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If public spending can be reinterpreted as public investment. Can public debt be reinterpreted as public asset?

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Intro

Since the Great Financial Crash (GFC) of 2008, there has been a great deal of soul searching and hand wringing when it comes to public debt. This collective anxiety over the national debt, government debt or public spending debt or whatever you choose to call it, all comes down to the same thing. The basic idea is that the government is broke, we are out of money and that cuts to benefits and public services, are not only desirable but necessary. Despite the fact that what started as a private sector crisis which saw the private banking sector being bailed out with billions of pounds in public money to avoid collapse, both politicians and economists rebranded this same crisis as a crisis of public spending. By any measure is a clever piece of sleight of hand worthy of any great magician. However this does raise the question, is this true? Do the poorest and most vulnerable in UK society, have to suffer for the actions of the very richest playing fast and loose with the economy? Can it be true that because a huge amount of public money has been given to secure the private profits of the banks, those at the bottom of society have to go without? In effect, are we saying that because the UK government has spent all its money on the richest in society, the government has nothing left for the poorest?

Tax Payers, pay the bill

Over the past 40 years or so there has been an idea prevalent in society from economics and politics which says that government finance must be treated exactly the same as a business or a household. In effect, the theory goes that taxes must equal or surpass government spending, and therefore that government must be in either surplus or deficit.

If this is true we, in Britain, live in UK plc where government finance is limited to the amount of money the government brings in through taxes, and any difference between taxes and public spending must be covered by borrowing which is the national debt. This being the case, it would be perfectly reasonable to explain cuts to public services and benefits being taken away from the poor and vulnerable in our society because it is obvious that we simply, as a country, cannot afford these things.

Margaret Thatcher was responsible, more than most, for promoting this idea that governments, have no money of their own. Thatcher, the British Conservative party and people who believed and still believe her, say that the only money that government's spend comes from the tax payer. Indeed Thatcher drew parallels between individual households and government spending by maintaining that every housewife knew that they had to budget, (McFadyean and Renn, 1984), (Douglas, 2016). This view of public finances, it could be argued, has been used to shape public spending ever since. Thatcher and her followers even used a convenient, ‘There is No Alternative’ (TINA) slogan to dismiss any view that disagreed with their approach (Swarts, 2013).

Some may think that the public debt had only existed since the GFC in 2008 but this isn’t the case. In his book The National Debt: A Short History Martin Slater points out that the UK national debt was first created as far back as the late 17th century. This suggests that the UK government has had a debt for three hundred years (Slater, 2018). So it is puzzling why the Office of National Statistics, the UK government’s own department, freely admits that they have only kept monthly records of Public sector net borrowing since 1993 (ONS, 2020). Even after two great world wars, public debt was never even considered. After World War Two 1939 -1945, the UK was able to establish many of the public services that we rely on today, amongst which and preeminent of all, it could be argued, is the National Health Service which was established in 1948. A service which most of the UK population have come to realise, is a true national asset.

Two shocks, two answers, one party

As a matter of history, the past 10 years or so have been marked by two great crises. Over the past few years the UK and wider world have suffered two economic shocks, the GFC of 2008 we now we have the Covid19 pandemic of 2020. Both crises have meant a great amount of public spending, yet the answer to these emergencies seem to be very different.

Back in 2010, the then leader of the conservative party David Cameron, won an election promising to balance the public finances utilising a policy of austerity. Together with his chancellor George Osbourne, the Tory party backed by the Liberal Democrats under the leadership of Nick Clegg embarked on a programme of public spending cuts that was agreed by their coalition government (Lee and Beech, 2011). The measures adopted by the coalition had very serious consequences for the UK public, food bank usage rocketed, levels of poverty increased and the number of deaths, linked to austerity, shocked many.

