Funding the Future

You cannot harm billionaires by raising interest rates,...

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It takes some pretty perverse logic to produce a headline like this:

The FT does, however, manage it this morning. [Merryn Somerset Webb, who is the editor of Money Week, argues:]

The desperate attempt to avoid deflation via quantitative easing and record-low interest rates has had horrible side effects, and this observation is hardly controversial. The rich have become much richer; corporate wealth has become more concentrated; soaring house prices have created intergenerational strife; low yields have made all but the super-rich paranoid that they will be entirely unable to finance their futures. Most markets have ended up overvalued (this will really matter one day), while pension fund deficits and a constant sense of crisis have discouraged capital investment – and have possibly held down wages in the UK.

Following which she argues that:

The Monetary Policy Committee could dig out a list of excuses not to raise rates despite the last GDP growth numbers being rather better than expected. Raising rates will do harm at some point (asset prices will fall and the indebted will suffer). But not reversing is beginning to look like it could do more harm. Unless, of course, you are a billionaire.

What flows between her headline and the two noted observations does not seem to matter greatly because whilst it is clear that Someset Webb does get the fact that QE creates significant negative social consequences, as I long ago predicted, the essence of her argument is that these can be resolved by increasing interest rates.

In other words, the argument is that increasing the pressure on those who borrow (i.e. by and large those without capital or wealth) by requiring that they pay more to those who lend (i.e. those who have wealth) will somehow reduce social pressure in society and restore well being to the majority and send a lesson on greed to the world's billionaires even though their incomes will be increased as a result, inequality will rise, more who are clinging to solvency by their finger tips will go bust, house foreclosures will increase, and the pressure on social safety nets will increase considerably.

As a lesson in perverse logic this takes some beating. Call it callously incorrect if you like. I think that's about the best term I can come up with.

And in case you want to really know what to do the answer is

a) Introduce a wealth tax

b) Increase top income tax rates

c) Increase the supply of social housing

d) Challenge the legal status of offshore trusts and require at source tax withholding from all payments made to them

e) Increase large company corporation tax rates

f) Create an alternative minimum corporation tax requiring at least 15% payment per annum in a group basis

g) Increase capital gains rates

h) Require that land banks be used or be sequestered at undeveloped value

i) Reform banking to provide people focussed local banking services

j) Provide incentives to save in such banks not available to larger institutions

k) Introduce or extend financial transaction taxes

l) Introduce land taxation

m) Fund a universal basic income.

I could go on but my point is clear: we do not need an interest rate rise to benefit billionaires.

And nor do we need to unwind QE to suck money out of the economy to no productive gain.