Corbynomics: four weeks on

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I have heard Jeremy Corbyn say, numerous times, that the policies he is proposing now will change and develop as a result of debate. It is a point not many seem to have noticed, but it is an important one: to cast in stone in 2015 policy that will clearly need to reflect changes in society, the economy and thinking before people can have a chance to vote on it would be a mistake. He's also said that the opinions of his advisers (whoever they may be) will not be all that matters: he is planning to give those in his party the chance to comment and vote on politics. Nothing could revive politics in the long term more than that. Politically motivated people have felt excluded from political parties for some time precisely because the very thing that interests them has been excluded from debate in both major parties (but not the LibDems, Greens and others, in fairness) for some time.

So in the light of that how have the three main components of Corbynomics for which I might have some responsibility fared over the last month, which is time elapsed since the term was coined?

Let's deal with the easy one first: the case for progressive taxation has hardly been discussed. I am not surprised. The case for redistribution of income and wealth is now considered so overwhelming that the OECD and IMF have supported it. Tax is an obvious (but not sole, by a long way) mechanism for delivering this. I am sure the policy will come under political attack in due course, but when it those doing so will be on the back foot.

Challenging the tax gap has had a tougher ride, for two reasons. The first is from the deliberate mis-statement of what has been said by the Corbyn team. Pointing out that there may be £120 billion of missing tax in the UK economy is not the same as saying it will all be collected, any more than the government's admission that there is more than £30 billion of missing tax is a statement on their part that they will collect all of that, and yet many have made that claim without any good reason. I think this argument is largely over: most opponents have now realised that the statement that only £20 billion might be collected has to be taken into account now and the previous claims are now being heard less and less.

Regarding the £20 billion, the likes of The Economist are still claiming they can find no details of how this could be done when they have all been published, here. Others say that if this was possible George Osborne would have done it: all I can say is that they, too, have not read what I have proposed. There are very clearly major options he has not addressed. Others argue that the yield is too high. That parts of it are endorsed by senior HMRC staff is something they have ignored. They also ignore that I have said the cost of achieving this is more than £1 billion. Curiously, I note HMRC have themselves assumed an 18:1 yield on their own programmes in this area (para 3.3 here). As a result I think my arguments on this issue are entirely robust.

The only remaining argument against this programme to beat tax evasion is that put by The Economist (although many others from the right have made it):

[S]topping cash-in-hand payments entirely is impossible (and even if it were not, the extra tax burden would crush some of the economic activity that generates this untaxed income)

The italics are mine: what The Economist is saying that they think tax crime is worthwhile despite honest business being undermined and cheating being condoned because this creates economic activity. I'd argue they are wrong: tax cheats and the failure of HMRC to challenge them oppresses smaller business, in particular, by providing cheats with an unfair competitive advantage, undermining trust, investment, job prospects and so growth in the UK. Those arguing that criminality is our path to growth have to be exposed for doing so: this is no route for any politician to go down. As such I think this policy is very secure from this challenge.

So, what of the most contentious one, People's Quantitative Easing? Let's break this down. For ease I will use The Economist again, but will refer to the many others who have made similar points.

First, the debate on investment has been welcomed, from the Economist, to the FT, to the Guardian and in the blogosphere: indeed, one of the criticisms is I have not made it strongly enough. As the Economist says:

As a percentage of GDP, Britain's government investment is the seventh-lowest of 26 countries tracked by Eurostat (though it is higher than in some big economies, like Germany) and lower now than during the financial crisis.

The first success of this policy has been to put this issue back into debate.

Second, the idea of a National Investment Bank has been pretty widely welcomed. The Economist said:

To increase investment he wants to set up a "national investment bank", which would, under government direction, spend on roads, houses and green energy. Nothing wrong *with that.*

Many agreed.

Third, the argument on Bank of England independence has been shown to be a red-herring. All QE has been Treasury approved: the idea that the BoE had operational control of this policy *cannot be supported by any evidence.*

Fourth, it has been agreed, by Chris Giles in the FT and Larry Elliott in the Guardian for example, that PQE would have made sense in 2012 when stimulus was needed. In other words, PQE could have directed funds to the real economy more effectively then than actually happened at that time. Their argument is that PQE is, however, no longer relevant because we were now growing and they assume that will continue to be the case. Technically, the case was won at that point: the argument that PQE might work was over when it was conceded it was all down to timing.

