

# Funding the Future

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I was in discussion with old friends yesterday on what might happen over coming months and even years. Like me, they're deeply troubled by the current lack of any clarity, vision or leadership from the government. This blog summarises my thinking. It was to be a Twitter thread but got too long for that. That has, however, dictated the style.

We agreed that the government had been hoping for two things. The first was a short, and rather sharp, hit from coronavirus after which there would be herd immunity. They had the same hope for the economy: a short hit and then full recovery. Neither is going to happen.

Whether we get a second coronavirus wave is unknown, but that there's a risk of it is a fact, so we have to stay in semi-lockdown. And Covid 19 is endemic now: even a vaccine is unlikely to erase it. So everything will be different. There's a long term socio/medical impact of this.

On the economy, the bad news has hardly begun. The government is now passing the buck to businesses. Vast numbers of them remain vulnerable. Few can now operate at the scale they did. But high overheads remain and many tax bills are only deferred. Failure rates will be high.

With high failure rates, and even the fear of it, will come substantial redundancies. I think we're already at 2 million plus unemployed. Add one in three of those furloughed or on self-employed support and there could very easily be six million unemployed.

Sudden unemployment at anything like this scale will become a crisis in months, at most. The middle classes are about to learn about the Tory approach to benefits and the reality of universal credit.

People will really face a crisis when they can't feed their children. Some already can't in the UK, but this is going to become widespread. And other bills - from the mortgage to the credit card and then the utilities will all go unpaid. From furlough to financial meltdown is a matter of months.

The government has already said it is not interested in helping. It will not swap debt for equity in small businesses, it says, condemning many to businesses to extinction, and it claims that furlough is bad for people's morale. How unemployment without hope is better is anyone's guess.

The critical point is that unless there is a very rapid change of attitude - which requires a complete change in the Tory (and widespread) fear of government debt - then intervention to prevent this disaster will not happen in time. And once the jobs have gone, that's it.

Other consequences follow quickly. A massive increase in child poverty is my big concern - and is unavoidable right now. General physical and mental ill health will follow. But the spiralling impact also worries me. Unpaid debts are going to cause a major banking and then housing crisis in 2021.

Unpaid rents are going to lead to many evictions of tenants as unemployment rises. Landlords hate those on benefits. And mortgage failures are going to lead to more evictions as a result of repossession and then to forced housing sales. That will result in property price falls.

Property price falls lead to banking crises in the UK (although by no means everywhere else). The UK banking sector is really just a property financing scheme, wholly dependent on rising prices to ensure its own survival. I'm not convinced banks have anything like the capital required to get through 2021.

And at that point meltdown at a level we still can't imagine is possible. Effectively, the ability of the finance system to pay will disappear without intervention.

On top of all this there is Brexit. I needn't add any more on that issue, except to note that its timing could literally not be worse.

I don't see these outcomes as possibilities right now. I see them as likelihoods. In fact, without intervention from the government I see them as near certainties.

This government is banking on us being 'back to normal by Christmas' when even the Office for Budget Responsibility says there will be 3.5 million unemployed then. I think this wildly optimistic, but that would by itself be enough to trigger much of what I am suggesting.

So what can be done? There have to be alternatives, and there still are.

The first essential is to accept the reality that millions of jobs are at risk. The government has got nowhere near close to accepting this as yet.

The second essential is to accept business can do nothing to prevent this risk by itself. There is no possibility of a market based solution to the coming problem of mass

unemployment. This requires a change to forty years of thinking that markets hold the solutions to all problems government face.

The third essential is to make job preservation a priority. So, loans to business have to be turned into capital, with serious conditions on future corporate behaviour, tax payment, accounts disclosure, pay policy and governance attached. There must be a price for support.

The fourth essential is support for business overhead cost reduction. Statute imposed rent reductions should be required. 20% is the minimum. For some types of business / property it may need to be more. Landlords have to take the next big hit in this crisis.

Fifth, bank loan repayment holidays must be granted for up to two years, with loans being automatically extended thereafter and with interest rolled up, but with a ceiling on the rate due. There must be no penalties for this.

Sixth, unpaid taxes must become further equity loans for businesses unable to pay them. The price must be worker representation on the board - with statutory liability protection for those nominated. Worker directors must be the enforcers of government bailout conditions

And seventh, Brexit must be postponed: there is not a business in the country that can withstand the pressure, cost and chaos it will impose now. I am not saying it should be cancelled: I know there was a referendum. But the negotiating period has to be extended.

And what after that? Furlough has to remain for vulnerable sectors. There are many of them.

For those already made redundant UC and child benefit have to increase significantly.

Then steps have to be taken to keep people in their homes. Rent holidays must be a statutory right. Landlords must be able to claim matching mortgage payment holidays. And banks must no be able to foreclose. Shared equity arrangements must be offered instead.

Because of the risk of falling house prices negative equity traps must also be avoided: it should be made illegal for any mortgage repayment on sale to ever exceed the sale value of a property.

Bank accounting rules must be change to keep property loans on these arrangements on balance sheet.

But all this only plugs gaps. Then action to rebuild is required. And yes, of course that is the Green New Deal. That's because there is simply no other plan. And nothing else that meets the long term needs of our society as it does.

