

What Quantitative Easing Really Means

By [Prof. Ismael Hossein-Zadeh](#)

Global Research, October 22, 2011

22 October 2011

Region: [USA](#)

Theme: [Global Economy](#)

Stripped from the fancy (and mystifying) jargon, quantitative easing (QE) simply means increasing the quantity of money supply, or easing credit conditions—in the hope of stimulating the stagnant economy. This is usually done by having central banks inject a pre-determined quantity of money into the coffers of commercial banks in return for the purchase of their financial assets, which consist largely of government bonds. Although it is typically done electronically, or on paper, its practical effect is the same as printing money.

This is supposed to be an expansionary monetary policy designed to promote economic recovery. The rationale behind the policy is that the addition of new funds to the capital base of the commercial banks (at or near zero interest rates) will enable them to, in turn, extend new credit to businesses and/or manufacturers at reasonably low rates so that they would, then, be encouraged to borrow, to expand, to hire and, therefore, create growth and prosperity.

While under certain circumstance (when money supply or capital markets are tight, interest rates are too high and effective demand or purchasing power is strong) this may work, under the current market conditions (where there is no shortage of capital, interest rate or the cost of borrowing is already low, and effective demand is very weak) it is bound to fail—as it has actually failed miserably.

Borrowing and investing in the production of goods and manufactures is weak not because there is a shortage of investible funds (corporations are sitting on more than \$2 trillion in cash but not hiring) or because the cost of borrowing is too high, as is implicitly assumed by the QE gurus, but because the macro-level purchasing power is too weak and the uncertain market conditions do not warrant investment and expansion. Furthermore, corporations prefer to produce not at home but where the labor is cheapest globally.

Likewise, the reluctance on the part of banks to extend credit to manufacturers is not because they lack capital, but because they find it more profitable to invest in speculation, that is, in buying and selling of assets and/or securities such as bonds, stocks, commodities, real estate, currencies, and the like—destabilizing activities that tend to create asset price bubbles, inevitably followed by bursts. Parasites discovered long time ago that it is easier to suck the existing blood out of the body of living organisms than producing it from scratch. Karl Marx used an even better metaphor to characterize parasitic finance capital: “The complete objectification, inversion and derangement of capital as interest-bearing capital. . . . It appears as a Moloch demanding the whole world as a sacrifice belonging to it of right.”

This explains why instead of increasing industrial production and raising employment the 1200 billion dollars of money that the Federal Reserve Bank has pumped into

the coffers of commercial banks through two rounds of QEs has simply resulted in further financialization of the economy; which goes to explain the significant bubbling of some asset prices of the past few years, especially the considerable rise in certain share prices as well as the drastic rise in the price of a number of important commodities such as rice, wheat, and oil.

By the same token, it also explains why the QE policy has further exacerbated income and wealth inequality, both in Europe and the United States, as it has helped only the financial elite without any help to the public. “The evidence suggests that QE cash ends up overwhelmingly in profits, thereby exacerbating already extreme income inequality and the consequent social tensions that arise from it,” reports Dhaval Joshi, of BCA Research. Joshi further points out that real wages – adjusted for inflation – have fallen in both the US and UK, where QE has been used to promote growth. “The shocking thing is, two years into an ostensible recovery, [UK] workers are actually earning less than at the depth of the recession. Real wages and salaries have fallen by £4bn. Profits are up by £11bn. The spoils of the recovery have been shared in the most unequal of ways.” In Germany, meanwhile, where there has been no quantitative easing, real wages have risen.

It is not unreasonable, therefore, to conclude that the financial oligarchy is using QE essentially as a legal, policy tool to further enrich itself at the expense of everybody else. Not only were the Wall Street gamblers able to bail themselves out by means of \$16 trillions of taxpayers’ dollars, but now they are also showering themselves with additional trillions of QE dollars to grow even richer and bigger.

Let us assume for a moment that, as the Federal Reserve and the government claim, QE is honestly designed to be an expansionary monetary policy intended to stimulate the economy. If so, why is then the government at the same time pursuing a fiscal policy that is contractionary, that is, moving in the opposite direction of the monetary policy by cutting social spending at all levels of the public sector?

The answer is that while from the viewpoint of national or public interests the two policies contradict each other, they are quite consistent from the viewpoint of Wall Street gamblers; both the supposedly expansionary monetary policy and the brutally austere contractionary fiscal policy serve the nefarious interests of the financial aristocracy. It is hard to believe that economic policy makers do not see the obvious: that their monetary and fiscal policies contradict each other. But, then, it is perhaps not so much a matter of economic knowhow or policy expertise as it is of wicked preferences and warped loyalties to the powerful special interests to be served.

Ismael Hossein-zadeh is Professor Emeritus of Economics, Drake University, Des Moines, Iowa. He is the author of [The Political Economy of U.S. Militarism](#) (Palgrave-Macmillan 2007) and the [Soviet Non-capitalist Development: The Case of Nasser’s Egypt](#) (Praeger Publishers 1989).

The original source of this article is Global Research
Copyright © [Prof. Ismael Hossein-Zadeh](#), Global Research, 2011

[Comment on Global Research Articles on our Facebook page](#)

Become a Member of Global Research

Articles by: [Prof. Ismael
Hossein-Zadeh](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca