Two days of Corbynomics: a wave of paranoia erupts

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I have been away for two days and it seems rather a lot of the UK's heavyweight media spent quite a lot o time discussing Corbynomics. This blog is not intended to comment on all the issues raised: it is instead being posted more as a matter of record and to lay the foundations for a discussion that will follow. One day it might be quite interesting to look back at this moment and reflect on how things worked out (and I am making no predictions).

The FT had to lead the bill, putting two articles on the subject on page two of the paper yesterday. The first, largely about my opinion, still brought in the criticisms:

The idea of people's QE was floated during the depths of the crisis but some economists say that if it was used during more benign conditions, it could cause inflation and undermine the independence of the central bank.

Chris Leslie, Labour's shadow chancellor, has 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."

Tony Yates, economics professor at Birmingham University, said: "It would be a disaster. What is so frustrating about it is that it's not necessary to achieve a surge in spending on public infrastructure – that could be done with a looser fiscal policy."

The second was by Chris Giles. He accepted it would work, technically, but added:

The distinction between people's QE and ordinary QE boils down to whether the government or officials at the central bank have control of the monetary printing press, and whether the assets are cancelled after purchase.

The first is true: the second clearly not. There's another person who has not read my work where I point out whether cancellation takes place or not does not really matter as all the transactions cancel on consolidation. But Giles has a record for missing the big picture, as he did in his conclusion:

People’s QE does not deserve the magic status it has acquired. If a government wants to make infrastructure a priority, it already has the tools.

Or in other words he says we can borrow. Has he, or anyone else noted the paranoia about doing so? I will return to the issue.

Frances Coppola on twitter shared the same conclusion:

Clive Peedell made an entirely reasonable point: the answer was "there is no need'. Again, judgement, not facts. And I did not get included because I was in the middle of a field at the time.

The Guardian raised the issue in the context of Yvette Cooper's attack on the idea of People's Quantitative Easing:

However, Cooper said on Thursday she was determined to speak out even at the risk of losing votes, and she singled out Corbyn’s flagship economic policy — a massive infrastructure investment programme, possibly funded by quantitative easing (QE) — for particular criticism.

“Quantitive easing to pay for infrastructure now the economy is growing is really bad economics,” said Cooper in the speech, extracts from which were released in advance.

“Quantitive easing was a special measure when the economy collapsed, liquidity dried up, interest rates fell as low as they could go. But printing money year after year to pay for things you can’t afford doesn’t work — and no good Keynesian would ever call for it.

“History shows it hits your currency, hits investment, pushes up inflation and makes it harder not easier to get the sustainable growth in a global economy we need to tackle poverty and support our public services.”

All of which shows Yvette Cooper has read nothing about PQE. Nor has she given a moment's real thought to the issue. Maybe she should read my critique of Peston. Or FT Alphaville. I've already addressed why on this blog.

Polly Toynbee is no better:

It’s Corbyn’s key policies she warns will send Labour deeper into the wilderness. As an economist, she explains why printing money in more quantitative easing for spending will never be credible. She’s right. I find it a seductive idea, but as Labour found last time, radical ideas are useless without the missing gold dust of credibility.

Labour lost trust on both leadership and economics, the two indissolubly intertwined. It’s no good being right or radical if you can’t persuade voters to trust you with their *pensions, jobs and savings.*

Which begs the question why continue to trust banks instead, which is the only other option when they are so obviously not the answer to the question.

Larry Elliott's [response is more reasoned](as I would expect):

Cooper's point is not that QE is always bad economics. She could not possibly say that since she was a member of the Labour government that first adopted the policy in 2009. Her argument is that QE was a response to a dire emergency and that the economy does not need more of it at this time.

The Bank's monetary policy committee agrees. None of its nine members is currently backing the idea of more QE. Indeed, the MPC is toying with the idea of tightening policy by raising interest rates rather than adding to the amount of stimulus.

People's QE in the current circumstances would therefore have to rest on the argument that it will provide a way of tackling a dearth of infrastructure spending and, by modernising the public realm, lead to higher productivity. But QE is not needed to do this. The same could be achieved by the government borrowing money at historically low interest rates.

The case for people's QE would be much stronger in the event that a fresh financial crisis pushes the economy back into recession between now and the 2020 election. With little scope to cut interest rates, policymakers would inevitably have to fall back on so-called unconventional measures.

One option would be to expand the existing QE programme, even though studies suggest it was not especially effective. Another would be to instigate "helicopter" drops of money, in which the Bank would print money to finance cash transfers to consumers. A third would be for the government to pinpoint specific sectors that it wanted to finance through QE.

This would involve the Treasury giving political directions to the Bank, something that is feasible in an emergency but has its risks — including giving the impression that the government is indifferent to inflation — if deployed at other times.

So Corbyn is right when he says People's QE should be an option if times get tough. Cooper is right when she questions its use as a day-to-day tool of economic policy or as a backdoor way of financing higher public spending.

