Funding the Future

# Angrynomics: read it if you want to get angry

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I read Angrynomics by Eric Lonergan and Mark Blyth over the weekend, and note that Larry Elliot commented on it in The Guardian earlier this week.ï¿¼ My guess is that it will not receive as much attention as Stephanie Kelton's 'The Deficit Myth', but because it is written in fairly accessible form is bound to attract some notice.

The book is profoundly annoying, in my opinion. The first 120 pages or so explain whyï¿¼, first of all, people are angry and, secondly, how economics has contributed to that, and are extremely useful, well-argued and worth readingï¿¼. But then, unfortunately, when the authors turn to policy things go decidedly awryï¿¼. Let me deal with these things in turnï¿¼.

When it comes to angerï¿¼, Lonergan and Blyth identify two types. One is personal anger, based largely upon feelings of insecurity, and they see every reason why this anger has increased in recent years.

The second type is tribal anger, which they represent as being deliberately stoked by political interests to create a diversion from the causes for personal angerï¿¼. Their implication is that those promoting the tribal anger would rather maintain the causes of personal anger and so use tribal anger to deflect attention from those issues. It could be argued that the analysis is a bit simplistic, but it certainly resonatesï¿¼.

The same is true of their economic analysis. The authors undertake a dialogue that identifies, during their discourse, three periods of economic thinking that have contributed to differing forms of anger.

The first lasted until the 1930s, and assumed that whatever was the outcome of market activity was what we had to live with. The result was mass unemployment. That gave rise to angerï¿¼ and a demand for change.

The second period lasted until the 1970s, and presumed that full employment was the goal of society, and delivered it until this reduced the return to capital. That then resulted in reduced business investment, to the point that the demand for ever-growing wages produced inflationï¿¼ in many countries because of falling productivity. This analysis ignores the shock from the collapse of the Breton Woods system and the oil-price crisis. But it is right to suggest that inflation gave rise to a different cause for anger.ï¿¼

The third period is neoliberalism, where it is presumed that low inflation is the priority of society, and that low wages, unemployment and poor public services, which are the consequences, are prices worth paying for the achievement of that resultï¿¼. Inequality, insecurity, a feeling of being left behind, and resentment of migration have given rise to yet another cause for anger.

And that is where we were when coronavirus broke upon usï¿¼: anger was, once again, the dominant sentiment with regard to the economy, and so change was inevitableï¿¼.

With all this I have a little difficultyï¿¼. Indeed, I was enjoying the book and its ability to communicate its ideas in a way that should ensure many people can understand them to this point. But then we come to the prescriptions as to policy. And at that point a great deal goes wrong.

First of all that's because there is a brief, and largely incorrect, dismissal of modern monetary theory. It is said by the authors that MMT has no theory of inflation, which is really quite bizarre when it plays such an important role within that school of thinkingï¿¼.

And then it is claimed that MMT offers a ‘free lunch’. The implication is that MMT does not recognise that at full employment government spending to divert resources from other activity ï¿¼must either stop, because there are no further available ï¿¼resources to be divertedï¿¼, or there must be increased taxation to reduce the spending power within the private sector economy to prevent inflation. Failing to note that this is what MMT says when this has been discussed by MMT academic authors for a very long time is really quite odd when Lonergan and Blyth are usually rigorously academic. It indicates an unfortunate prejudice.

But perhaps even more surprising is the authors’ claim that MMT’s suggestion that the inflation must be controlled byï¿¼ï¿¼ï¿¼ raising taxes could not be achieved in practice. The prevailing neoliberal narrative in tax is simply accepted, it seems, without question. What Blyth and Lonergan suggest as an alternative to tax increases is not, however, clear when it seems obvious that interest rates cannot now achieve this task for a great many reasonsï¿¼ï¿¼.

What is more odd still is that the authors glibly argue that MMT will increase wealth inequality when the precise purpose of freeing tax from its role as a revenue provider is to liberate it to undertake the task of being an agent for social changeï¿¼, which includes providing it with the opportunity to redistribute more. Like so many others on the left who criticise MMT, I really do wonder how much of MMT that Lonergan and Blyth have really read. That I end up with this overall impression is disappointing.

But I was also disappointed with their policy prescriptions. First that's because they place too little emphasis on the climate crisis. Of course it's mentioned, but is not made the epicentre of change. In the current environment I find that surprising.

