

Funding the Future

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The question has been asked, time and again, as to what return People's Quantitative Easing could provide on the sums invested. One way to determine that is to look at estimates of the GDP generated per £1 invested. I have not needed to do this: Standard & Poor (a rating agency) have already done so in a report published in January this year.

As they say:

Inadequate investment in infrastructure has become a significant obstacle to doing business in the U.K., and the WEF's Global Competitiveness Report ranks the quality of the country's overall infrastructure 27th in the world.

Output per hour in the U.K. is below the average for the rest of the G7 industrialized economies; last year, one hour of work in the U.S. produced 40% more than one hour of work in Britain.

In our view, insufficient investment in infrastructure has been one of the key factors explaining weak productivity performance in the U.K.

As they then note:

We estimate that an increase in public spending in one year of 1% of GDP would result in a multiplier effect for the U.K. of 2.5 over three years.

We also project that such investment would add more than 300,000 jobs in the same year as the increase occurred.

S & P stress that their estimates are conservative. But what they are saying is £17 billion spent on infrastructure (and I think that a modest sum given the need) would create 300,000 jobs and over three years create GDP growth of more than £42 billion.

And in case of doubt as to return, a £42 billion GDP growth would probably yield £15 billion in tax, at least, so the investment almost pays for itself on that basis alone.

But I stress, this does not create a reason for borrowing. The economy is functioning at

well below capacity: this is one reason why the yield is so high. And borrowing would withdraw funds from the economy that should be used by the private sector. So a new cash injection is to be preferred. And at these rates of return the risk is not just minimal, it is virtually non-existent.