The first half of that conclusion is spot on: the second I will be arguing with in another blog.

Bloomberg weren't the only people to drag out Tony Yates of Birmingham University and a former Bank of England insider who failed to spot a crisis coming in 2008 to criticise PQE:

Critics say such a move could stoke inflation and damage the inflation-fighting credibility of the BOE by indirectly involving the central bank in the financing of politically popular projects.

“It’s certainly operationally feasible – I could organize it in a couple of weeks,” says Tony Yates, a former BOE official and professor of economics at Birmingham University. “But in my judgment it would be a disaster for monetary policy and inflation credibility. And it’s also not necessary, since the objective of increasing spending could be achieved by normal deficit finance.”

The agreement, as in the FT, is it works: people just don't like it.

Jonathan Portes said much the same:

The second criticism is that the detail of Mr Corbyn’s proposals blurs the line between what a central bank should do and what a government should do. Suggesting, as he does, that “the Bank of England must be given a new mandate to upgrade our economy to invest in new large scale housing, energy, transport and digital projects” is laughable. The Bank has a pretty demanding job as it is, maintaining monetary and financial stability. Deciding who should get state-financed high-speed broadband makes no sense.

Perhaps this is just poor drafting, and, as others have suggested, what in fact would happen is that a state-run investment bank would determine what projects were approved, with the Bank just providing finance. But, nevertheless, this sort of set-up would be a long way from what Friedman or Wren-Lewis envisage, where it would be the Bank of England deciding how much “People’s QE” was required in order to maintain monetary stability and avoid the risks of deflation; instead it would be the government deciding how much investment was needed and instructing the Bank to finance it. This wouldn’t be Venezuela, still less Weimar, but it would be a major shift, and potentially a very risky one.

But surely the UK does need lots more investment in infrastructure and housing, and if the private sector won’t provide it, the state should, especially when long-term interest rates are, as now, at historically very low levels? This is a perfectly respectable argument. But the answer is simple — conventional fiscal policy. There is absolutely nothing — except the absurd fixation with the deficit that appears to have gripped our political class — to stop the government simply borrowing more and investing more. As I arguehere, it would be entirely consistent with a sensible approach to long-term fiscal sustainability to increase public investment and to relax the deficit target to accommodate this. People’s QE isn’t needed for this: basic economic literacy would be enough.

First, Jonathan and Simon Wren-Lewis have had the decency to note that I may be suggesting something that is a contingency plan: of course it is, Jeremy Corbyn will not be in power until 2020. Providing commentary as if it was to b3e in plac tomorrow, as almost everyone does (Portes, overall, included) is absurd: that's simply not the world we are actually living in. Nor is this is a world in which debt has proved to be popular: this is a theme I will come back to in another blog. As I will on the obsession with the Bank of England.

And then there was Prospect magazine (I am sure amongst many others) who found someone (in their case called Jay Elwes) who, yet again, had not read what was being proposed and despite that said:

QE is a mechanism for the Central Bank to inject money into the banks by buying securities from them. They do not buy financial assets from councils, or individuals, or housing associations, because they tend not to have any to sell.

This is not to suggest that Central Banks could never capitalise government projects. It could in theory be done and has been discussed under the catchy title of "Overt Monetary Financing." But that's not QE, which is, it should be remembered, a mechanism designed as a solution to the Central Bank problem of how to stimulate growth when interest rates are already at zero. Ken–and Jeremy Corbyn–seem oblivious to this. What they are proposing is, as such, at variance with the most basic facts.

That's why this, quite specifically was not called QE Jay: it's not the same thing.

I could go on but let me summarise before offering counter-argument in another blog (given the length of this one).

First, as Chris Giles and many others note, People's Quantitative Easing could work. I think establishing that basic fact is useful. Even Tony Yates agrees.

Second, as only Larry Elliott has really noted, although Jonathan Portes and Simon Wren-Lewis may be appreciating but not explicitly, this is not a plan for now. When Jeremy Corbyn is not in power now and cannot be until 2020, that does seem a pretty basic point for commentators to appreciate. I have already made this point.

Third, as Frances Coppola's comments make clear, the opposition is not rational, but is ideological. The obsession is with the role of the Bank of England. It's something of a shame that those commenting have not bothered to note that its role in PQE is identical to QE: it just buys bonds. The Treasury runs the investment strategy via a National Investment Bank. And please do not tell me QE happened without Treasury consent: no one has ever been rash enough to claim that is the case that I know of. The Bank of England did, of course, operate with quite explicit Treasury consent.

Fourth, and this is a point I will return to in another blog, the argument that 'you can just borrow instead' is absurd: have none of those making the comment noticed that a massive narrative opposed to borrowing has developed over the last six or more years? Bizarrely, it seems not.

It is these conclusions (all of which I have explained at length to journalists) that I will take forward to another blog tonight or tomorrow where I develop why and how this paranoia about PQE must be dealt with.