3. Sordid Tales of the "Magic Money Tree"

At first, viewers and listeners might have thought British Prime Minister Theresa May was dreaming up her own Harry Potter-esque fiction series, perhaps as relief from the gruelling demands of the 2017 election campaign. During an election special on BBC radio's "Question Time" in June 2017, two public-sector nurses brought up the issue of pay. One said, "My wage slips from 2009 reflect exactly what I'm earning today. How can that be fair, in the light of the job that we do?" Another nurse said that the cap on pay raises since 2010 had actually meant a decrease in his salary of 14%, "So don't tell us we're getting a pay rise," he said.

While promising to put more money into the National Health Service (NHS), May answered that "there isn't a magic money tree that we can shake that suddenly provides for everything that people want."[1]

Then another audience member accused May of "cutting NHS spending while cutting taxes for the rich." To which May again replied, "We have to make sure that we are managing our money carefully because at the end of the day there isn't a magic money tree that suddenly delivers all the money everybody wants for the spending everybody wants."[2]

Best Retort

Of course, social media had a field day with this, asserting that there was also no magic nurses tree, no magic doctors tree, etc., but the best retort came from someone named Richard Murphy, who responded: "I have to tell Theresa May that there is a magic money tree. She knowingly used it to fund 435 billion pounds sterling of QE [quantitative easing] to bail out banks."[3] Others have quoted a slightly smaller figure of 375 billion pounds in QE doled out by the Bank of England, but Mr. Murphy definitely raised an important point.

There is a "magic money tree," and the financial sector has benefited greatly from its shakedown over the last nine years.

Quantitative easing has rarely been explained to us serfs, but it is basically money-creation by a central bank (like the Bank of England), ostensibly to shift the economy in a desired direction. Central banks in the G7, including in Canada, have been using QE throughout the decade since the 2008 crash and Great Recession.

There is a similar "magic money tree" in the US. Economist Michael Hudson observed in 2017, "$4.3 trillion has been provided to the banks by the Federal Reserve in quantitative easing to keep the interest rates down. So if you're a good bank customer, you can borrow from the bank at two per cent, you can borrow to take over a company or to buy stocks or to buy risky bonds that are yielding more, and you can make an arbitrage. That is, you can make in dividends or interest more than you have to pay" back to the Fed.[4]

The Fed shook that "magic money tree" and simply created the money needed for quantitative easing, providing it to the private banks. As *Web of Debt* author Ellen Brown noted, "When that program was initiated, critics called it recklessly hyperinflationary; but it did not create even the modest 2% inflation the Fed was aiming for. Combined with ZIRP – zero interest rates for banks – it encouraged borrowing for speculation, driving up the stock market and real estate; but the Consumer Price Index, productivity and wages barely budged."[5]

That's because the QE cash didn't go into the real economy, it went into tax havens and private vaults, after being used by the banksters and their corporate cronies for stock buybacks, paying down loans, buying real estate, and doing lots of mergers and acquisitions.

All this QE money from the Fed's "magic money tree" largely has benefitted the richest one per cent, who already had adequate capital funds but wanted more to gamble in the money markets. So the Fed's $4.3 trillion in quantitative easing for the banks was sort of redundant: more riches for the already rich.

Michael Hudson noted, "Banks lend mainly to other financial institutions. They don't lend to factories that are creating jobs. They don't lend out for goods and services. They lend to other financial institutions. The whole economy has turned into trying to make money on speculation and arbitrage, not producing goods and services, not on hiring people to actually do work."[6]

QE Cash

There's another "magic money tree" in the Eurozone. According to Corporate Europe Observatory (CEO), as part of a money creation programme known as "quantitative easing," since June 2016 "the European Central Bank (ECB) has injected around €67 billion into the Eurozone economy to fund corporate bond purchases."[7] This meant "the ECB began to pour cheap money into the pockets of huge companies which can already comfortably access capital markets," so "the money simply ends up as additional income for a few wealthy shareholders, while job-creating small and medium-sized companies are being sidelined."[8]

Even worse, only six months after countries signed the Paris Agreement on climate change, the ECB poured most of that €67 billion of QE cash into "the dirtiest industries on the planet" – giant oil and gas companies like Shell, Total and Repsol, along with "car makers and highway firms."[9]

But that 67 billion euro figure was just the tip of the QE funding. All told, the European Central Bank has spent about 1.34 trillion euro in quantitative easing.[10]

So there really are "magic money trees" across the planet, and they have been used not only to subsidize climate disaster, but also to exacerbate inequality by boosting the returns of those holding financial assets, like banks and mega-corporations.

