EIC0917

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This evidence is being submitted in a personal capacity.

Reason for submission

Having listened to experts submitting evidence to The Committee over the years, it is clear that much of the evidence glosses over important issues, that Members of the Committee are not sufficiently armed, in many cases, with the economic expertise to challenge the evidence.

The purpose of this submission is to stimulate Members into asking difficult questions of the experts, which have so far been avoided.

Preamble

In answering the terms of reference, it will be helpful to the Committee for me to briefly clarify some important financial and economic principles upon which the answers to the questions raised are made.

- With respect to consumption, the total economy can be considered as consisting of two parts: the productive and the non-productive. Production is aimed at satisfying consumer needs and wants, while the non-productive is not driven by responding to consumers. Broadly speaking, the productive part is the private sector, and the non-productive the government, which depends on the private sector's surpluses for its financial existence. Economic actors in the private sector produce their income and savings from production through the division of labour. It follows that the more government spends, the greater the burden on the private sector and the less productive it becomes.

- Inflation is always of the quantity of money: changes in the general level of prices are the consequence. While Keynesians tell us that inflation is a stimulant to business, the effect is only temporary before revesing. Today, inflation is continual, and the effect is to transfer wealth from the productive private sector to the government. The expansion of bank credit similarly transfers wealth from savers, wage-earners and pensioners to the banks and their favoured customers. The inflation of money and credit are impoverishing the non-financial private sector for the benefit of the government and the financial sector.

- The general level of prices is a concept that cannot be measured or averaged, because everyone's experience of prices is different. Furthermore, since the early eighties governments have been supressing CPI and RPI statistics with a view to lowering the costs of indexation to governments. In the UK we have no independent estimates, but in the US both Shadowstats.com and the Chapwood Index by different methods demonstrate that prices in the US have been rising at closer to 10% annually for the last ten years, and not the 2% Federal Reserve target shared with the Bank of England.

- Growth in GDP is always cited as an economic objective. It is meaningless, being only the sum total of transactions recorded over a given period — annually or quarterly. It tells us nothing about the *quality* of those transactions. The current year's nominal GDP can be simply calculated by adding the increased quantity of money to the previous year's nominal GDP. Not understanding this leads to the encouragement of monetary inflation with the objective of bolstering GDP. But as we have seen (above) monetary inflation actually impoverishes the country.

Questions raised by The Committee in its call for evidence

To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?

A. They do not. The government is not equipped to have the entrepreneurial foresight and basically ends up supporting existing jobs. Viable jobs in the future can only evolve through economic progress. Economic progress is the consequence of the entrepreneurial function of business, which requires all forms of capital (money, materials, semi-processed goods, services and labour) to be available. By supporting existing businesses, government measures hamper progress by locking up these forms of capital in less productive uses. Over time — and this has become particularly noticeable since the financial crisis of 2007/08 — together with interest rate policy and business lobbying by labour-intensive businesses, the continual support for inefficient and insufficiently productive zombie corporations has led to an economy producing less than its potential.

To what extent are Government measures value for money for the taxpayer?

A. A better term than taxpayer, too often associated with the average employee and excluding non-voting business enterprises of all sizes, is the private sector. This is important because any government, which is generally non-productive, imposes a financial burden on its private sector, which is the productive element in the economy. Economically, only government measures that reduce its total spending impart any positive value to the private sector, and it is sadly noticeable that any debate about cutting government spending is on no one's agenda.

How effective is the Government support to businesses and individuals across different regions and sectors? Does the effectiveness of the Government support vary across different regions?

A. For the Government to pursue a policy of support requires it to assess and deliver on an entrepreneurial judgement — capabilities no public administration possesses. Besides the bureaucratic waste involved at significant cost to "the taxpayer", the beneficiaries include zombie corporations, which is economically wasteful and builds up problems for the future. Furthermore, being financed through monetary inflation, to pay for it the Government is transferring to itself every economic actors' wealth, and the purchasing power of their earnings, savings and pensions.

What lessons can be learnt from the different approaches undertaken by the nations in the UK to combatting the coronavirus?

A. The economic cost of dealing with it is considerably greater than economic modelling anticipated on the initial lockdown. Furthermore, the timing of the crisis has been particularly unfortunate, coming at the end of a long period of bank credit expansion, leaving the global banking system, and especially those of the UK and the EU, highly exposed to bad debts. Furthermore, the trade war between the US and China had already created a global trade crisis by the start of 2019. In short, before Covid-19, the world was already entering a global downturn. The effect on the US budget deficit has been to make the US Government more dependent on inflationary financing than tax revenue for its finances, leading the US into a hyperinflationary condition.

