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Macro: understanding quantitative easing

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The human intellect, especially at the more enhanced end of its spectrum, seems predisposed to the elimination of dualisms. Never has a more spectacular conceptual dualism appeared than the one created by Newton. Prior to *The Principia*, physics conceived of all action as resulting from immediate contact between ponderable bodies. But Newton's theory of gravitation interpreted gravity as immediate action at a distance. To alleviate the intellectual discomfort caused by this conceptual dualism at the very core of the new physics, physicists devised the concept of the ether.

The conceptual creation of the embodied ether by physicists turned out to be a mostly harmless and sometimes useful diversion that did not stand in the way of Newton's history- changing insights. But the history of Keynes' micro-macro dualism has been radically and tragically different. Like the idea of physical action at a distance, the idea that there exist macro forces quantitatively influencing individual markets contradicts the experiences of everyday life. But unlike Newton with action at a distance, Keynes perceived the macro quantitative forces without discovering the causal metrics behind them. The rewards to humanity of Keynes' conceptualization, however vague, were soon so enormous – from the end of World War Two until the 1970s Keynesian policies provided western economies with more economic prosperity than had ever been known – that the economics profession, which had never before enjoyed so much respect, forgot to go looking for the deep **quantitative causal structure** of macro that was still unknown. Given that in economics the pursuit of knowledge rarely takes precedence over ideology, remuneration and clan loyalties, it was inevitable that without discovery of the missing metrics, the profession would seek to reduce macro to micro.

When it comes to science, **metrical structure** or **metric** is not a vague or superficial concept. Every quantitative order has one. Market-value (or exchange-vale) is a quantitative order, and its numbers are what science calls measurement numbers as opposed to count numbers, because it is a quantitative **attribute** of the members of sets of objects, commodities and assets, i.e. exchangeables. Between different measurement orders the metrics vary enormously. For example, length, temperature and angle. These structures of measurement numbers are not imaginary, not something devised and chosen by the scientist, but instead are structures possessed by real-world phenomena, structures which the scientist seeks to identify – like opening an envelope to see what is inside. And market-value is not a magical exception. But economics' relation to its only indigenous order of measurement is radically different from the physical sciences' relation to their measurement orders. For physicists, for example, measurement numbers are not part of the realm they are investigating, but rather part of their description of that realm, descriptions of its elements which have structures homomorphic to known metrical structures. But economics, because it never had to conceive nor even measure market-value (markets do that), has nearly always taken its existence for granted. And because every day at the local shop market-value functions as a linear metric that even small children understand, it has been felt that no inquiry into its metrical properties was necessary. And reasonably so. Physics maintained the same indifference to the structure of its primary quantitative orders until it came to consider physical phenomena on a scale previously beyond both its conceptual and observational reach. Similarly, because of financialization and quantitative easing (QE), today it is easier to see or at least glimpse the structure of market-value and most especially its **irreducible macro dimension**.

Please read these short quotes about quantitative easing from five new-millennium papers and posts. All the bold facing has been added.

> "... the transmission of unconventional monetary policy, in particular **outright asset purchases**, may induce distributional effects above and beyond monetary policy measures in normal times since central bank actions directly affect specific parts of financial markets, ... whenever financial asset holdings are concentrated among the wealthier, high-income households, outright asset purchases, by potentially raising the value of financial assets, may imply a more-than-proportional gain for these households and may induce more unequal wealth and income distributions" (pp. 6-7).
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> "Thus, the observed increases in equity prices in most European countries that were observed in response to the ECB's outright purchases are likely to have increased net wealth inequality" (Kerstin Bernoth, Philipp J. König, Benjamin Beckers, and Caterina Forti Grazzini, "Quantitative Easing - What Are the Side Effects on Income and Wealth Distribution", DIW Berlin: Politikberatung kompakt 99, 2015, p. 13).[1]
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> "**Quantitative easing**... is fundamentally a *regressive* redistribution program that has been boosting wealth for those already engaged in the financial sector or those who already own homes, but passing little along to the rest of the economy. It is a primary driver of income inequality" (Anthony Randazzo, "How Quantitative Easing Helps the Rich and Soaks the Rest of Us", Reason Foundation, Sept. 9, 2013).[2]
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> "QE drives up the prices of assets, especially financial assets. And most of the financial assets in America are owed by the wealthiest 5 percent of Americans..."
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> "By helping to reinflate the stock market in 2009 and 2010, the Fed created a two-speed recovery. The wealthy quickly recovered much of their wealth as stocks doubled in value" (Robert Frank, "Does Quantitative Easing Mainly Help the Rich? *Inside Wealth*, Sep. 2012).[3]
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> "Your **quantitative easing** plan... is already having a number of serious repercussions: firstly, it is refinancing capital market and private banks, but nothing is going in to the productive economy..." (Bernard Monot (NI), Dialogue with Mario Draghi, President of the European Central Bank, Brussels 15 June 2015).[4]