The amount of QE is actually quite astonishing when you add it all up: at least £375 billion from the Bank of England to UK banks; $4.3 trillion from the US Fed to Wall Street banks; €1.34 trillion from the European Central Bank to European banks and corporations. And when you add in QE by other central banks – like Switzerland's, Sweden's, and Canada's – the figure comes to about US $20 trillion that central banks have doled out through their QE giveaway as of summer 2017.[11]

And yet, as Tony Pugh observed in *The Guardian*, "Quantitative easing, as practiced by the Bank of England and the US Federal Reserve, merely flooded the financial sector with money to the benefit of bondholders. This did not create a so-called wealth effect, with a trickle-down to the real producing economy."[12]

Despite all that money sloshing around in the system (so-called liquidity) in part because of QE, it simply has not been trickling down to us serfs. As a commentator on CNBC put it in February 2017, "Central banks have been pumping money into the global economy without a whole lot to show for it.... Growth remains anemic, and worries are escalating that the US and the rest of the world are on the brink of a recession, despite bargain-basement interest rates and trillions in liquidity."[13]

Simon Jenkins accurately wrote in *The Guardian* (August 5, 2016) that the many years of quantitative easing since the 2008 Great Recession "have failed, failed, failed" to revive the economy.[14]

Hoodwinked

But the horrible thought arises: maybe QE was never actually meant to revive the economy. Maybe the "magic money tree" always was meant to reward only the super-rich (at the big banks and hedge funds). Maybe QE "trickle-down" promises were never more than neoliberal PR meant to hoodwink the economically illiterate rabble.

By mid-2017, some financial writers in the alternative press were declaring as much.

Dan Glazebrook wrote in *Counterpunch* (July 24, 2017), "In truth, the story that QE was about encouraging investment and boosting employment was always a fantastical yarn designed to disguise what was really going on – a massive transfer of wealth to the rich." The new money created by QE and "injected" into financial institutions "was not invested into productive industry, but rather went into stock markets and real estate, driving up prices of shares and houses, but generating nothing in terms of real wealth or employment."[15]

Nomi Prins (September 1, 2017) called QE "a decade of money-conjuring collusion [that] helped the same banks that caused the last crisis," and wrote that "big banks had played the system – and us – again, this time with central banks helping to fund them."[16]

Jack Rasmus wrote in *Global Research* (August 30, 2017) that "The lie fed to the public by politicians, businesses, and the media was this massive free money injection was necessary to get the economy going again. The trillions would jump-start real investment that would create jobs incomes, consumption and consequently economic growth or GDP. But that's not where it went."[17]

Rasmus estimates that the US Federal Reserve (the Fed) in the last nine years created at least $7 trillion in QE new money. He writes: "Little of the money injection financed real investment – i.e. in equipment buildings, structures, machinery, inventories, etc. Instead, investors got QE bailouts and banks borrowed the free money from the Fed and then loaned it out at higher interest rates to US multinational companies who invested it abroad in emerging markets; or they loaned it to shadow bankers and foreign bankers who speculated in financial asset markets like stocks, junk bonds, derivatives, foreign exchange, etc.; or the banks borrowed and invested it themselves in financial securities markets; or they just hoarded the cash on their own bank balance sheets; or the banks borrowed the money at 0.1% from the central bank and then left it at the central bank, which paid them 0.25%, for a 0.15% profit for doing nothing."[18]

With all the G7 central banks playing the same QE game, the end result has been an astonishing, further re-distribution of money up to the super-rich.

German economist Wolfgang Streeck summarized the overall financial situation quite bluntly in 2013 when he wrote: "Why should the new oligarchs be interested in their countries' future productive capacities and present democratic stability if, apparently, they can be rich without it, processing back and forth the synthetic money produced for them at no cost by a central bank for which the sky is the limit, at each stage diverting from it hefty fees and unprecedented salaries, bonuses, and profits as long as it is forthcoming – and then leave their country to its remaining devices and withdraw to some privately owned island?"[19]

By late June 2017, Owen Jones of *The Guardian* was noting (after the Grenfell Tower disaster), "While nurses are driven to food banks in one of the richest societies that has ever existed, the Tories have almost doubled the Queen's income. We live in a country that cannot provide affordable, comfortable and safe homes for millions of its own citizens, but the Tories can suddenly find tens of millions more each year to help renovate Buckingham Palace. There is a magic money tree for palaces, but not for people."[20]

