

Deficit reduction – ideology or necessity?

**SLF Conference 2011
Liberalism, Equality and the State**

**Ed Randall's power point presentation at SLF Inaugural Conference in
support of conference paper**

Ideology and Necessity

- YES and NO
- Time for a KOO (Richard Koo – The Holy Grail of Macro Economics: Lessons from Japan’s Great Recession)
- A Liberal Democrat Trio that combines ideology with necessity
- A parade that should shame and alarm Liberal Democrats and a parade we can change
- ‘It’s the environment stupid!’
- The crimes, the predators and the state (calling for a Liberal Democrat political economy that matches the age we live in)

Ideologically driven?

- Yes, of course it is - **it is intensely ideological**
- But it isn't the fact that it is ideologically driven that is the problem – ideas/beliefs/**ideology**, call it what you will, **are bound to play a part in all economic policy/strategy**
- It is the ideology that has been driving the **Coalition government's deficit reduction strategy, that is the problem**
- **The ideology is neo-conservative** – not a reflection of modern liberalism at all

YES

“Hold on George – where are you going?”

CARTOON
George OSBORNE
presses ahead with
the only option he
will consider – so-
called OPTION A

Coalition's number one economic goal recognise that deficit reduction... is **the most urgent issue facing Britain**" (emphasis added). Taken from **Coalition Programme**.
Is it really the most urgent and important?

Is it necessary?

- No, though no one disputes that government **deficits have to be managed**
- **But it is how they are managed that is critical** to the well-being of the population and the long-term prospects of society and economy
- The **current Coalition deficit reduction strategy is misguided** and urgently needs to be rethought
- **Our goal should be to make contemporary Liberalism and modern Liberal political economy the drivers for UK public policy**
- And modern Liberal political economy is rich and highly sophisticated, so there really is **a choice of perspectives and of economic strategies. Let's turn TINA into TABA**

NO

“They say that Tina only had eyes for Adam (Smith) or possibly David (Ricardo) but now Richard (Koo), James (Galbraith), Paul (Krugman), Ha-Joon (Chang) and even Will (Hutton) are beginning to catch her attention. There really should be more men in her life.”

Tina and the Classic Libs

CARTOON showing
TINA with Classic Lib
book open

‘Tina’ – is she really the girl for whom *There Is No Alternative*?

Some reading for those who want to follow all of this up

- Richard Koo (2009) The Holy Grail of Macro-Economics: Lessons from Japan's Great Recession. Wiley.
- Richard Koo (2011) – on line presentation -
<http://www.scribd.com/doc/55392027/Koo-May11-2011>
- Richard Koo – INET (Institute for New Economic Thinking) Conference – presentation on balance-sheet-recession
<http://www.creditwritedowns.com/2011/04/richard-koo-on-balance-sheet-recessions.html>
- Ha-Joon Chang (2010) 23 Things they don't tell you about Capitalism. Allen Lane.
- James K. Galbraith (2008) The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too. Free Press.
- Will Hutton (2010) Them and Us: Changing Britain – Why we need a fair society. Little Brown & Company.
- Paul Krugman (2008) The Return of Depression Economics and the crisis of 2008. Allen Lane.

Time for a Koo

- taking the notion of a **balance sheet recession**
seriously

- **We can all learn from the Japanese experience**
- Reckoning with the **Yin** [not the **Yang**] **economy**
- A world beset by deleveraging and **the inadequacy of conventional and unconventional monetary policy**
- **Pain without end and without purpose is truly senseless**
- Alan Greenspan: “**I have found a flaw** (in my economic philosophy)...I don't know how significant or permanent it is. But I have been very distressed by that fact.”
- **But it isn't a case of one flaw**, in the ‘leave it to the market’ philosophy, **there are numerous flaws**

Nomura Research charts – part of Richard Koo's presentation on balance sheet recessions

Figure showing Real GDP, Nominal GDP, Likely path Of GDP without Govt. Action – Japan 1980 to 2010

Figure showing ‘Drastic Liquidity Injection QE UK style failed to increase money supply Data for quarters 07/1 to 11/1

A Liberal Democrat TRIO

combining ideology with necessity

- What's really necessary? What should our ideology **AND** our political economy encourage us to believe we can and should treat as necessities?
 - **Halting and reversing mounting social and economic inequality** and the divisions and exclusion it fosters. A necessity if we want to build a liberal society and a true opportunity society. In the short term and the longer term what happens to people without jobs and prospects - particularly the young - is the key to our future. Reducing unemployment and creating economic opportunity is an overriding necessity
 - **Dealing with the greatest existential crises of our times – environmental depletion and destruction** is a vital necessity. When, to use Al Gore's phrase, we appear to be operating the world's environment as though it were a business in liquidation, investing in the means to live sustainably and peacefully with out neighbours is a paramount political duty.
 - **Challenging and changing a financial system** that has harmed our economy grievously, made alarming progress in reaching beyond regulatory capture to government capture, and which shows limited capacity to make or support the investments we need now to help rebalance the UK economy. Challenging and changing Finance is a necessity, if we are indeed serious about the other two.

