

Funding the Future

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I have good reason to support green quantitative easing since, as far as I can find, Colin Hines and I [were the first people to use the term](#). Maybe that's why George Osborne is reluctant to embrace it. But he is definitely getting closer to adopting the idea. [Yesterday the Treasury announced](#):

Chancellor unveils more than £6 billion of support for UK SMEs and infrastructure projects to unlock EU financing

This was somewhat surprising, given the scale of the money and the fact he'd only had a budget a week or so ago. So what was this about? The press release is a master class in opacity, which may be why I can't find this making the news, anywhere, despite the sums involved, so let me explain as best I can.

In essence this is the UK buying into the [€315 billion EU investment plan](#). This plan was widely derided when it came out. [Frances Coppola pretty accurately](#) described it like this:

I [have] cast doubt on the viability of Juncker's investment plan, pointing out that it involves no new money from either the EU or the EIB since it relies on a combination of non-sovereign guarantees and money diverted from other schemes, and questioning whether the private sector would be interested in investing in member state pet projects anyway. To put it bluntly, it appears to be a conjuring trick designed to give the impression that the European Commission is "doing something" about the appallingly low level of investment across the EU.

That seemed like fair comment to me. The press release is vague precisely because it too is an attempt to look like "doing something". And it reflects the structure Frances describes:

The Chancellor, Rt Hon George Osborne MP, has announced that the government will team up with the European Investment Bank (EIB) to help provide more support to SMEs and Infrastructure projects, ensuring that they get the financing they need to create jobs and boost the UK economy.

By working closely with the EIB and European Investment Fund (EIF) the government

will ensure that as many UK projects and SMEs as possible are able to access financing from the European Fund for Strategic Investment (EFSI).

Adding:

The EFSI, which forms one pillar of the EU Commission Investment Plan for Europe and was confirmed by European leaders last month, will use public funds, in this case €8 billion of the EU Budget, to leverage private sector investment in infrastructure and SMEs across the EU.

But the key is in the top line of the release where it is said that:

Announcement builds on the £44 billion of guarantees and other types of financing support that the government already offers

So, in fact there is no new UK money here at all: there are just guarantees. And because the €8 billion also comes in the form of guarantees and support to aid 'leverage', which means loans from other parties, the whole thing just looks like a giant charade excepting one thing, and that's the fact that the EU has, of course, a €1 trillion quantitative easing programme in place.

That programme faces a massive problem. There aren't enough high quality debts for it to buy in the EU at present. In fact, in Germany the impact has been enough to heavily distort interest rates and create a shortage of debt for pension funds and others to invest in.

Seen like this Osborne's announcement represents his commitment to be part of a European wide plan to create new commercial debt backed by the EIB for the European Central bank to buy as part of its QE programme, with a boost for infrastructure along the way.

To describe it as Green QE by the back door is not too much of an exaggeration. But it also shows a considerable lack of confidence by the EU that the scale is so small and by George Osborne for not doing it himself when the opportunity is available to him whenever he wants.

But let me celebrate what we have got: this is a step towards Green QE in the UK, and I'll at least mark the milestone on the path to the real thing with the lukewarm reception it might deserve if only anyone ever gets round to understanding it.