

The Fed carries on printing dollars

The recent minutes of the Fed's Monetary Policy Committee show they think there is still insufficient recovery to justify any reduction in the amount of dollars they create each month. They plan to continue with an extra \$120bn a month and renew their discussions at their next meeting. Meanwhile the Bank of England has signalled an end to creating more pounds by the end of this year, and has throttled back the monthly amount in the meantime. The UK has received much less monetary stimulus than the USA relative to the size of the economy. UK inflation on the official numbers is at 2% and US inflation is at 5.4%.

In addition the US Congress and President are contemplating further large increases in public spending and the deficit whilst the UK Treasury is rightly letting recovery bring the deficit down as it will do without further government intervention to spend more. This week's foreign policy disaster by President Biden will not be good for confidence and consumer sentiment in the short term in the USA and may give the Fed further excuse to seek to run the economy hot. There is a lack of clarity over just how far the Congress will go in crafting a big spending big deficit budget for next year, though with Bernie Sanders as Budget Committee Chairman there are plenty of pressures to spend on a huge scale.

The main Advanced countries and the EU have shown they can get away with substantial money printing and large deficits for a limited period of artificially depressed demand brought on by their choice of anti pandemic policy. There is however no proof that they are all now like Japan and can enjoy zero inflation, huge budget deficits and endless money printing as the state buys back much of the debt it issues. Japanese society and its economy has a strong savings culture, an ageing population that is cautious and a long post 1990 crash tradition of no inflation. The US economy is showing that it still has a lively turn of speed on prices when stimulus is applied. The Fed assures us the rises will be temporary. That would be a more certain outcome if the Fed recognised as the Bank of England has done that Quantitative Easing has to come to an end as the economy recovers. It seems quite a lot of the dollars end up wanting to invest in UK companies, with a rash of bids outstanding.