But I do not, however, find it nearly as extraordinary as their proposed National Wealth Fund. The authors are rightly concerned with equality: I share that issue with them. But, the proposal is that current negative interest rates on government bonds be used to issueï¿¼ debt to an equivalent of 20% of GDP (or more than £400 billion in the case of the UK). The resulting funds would then be used to acquire a portfolio of quoted shares from existing owners. These would then constitute a National Wealth Fund, and from this a bonus would be payable to those outside the top 20% of wealth owners in the country. As their top solution to our current woes I find this idea quite alarming in its naÃ¯vetÃ©. The idea of redistribution is, of course, welcome, but as far as I can see that is the last thing that this proposal will doï¿¼. There are, in fact, multiple flaws.

Firstly,ï¿¼ putting £400 billion more into the stock market will significantly increase share prices and as a matter of fact this will increase wealth inequality. It will take decades of this fund’s operation to compensate for that initial boost to the wealth of the top part of society.ï¿¼

Second, none of this investment would in fact go to the companies in question: all that would happen is that ownership of ï¿¼their existing shares would change hands. As a result no extra investment in the economy will actually take place and not a single job would be created as a result of this proposal. At the time when we are facing the prospect of mass unemployment this seems like a surprising use of funds.

Thirdlyï¿¼, it is suggested that this fund should be passive i.e. there would be no interaction between the National Wealth Fund and the companies in which it is invested to seek to change their behaviour. As a consequence all the existing hierarchies, faults, and exploitative practices inherent in neoliberal structures of the economy would be preserved intact by this proposal, keeping the whole order that has delivered anger-inducing inequality in place as a result.

Fourthly,ï¿¼ as a result of this passive investment programme there will be no pressure brought to bear upon these companies to, for example, change their behaviour with regard to carbon usage, or with regard to their exploitative use of resources in pursuit of profit which have brought us to the brink of economic and climate disaster. This is, again, a surprising suggestion.

Fifth, it is assumed that this investment will earn a return of maybe 6%. That requires that the market not be overpriced right now, which almost everyone thinks it us, and that climate change has no cost, and creates no stranded assets. The chance of that return is, I think, close to zero in that case.

So what is this NWF all about? I'd say that first of all it's about perpetuating almost every aspect of the current status quo. Second, it's about the most incredible lack of faith in government, who are assumed to be incapable of creating value, even by interacting with companies. Third it's about climate change denial. And fourth its about denial of one of the major drivers of inequality. I hate to be so negative, but it really does not seem well thought out.

For the same £400 billion I would capitalise a national investment bank, and gear it by at least another equivalent sum. With the resulting £800 billion I can provide all the investment needed for the transformation of our economy to a sustainable basis, in the process both creating technology for sale in international markets and the companies that could build, develop and market those technologies for international customers, as well as making home need. My focus would be on renewable energy, battery technology, alternatives to existing cars, including their heavyweight electric versions, and light rapid transit and delivery systems. The aim would be for low unit cost, low carbon material usage and rapid delivery to secure our futures. I suggest that is what a national wealth funds should look like, and it is as far removed from maintaining the status quo as it is possible to get.

Let me them briefly address the other policy ideas in the book. The second is for a universal basic income funded by making Google, Facebook, Twitter and so on but our data from us. There is a problem here though: these companies won't pay tax right now. There is not an iota of a hope they will pay for our universal basic income in that case. As far as I can see this idea is dead on arrival given the current economic environment and given the current state of relationships between the USA and everywhere else.

The third big idea is for helicopter drops of money to directly drive consumption. I admit that I have real problems with this as well. Ignore the fact that it is indiscriminate. Ignore to the fact that it may not work. The real point is that I think a job guarantee will work better: it's my belief that this is what people want right now.

Next, there is an idea for a new fiscal policy which creates different target interest rates for borrowers and lenders. With this one I have few issues: indeed I have suggested that the government should offer green bonds to ISA and pension funds on this basis even though this does not minimise the government's cost of borrowing.

And finally there is a proposal to use the opportunity provided by the government's current possibility of borrowing at negative interest rates to find a green new deal. I would build that into my national investment bank, already noted and avoid the problems with the NWF that the authors' make their centrepiece.

In conclusion: great analysis until it comes to MMT, where there is a significant black mark, and the policy prescriptions look horribly like an endorsement of markets over government at a time when it is markets that are failing. Read it if you want to get angry. That worked for me.