Funding the Future

[1945, government debt, bond markets, sterling - and all...]

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[Debtonation ¬ª Blog Archive   ¬ª 1945, government debt, bond markets, sterling - and all that.].

My Green New Deal colleague Ann Pettifor is on fine form on government debt and the nonsense spoken about it by Her Majesty's opposition, of whom she ways:

I consider the scaremongering around government debt to be nothing more than an over-egged and salted buttermilk pudding dished up by the economic quackery of the Her Majesty’s Opposition. Not unlike that ancient remedy for (verbal) diarrhoea, it is intended to induce intellectual constipation - in those that absorb it in spoonfuls at the Institute of Fiscal Studies, the Treasury and City of London. We should have nothing to do with such childish prescriptions.

Note this too - her final of three rebuttals dealing with the nonsense put forward about the dangers of government debt in our current situation:

[A] final rebuttal: â€šÃ„Ã²the bond markets will not buy government debt - government debt will â€šÃ„Ã²crowd out’ private sector debt - and will force up interest rates. The government will be held to ransom by the bond markets.’

It is tiresome to have to rebut such arguments, but rebut we must.

The bond markets are not the King of England. They are servants to a sovereign state, begging to make a quick, safe, but effortless capital gain. (And since the financial crisis, many of these investors (like my old mother) would not dream of putting their money anywhere else except into safe UK government bonds.) Keynes’ advice to the British government way back then was to ignore the bond markets. Instead - back in 1940 - he persuaded the Treasury to oblige (perhaps the word is force) the banks - some of which are today already in public ownership or part-public ownership - to lend to the Treasury at very low rates of interest. The bankers were not given a choice. Their loans were given a fancy name: “Treasury Deposit Receipts” or TDRs - and they helped to finance the war, as well as post-war economic recovery. (I am grateful to Prof Vicky Chick and Dr. Geoff Tily for these historical references.)

As the economy recovered on the back of affordable interest rates, so the banks thrived.

And a final piece of advice to the Labour government should it consider following Keynes’s remedies: if the banks prove difficult - remove all taxpayer-backed guarantees and subsidies - and embark on a heavy programme of regulation.

After all, forget not: you are the government - and they owe you.

The reality is not just we can afford debt now, we cannot afford anything else. Osborne's prescription is a recipe for disaster the only merit of which will be the return of a true left of centre government after a remarkably short period if the Tories win office.