Are Johnson and Hunt going to claim they'll balance the...

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I was fascinated to read this from Ambrose Evans-Pritchard in the Telegraph:

We are one shock away from global monetary impotence. The US Federal Reserve still has some dry powder to fight a slump. The British, European, and Japanese central banks have almost none, so long as they obey the prevailing orthodoxies of *Homo Economicus*.

He added:

The countries that survive the next downturn with a modicum of social cohesion and their democracies in tact will be those willing - or creative enough - to tear up the rule book and push fiscal stimulus beyond any historic frontier.

You read that right. His argument is:

Deficit ideology should be inverted. Governments should be made to explain - if and when we again have pervasive slack in the economy - why they are not taking on debt at no cost for urgent public investment. Investors are pricing in a deflationary liquidity trap far into the 2020s. They are willing to pay the Portuguese state to look after their excess capital for five years, or France and Japan for ten years, or Germany for 16 years. Britain can borrow for half a century at 1.33pc. Nothing like this has ever been seen before.

His logic is sound. It is this:

The relevant question is whether public investment projects have a 'multiplier' above 1.0 and therefore pay for themselves over time though higher economic growth.

And he notes:

The OECD said (in 2016) a 0.5pc boost to GDP from extra investment would lift Britain's output by 0.6pc, and cut the debt ratio by 0.2pc over the next year. The multiplier *would be much higher in a deep downturn.*

Having made his case he gets political:

The [incoming Tory leadership](#) has a chance to break free of bean-counting and the Treasury View, so cursed by Keynes, and prepare the ground for the most radical fiscal experiment of any country in the world. They can do it productively with good debt or let [Jeremy Corbyn](#) do it his way with unproductive bad debt for neo-Marxist class war and social transfers to pet causes. This may require recruiting the Bank of England for 'investment QE' - as opposed to Corbynista 'People's QE' - casting aside yet another shibboleth and embracing the doctrine of fiscal dominance, a necessary evil in unprecedented times.

As the creator of Corbyn's People's Quantitative Easing I can say with confidence Pritchard-Evans has my version wrong - unless he thinks investing in the Green New Deal a new-Marxist class war issue.

His hyperbole is just wrong. This is what he says:

Plain vanilla QE has runs its course. It was a lifesaver after the Lehman crash but the cost/benefit calculus has been deteriorating ever since. It inflates asset prices and promotes inequality, for little economic return.

The IPPR proposes a national investment bank akin to the German KfW, created under the Marshall Plan in 1948. KfW raises bonds under Germany's AAA rating for development loans worth 2.5pc of GDP each year. Its â,¬485bn book is not treated as public debt by rating agencies.

The Bank would buy the bonds as needed in any future QE. It would inject the stimulus directly into the veins of the economy through public works. The bonds could be sold again later to drain excess liquidity. This is how quantitative tightening has been working in the US.

The reality is the bonds will never be sold again: the point is inconsequential. What is relevant is that he appreciates that there is a real need to do this:

The Treasury's National Infrastructure and Construction Pipeline says the country needs to spend £190bn by 2020/2021 and £600bn over the next decade on 700 projects. These range from flood defences, to railway electrification, full fibre broadband, [5G networks](#), renewable energy, space technology, research on advanced materials, beamless light, or semiconductor catapults, as well as smart motorways, super sewers, and social housing. Half is to come from the private funds.

I would not be doing smart motorways. And maybe not 5G. But the rest? Get on with it. Or, as he notes:

“The projects should be lined up like planes on a runway,” said Richard Abadie, an infrastructure expert at PwC. The quickest option is to flood local authorities with money they desperately need to fix potholes and repair crumbling schools.

To which he says:

In my view, we should pull the trigger now. .... The Government should assume that the world will be in recession by early 2020. This may combine with the short-term shock of a WTO-Brexit. The proper insurance policy is to pre-fund and pre-launch a £100bn blitz of needed infrastructure spending, targeting those projects with the highest multiplier. .... This may be our survival card when China and the US slide into recession and take the rest of the world with them. History can move in strange ways.

I long ago said that George Osborne would do People's Quantitative Easing before Labour did. It looks as though my idea is alive and well and living in the Torygraph.

It's a strange world. but it may explain how Johnson and Hunt plan to claim they'll balance their books. They'll be taking investment off-balance sheet.