Funding the Future

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The Resolution Foundation issued a staggering report yesterday. Remember that think tank likes to portray itself as being left of centre. It did, however, make the most extraordinary suggestions. Central to these was the proposal that there should be a package of no less than £40bn of tax rises to pay for the coronavirus crisis. They summarised these proposals as follows:

- Taxing windfall gains from the coronavirus crisis (via a Corporation Tax surcharge);
- Taxes to aid efforts to tackle climate change;
- Freezes to personal tax thresholds and a rise the Corporation Tax rate;
- Improvements to the UK's wealth-related taxes: closing/abolishing CGT reliefs, merging a range of reliefs and allowances into a single £2,000 investment income allowance, capping the tax-free lump sum, IHT reforms including abolition of APR/BPR, and a Council Tax surcharge on properties worth £2m+;
- Our centrepiece policy: a new Health and Social Care Levy, starting at 4% on all income (above a £12.5k threshold), which would coincide with a 3p cut in basic rate NICs and abolition of Class 2 NICs for the self-employed.

To contextualise this they say:

We argue that in around 3 years' time government should begin a programme of fiscal consolidation, and that this should focus largely on reforms and rises across the tax system.

Perhaps unsurprisingly an email I have from them says:

We had a broadly positive response to the report from Philip Hammond at the launch event today. The IEA also hosted an event this afternoon with other Tufton St think-tanks responding to the report.

I am astonished by this (unless, that is, it can be explained by the Resolution Foundation now thinking it has to reach out to far-right funders). All forecasts I have seen from official sources, such as the Office for Budget Responsibility, suggest that in three years time the economy will remain fragile and that the deficit might still exceed £100 billion at that time. These estimates were prepared, of course, before the weak recoveries seen in August and September were known about and again before any awareness of the second lockdown, and associated GDP downturn, could have been predicted. It has to now be assumed that these forecasts are decidedly optimistic.

In other words, despite the likelihood that in three years time - shortly before the build-up to a general election begins - the Resolution Foundation is suggesting that a full-blown austerity programme be adopted for the sake of ‘fiscal consolidation’.

And this is an austerity programme because the tax increases referred to hit those with high marginal propensities to consume, and so will significantly reduce economic activity in the economy. With multiplier effect knock-on impacts, the likely consequence will be a consequent fall-off in demand; a drop in investment; an increase in unemployment and a fall in tax revenue quite likely to be as big for these reasons as the sum that the Resolution Foundation says it intends to raise. Critical programmes, like the Green New Deal, would likely be hit, and the demand for this programme by the likes of the Resolution Foundation will only encourage a much stronger call for austerity, with spending cuts inevitably targeted at the most vulnerable, in response from the Conservatives. Just when Labour will be struggling to win against electoral arithmetic that looks insurmountable, the Resolution Foundation will be there promoting a profoundly neoliberal narrative.

And why? It must be because they believe a government must balance its books. And why is that? I presume it is because they believe the household analogy.

It is profoundly worrying that the left still has no idea that a government is not run like a domestic budget or even a large company. It is most especially worrying that the supposed left still thinks that government is dependent on money markets for its funding when it very clearly is not, as QE has proved. And it is also worrying that the role of the Bank of England as the monopoly supplier of central bank-created money, which is now as important to our economy as it is to that of all major developed economies, is so little understood.

In reality, in three years time there will have been more, literally unwindable, QE than we have now. And we should realise that this is in effect not debt, but if we want it to be is the evidence of our ability to create national capital. And what should also be appreciated is that those still holding the debt will not only wish to hold it, but be willing to buy more. The chance that it will be otherwise is remote, especially after the threat Brexit will pose to all other savings.

This lack of understanding, and dedication to a narrative that suggests government can crowd out the private sector, whose activities must always be considered of greater virtue than those of government, must motivate the Resolution Foundation. But to describe the resulting prescription, that in impact will be another failed round of austerity targeted at inconsequential book-balancing to which all else must be sacrificed, as hopelessly inappropriate is to be overly kind to it. The agenda that the Resolution Foundation is proposing would be disastrous for the UK. I hope I am not alone in saying so.