Money is not the scarce resource for Burnham. Ideas ar...

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The unfolding economic disaster that is Andy Burnham's new government continues to expose the already failed logic in its political thinking this morning.

As The Guardian has reported:

Single bus fares across England will be capped at £2 from January, the prime minister, Andy Burnham, has announced.

I welcome that. It is positive and necessary, although some investment in rural bus services, in particular, might make it much more useful.

What worries me is in the paragraphs that follow:

The measure, which will apply across England except London, is backed by £454m of funding, including money to allow devolved governments to take similar action.

About £400m of that funding will come from switching investment in international climate finance to loans, with the rest from savings in the Department for Energy Security and Net Zero budget.

This is, yet again, the Treasury view in action. Instead of asking whether the policy will make the economy function better, ministers have immediately framed it in terms of where they have "found the money". That is the wrong question.

As a matter of fact, the UK government does not need to "find" £454 million before it can cap bus fares. Parliament authorises spending, the Treasury instructs the Bank of England to make the payments, and the money is created. That is the entirety of the funding process. The relevant questions around this issue are not financial. They are whether the buses, drivers, maintenance facilities and administrative capacity exist to deliver the service, and whether the resulting demand would create inflationary pressure. Those are the real constraints on government spending, but none of those appears to have entered the discussion.

Instead, ministers have chosen to present cheaper bus travel as something that can only happen if something else is sacrificed. That reinforces the entirely false belief that government finances resemble a household budget. It is precisely the narrative Labour claimed it wanted to escape. Instead, the household analogy is alive and well and living in Numbers 10 and 11 Downing Street.

The political consequences are very unfortunate. Instead of celebrating cheaper public transport as an unambiguously good policy, the government has invited supporters of climate finance and clean energy investment to see themselves as the losers. Politics becomes a competition between worthwhile causes when government should be asking how it can deploy society's resources to achieve several worthwhile objectives simultaneously, when there is no economic necessity that requires this trade-off.

Bus subsidies, climate investment (whether here or overseas) and energy security all have one thing in common. They expand the productive capacity and resilience of the economy. Better transport improves labour mobility and access to jobs. Climate investment reduces future damage and protects livelihoods. Investment in energy security reduces dependence on volatile fossil fuel markets. These are complementary investments, not competing claims on a mythical pot of money.

However, the Treasury's accounting framework cannot see that because it reduces every decision to balancing financial numbers instead of asking how best to use the nation's people, skills, technology and natural resources.

But there is another problem that deserves much greater attention. The government says it will replace international climate grants with loans to fund these cuts to bus fares. That immediately raises questions, all inspired by the failed Washington Consensus that demonstrated how disastrous international loan finance for development can be.

Will those loans be denominated in sterling, in US dollars, or in the local currencies of the countries receiving them? If they are not denominated in local currency, the borrowing countries will bear exchange-rate risks over which the countries to whom funds are loaned will have no control. A depreciation of their currency could dramatically increase the real burden of repayment, even if they have managed their own economies well.

And what interest rate will these loans carry? Will they be genuinely concessional loans, with interest rates close to zero and repayment terms reflecting the long-term nature of climate investment? Or will they be commercial loans that simply increase the debt burdens of countries already struggling to finance adaptation to climate change?

These are not technical details. They go to the heart of whether this is climate assistance or simply another financial transaction.

The government appears not to have noticed that it is in danger of recreating many of the conditions associated with the Washington Consensus (follow the link for the glossary entry on this issue, which describes all its failings).

For decades, developing countries were encouraged, and often required, to borrow in foreign currencies, liberalise their economies, privatise public assets and pursue fiscal austerity in order to satisfy international lenders. The results were frequently disastrous:

* Exchange-rate movements increased debt burdens overnight.
* Rising interest rates made repayment more difficult.
* Public investment was cut.
* Growth slowed.
* Poverty increased.
* Many countries spent years trapped in debt crises from which they struggled to escape.

Surely we have learnt something from that experience? Are we to repeat it now when climate finance exists because the richest countries have contributed disproportionately to climate change while many poorer countries face its greatest consequences? Why should support for dealing with that injustice become another source of indebtedness?

If these loans are to avoid repeating the mistakes of the past, they should, wherever possible, be denominated in local currencies, carry very low interest rates, and have repayment terms designed to support development rather than maximise financial returns. If they do not, ministers need to explain why they believe the outcome will be any different from that produced by the Washington Consensus.

There is a depressing irony here. At home, the government remains trapped by the Treasury fiction that every new policy must be paid for by cutting another. Abroad, it appears willing to revive one of the most discredited models of international development finance of the last half century, and neither approach starts from the real question.

What this government should be asking is how available resources can best be used to create a more prosperous, more resilient and more sustainable society, here and across the planet. Instead, it obviously believes money is the scarce resource, when it is not. Ideas are.