

The Menace of Fiscal QE: Unraveling the Risks and Dangers of Central Bank Currency Creation



The Menace of Fiscal QE by George Selgin

★★★★☆ 4.5 out of 5

Language	: English
File size	: 736 KB
Text-to-Speech	: Enabled
Screen Reader	: Supported
Enhanced typesetting	: Enabled
X-Ray	: Enabled
Word Wise	: Enabled
Print length	: 126 pages



In the aftermath of the 2008 financial crisis, central banks around the world embarked on a series of extraordinary measures to stimulate economic growth and prevent deflation. One of these measures, known as fiscal quantitative easing (QE), involves the direct purchase of sovereign debt by central banks.

While fiscal QE has been credited with helping to avert a global recession, it has also raised concerns about its potential long-term consequences. Critics argue that fiscal QE is a form of monetary financing of government deficits, which can lead to inflation, asset bubbles, and currency depreciation.

What is Fiscal QE?

Fiscal QE is a type of quantitative easing (QE) in which a central bank purchases government bonds directly from the government. This is in contrast to traditional QE, in which the central bank purchases government bonds from private investors.

The purpose of fiscal QE is to lower interest rates and stimulate economic growth. By purchasing government bonds, the central bank increases the demand for bonds, which drives up their prices and lowers their yields. This, in turn, makes it cheaper for the government to borrow money, which can lead to increased spending and investment.

The Risks of Fiscal QE

Fiscal QE poses a number of risks to the stability of the global financial system. These risks include:

- **Inflation:** Fiscal QE can lead to inflation if the central bank creates too much money. This is because the new money created by the central bank can be used to purchase goods and services, which drives up prices.
- **Asset bubbles:** Fiscal QE can also lead to asset bubbles, as investors seek higher returns in a low-interest-rate environment. This can lead to a sharp correction in asset prices, which can damage the financial system and the economy.
- **Currency depreciation:** Fiscal QE can also lead to currency depreciation, as investors sell their domestic currency in order to purchase foreign assets. This can make it more expensive for the government to import goods and services, which can further damage the economy.

The Benefits of Fiscal QE

Despite the risks, fiscal QE can also have some benefits. These benefits include:

- **Lower interest rates:** Fiscal QE can help to lower interest rates, which can make it cheaper for businesses to invest and for consumers to borrow money.
- **Increased economic growth:** Fiscal QE can help to stimulate economic growth by increasing the demand for goods and services.
- **Avoidance of deflation:** Fiscal QE can help to prevent deflation, which is a prolonged period of falling prices. Deflation can be harmful to the economy, as it can lead to a decrease in investment and consumption.

The Future of Fiscal QE

The future of fiscal QE is uncertain. Some economists argue that fiscal QE is a necessary tool to stimulate economic growth and prevent deflation. Others argue that fiscal QE is a dangerous policy that can lead to inflation, asset bubbles, and currency depreciation.

The decision of whether or not to use fiscal QE is a complex one. Central banks must weigh the risks and benefits of fiscal QE carefully before making a decision.

Fiscal QE is a powerful tool that can be used to stimulate economic growth and prevent deflation. However, it also poses a number of risks, including inflation, asset bubbles, and currency depreciation. Central banks must

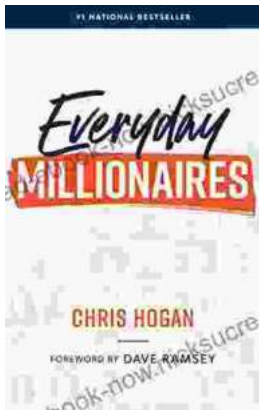
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