Quantitative easing in the United States after the crisis: conflicting views.

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Abstract

The paper deals with the conflicting interpretations of the monetary policy carried out by the Federal Reserve during and after the financial crisis of 2007-08. That policy has been labelled as quantitative easing. The first interpretation of that policy is that the central bank will continue to flood the market with money to cause inflation or at least inflationary expectations. A depreciation would eventually do the same job too. Another interpretation, partially based on Minsky's theory of investment, is that easy monetary policy carried out beyond the lender-of-last-resort intervention might have the aim of sustaining the price of investment and validating firms' plans. In other words, it would be complementary to fiscal policy with the aim of sustaining profits and investment. The problem is that the Kaleckian model Minsky was using hardly corresponds to the present situation of the U.S. economy. The interpretation here proposed is that the aim of monetary policy is the recovery of financial asset prices to sustain banks profits and to restore the value of household wealth. This design might be considered as successful if we look at the recent data. But those signals are not encouraging if we look at long term sustainability of policies. The recovery of stock prices has encouraged speculation on anything possible by the big banks. Moreover the recovery of financial asset prices in contrast to the slow motion of housing prices might increase the already high inequality in wealth distribution.

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