Funding the Future

A little knowledge of macroeconomics is a very useful t...

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I did a pre-record interview for Times Radio last night, which went out sometime after 10 o'clock, but I admit I did not listen to it then.

I was in discussion with Deven Ghelani of an organisation called Policy in Practice, which says it is a social policy software and analytics company that provides advice to councils, government, housing, providers, and community organisations on the impact of social policy.

The discussion focused on the increasing number of people making claims for out of work benefits in the UK, largely related to their inability to work. There has been a recent significant rise in this number, although as Deven rightly pointed out, this might well be because the Office for National Statistics has essentiallyy lost control of its data on the number of people who are unemployed in the UK meaning that any figure that they provide is, at present, open to doubt.

That said, I was asked to take part not because I am an expert in benefits (which I do not claim to be, although Deven does, and is), but because I am interested in how to solve this problem.

I made three very obvious points, I thought. One was that we need to spend more on the NHS because if people cannot work because they are sick then that, very obviously, means that we need to provide more healthcare.

Second, I suggested that as a consequence, the government would save money because people would increasingly return to work and, therefore, pay tax rather than claim as many benefits.

Third, I made it clear as a consequence that if we did this, then we would, through multiplier effects (which I tried to explain in the limited time available), all be better off because this would generate growth, which all political parties say as their goal. I also made it clear, by explaining the component elements of GDP, that the government, through additional spending, is the only agency capable of delivering growth at present.

I admit that I was then depressed to hear Deven Ghelani say that there was no way that the government could borrow more money at present to fund such a programme because Liz Truss had proved that unfunded spending commitments of any sort were not acceptable to financial markets and therefore could not be delivered. I found it troubling to hear such a status quo-supporting attitude, which was also deeply economically misplaced, from a person who claimed to be an expert in social policy, and I said so.

As I explained, what crashed Truss's budget was not anything that Kwasi Kwarteng said, although very little of what he did actually propose made any economic sense. Truss was brought down by the simultaneous launch of the Bank of England's quantitative tightening program, which was what actually crashed markets the weekend after that budget.

I also pointed out the fact that governments could always create the money to deliver policy, referencing 2008 and 2020, and that to do so when there was significant unemployment – which was exactly the problem that we were discussing – could not result in inflation, precisely because unused resources needed to be given gainful opportunity to work.

The response from Deven Gheleni was first to be rude about my unexpected support for Liz Truss (which was a comment not remotely linked to what I had said) and secondly to suggest that there was no such thing as a magic money tree. At that point, whilst remaining respectful, I made it clear that I was quite annoyed at such a comment being made in what was supposedly meant to be an informed debate because I was not talking about anything worthy of that description, but what I was actually doing was t describe the way in which the economy really works, about which it seemed Ghalani was in denial.

He had the decency to accept the flippancy of his comment, but appeared persistent on the cost of government borrowing, which I then pointed out was entirely within the government's own control, not least when it comes to the making of the payment of interest on central bank reserve account balances, which payments will total around £40 billion this year, which have no legal requirement to be paid at all. He appeared quite unaware of this.

The interview concluded with Deven Ghelani suggesting that if there was to be spending, it had to be on the NHS, improved benefits and social investment and not on tax cuts. At that point, I could, of course, agree with him. But it is very depressing to appear alongside a social policy expert who is so unaware of macroeconomics that they think that the government is constrained in its actions by the need to borrow from financial markets, when that is not true, and that interest rates are outside the control of government when nothing could be further from the truth.

I suspect that what Deven Ghelani and his organisation do is of real micro-economic benefit to those who use its service. I am not knocking that. But I do wish he would learn some of the fundamentals of macroeconomics because what he has to say would be so much more useful if that were the case.