Funding the Future

Chris Leslie has got Corbynomics wrong

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I noted a report in the Independent yesterday about comments that the shadow chancellor, Chris Leslie, had made about why he called Corbynomics. These are, I presume, the policies announced by Jeremy Corbyn nearly two weeks ago. I spoke at the launch of those policies and since they were heavily influenced by this blog I feel I have a right and duty to defend them.

The key elements of the economic policy, taken from Corbyn's statement are:

One option would be for the Bank of England to be given a new mandate to upgrade our economy to invest in new large scale housing, energy, transport and digital projects: Quantitative easing for people instead of banks. Richard Murphy has been one of many economists making that case.

Another option would be to strip out some of the huge tax reliefs and subsidies on offer to the corporate sector. These amount to £93 billion a year - money which would be better used in direct public investment, which in turn would give a stimulus to private sector supply chains.

The key tax policies are:

But whatever tax laws we pass, we won't get a progressive tax system in reality unless we can enforce it and collect the tax we are owed. A detailed analysis last year produced by Richard Murphy suggests that the government is missing out on nearly £120 billion in tax revenues, per year.

That's enough to double the NHS budget; enough to give every man, woman and child in this country £2,000.

The £120bn figure is made up from:

- about £20bn in tax debt, uncollected by HMRC which continues to suffer budget and staffing cuts (only partially reversed in the last Budget)

- another £20bn in tax avoidance

- and a further £80bn in tax evasion.

This is money taken from us all. And we can address this. Therefore I am announcing today that my fairer tax policies will include:

- The introduction of a proper anti-avoidance rule into UK tax law.

- The aim of country-by-country reporting for multinational corporations.

- Reform of small business taxation to discourage avoidance and tackle tax evasion.

- Enforce proper regulation of companies in the UK to ensure that they file their accounts and tax returns and pay the taxes that they owe.

- Lastly, and most importantly, a reversal of the cuts to staff in HMRC and at Companies House, taking on more staff at both, to ensure that HMRC can collect the taxes the country so badly needs.

And what does Chris Leslie say of all this? Let's start with People's Quantitative Easing. Here the Independent notes:

The shadow Chancellor rounded on Mr Corbyn's proposal for "quantitative easing for people instead of banks." He said: "Printing money and ending Bank of England independence would push up inflation, lending rates, squeeze out money for schools and hospitals and mean spending more on debt servicing. Higher inflation and a higher cost of living would hit those on the lowest incomes, the poorest people who couldn't afford those goods and services. The very people we should be standing up for would pay the price — the poor and vulnerable."

This is an absurd analysis in so many ways it is hard to know where to start in addressing it, so let me do so in bites sized chunks.

First, people's quantitative easing is not the same as quantitative easing. Both are, of course, based upon the idea that the Bank of England provides funds to buy back debt that the government or its agencies in their various forms have issued, but the impact is fundamentally different. In the case of quantitative easing of the type used from 2009 until 2012 the money bought government bonds that had already been in existence for some time and the money was available to banks, pension funds and others to reinvest, the hope being that this money would flow into the productive economy. It did not. Instead it flowed into the house price and asset speculation. The gains went almost entirely to bankers who were, in effect, given costless money to speculate, which they did to the benefit of their bonuses and their banks' profitability.

People's quantitative easing is instead a highly directed process where the debt that is repurchased has been deliberately created and issued either by a green investment bank or by local authorities, health trusts and other such agencies for the specific purpose of funding new investment in the economy at the time when big business and financial markets are completely failing to deliver the scale of investment that is needed to get the UK working again and to restore our financial prosperity. There is no chance whatsoever that people's quantitative easing funds will leak into asset speculation, and so generate inflation, precisely because to the greatest extent possible banks will be kept out of this loop for the good reason that they have proved themselves unable to manage this type of socially beneficial investment activity.

Second, people's quantitative easing does not require an end to Bank of England independence, although why Chris Leslie should be so wedded to that idea apart from the fact that it was Ed Balls' suggestion in the first place, I am not sure. If anyone can provides good reason for moving most of economic policy beyond democratic control in the 21st-century I would be pleased to hear it: I can think of no justification for doing so.