CARTOON

'We're all in this together' –
'At least you lot are – bye,
bye'.

CARTOON

Hey - can you see the threats of
global warming and
desertification?

CARTOON

What kind of house can we build
with a Franklin if we can combine
finance with vision, and how
exactly can we do that when
Finance has found it much easier to
make its money elsewhere?

On parade - a parade that should shame and alarm Liberal Democrats and a parade we can change [thanks to Jan Pen, Will Hutton and many others]

- Social inequality has been rising pretty well throughout the developed world and social mobility has been declining. **Data on the growth of inequality** [recently summarised by the OECD-2011] is particularly disturbing for British Liberal Democrats, who are ideologically committed egalitarians.
- One core expectation of the majority of Liberal thinkers has been that: **as open, liberal, democratic and market based societies develop they will become more equal**; the old order, based on privilege, was expected to make way for a new order in which merit and effort were reflected in a social and economic structure where accidents of birth receded in importance as life chances became more equal.
- Unfortunately, in Jan Pen's parade of 'dwarves and giants' the difference in height have grown since he published the parade in 1971. **The extraordinary height of a few, a very few, contrasts with the diminutive size of most of the rest**, whose relative incomes are represented by their relationship to the average height.

Figure showing Gini Coefficient for developed countries – with reference to sources

Graphical representation of Pen's Parade of 'Dwarves and Giants' – top and bottom separately displayed...and look out for the boot

I want to say: ‘It’s the environment stupid’

- the environmental challenge and the necessity for more intelligent, decisive and innovative public policy [thanks to Al Gore and many others]

- Sir Nicholas Stern: "**Climate change is a result of the greatest market failure the world has seen.** The evidence on the seriousness of the risks from inaction or delayed action is now overwhelming. We risk damages on a scale larger than the two world wars of the last century. The problem is global and the response must be a collaboration on a global scale."
- Al Gore: "Future generations may well have occasion to ask themselves, "**What were our parents thinking? Why didn't they wake up when they had a chance?**" We have to hear those questions from them, now." I agree – I know of very few Liberal Democrats who wouldn't agree.
- And I echo two of Al Gore's favourite quotations. One from Churchill: "The era of procrastination, of half-measures, of soothing and baffling expedients, of delays, is coming to its close. In its place **we are entering a period of consequences**"; the other, from Upton Sinclair: "It's difficult to get a man to understand something if his salary depends upon his not understanding it."
- The scope that exists for humanity to develop new and more sustainable technologies, including technologies for energy production, distribution and conservation, is vast. In order to do so we require enterprises that can forge deep partnerships between citizens, government, and industry. **In the midst of a balance sheet recession we have an unrepeatable opportunity to do so.**

Graphic showing
CO₂ record from
Mauna Loa
Observatory
Hawaii

The trend is clear and the science of anthropogenic climate change now appears to be very well established

'The economic crime of the century'

- escaping the clutches of Finance and making the finance sector fit for purpose [thanks to James Galbraith and many others]

- James Galbraith, speaking to an academic audience at a symposium in Croatia (May 26, 2011) said:

"If you don't realise that what happened in the US [post September 2001] was **the largest wave of financial crime in human history** then you haven't been paying sufficient attention... **the regulators simply abandoned their posts...went AWOL...** In 2003 the leader of one of one of the major supervisory agencies, the Office of Thrift Supervision,...held a press conference for the business press to which he brought a stack of the Code of Federal Regulations and a chain saw; he was sending a signal about how he thought underwriting standards would henceforth be dealt with."