The UK is following a similar inflation trajectory with what was meant to be a one-off quantitative easing. The second wave of covid-19 is leading not only to a second round of QE, but as the global economy faces a slump, there is now the prospect of unlimited further monetary injections to keep supporting zombie businesses. The single lesson is that the unfolding financial and monetary crisis is due to much more than covid.

What impact will a second lockdown have on the economy? How should the Government best support the economy if intermittent lockdowns become a feature over the next year?

A. Through inflationary financing of a growing budget deficit a second lockdown will transfer more wealth from the private sector to the government, placing a further, if unseen burden on the productive economy. To best support the economy at a time when it has to make cuts to address the changed economic conditions, the generally unproductive Government should do what it can to reduce its burden on the productive private sector, instead of increasing it.

What changes to the economy are now permanent?

A. This question suggests a lack of appreciation that the economy is continually evolving in order to produce consumption goods and services and relevant goods of higher order to satisfy consumers. This evolutionary process is hampered by government intervention, which will lead to a sudden readjustment. It is not just obvious changes, such as working from home and the reduction of High Street retail capacity that changes, but everything and all the businesses working for the consumer face changes that only they can address.

• What difference will the discovery of a vaccine and/or treatment make?

A. No comment made

• Will behavioural changes such as working from home necessitate structural changes, whether or not a vaccine is discovered?

A. There will be substantial changes that the government cannot be equipped to address. And government, particularly local authorities, should not stand in the way of change of use for property. Retail is probably changed for ever, leaving city and town centres empty. For example, if an empty retail property has the potential to be used for housing, then cities and towns could be revitalised. It is this flexibility in the past which has left the UK with a legacy of mixed-use high streets in market towns — something which broadly ceased with planning regulations and the local authorities' dependence on high business rates for finance.

How large a problem is corporate indebtedness? How effectively did the financial sector give assistance to businesses?

A. The suppression of interest rates by the Bank of England, a policy that accelerated in the wake of the financial crisis, has contributed to a legacy of unproductive debt. Consequently, there is a high level of businesses that must be allowed to fail when interest rates begin to rise.

And rise they will. It is a certainty that the monetary inflation brought forward by Covid will lead to a further rate of increase in the general level of prices — probably in the first half of next year. Unless interest rates rise, sterling's purchasing power will fall on the foreign exchanges and lenders will refuse to lend at rates that guarantee a loss — even when the borrower is the government.

The Committee should note that the CPI is designed with a view to restrict the costs of indexation and does not reflect price inflation, particularly where it matters to the consumer. Already, vital commodities, energy and raw materials began to rise in price from last March, when the American central bank cut its funds rate to zero and announced a “whatever it takes” QE policy. These prices are bound to feed through the production process to consumers.

The Committee might like to think through the far-reaching consequences of rising interest rates on government financing and the inevitable strains on zombie corporations with unrepayable debt.

• Is there a need for a new state sponsored investment bank? If so, what should it do?

A. No. There is no need for government intervention, financing activities which are essentially uncommercial.

What improvements can be made to institutions to ensure that responses to crises like these are more robust in the future and policy makers have the data they need? What further analysis should the Government do and make transparent?

A. Government institutions should reduce their intervention.

What are the consequences of high national debt? What should the new fiscal rules be?

A. While national debt is notionally high, it should be noted that to date (November 2020) £875bn is owned by the Bank of England, and therefore a government agency. This is different from gilts held by the general public and the financial sector, which amounts to £1.025tn. Therefore, with this year’s GDP estimated at about £2tn, an adjusted debt to GDP of about 95% comes down to about 50%. The consequence of QE is monetary inflation rather than an increase in debt levels. The fiscal rules should be to move towards balanced budgets and the reduction of the tax burden by cutting public spending to remove the need for inflationary funding.

The Spending Review was originally due in the Autumn 2019 but has now been postponed for more than a year. How robust is it in times of crisis?

A. Until such time as the SR cuts net spending, it has no positive economic value.

How effectively did the Government work with the Bank of England? Was fiscal and monetary policy well-co-ordinated? Do there need to be changes to the monetary and fiscal framework?

A. When the government needs funds, the Bank provides. The rest is just irrelevant detail.

What are the productivity challenges in the wake of the coronavirus crisis?

A. Productivity is a function of return on business investment, not of a national policy. If you want to increase the productivity statistic, just increase employment taxes. Businesses will then only employ workers who produce more. That is the way the statistics work and why they're misleading. However, the consequence is higher unemployment. For example, France regularly tops the league for EU productivity, but has a high level of permanent unemployment.

• How has the crisis impacted on innovation and technological development? What problems could technology solve and what problems will it cause?

A. No comment made

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