Third, printing money is not inflationary when there is a shortage of money in the economy. If Chris Leslie is not aware of it, and I suspect he is not, all money that exists in our economy is created either by bank lending or by the government printing it. Those are the only options that are available. And, when there is too little money we risk getting deflation, which is pretty universally recognised as posing a threat to economic well-being because of the risk that it creates that people will stop spending, whether on business investment, or on household goods. Right across Europe, including in the UK, this is the big risk right now. Many European countries already have deflation whilst we have zero inflation, and quite appropriately the target for inflation is at least 2% per annum. Despite Office for Budget Responsibility forecasts, there is a I, and many other economists, have noted very little prospect of businesses suddenly entering into a period of quite historically exceptional new investment, and barring a massive house price boom there is also very little chance that consumers are going to increase their borrowing to the extent that George Osborne has predicted. In that case in the UK we may well remain in the situation where net loan repayment by business and consumers may actually be destroying more money than is being created by banks making new loans. In that case we are in the same position as many EU states, where there is desperate need of the new money to be injected into the economy to boost economic activity and maintain positive rates of inflation. And even if we cease to be in the same position as some of those EU states we still have a choice, which is an entirely valid one for any government to make, as to whether or not new money should be created by house price bubbles, asset price bubbles, or increased consumer debt, all of which were the precursors of the 2008 crisis, or whether, instead government wishes to themselves create this new money in a focused and directed fashion to ensure that there is new economic activity in the country which creates employment, increased wages, rising tax revenue, long-term prosperity, economic and environmental sustainability and a sense of well-being. I know which I would prefer: it would seem that Chris Leslie prefers the route to a crash.

Fourth, to suggest that people's quantitative easing will increase the government's debt burden is wrong, as it is also wrong to suggest that it will increase its debt servicing obligation. If the government buys its own debt then it cancels it. This, as a matter of fact, is true. It is, of course, technically legally possible to argue that the debt still exists, but if I create a loan to myself, even if it is legally recorded, it has no economic consequence: my repayments of my loan from me to me means that no money actually in net terms leaves my own pocket and that is exactly what happens when, as a consequence of any form of quantitative easing, the government owns its own debt. So, quantitative easing actually cancels government debt and does not increase it. And, in the process, it prints money, and the government does not have to pay interest on the money that it has created itself: Chris Leslie should know this; no interest is paid on the £375 billion of government debt that was repurchased between 2009 and 2012, partly under a Labour government. Technically, therefore, his arguments in this area are all just wrong. There is as a consequence no chance that this form of quantitative easing will push up interest rates, whilst to suggest that it will prevent spending on schools and hospitals, when that is exactly how it will be used, is either naive or deeply disingenuous, as are the claims on debt servicing.

If I am charitable, it is very clear that Chris Leslie has never bothered to acquaint himself with what people's quantitative easing is about. If am more candid, I think is wholly misrepresenting the truth on the issue.

But let me then turn to tax where the Independent report:

Mr Leslie, who is backing Yvette Cooper in Labour's election, warned that Mr Corbyn's plan to raise £120bn by tackling tax avoidance and evasion and reduce the £93bn spent on tax reliefs would not materialise, leaving a black hole in the public finances.

This, again, is simply absurd. No one has said that all the £120 billion in my estimate of the tax gap can be recovered and likewise no one is suggesting to my knowledge that all tax reliefs to business should be removed. But, what Jeremy Corbyn is correctly saying is that substantial action should be taken against tax abuse and that as yet there is no evidence of this because HM RC are not being provided with any real additional resources, legislative change is so far of token nature alone, there is no demand for increased accountability from big business, and there is no willingness to crack down on those who are really abusing. What is more, the failure of the UK to regulate the companies that it incorporates is contributing massively to tax abuse in the UK and abroad. Chris Leslie should be pretty familiar with all these ideas: they will all borrowed by Labour from this blog to form the backbone of its general election manifesto on this issue, and they did, along with the domicile rule changes also heavily influenced by me, provide one of the few cohesive and justifiable successes within its campaign. Now, however, Chris Leslie seeks to denounce them. It would be good to know why. When the option of reviewing all allowances and reliefs to make sure that they provide cost effectiveness for the government in terms of return generated and when opportunities to provide additional resources to crack down on tax avoidance and evasion do now exist, it would be scandalous for the Labour Party to ignore that chance.

The real question is why Chris Leslie would not wish to undertake either activity when the contribution both could make to creating a level playing field for business, large and small needs is obvious and as such they are the basis for the creation of a new, vibrant, business sector within the UK economy. Jeremy Corbyn is promoting this from what is described as the left-wing. The real question is why the supposed right wing would not wish to embrace the same ideas.