A report from the British Medical Journal found that health and social care spending cuts were linked to 120,000 excess deaths, with the over 60s and care home residents bearing the brunt in England (Watkins et al., 2017). Of course this does not include data from the other countries of the UK, Scotland, Wales and Northern Ireland yet in their spending review of 2010 the coalition government stated that

> *‘Over the last decade, the UK’s economy became unbalanced, and relied on unsustainable public spending and rising levels of public debt. For economic growth to be sustainable in the medium term, it must be based on a broad-based economy supporting private sector jobs, exports,investment and enterprise.’* (HM Treasury, 2010)

What is interesting, is that the coalition government do not mention the huge amount of public spending as a result of the GFC in the private banking sector. Simon Lee draws parallels with the Thatcher era and the same justification used by the advocates of austerity in his chapter ‘No Plan B: The Coalition Agenda for Cutting

the Deficit and Rebalancing the Economy' (Lee, 2011) which is reminiscent of the TINA stance seen before.
However during the present Covid19 pandemic the government of Boris Johnson seem to have been pushed into a U-turn when it comes to utilising public spending as a way out of this crisis. Despite Johnson's initial view that herd immunity would be sufficient to handle the crisis, which could be seen as a thread throughout Tory influenced governments who would rather leave everything to fate instead of using public spending (Bower, 2020). However Johnson appears to have changed his mind after he himself fell ill.

Indeed the raft of spending undertaken by the Johnson government as a reaction to the Covid19 pandemic has been impressive. In a speech to Parliament Rishi Sunak, the Chancellor of the Exchequer, listed his plan for jobs which included the Jobs Retention Scheme and the furlough scheme which used public money to pay wages to ensure that unemployment did not grow and to protect businesses as much as possible (Sunak 2020). A situation which has raised more than a few eyebrows not only in political circles but academic ones too. This Tory spending spree does indeed seem to fly in the face of everything that the conservatives have been saying since the days of Margaret Thatcher.

This being the case, have we got things wrong? First we have the bankers' bailout which put in course the austerity measures, secondly we now have a jobs/business bailout which according to Sunak, will not mean a return to austerity. During the Theresa May government 2016–2019, the Tory view of public finances seemed to be fluid at best. It is accepted that a huge amount of money has been used to bailout the banks after the GFC in 2008, but then in 2018, the Democratic Unionist Party (DUP) secured an extra £1 billion investment for Northern Ireland in exchange for supporting May's government (Griffiths and Leach, 2018). On each occasion there has never been the slightest hint of tax raises, yet when discussing support for the National Health Service Philip Hammond, Theresa May's chancellor at the time of the DUP deal, warned that extra spending on the NHS would means extra taxes to pay for it (Morrison, 2019). This being the case, we need to be asking the question, are we looking at the relationship between public spending and taxes in the wrong way?

Modern Monetary Theory (MMT)
More and more economists are saying that the orthodox way of looking at public spending is flawed, indeed MMTers would say that governments with sovereign currency and its own central bank, must spend first before anyone can pay taxes. Many MMT people like Warren Mosler, Stephanie Kelton and Bill Mitchell amongst others, argue that we have the whole idea of public spending the wrong way around. Richard Murphy agrees, and in his book 'Joy of Tax' says that you have to spend first before taxing (Murphy, 2016).

Warren Mosler argued that it makes perfect sense that governments spend first then tax after. Mosler makes a clear differential between governments that have their own sovereign currency like the US, UK, Australia or Canada and those countries within the Eurozone such as France, Spain or Greece, who do not (Mosler, 2010). He argues that public sector spending is the flip side of private profit. Therefore public debt must be the money that private entities, businesses or individuals hold as private surplus, profit or savings. Stephanie Kelton (2020), explores this more in her book ‘The Deficit Myth’, by highlighting the difference between a currency issuer like governments of the UK, US or Canada and a currency user like the governments of Greece, Spain or Italy. This means that in the UK, the Welsh and Scottish governments or in the US, individual states such as Texas are currency users. Whereas the UK Westminster government or the US federal government are currency issuers. So this explains why in the UK, the UK government was able to extend financial support for people in England via extra public spending as reported by the British Broadcasting Corporation (BBC, 2020) but both the Welsh and Scottish governments if they unilaterally extended such a scheme would have to find money from existing budgets. Of course we have only scratched the surface of MMT but for this discussion we are only interested in the public debt.

