

Funding the Future

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I posted this Tweet yesterday:



Fiscal rules:

- No child should live in poverty
- Everyone should have a decent home
- Dying from hypothermia must never happen

Blow balancing the books. These are things that really matter.

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The Tweet was, I admit, inspired by a comment someone made here, but in posting it I was not just making a political point about what priorities should be. I was also hoping to highlight a genuine economic point.

Rachel Reeves might think that economics is all about money, but nothing could be further from the truth. In fact, if you review most economic literature, money hardly gets a mention. There is good reason for that. In the standard definition usually offered, economics is a study of how scarce resources are allocated within our society. I think that a bit simplistic, but presuming that this definition, which will have been taught to all PPE undergraduates at Oxford, is accepted, then what is apparent is that economics cannot be about money. That is because in an economy like that of the UK, money can never be in short supply.

Commercial banks are at liberty to create new funds whenever they wish in the UK, subject to a regulatory regime that rarely constrains them from doing so. In any case, if

such constraints do apply for any reason, as for practical purposes they did in 2008 and its aftermath and in 2020 and its aftermath, then the government can always make good the shortfall in commercial bank-created money to ensure that the liquidity of the economy is maintained. The pretence that economics should, as a consequence, focus on limited supplies of money is absurd.

Instead, economics should always be about the allocation of the real economic resources available within the economy. That should be the case whether those resources are the time of those available to work or the natural resources available for us to use subject to the constraints of sustainability, and whether those natural resources be as initially extracted from the world around us or whether they be in processed form, which is what we usually describe as capital.

In that case, what I have described as fiscal rules in my tweet are exactly that: they are some of the minimum considerations that should apply to ensure that fair allocation of resources takes place within the economy in which we live.

The world would be so much better if Rachel Reeves agreed.