

Money printing

The Treasury and Bank are still worried that the UK has borrowed too much. They want to slow everything down by forcing through tax rises. They want the Chancellor to follow austerity policies based on setting difficult targets to get the debt down. It's the same playbook as after the Banking crash, and the same playbook as the EU debt controls, needed if you share a currency with others to stop free riders.

Let me have another go at explaining why we should not be so worried about UK state debt. The UK state has bought up £875bn of it, so that is no longer a debt. The Treasury pays the Bank interest on it, it is true, but the Bank sends the interest back as a dividend because the Treasury on behalf of taxpayers owns the Bank. I would not regard myself in debt if I owed money to myself.

Normally I would be against a state buying up its own debt by creating money out of thin air to do so. The extraordinary conditions of lockdown when government prevented a large amount of activity meant it was possible to offset some of the damage by creating money. It would normally be very inflationary, and would lead in due course to hyperinflation if persisted with. We have seen Zimbabwe, Venezuela and Argentina do that in recent years, and pre war Germany famously did it. It is a very destructive process, leading to poverty and economic breakdown, forcing people onto barter or foreign currencies to retain some value in their money and labour. I do not recommend the UK doing any more money creation from here.

The truth the Bank and Treasury need to grasp is they largely got away with mass creation of pounds and buying in of debt. The inflationary consequences are not going to be too great if they stop doing any more now. The collapse of demand in the economy thanks to lockdown needed an offset which they provided. They did not do as much proportionately as the USA. They are right not to try to do anything like the huge amount Japan has done and got away with over the last couple of decades. Japan has an ageing and declining population with a high wish to save, so its money creation has not generated any inflation, contrary to usual form. Japan's state debt is around 250% of GDP now, but the state owns half of it and the other half is financed at around zero interest so it is not a problem.

If the Treasury persist in slowing the economy with tax rises they will end up with a bigger deficit. They need to help energise the rest of the government to promote more UK based activity. The deficits they should worry about more are the balance of payments and trade deficits. Those need us to borrow in foreign currencies we cannot print, or to sell more and more of our companies to foreigners to pay the bills. There will be a bit more inflation in the year ahead thanks to world supply bottlenecks and the labour shortages.