Final Act For Falling Bond Yields and Interest Rates? QE + Fiscal Policy. Helicopter Moiney.

We have seen how effective QE can be. Not very. Not for Main Street at least. For Wall Street, QE has depressed bond yields and helped to camouflage the overvaluation of paper assets supporting them at inefficient levels for too long. More than that, the effectiveness of QE is wearing out like an over prescribed antibiotic. Now the global economy is still growing, not fast, but still growing. The US economy is in rude health. But the progression of inequality coupled with paltry growth means that the mass of the population is actually experiencing falling standards of living, even as aggregate data show improvement.

Lately, the talk of helicopter money has been gaining volume. The practical deployment of helicopter money is fiscal deficit spending funded not by tax but by debt monetization, in other words, QE. So far QE has been less effective probably because it was an attempt to clap with one hand. At last, this failure may be addressed. This may solve some issues and get the economy growing faster, hopefully to compensate for the rising inequality so that the masses may be raised out of their financial stagnation. However, there are a few minor side effects. The national debt will gro. Fiscal policy funded by tax is neutral and ineffective. Deficits will have to be increased. QE will have to continue. Just because it had limited impact in the absence of fiscal policy doesn’t mean we can stop now. Private investors have been happy to join their central banks in funding their governments, but only because there was some semblance of fiscal responsibility. Abandoning fiscal responsibility might result in an investor revolt meaning a backstop financier has to be found. Enter, again, the central banks. Bond yields may rise. Loose money sinks interest rates but loose budgets raises them. The loss of private investment demand will likely put a floor under interest rates. Central banks will have to be careful to not allow financing costs to rise too quickly increasing debt service for the government and for corporates. Bond yields are likely to stop falling, how quickly they will rise depends on the determination for further QE and the risk of investor revolt. Given how indebted countries are to begin with, central banks will likely be very careful to cap debt service for their masters.

Helicopters are usually the sign of a last ditch attempt. Hopefully this is not the case here.