"People's QE"

In 2016 when I wrote *Beyond Banksters*, it was being reported that eight obscenely rich men owned almost as much wealth as half the world's population. By summer 2017, so much money had gushed-up to the super-rich that the new figure was five men owning that much, with the middle class in a rapid downward spiral.[21]

In big cities, you can see it in the stores around us, where the choices seem to be Saks Fifth Avenue or Dollarama – or more likely, Saks Fifth Avenue and second-hand thrift shops with lots of shuttered stores in between. One consultant calls it the "high-low" – meaning that high-end and low-end stores "are doing better than ever, and middle-income stores are collapsing."[22]

Some economists now are seriously discussing the equivalent of a "magic money tree" for the rest of us. Some call it "helicopter money" (a somewhat dismissive term), or "people's QE" (less insulting), or "cash for the undeserving poor" (according to the angry rich). But as Simon Jenkins noted, "Why not try it? All else has failed." To prevent another giant recession, he urged in 2016, "Just give people the money. Give them cash, dole it out, increase benefits, slash VAT [value added tax], hand it to those most likely to spend it: the poor. Put 1,000 pounds sterling into every debit account. Whatever you do, don't give it to banks. They will just hoard it or use it to boost house prices."[23]

Ellen Brown agrees with this, arguing that "adding money to the [real] economy does not drive up prices [of goods and services] until demand exceeds supply; and we're a long way from that now.... Money supply could be increased by close to $1 trillion annually [in the US] without driving up prices. Before that, increasing demand [for goods and services] will trigger a corresponding increase in supply, so that both rise together and prices remain stable."[24]

A writer for *The Guardian* noted, "An idea that is gaining traction is that monetary and fiscal policy could work together to deliver 'monetary financing.' Under this proposal new money would be created by the Bank [Bank of England] as with QE, but instead would be spent into the economy by the government to boost investment, employment and incomes. It's an idea known as people's QE."[25]

In a letter to the editor of *The Guardian* (August 10, 2017), David Murray added to the debate when he wrote, "In 2013, tucked away in the bundle of Treasury documents tabled by the then chancellor, George Osborne, on budget day, was one with this paragraph: 'For example, it is theoretically possible for monetary authorities to finance fiscal deficits through the creation of money. In theory, this could allow governments to increase spending or reduce taxation without raising corresponding financing from the private sector. Adair Turner, Chairman of the Financial Services Authority, has suggested this could be a tool to use in extreme circumstances.' Clearly such money could be used to increase spending to build houses and improve the lot of workers."[26]

If all this sounds familiar to Canadian readers, it is likely because the issue of taking back the money-creation function of Canada's central bank, a focus in *Beyond Banksters*, has become a major discussion point for many. The movement for federal governments to take back their own sovereign powers of money-creation is growing around the world.

Apparently, even the EU has that power. As Tony Pugh noted, "If the EU were bold enough, it could fund infrastructure or renewable projects directly through the electronic creation of money, without having to borrow. Our government [in Britain] has that authority, but lacks the political will."[27]

Corbynomics

British Labour leader Jeremy Corbyn proposed a "people's QE" during the 2017 election. His idea was roundly attacked in the mainstream media and by Tory politicians. *The Economist* called it "dangerous," "radical" and "risky" and then warned about its effects on the Bank of England, stating: if Corbyn "were to rely on QE to fund public investment, he might be tempted to cajole the bank into prescribing more of it. At the mercy of politicians, the bank would lose its credibility, and confidence would drain from the economy, forcing interest rates up and crimping investment."[28]

It's odd that not one of those things happened during the past decade while quantitative easing has been used by the Bank of England (and other central banks) as a "magic money tree" to pump many billions into the financial sector.

In advance of the election, some 130 economists signed an open letter in support of the Corbyn plan, published in *The Observer*, saying the proposals "could be just what the economy needs."[29]

Nevertheless, by November 2017, investment bank Morgan Stanley was warning in a report that the prospect of Corbyn becoming Prime Minister "could be the most significant political shift in the UK since the end of the 1970s," and is a "worse threat to business than Brexit."[30]

In response to the Morgan Stanley banksters, a Labour spokesperson said, "The banks and hedge funds will not be allowed to bring our economy to its knees again. Labour will put an end to the rigged economy that benefits only the super rich, to build a society that works for the many not the few."[31]

Of course, as rigged economies go – especially those that benefit only the super rich – tax havens are a primary example.