Funding the Future

Sunak's green bonds are a step forward, but one with ma...

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Rushi Sunak has announced that National Savings & Investments (NS&I) will issue a £15 billion bond to fund green projects this autumn.

I have been arguing for bonds for precisely this reason for many years. With Colin Hines I have been one of very few to do so. So, it could be argued that I should be celebrating this. To some extent, I am. But, there are issues to discuss. Let me start with the detail; then I will move to the bigger issues.

First, why is the product going to be for three years only? How us it going to be repaid then? Why arenâ€™t a whole range of products being made available now? Why such a narrow focus, in other words?

Second, what is the interest rate? This will determine the appeal of the bond.

Third, why won't this be available as an ISA product, which reduces the interest cost? ISAs also attract a large part of the savings market.

Fourth, why only £15 billion? The need for finance runs to hundreds of billions of pounds. Why the poverty of ambition?

Fifth, why too they limited suggested use of funds? And how will this be proved?

Sixth, will projects be abandoned if bond funding is not available? Is the fickleness of interest policy on these bonds to determine whether climate change can be tackled? If so, this is a mechanism for inaction, and that could be disastrous.

Seventh, is the commitment to these bonds for the long term? If not, what is the point of them?

And, eighth, is this bond going to be fitted into a bigger framework of macroeconomic management, or are they just a COP 26 gesture?

We do not know answers to these questions as yet. That we do not shows that this plan is clearly incompletely formulated in itself. That is deeply troubling. We need a policy that is for the long term; there is no evidence here that this is the case, and that is worrying.

That requires a move to the macroeconomic considerations. There are numerous of these as well.

First, it has to be said that there is no technical need for the government to raise a bond of this sort. As modern monetary theory (MMT) makes clear, all the money required to fund the green transition we need to have could be created by the government without involving tax or bonds, if it so wished. This has to be said.

Second, the political reality that the UK government does not have that wish has to be recognised. We can wish it otherwise, and campaign for it, but a government of the current political hue is unlikely to be persuaded right now, and there is little sign that Labour is much different, or the SNP, come to that.

Third, letâ€™s also be clear that even if money can be created there are reasons to control inflation when creating money in the scale that the green transition requires. This in itself can mean a bond might be required. MMT proponents cannot deny this.

Fourth, as I have now noted time and again, whilst a government can create money at will, every pound of deficit spending creates a new pound of private wealth. This would be no problem if that money stuck with those who got the immediate benefit of that spend - who will be delivering the Green New Deal - but that is not the way multipliers work. The money, as the evidence of savings over the last year shows, largely ends up with those already wealthy. If there is no desire to tax wealth - and there is not, whether we like it or not - then this has a massive disruptive impact on the economy. The stock market overheats; house prices boom; speculation is too well rewarded. And that is what is happening in the UK economy now. That is why a bond can play a serious part in muting the economy in a way that nothing else can in that situation. The bond does not as such fund the required work, but it can mean that the money injected into the economy is withdrawn from the speculative economy, and that is the real advantage. This might also mute the impact on inequality, albeit that harder to prove given the modest amount involved here. But, that does not negate the benefit.

Fifth, without contradicting the fourth point, there is another argument or narrative that can help, and narratives matter in economics. That is that it can be suggested that this money is capital. I donâ€™t wholly buy this narrative: saving bonds of this duration canâ€™t really be capital. However, they can pave the way towards something which really could be capital. There is a real benefit to thinking about the nature and use of capital in this context because a great deal of capital is going to have to be committed to the Green New Deal, like it or not. This bond is not an answer in itself on that issue, but if it opens a narrative it is useful.

I have seen some, especially from the MMT community attacking this bond as wholly unnecessary. Technically that could be said to be true. But this is not a purely technical world. If MMT wants to be as irrelevant to real world decision making as neoliberal thinking is then it can promote such narratives. But in the real world of political economy where much broader matters are taken into account this bond is a step forward. It is one with some reservations attached to it, but it is a step forward nonetheless. And I take those step forwards as a gain, because in political economy we know pure economics is not always closely related to achieving real world success, and that is what I want.