Government finance like a business

It would appear that those who use the spectre of public debt to restrict public services are using an ideology that in essence states that there is no difference between central government finance and any business or household, but as MMT and others argue, this is flawed analysis.

The first point to consider is that there are two main areas of study within economics, are termed macro and micro economics. Dwivedi (2001) says that one way to separate macro and micro economics can be to define the unit of study. Microeconomics studies the behaviour of individuals, households and companies, whereas Macroeconomics studies the economy as a whole at a national level. Therefore it’s reasonable to suggest that government finances would fall into the area of macroeconomics whereas individuals, households and businesses would come under the microeconomics umbrella.

This being the case, it is puzzling why the BBC continually invites the Institute for Fiscal Studies (IFS) to comment and make programmes about government finances, particularly when their own website declares that they are ‘Britain’s leading independent microeconomic research institute’ (IFS, 2020).

When debt is not a debt

If we think about UK government debt, we can see that this debt is simply currency that has been spent into the economy by the government that has not been taken back in taxes. Therefore the government debt is the same money that we, the public, have in our bank accounts, that companies take in exchange for goods or services and we all use to run the economy. In the UK, we use British Pounds which must have come from the UK government currency from any other source would have to be credit or counterfeit.

This being the case we can think of the UK government as a public lender. This would mean that the UK government spends currency into the economy which is then used by the public to run the economy and live our lives. This is important because the recording of currency transactions is one way that Gross Domestic Product (GDP) is measured (Coyle, 2015). I would argue that the government is giving the citizens of the country an interest free loan to use to purchase goods and services in the economy. First the government loans out the currency through public spending / investment and then takes back this interest free loan over time, through repayments that are called taxes.

Having suggested this idea, let's apply the business test as orthodox economics would have us believe. The first thing to consider is that in a banking scenario, when the bank issues loans, this is not recorded as a debt but as an asset, an argument which is backed up by Choudhry (2017). The basic criteria is the risk of default and as a government with its own sovereign currency can never run out of its own money, the public debt must be a public asset. This being the case, why do we call the government loan a debt whereas if it were a business we would call the same loan an asset?

The next business test which could be applied would concern government borrowing. In the orthodox world, governments take in taxes to use for public spending and any short fall is covered by borrowing from private sources by issuing government bonds. Again all this seems perfectly sane. However if we apply the business test, there's a problem.

When a government with its own sovereign currency produces its notes or coinage there is a well-established differential between the costs of the raw materials used to produce the note or coin and the face value. This face value profit is called seigniorage (Reich, 2017). Now here's the question, why would a government who can literally create currency value by creating money, instead borrow its own currency that it issued in the first place. Surely if we apply the business test to government finances, one important responsibility for any government would be to obtain value for money and not waste profit and so valuable resources?

Summing up

Having looked at the situation in which we find ourselves, I would argue that the accepted orthodox political and economic ideology is flawed. We have seen that even if you accept that government finances should be viewed in the same way as a business or a household, the way government finances are run at present falls foul of its own logic. For many, many years, society has been dominated by a hard line form of political and economic thinking that, I would argue, has damaged the very people our government are elected to protect. I believe that the whole area of government finance and public spending has been skewed to justify a political ideology that only cares about the wealthy and powerful; what some call the elite.

However over the past 40 years or so, inconsistences in public policies have exposed the possibility that the accepted economic and political norm could be wrong. It's very interesting that politicians and orthodox economists use the fear of debt and particularly government debt, to justify cuts and restrictions for the most vulnerable in society. It's for these people, and others equally held back in society, that I believe the whole area of government finance has to be rethought and retaught. The old Thatcherite economic and political explanation is plainly wrong, and a new way forward must be found to give hope to all.

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