

“Kick-starting the economy”

Well, it appears that another monetarist phrase, quantitative easing, has hit the headlines to join all the others that typically reflect our continuing economic woes.

So, what does it actually mean?

Said, Gerald Irwin of Sutton Coldfield based licensed insolvency practitioners, Irwin & Company, “Quantitative easing is just a smart term for printing money. The Bank of England does not actually have to use a press to spew out brand spanking new crisp notes. Ultimately, the impact is not very different. The actual aim of quantitative easing is to get money flowing around the economy when the normal process of cutting interest rates is not working or when interest rates are so low that it is impossible to cut them further. In such a situation, it still may be possible to increase the quantity of money.”

If banks swap their securities for reserves, they have fewer loans on their balance sheets and more cash to lend, or so the theory goes.

Even if quantitative easing is not necessarily effective, it would certainly be worth a try if it carried no danger. But its safety is far from certain. The danger lies in the appropriate engagement of quantitative tightening when the economy starts to pick up. Theoretically, reversing the policy should be simple as the Bank of England would merely sell off the excess assets on its balance sheet thereby sucking money out of the system. However, like quantitative easing, the tightening part is all part of the same equation and needs to be practised in tandem.