset price channel", enriching the owners of financial stocks and products.
- Radically unlike conventional monetary policy working through a "credit channel" assisting borrowers, and stimulating real economy spending. How is this explained?

QE provided Central Banks with new investment funds.

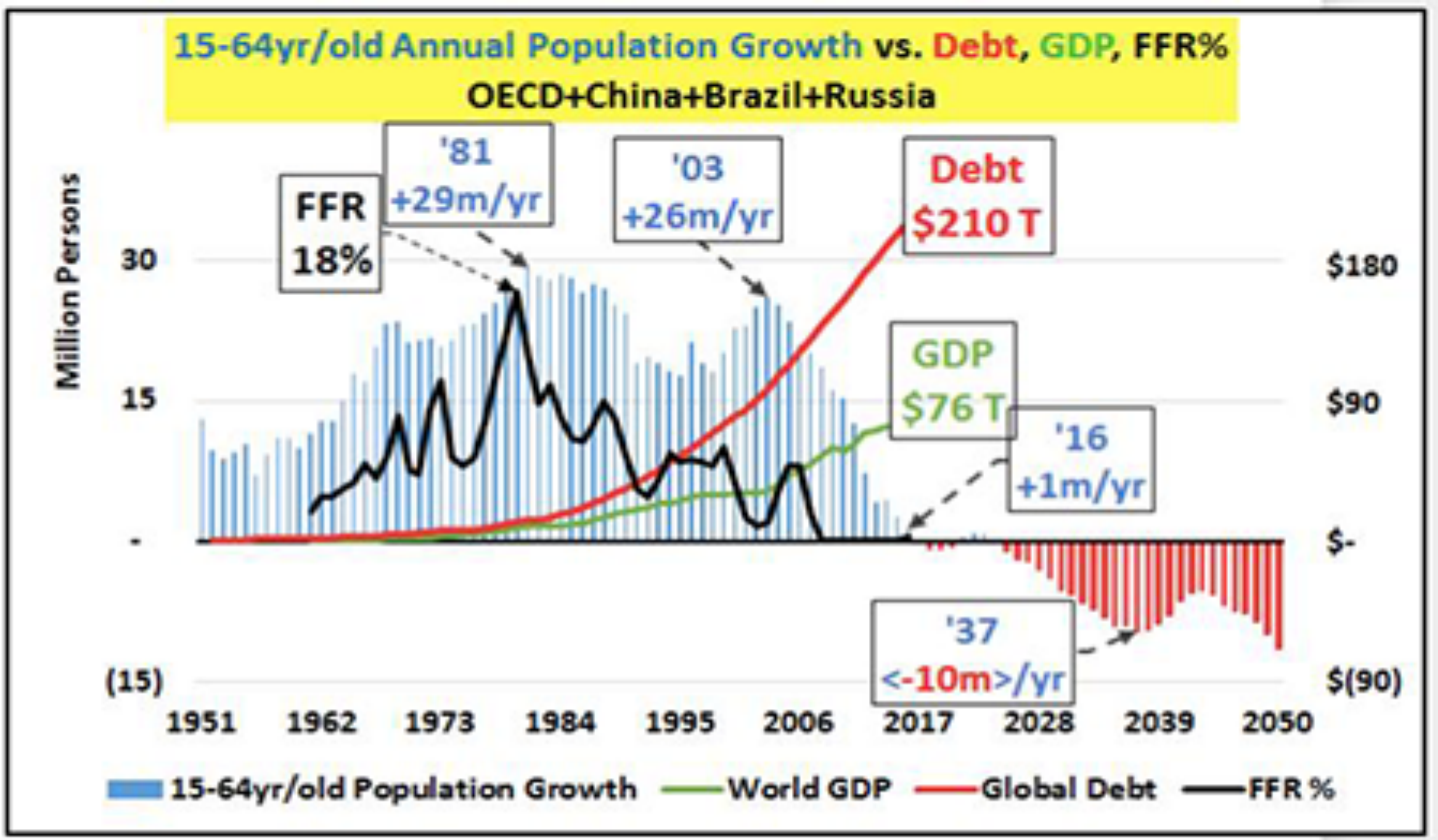
- The US Financial Services Regulatory Relief Act (2006) authorised the Federal Reserve to pay interest on “required and excess” reserves.
- With the financial sector facing collapse, in 2008, the Emergency Economic Stabilisation Act moved the date, of offering interest, back by three years. (From 2011 back to 2008).
- Excess reserves appreciated from an average US$200b (between 2000 – 2008) to US$1.6 trillion (2009 -2016).
- Financial institutions boosted by QE kept their funds with the FED. And in doing so accumulated an additional US$30 billion in interest, without risk.
- US$13b was accrued through the recent (2016) FED interest rate rise.

Declining “Economically Productive Workforce.”

- Post GFC macro-economic changes have seen a massive rise in liquidity funnelled into wealth creation and asset spikes particularly in real estate investments.
- But there has been no strengthening of the real economy .
- With developed nation states desperately in need of investment in education, infrastructure, and technology the following chart points to another, dominant social issue. That is a predicted fall in productive workers.

- The following Chart (Economica.blogspot.co.uk) shows:
- Blue bars indicate economically productive 15-64 year olds in the OECD, China, Brazil and Russia.
- Red bars (below the line) then indicate shrinking economically productive demographic (post 2018).
- This grouping is/was recognised as the most productive ***in any society***.
- From 2016/17 this economically productive demographic will shrink.
- Red line is the accumulated level of debt. US$210 trillion.

Growth V Debt



This Stage of the GFC.

- QE policies have been called "the biggest redistribution of wealth from the middle class, and the poor, to the rich, ever”.
- 95% of the income growth in the U.S. between 2009 (the beginning of QE) and 2016, was captured by the top 1 percent.
- This concentration of finance is a hallmark of QE appropriations.
- One wider indication is that US stock markets maintain a preference for/and are directly stimulated by QE. (See following Chart 3).
- When QE tapering takes place there is a notable drop in stock market sentiment. And political lobbying for more of the same.
- Moving from QE will be difficult.

US Stock Market reactions to QE

Australia’s Version of QE (known as economic stimulus).

- Responding to the rapidly slowing economy post GFC, The Reserve Bank of Australia (RBA) took an open appraisal to correct the deepening effects of the global recession. As an immediate rapid response to GFC.
- The RBA decision was to allow monetary policy and “automatic stabilisers”(guarantee bank deposits),to “do their job”.
- The RBA supported growth, and focused on employment stability.
- The Economic Stimulus policy proposals supported significant infrastructure projects, and one-off commercial-community projects which generated employment and business demand.

Crisis Stimulus enacted.

- In December 2008 a stimulus package of AU$10.4b was announced.
- including direct payments to seniors, carers and families. And grants to first home buyers of AU$14k for existing homes and AU$21k towards new builds.
- In February 2009, AU$47b. was announced as an additional boost to the economy by investing into infrastructure. And to secure on-going employment.
- Including, 14.7 b for schools, 6.6b for 20,000 new homes, 3.9b to insulate existing homes, 890m for roads infrastructure, 2.7b for business tax breaks, 12.7b in cash bonuses, and $950 cash payments for every taxpayer earning under 80k.
- The Australian economy did not dip into recession. And is now the only developed economy to remain in positive territory. Albeit with risk.

No Recession but rising inequality.

- As in other countries, Australia's income inequality and wealth have become more concentrated in the hands of fewer people.
- One indicator is that a person in the top 20% quintile has 70 times as much wealth as a person in the bottom 20%, however,
- Australian wage growth fell to the lowest level on record last year. According to the ABS, wages growth grew by just 0.5%.
- Australians also have the highest housing debt of any developed country.
- Although Inequality is not extreme on international comparison, it is trending in the global position.

Post Conference discussion points

- In the neoliberalist economic environment now, Australia is vulnerable to a debt avalanche.
- Despite two decades of unparalleled growth Australia's posterity has been unevenly shared.
- Inequality is expected to cost the Australian economy AU$13.1b by 2019.
- Economic inequality is expected to reduce individual income by $500 by 2019.
- Australian middle class represents 66.1% of all adults. The highest of any OECD country.
- Interest rates at all time low/access to loans all time high/and outstanding debts are mounting.
- Australia's economic growth recalibrated from mining investment to housing investment.
- Australia's new economy is built around consuming more than we produce.
- Australia selling assets to foreign interests to maintain living standards.
- Danger signs. Australians taking on record high debt levels. During an era of low rates.
- Basel 111 Pillar 3 disclosure shows the value of past due residential loans (90 days +) is AU$10b. June 2016. (including all banks and other lending institutions.
- This is within an environment of historically low rate regimes. Developing into a potent issue of political economy.
- Especially as Australia turns to part-time and contract working arrangements, leading to loan stress.