Fifth, the argument that it is not legal has lost all head wind: it's been effectively authorised in the UK and my design is Article 123 of the EU compliant. I have made clear I would expect some of the bond sales from the NIB, at least, to be held by the public, especially by pension saving institutions.

Sixth, some technical arguments on cost have been resolved: it is agreed that PQE would create new central bank reserves on which it has been conventional to pay bank rate interest, but as Adair Turner ha argued, that is just convention: there is no need to do so. Funding via PQE will then be cheaper than bond funding of the same investment and this matters when a significant part of UK gilts are owned overseas.

Seventh, the inflation argument got silly. The Telegraph turned up with the Zimbabwe argument, on cue. The fact that PQE is either clearly intended to stop if there is a risk of inflation because full employment is achieved, or would be countered (in that case only) by tax was not noticed by them. That's just indication of the poverty of their thinking. There is no serious argument on this point: PQE is another tool in the armoury to create inflation when we do not have it, and need it.

Eighth, along came China. A week after I told the FT that another recession was likely and tools to deal with it would be needed China tried to deliver one. Now, of course, we have no clue what will happen as yet on that front, but markets are down and will stay down in my view, whilst people are very worried about what will happen if the Fed and BoE are daft enough to raise rates. Whether or not they do the risk of long term export of both recession and deflation from China itself via the emerging markets looks very real indeed. In other words, the need for a new fiscal tool when all monetary options have now failed became very starkly apparent and the prescient adoption of PQE by Jeremy Corbyn began to look like a good move: even the Telegraph seemed to note that.

Ninth, Mark Carney admitted monetary policy is near enough dead yesterday. He has *said real interest rates of more than 1% (that means 1% over inflation) look unlikely for a long time to come. Thirty years ago real rates could be vastly higher: they have fallen 4.5% in real terms over that period, he says. The impact is significant. He is effectively saying that the room to manage the economy using interest rates has largely disappeared. With [QE also largely discredited for creating asset price hikes], fiscal policy is now the only game in town. PQE is fiscal policy, but of course not the only fiscal policy. That is why it may well be important. What else is anyone going to use when the next crisis comes when no one else has suggested anything new: they just declare the cupboard bare?*

Tenth, discussion of modern monetary theory has increased as a result, and that has clearly upset those dedicated to bond financing and / or central bank control of monetary policy. This is not an academic debate: it is about whether or not unelected people and bond markets control the choices governments make. PQE is not just a technical issue: it is about making clear who is in control, and I am emphatic it must be politicians accountable to parliament who are. PQE is intended to achieve that goal. No wonder that this has become a key point of contention. This is not about economics at all, per se: it is about the politics of power and in whose interests the economy is run. Difference here is not an issue of right or wrong: it is about belief. Many have not spotted this: I make it explicit.

And last, not everyone agrees on this issue. But haven't you heard the one about asking two economists for an opinion and you will get three answers?

So, to summarise on PQE I suggest we've got somewhere near the following position:

1) Austerity can be opposed and PQE has fuelled that debate.

2) Investment is widely acknowledged to be needed. PQE delivers it.

3) A National Investment Bank is needed: PQE can help fund it

4) Private investors should not be excluded from these ideas: my suggestions on linking the NIB to pension saving as well as PQE should ensure that is possible. It also means the legality question goes away.

5) Questions of Bank of England independence have been raised but those doing so are going to have a much tougher time defending their case in future

6) Whether PQE is a policy only for recession is to be resolved: I certainly think it may have more use in that scenario but stress I do not think the state fills in the gaps left by the private sector. Sometimes it has to meet need and the curtail the private sector at the same time if social priorities are to be met. PQE and higher taxes can achieve that goal simultaneously. Those making the timing argument ignore this altogether and that is their mistake in my opinion.

7) The cost issue remains out there, although I am not sure why.

8) The bond preference issue is interesting, but is most often (but not always) used by those who have opposed their use for deficit funding, and so is in too many cases disingenuous. It also ignores the cost issue and the leakage out of the UK economy whilst still supporting the view that we are constrained by bond markets. We are not, and PQE indicates that fact. I fully admit that part of PQE is about changing narratives and power relationships and think that important.

I stress: I hope it is clear that I am listening and I do note the points made. But I also think PQE is still, very firmly, on the agenda after all that. It will change (it has already in some ways) but I can't see it going away.

No doubt omissions will be pointed out. But please keep to the arguments: I am bored by the rest.