

# **Adair Turner, “The Case for Monetary Finance – An Essentially Political Issue”**

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## **“The Case for Monetary Finance”**

- Definition: Fiscal deficit financed by permanent increase in monetary base (irredeemable fiat non-interest-bearing liability of government/central bank)
- Can always produce an increase in aggregate nominal demand
- Asymmetry: Monetary base is an asset for the private sector, but *not an actual* liability for the government/central bank
- Sometimes better tool for stimulating aggregate nominal demand than any of the available alternatives
- Scale of impact of monetary finance on nominal aggregate demand can be appropriately controlled
- Political risks can be contained
- Is justified/inevitable in Japan
- Should generally be one-off tool in the toolbox; hopefully continuous use will not be required

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### “The Case for Monetary Finance”: **Short comments**

- Definition: Fiscal deficit financed by permanent increase in monetary base (irredeemable fiat non-interest-bearing liability of government/central bank): **Fine**
- Can always produce an increase in aggregate nominal demand: **Agree**
- Asymmetry: Monetary base is an asset for the private sector, but not a liability for the government/central bank: **Agree**

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### “The Case for Monetary Finance”: **Short comments**

- Sometimes better tool for stimulating aggregate nominal demand than available alternatives: **Agree**
- Scale of the impact of monetary finance on nominal aggregate demand can be appropriately controlled:  
**Probably, but *not* demonstrated**
- Political risks can be contained: **Agree**
- Is justified/inevitable in Japan: **Agree**
- Should generally be a one-off tool in the toolbox; hopefully continuous use will not be required: **Agree**

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## **Impact on nominal aggregated demand can be appropriately controlled and calibrated?**

- No numbers, no estimates!
- Impact may be smaller: Helicopter money may be saved
- Impact may be larger: Expectations of future monetary finance
- Some lessons from monetary targeting may be relevant
- More work on calibration definitely needed
- At a minimum a few numbers and numerical examples
- Generally: Monetary finance should be “Transparent, temporary, and targeted (to achieve inflation or price-level target)”