

Funny money

During the pandemic a Conservative government presided over a major expansion of state debt offset by a major purchase programme of that debt by the Bank of England, itself owned by the same state. This mirrored a similar exercise by Labour and the Coalition 2008-12 to overcome the banking crash the authorities engineered in 2007-8.

It looks as if on both occasions the state has got away with it. By the end of this year The Bank of England will own £875bn of UK government debt which is therefore no longer a debt the state owes to overseas investors or to UK savers, but to itself. Normally states cannot get away with effectively just printing money to spend because it is inflationary. In the conditions of collapsed demand both brought on by the banking induced recession and then by pandemic closures creating so much fiat money was not inflationary. Whilst the Bank observed the nicety of buying up second hand government bonds instead of just giving the new money to the government to spend, it underwrote the government borrowing at close to zero interest and has removed the need to repay the debt to third parties.

Some say the pandemic printing may yet prove inflationary. It is true that like the Great Recession printing it has proved inflationary for financial assets and houses but so far general inflation stays around target. It could get more inflationary if wrong decisions are now taken about carrying on printing and borrowing too much. This is happening in the USA where inflation is already at 5% but the Bank of England has wisely announced an end to money printing this year. There still needs to be a stronger recovery before undue monetary tightening.