

Given the importance of  $i \leq i^M$  to his model and his long and eloquent testimony to the strict positivity of the left element, I wondered about Professor Buiter's thoughts on the right side of the inequality. My ruminations started with the work of the monetary historian Farley Grubb who records the oozing of the characteristics of the Federal Government bond into Federal Reserve money under extraordinary circumstances like financing war efforts. In translation here, the case of  $i = i^M$  is the extraordinary instance of a permanent liquidity trap. The outcome is the same. Real demand can be increased by a magnitude as large as desired. My reflections here close with the reminder that all financial contracts are written on an underlying stratum of goods, properties, securities and so on (von der Boecke & Sornette, 2014).

Consequently, I am not sure of the meaning of the word "unbacked" Central Bank (CB) money in the paper. The helicopter pilot is following orders of the joint CB and Treasury Chiefs of Staff. The 'liability' is backed by an asset, a Treasury bond which, in turn, backs, say, planned infrastructure. Indeed, it will not be the first time that Willem Buiter has recalled that CBs are fiscal Agents of the State not fiscal Principals (page 32).  $T$  and, more importantly for this note,  $G$  come first. Thus,  $G(T) \rightarrow i^M \rightarrow i$ . Thus, the arbitrarily high nature of the emissions seem to be a rhetorical flourish. Highways and schools and hospitals must obey the laws of physics (von der Boecke & Sornette, 2014).

The incentives of the Treasury and the CB must lock. A minor point here: It is not clear that if no demand stimulus is called for why both must cooperate in debt issuance (page 31). Won't agents already have 'tax-smoothed' their plans? More importantly, somewhere Professor Buiter reports two scenarios where the two organs of the State might not see eye to eye. Going along, we have situations of conflict. Both parties might play a game over time with the two interest rates as strategies. Default might be a strategy although it is not necessary for the Treasury to undertake risky investments ex ante (page 27). Default probabilities might rise from nil, ex post, as large, long-lived housing projects, for instance, capital expenditures of the State, take shape. All the same, since the author holds fast to expansions being profitable, the risklessness of State-sponsored enterprises is not the issue since even the purchase of private securities or an expansion of a CB balance sheet through collateralized lending would deliver equivalent results (page 29 & page 34).

#### Reference

von der Boecke, Suzanne & Didier Sornette, 2014, Toward a Unified theory of Credit Creation, Swiss Finance Institute Research Paper Series No 14.07