[1] https://d-nb.info/1074155459/34.
[2] https://reason.com/2012/09/13/occupy-the-fed/
[3] https://www.cnbc.com/id/49031991
[4] https://www.ecb.europa.eu/pub/pdf/annex/ecb.sp150615_1_transcript.en.pdf?b53eca0ceadee20f23e15f463bb7a1eb

> "It is no coincidence either that increasingly 'financial gurus' and new internet platforms try to attract small and medium investors to build their income strategies not on producing or supporting the production of new use-values, but on becoming financial speculators themselves. It is there, nowadays, where increasingly people earn their money. Not from producing new use- values, but from the growth of the monetary value of their financial assets... the overall value of the financial side of the economy grows in a growing process of financialization of the economy. With the increased use of **quantitative easing** monetary policies after the 2008 financial crisis, with central banks directly buying government bonds and/or other financial assets, public money and investments have become even more important means for boosting the profits of private speculative financial investments benefiting from the rise in stock-markets and the value of financial assets" (Stahel, Andri W., 2020 "Why are the rich getting richer while the poor stay poor?" *real- world economics review*, issue no. 93, pp. 9-10).[5]

What is noteworthy about the above quotes considering the **direct** effects of QE is that each shows an awareness that the price changes of the QE targeted financial assets also changes the distribution of income and wealth. Why is it said that there has been a redistribution? Because although there has been no change in the level of output or stock of real assets, the purchasing power of the owners of the QE-targeted financial assets has increased. **Therefore everyone else's has decreased.** As everyday measurement operations and numbers go, this is strange. We all have long known about the macro phenomenon of general inflation, but we have not seen what its existence says about market-value's metric and therefore about causal chains in real-world monetized market systems, especially how they distribute and redistribute income and wealth. Furthermore, except for the markets of the targeted assets, all these changes in all the market-values come about without there being any activity in the individual markets. What is the **macro causal process** by which a change in one market leads to a change in the market-value of the exchangeables and the size of the market-value unit in every other market?

The fact that increasing or decreasing the number of standards of measurement, e.g. a metre stick or unit of money, used in a measuring operation changes the size of the unit that every such standard defines in every other measuring operation, tells us that the metric of market-value, although it appears in your local shop to be the same, is radically different from that of length and mass and other quantitative orders that are absolute, linear and infinite. In our age of financialization, financiers and their agents are intuitively aware of the redistributive effect of any price change and have made it a keystone of their financial engineering. But it is not taught in Economics 101, where the bizarre metric of market-value is never mentioned, nor is the redistributive effect even hinted at on the Evening News when we are told that today's good news is that the Dow has reached a new high. Nor is it likely that members of parliaments and heads of state, unless with ties to The One Percent, will understand what targeted-asset quantitative easing entails and the real motives behind it.

In the time of monopoly capitalism before financialization and before the natural sciences taught us that the economy is threatening us with extinction, neoclassical economics with its exclusively micro reductionism, although far from ideal, was a marginally adequate conceptual lenses through which to understand economic reality. But today if we do not

[5] http://www.paecon.net/PAEReview/issue93/Stahel93.pdf

quickly learn to see deeply (at least as deep as the billionaires see) into the macro side of the economy's causal structure, then our future will be both dark and short.

An attempt to see into the underlying structure of macro causality and its political economy implications is in this short book: *Market-value: Its measurement and metric*. Kindle: US UK DE FR ES IT NL JP BR CA MX AU IN Paperback: US UK DE FR ES IT JP CA.

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