A future funded by Green QE

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This post is by my old friend and Green New Deal colleague, Colin Hines, who is convenor of the Green New Deal Group of which I am also a member. It was originally published by the Green Alliance.

Colin is well aware of modern monetary theory (MMT). He has heard far too much about it from me. But, he believes that the UK political scene is not ready for MMT as yet. There is a great deal of evidence to support that view: there is massive political reticence to embrace it right now, annoying as that is.

And simultaneously Colin is aware of two issues. The first is the enormity of the climate crisis. The second is the need to answer the question 'how are we going to pay for the transition that we need?'

A *decade ago Colin and I created the idea of green quantitative easing to answer that question. I had not heard of MMT at the time. But the proposal can be thought of as applied MMT. It's not quite the same. But it does address the same issues: it is about permitting deficits to fund essential public services in a way that does not create inflation, and (crucially) it also addresses the need for a mechanism to utilise the money created via central bank reserve account balance increases that neither standard QE or MMT addresses, in my opinion.*

Pragmatically, developing QE in this way is likely to garner more political support than suggesting MMT, simply because QE is now known and accepted (unlike 2015, when it caused near hysteria in the Labour leadership election when Jeremy Corbyn used this idea as the basis of his economic appeal, only for John McDonnell to then abandon the idea). Hence, Colin's blog:

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Last year was certainly the ultimate grim "Events dear boy, events" year. On the brighter side, despite Covid having drained discussion away from most other issues, one of the gratifying exceptions was progress on the climate crisis. This was kept in the limelight throughout the year, albeit at an elite scientist, economist, NGO and concerned politician level, the pandemic having cleared the streets of the protestors who had so successfully dominated climate coverage in 2019.

On the less bright side was a return to attempts to soften up of the public for austerity mark two, led by the *Chancellor Rishi Sunak. Indeed, this process has already begun with the introduction of social austerity, via the effective cuts in non-medical front line workers pay, and green austerity through the risible £4-8 billion promised for new measures to tackle the enormity of the climate crisis.*

Also worrying was an increase in the 'back to normal' fantasies, imagining that the economy will bounce back after the nationwide use of the vaccine and hence that emergency spending can be curtailed. This is despite the fact that huge job losses are expected in retailing and some hospitality sectors, not to mention the Brexit hit that may come for manufacturing and financial sector jobs.

To see these threats off will require the opposite of austerity and instead a massive reorientation of the economy towards a 'jobs in every constituency' alternative, of face to face social provision and environmental infrastructure.

A new approach is needed to fund recovery

At the risk of falling into the trap of that old joke 'How do you make God laugh? Tell him your plans for the future', the way forward is clear. As Covid hopefully subsides throughout 2021, the priority must be to find the massive amount of upfront money to compensate for the adverse social and employment effects of the pandemic, whilst also tackling the climate crisis.

This will include paying for the hundreds of thousands of secure, adequately funded jobs needed to fill the shortfall of doctors, nurses, carers, teachers etc. In addition, there will be a need to tackle rising mental health problems, for extra face to face tuition for pupils adversely affected by school disruptions and personal interaction for the lonely, and to help those, particularly the elderly, excluded from so many services because of an inability to use digital technology.

Then, in the short and medium term, there are the massive financial inducements necessary to provide green jobs in every community. This will involve making all the UK's 30 million buildings energy efficient, as well as installing the national charging network required for the transition to electric only vehicles and the provision of high speed broadband for all areas.

Building back better without austerity

This trillion pound, decade long programme could predominantly be paid for by adapting the Bank of England's present quantitative easing programme into a transformative 'build back better' initiative, funded by social and green quantitative easing. The advantage of such an approach is that such expenditure doesn't need to be paid back, and therefore avoids the need for austerity.

The message that opposition parties and activists need to ram home to the chancellor is that what needs addressing are our social and environmental deficits, not the budget deficit. As this approach gains momentum there could also be an increasing role for government borrowing at low interest rates, fairer taxation and the use of private savings.

There are potentially encouraging developments in the US and the EU whereby a similar potential for using quantitative easing may be used to fund climate action. The expertise of Janet Yellen, former chair of the US Federal Reserve and the next Treasury Secretary will be pivotal in securing the huge amounts of upfront money and swift action required. She should be able to persuade the Federal Reserve to contribute substantially to Joe Biden's $2 trillion climate plan. In the EU there have also ***been calls* to use quantitative easing for its Green Deal plans, expected to need â‚¬1 trillion over the next ten years.**

Such approaches would act as a positive exemplar for the world and hopefully could convince the UK to put a similar green job funding mechanism at the centre of its contribution to next November's climate conference in Glasgow.