

I'M NO ECONOMIST, BUT...

by Simon Prentis

A penny off a pint of beer? Surely we can do better than that. Despite George Bernard Shaw's sardonic quip that "If all economists were laid end to end, they would not reach a conclusion," there are some things we definitely do know. And one of these is that growth is an absolute necessity for a healthy economy.

Of course, the half-trillion pound question (that's the astonishing amount we've sunk into the banks so far, to little effect) is this: how do you get growth? The two main political parties are locked into an absurd pantomime routine about where they expect to find it. The Conservatives want to cut everything to the bone, and reduce taxes to stimulate business. *Oh no you can't!* say Labour, who want to carry on with the ruinous course of government borrowing that got us into this mess in the first place. *Oh yes we can!* say the Tories, but national debt goes on rising anyway. Well, they can't both be right. But here's the thing: they could both be wrong.

They could both be wrong because to get growth, you need ordinary people to spend money, not bankers or politicians. It's not rocket science. Companies don't create demand, customers do. Governments don't create demand, consumers do. Just as circulation is vital to our bodies, so it is to our economies. If no one is spending, nothing grows because there is no money to grow it with. As any gardener will tell you, growth is not a top-down process, it comes from the roots. And right now the roots of the economy are shrivelling.

So what to do? Well, if what we've tried so far hasn't worked, we need to find a new approach, and come at the problem from a completely different angle. Since we've tried all the traditional solutions, there's the risk that any new idea is going to sound pretty crazy. But there's one thing that hasn't been tried out yet, or even given a proper public hearing. That may be because it goes against all the 'common-sense' principles that politicians and pundits like to din into us. But there's no reason why it would be any worse than all the other ideas that haven't worked, and one thing is for sure, it would be very popular. It could even go some way to making people feel better about politicians again – and on top of that, it might just work.

So here it is: Give £2,500 to every single household in the land. *What?* Are you mad? No, I am not. I'm absolutely serious. Give every council tax payer £2,500 in credit that they can spend as they like. No ifs, buts or comebacks. The only catch is, they have to spend it. They can't save it, or put it into a bank account. The only way they can use it is by buying things. How do you do that? Simple. You issue everyone with a smart card which they can use to shop with, just like using a debit card, up to the value of £2,500. You could even give it a time limit of three months, say, to encourage people to use it.

Where does the money come from? Well, the Bank of England can magic it out of thin air, just like the £375 billion they've handed out to the banks (the other £125 billion came from the taxpayer) in the name of 'quantitative easing'. That wasn't a problem, apparently. There are around 20 million households in the UK, so that £2,500 would cost about £50 billion. That might seem like a lot, but the beauty of it is that, unlike what happens when you give it to the banks, it's not just taken out of the system. People will have to spend it, so it goes into the economy. Directly. And it's taxed, too. VAT is 20%, so £10bn comes back to the Treasury straight away. Then there's the tax businesses have to pay on their profit. So it's good for the Government as well.

But isn't that a 'moral hazard'? You can't just *give* people money. If you started doing that, people would start to expect it. Really? Is that what happened with the banks? They were in crisis, so they were bailed out. And now, ordinary people are in crisis. The economy is in crisis. We all need a bailout. We need a helping hand to get things going again. In any case, how much is £50 billion in the big picture? It's a mere 10% of what we gave the banks, and by all accounts QE isn't done yet. Our current GDP is around £1,500 billion (that's £1.5 trillion, in today's money). So £50 billion is 3.3% of GDP. And if that money goes straight into the economy (and that's the whole point of this idea) then you have instant growth, right there. It won't solve the more long-term problems of the economy all by itself, but it's a jump-start, a ball to get things rolling. That's what we need. Right now we're flat-lining.

Not only that, it would be a shot in the arm for the country as a whole. It would show – or at least appear to show – that politicians are at last thinking about the plight of

ordinary people. We've had five years of being told that we have to tighten our belts, that we are engulfed in a financial crisis not of our own making, and yet all we see is debt increasing, incomes dropping, and bankers making off with ever-bigger bonuses. It's amazing there hasn't been a revolution. That's how patient people have been. We deserve a reward. But the crucial thing is, it's not just a reward. It's actually a way out of this black hole for everyone, because it all starts from the bottom.

Sometimes you have to give before you get. In fact, as hard-nosed investors know, that's usually the case. So while we're about it, how about increasing the minimum wage to a living wage, as other people are proposing? What? More moral hazard? Actually paying people more than you need to (because we know they're so desperate they'll do it for less?) No, actually. Just think of the savings to be made on tax credits, for example. At present, the national tax credit bill is around £30 billion. In essence, that's the government's own estimate of the difference between what people are actually paid and what they need to survive. Why does the government have to pay that out? Because employers are not paying a living wage, that's why. In effect, tax credits are a subsidy for business. Think about it. Tax paid by working people (that's us) is actually used to make up the money that businesses should be paying their employees. That ain't right, either.

There's always such an air of meanness about public policy, which seems to end up rewarding those who have at the expense of those who don't. But quite apart from feeling bad, it's not working, either. So why don't we try rewarding those that don't have, for a change? £2,500 won't seem much to a millionaire, but to a struggling family it could make all the difference. A penny off a pint of beer is a borderline insult – you'd only save the equivalent of a couple of pints of beer in a year of drinking – but this way we'd be pumping money directly into the economy, so that ordinary people, not politicians or bankers, can decide the best way to spend it. At least that stands a chance of becoming a virtuous circle rather than the vicious one we're caught in now, trying to screw blood out of a stone. Never work? Ridiculous? Perhaps, but then we won't know until we actually try it. And before you dismiss the idea out of hand, just ask yourself this: do you have a better one?

Didn't think so.