The government is going to beat coronavirus using moder...

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Last night Gary Gibbon of Channel 4 News reported that the Coronavirus Emergency Bill included an increase in the UK government contingency fund for unexpected expenditure from just over £10 billion a year to more than £260 billion in the coming year. This morning I admit that I can find no reference to this in the media, or in the draft Bill itself, but I have a very strong suspicion that the figure was reported with good reason.

Whether precisely correct or not, what this additional provision demonstrates is three things.

The first is that additional government expenditure happens because the government decrees that it should.

Second, the government can decree this without first having raised tax revenue to ensure that the expenditure is funded.

And, third, the government can also do this without the prior consent of bond markets: there was no guarantee or underwriting from them for this action.

This is possible for reasons I explained in an academic article here. In that piece I explain the formula for funding government spending, which is:

G = T + âˆ†B + âˆ†M

where G is government spending, T is cash tax revenues, âˆ†B is the net change in government borrowing in a period and âˆ†M is the net change in government-created money in a period.

On this occasion the government has announced (rather quietly) an additional spend of £250 billion or so. I am quite sure that it will be required. That is because tax revenue is likely to fall in the coming year: people’s incomes are collapsing, very fast. It is not at all clear whether bonds of that amount can be sold. But what we do know is that the Bank of England has now announced it will buy up to £200 billion of government bonds to support coronavirus measures, and that these need not come from the market itself but can be bonds directly issued by the government itself for this purpose.

In effect, cutting out the middle man of the market means that this funding will not now be quantitative easing. The pretence that it will be has gone. This is direct deficit funding of the government by the Bank of England: in effect the government will be running an overdraft with its own bank. And what we can be sure of is that if it wants the overdraft limit increased it will be.

You will not find the formula noted above in many textbooks: I've searched and not found it. The âˆ†M bit is missing. That's because the mainstream of economics has not recognised that such funding can take place in this way. But that's because dogmatically they have refused to believe it possible and have insisted that government is solely dependent on funds provided by third parties to fund its activities — so perpetuating the myth of 'taxpayer's money' and the 'burden of debt'. But neither of those myths is true. The government can create money whenever it wishes, simply by deciding to spend it into existence and by instructing its own bank to create the money to make settlement of the liabilities owing. âˆ†M changes everything.

This is, of course, what modern monetary theory has always said.

Now this will be happening quite overtly in the UK rather than surreptitiously, as has been the case to date.

The myths about government funding should, then, be shattered forever: the simple fact is that a government with its own currency and its own central bank that wants or needs (as in the current circumstance) to spend can always do so if it wishes by simply extending the funding provided to it by that central bank. The myth of taxpayer's funding the government is, then, blown apart. And so too is the idea that governments are beholden to bond markets: they are not, because what is apparent is that the supply of bonds to the market is now wholly under the government's control. The bond markets now sign to the government's tune, which is why interest rates are under control and very, very low.

This is not to say that tax is unimportant. Far from it. In another recent academic paper my co-author Prof Andrew Baker and I argue that by freeing our understanding and by shattering these myths modern monetary theory 'creates possibilities for using tax to achieve social objectives such as mitigating income and wealth inequality, increasing access to housing, or funding a Green New Deal'. In other words, when tax is not primarily seen as a tool for funding (which it is not) but is instead seen as a mechanism for government control of the economy, from regulating inflation onwards, then tax actually assumes a more important social goal than it has at present and this provides even stronger reason for tax justice campaigning than can exist if it is simply all about funding government. That's because the funding argument permits those who oppose the social arguments to say that they can be dismissed because pragmatic funding requirements are more important.

And have no doubt about one further thing: this new deficit funding and the matching action of the Bank of England kills forever the argument that there is no government that does not believe in or use modern monetary theory: we’re going to beat coronavirus using it and let’s be thankful for that.