Funding the Future

There are few upsides to Brexit: people's quantitative ...

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The Guardian has something decidedly right in its editorial today, saying:

When running for the Labour leadership, Jeremy Corbyn wanted a "people's quantitative easing" to boost the economy. It was frostily dismissed in 2015 as being forbidden by provisions in the Lisbon treaty. If we leave the European Union, those strictures will no longer apply. This is not to agitate on the side of Brexiters but to observe that the quiver of the argument against printing money might lose an arrow or two if we leave the EU. In fact, the Bank of England, while the UK was in the EU, did print hundreds of billions of pounds to avoid economic disaster. At the push of a button, the Bank conjured up £435bn to buy up gilts — government bonds — and exchange them for bank deposits. On the national balance sheet this sum is listed as debt, but it is not in the strictest sense because it is not owed to anyone. Turns out there is a magic money tree.

The first link is to my work on people's quantitative easing, written before Jeremy Corbyn borrowed the idea.

As the editorial then noted, the great failing of quantitative easing was that the £435 billion printed by QE (which they correctly note cancels national debt) was used to effectively create asset price inflation in the financial services sector. The editorial has a specific target: it is to say that Andy Haldane's claim for the Bank of England that this has been of benefit is just wrong. But what the Guardian says next is just as useful:

Government spending, however it is financed, needs to be the main agent of recovery. In that sense Conservative ministers are responsible for the costs of the rescue being dumped on to the blameless public in the form of falling living standards and public-service cuts. The lesson from the monetary side of the equation is that low rates and QE succeeded in staving off disaster; but was insufficient to regenerate a buoyant and fair economy. This could have been achieved by a redistributive, expansionary fiscal policy which ministers were ideologically resistant to.

And ideology was key here: I hate to say it, but that exactly proves Howard Reed's point on economics. So what can be done? This is the Guardian's view:

Mr Corbyn's proposal became a national investment bank, financed by government bond issues, to invest in new job-creating industries. But Labour could have been more imaginative.

I agree! They could have used my original version and done what the Guardian notes:

Its plans could have seen the central bank instructed to hand over funds to a state body so it could buy services and goods without issuing debt. There are two objections to this: one is the Bank would have to pay interest on excess reserves, which would inevitably build up; or let its target rate fall to zero. Both occur today and are managed.

The second is hyperinflation. Yet all spending — government or private — carries an inflation risk. A future chancellor could commit to using fiscal policy to make sure nominal spending keeps pace with the real capacity of the economy to produce goods and services — and withdraw the stimulus if annualised GDP growth exceeded, say, 2.5%. These are dream figures: UK growth is expected to be 1.5% this year. It's predicted that there will be no wage growth in inflation-adjusted terms for the next two years.

As they conclude:

The lack of demand in the economy needs urgent attention. Enlarging the economy may need bigger thoughts than politicians have so far entertained.

In other words, people's quantitative easing gets the ball rolling, but the whole issue is much bigger than that.

Now let's get on with it.