- Galbraith is surely correct – we live in the age of *The Predator State*. The public authorities were captured and in important respects neutered by and on behalf of organised finance, an organised interest which has become increasingly difficult to distinguish from organised crime. What happened in the US (and to a lesser extent in the UK) goes well beyond questions of moral hazard. Our prospects for escaping their clutches do not look good. The capture extends to important parts of the academic economics establishment.
- And James Galbraith has a point when he says: "Trust having been destroyed in such a fundamental way [by the bust in 2008]...[we] cannot [reasonably expect it to] be rebuilt on the same institutional foundations." The reform of Finance is intensely ideological and should be absolutely

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Job

CARTOON

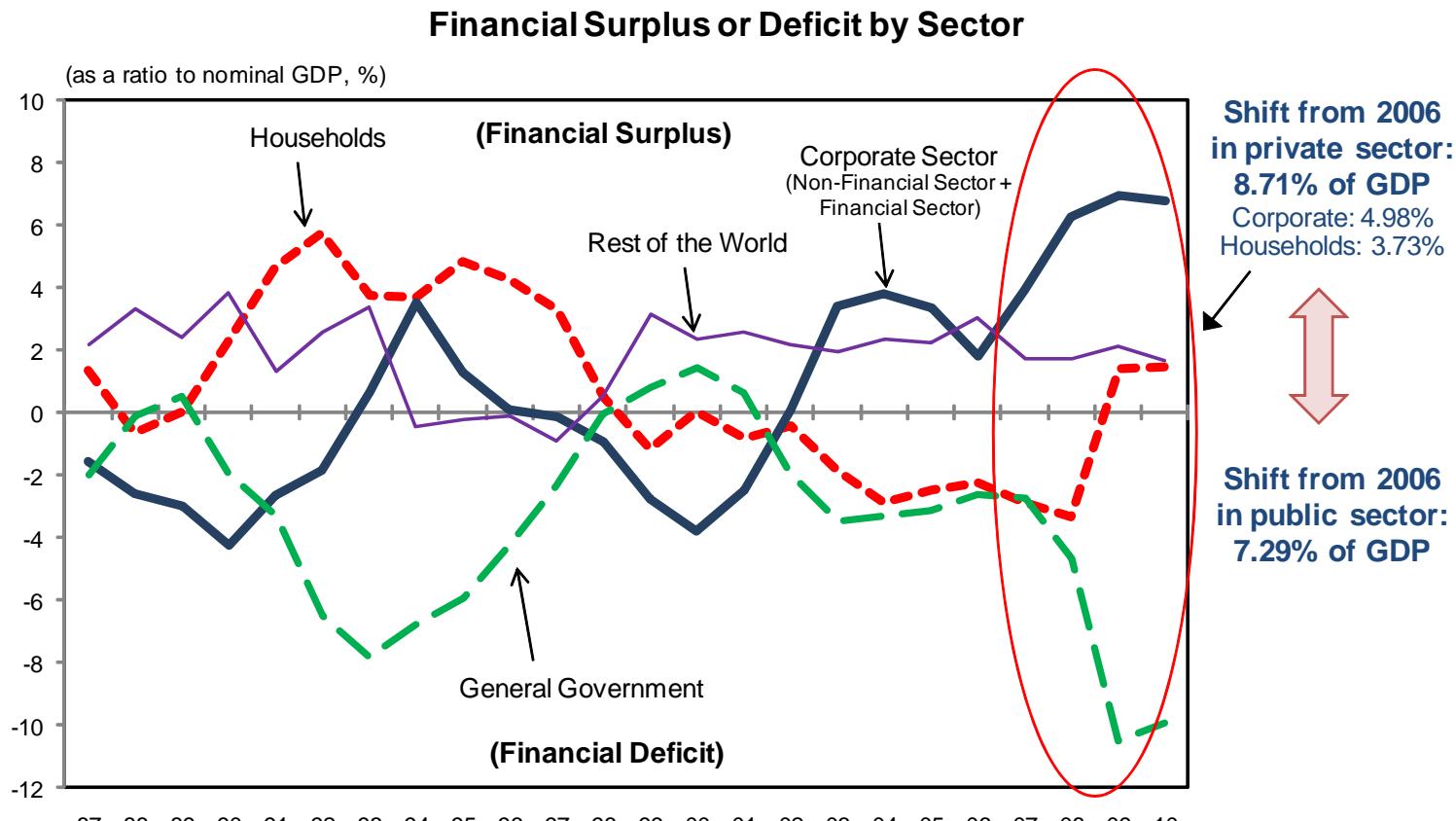
HIGH FINANCE and CRIME: A world of **counterfeitors, launderers, fences and marks?**

CARTOO
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What do we want? A sophisticated regulatory apparatus to control Finance or a second hand mousetrap from an earlier era? *Do we truly want a service industry that serves us, not itself?*

Koo's Exhibit 22. UK Private Sector Financial Surpluses

Increased more than Government Deficit



Source: Office for National Statistics, UK