So we need to start as soon as possible. Repair roads to make them safer for cyclists. Build safe cycle parking. Explore how to turn redundant engineering skills into bike manufacturing capacity.

Start insulation programmes, as quickly as possible. And encourage double and triple glazing where it does not exist.

Plan new, sustainable social housing. Plan local transport transformation using electric or low carbon vehicles. Put a hold on HS2 and major road building: redeploy the resources to create the local improvements that might transform communities.

Abandon Hinckley point. Build renewables instead, from roof top panels, to better wind, and finally really harnessing today power.

Create the business to support all this, including the heat pump, solar panel and wind power equipment that we need.

Invest in water. That is, improving existing delivery systems, as well as flood defences to make sure it doesn't go where it is not wanted. Dam the Wash to preserve large tracts of eastern England. Build tidal lagoons to deliver power.

And reform agriculture to reduce our dependence on imports and chemicals: both are entirely possible. All that is required is the pump-priming and some vision, plus cash.

And don't presume that everything is about building. It isn't. Invest in care as well, of all sorts. And deliver the flexible education for a new world of entirely different work that our children (and we, as lifetime learning) are going to need. Then, and only then, might we have the economy we need.

How to pay for this? A number of thoughts follow. First, imagine the cost of the alternative. It's bigger. Paying for this is going to be cheaper than allowing economic meltdown with a decades long recovery, at best. I'm laying out the cheaper option here.

Second, there is no shortage of money in the UK: we can have as much of it as we want at the touch of a Bank of England computer keyboard. The supply of money is limitless.

Third, unless we go for disaster aversion and then employment creation now the impact of the resulting financial meltdown - which will be larger in the UK than most countries - will be much worse for the value of the pound than money creation might ever be.

Fourth, if there's no market for debt don't worry: Japan suggests we could do more than £2 trillion of QE right now without inflation risk arising.

Fifth, forget tax rises: facing a crisis like this they should be off the agenda for a long time. Any tax reforms should be solely about making society fairer e.g. by tackling

wealth inequality, with no net increases.

Sixth, savings - and especially tax incentivised ISAs and pensions - must be put to work to support this programme. Unless they are invested in new sustainable jobs the tax reliefs must go.

Seventh, if the Bank of England objects scrap its independence. This is not the time for the City of London to be dictating terms. The reason for this fiasco has long gone.

Eighth, watch the rest of the world. Everyone will end up doing programmes like this. We'll only be financially punished if we don't.

And how does all this happen politically? Johnson's power is already slipping away. The Grayling fiasco proves that.

Soon Johnson's control of his own party will end: no MP wants to realise just how much their own career hangs by the thread of Johnson's wholly unpredictable whim.

The Tory party has an instinct for power. But it has a problem. There is no heir apparent. And don't say Sunak. Chancellors who deliver many millions to unemployment do not go on to take the top job.

So if they realise Johnson is beyond hope who could they choose, given Gove is also tainted by this? I cannot now see anyone who would appease the anger there will be in the country.

And anger there will be because it will be very apparent that if there is unemployment it will be by government choice. After all, the government locked down, the government furloughed, and then the government will have left people unemployed. They will be the only people to blame.

That blame will be very real, very pointed and very direct as this crisis grows. I'll be candid and say I cannot see how mass protest can be avoided. And if it happens I could only hope that it is not violent - because I would hate to see that happen. But people living in fear have nothing left to lose.

Can a government that has chosen mass unemployment and made it worse by its own choices survive? I doubt it: whatever the electoral system I cannot see that happening, unless of course democracy is suspended. But I think that will make things worse, not better. Which doesn't mean it won't be tried.

In which case I sincerely hope there are others - preferably in coalition, because that is what this demands - who might be preparing to take over and deliver the government we now need.

There is no sign of that as yet. And that also worries me. There is no real sign even of

deep concern at the consequences of the unemployment to come as yet anywhere much in the political spectrum. It's all as if almost no one can believe it's going to get this bad.

But it is. We are heading for an economic breakdown of a type we have never seen before. It's going to be of the sort that can only, and forever, change the society we live in. And no one wants to seem to want to recognise the fact that it's going to happen.

Politics is still playing around the edges of issues - talking about school reopening and arguing over the definitions of A Covid death when we're heading for collapse.

And the route to that collapse is very short. It begins next month as furlough begins to wind down. The mass redundancies will begin to be announced in September when the end of furlough is imminent. And by then the corporate failures will be rising.

The road from furlough to financial failure is a very short one. We are on it. And no one is saying stop. Let alone, do a U turn.

We don't need to fail. We will because we have a government that does not think it can stop what is going to happen. And that's because It believes that it cannot create the money needed to tackle the massive problems that we are going to face.

The government is wrong: it can avert this crisis. It can saves millions of jobs. It can prevent child poverty. It can save the blighting of hope and health for vast numbers of people. It could direct the economy out of this crisis.

But it won't. Because it thinks balancing its books more important than caring about people.

And the price we're going to pay for that is going to be staggering.

I have just one hope: it is that I might be wrong. But I wouldn't be writing this if I thought I was.