Angrynomics

Lonergan Eric

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Introduction: from economics to angrynomics

By the 1990s those relationships began to breakdown and a new politics emerged throughout the developed world where such "left" and "right" divisions were increasingly thought to be arcane and irrelevant relics of the Cold War. In its place emerged a new politics where politicians ceased to represent core constituencies and instead sought to capture a so-called "median voter" who acted like the representative agent in our economic models. These voters cared not for economic conflict, but supposedly cared for post-materialist values and good governance, which parties duly agreed to supply. The 12 *big policy stuff was best left to experts in international organizations and*

independent central banks. Politicians supplied less policy and yet pretended to represent everyone's interests while doing so.4 This was the world of the 1990s and 2000s, wonderfully described as "the Great Moderation" in 2004 by then Federal Reserve Chair Ben Bernanke, whereby the elimination of politics at the hands of technocrats had delivered prosperity for all.5

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There were, as we know now, rather large flaws with this view of the world. Chief among them was that material concerns never went away. Parties simply stopped admitting that they existed. The UK economy doubled in size from 1980 to 2017. Over the same period use of food banks increased 1000 per cent. In much of the developed world, inequality rose throughout the 1980s and 1990s, dipped for a decade, and shot up again after the

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financial crisis. Over the same period global corporations simply stopped paying taxes. The same elites that confused the real world for the world in their economic models lost their credibility with the voters that they portrayed themselves as representing.

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Then came Iraq, dodgy-dossiers, 45 minutes claims, and Afghanistan – the war without end. Followed by the celebration of finance as the engine of growth, which blew up in our faces and which was swiftly followed by state funded bailouts to save the assets of the already rich. A bailout paid for by the already squeezed with the shift to austerity policies that in some cases saw 30 per cent cuts in local services.6

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Meanwhile in the metropoles, banks went back to earning billions and house prices worked like

magic ATMs.

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When politicians really needed to motivate electorates, they stopped making the case for deep-rooted economic change, and reverted to fear. In the euro crisis, populations were held in check by threats of renewed financial panic. In both the Scottish independence and Brexit referendums, the threat of losing what you have was used as a weapon to defend the status quo. Across central and eastern Europe, fear of migrants destroying "our" culture became the motivating meme. You can't expect real people – neither synthetic representative agents nor imaginary median voters – to put up with these disconnects forever. Eventually the gap between how we experience the world and the economic model used by elites to explain and justify it becomes too large to

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ignore and self-serving elites get called out. Welcome to that calling, the world of "angrynomics", where real people are angry and have every reason to be.

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The first distinction that we make is between public and private anger. Much research treats the two as equivalent, but in fact they are opposites. Public anger is often worn like a badge of honour. Icelanders protesting against a corrupt political class are emboldened by virtue. They railed against corruption

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and sought moral redress. Extinction Rebellion is fueled by the anger of righteousness.

This is moral outrage. Private anger resembles its opposite. It is often characterized by shame. People who are angry in their private lives, often seek counseling, rather than retribution.

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But public anger itself is also two-sided. If moral outrage is its positive form, reinforcing and generating tribal identity is its opposite. Tribal rage is a primitive emotion, one that puts aside our moral compass in the name of action and to close ranks for protection against some other group. Think of a local derby match between fierce rivals. 14

They wear their badge of loyalty aggressively. Indeed not only do they threaten the opposition fans or players, they can as easily turn on their own, demanding greater loyalty and commitment. Angry fans regulate their own tribe. Moral outrage, the positive face of public anger, seeks redress. It is a call to be listened to, that enough is enough, and a wrong must be righted. But in its contrasting form, tribal anger seeks to threaten in order to dominate, suppress, and at its most violent, to destroy. Seen this way, the different types of public anger serve different functions: to enforce ethical norms and to regulate tribal identity. This is how anger and the economy become combined.

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A fundamental tension is clear. Aging societies such as ours need more technology, not less. It is not to be feared. It is to be embraced. Prosperity is increased by innovation which augments productivity. Innovation is the root cause of material advancement and it increases our collective resources. Unfortunately, it also gives us Instagram. 16

Change can be exciting, particularly for the immediate beneficiaries, or those with little to lose. But for most people it is disconcerting if not frightening. Most of us crave security, stability and certainty. When rapid changes are accompanied by real income losses, or we perceive that one person's gain is another's loss, quite reasonably, we get angry. This expresses itself in both moral outrage – that the wrong be righted – and in tribalism – as we seek to blame the "other" that must be responsible.

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Tribalism – and its regulating energy, anger – is a natural reflex, but it is always based upon myths and is ultimately self-defeating. 17

We see anger at the stressors we are all exposed to being hijacked by the media and political classes to detrimental ends.

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Populism is incoherent, but the energy of tribes and the moral mob are clearly identifiable. Those most angry are often motivated minorities – those most likely to vote – and street-smart intuitive politicians know how to exploit them. We should know when we're being duped and manipulated. 19

In the first two dialogues we explore two distinct types of anger: tribal energy and moral outrage. We examine what constitutes a legitimate grievance versus an "identity regulator", and in doing so we uncover the underlying economic causes driving public anger.

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Dialogue 1: Public anger and the energy of tribes

One of the first things I did when we started thinking about anger was a very simple big data analysis using IBM's Watson Analytics. I simply asked Watson to scan hundreds of thousands of news stories and sort those referencing "anger" into groups. 24

The results confirmed public anger as an expression of moral outrage, but what really surprised me was the association with sports. Angry fans come up a lot. Thinking about sports shows us how people enjoy tribalism – why else do we buy season tickets to watch teams that are rubbish? We pay money to be tribal. Sports fans also teach us that tribalism motivates: hard-core fans will travel to watch terrible games, in any weather, in locations that are difficult to get to. Once you are alert to the concept of an angry fan, why they are angry becomes clear. If you ever want to witness tribal anger, but can't face a political rally, go to a football match.

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In social psychology there is a very well established theory called the minimal group paradigm, which identifies that our predisposition to form groups can be based on completely superficial distinctions. 26

Now think about tribal identity more broadly. What is the social function of the tribe? It is very simple. Humans are much more successful operating in groups and being part of a group increases your odds of survival. But in a world of limited resources you need to decide who is in the group and who is not . We can't survive on our own, but we can't include everyone if resources are scarce. Our hardwiring to form groups is so profound that we will form tribes based on trivial differences – indeed, perhaps we always form them based on trivial differences.

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We know from sports games that angry fans are a minority, and we know from research in political science that angry people are more likely to vote.9 Harnessing tribal anger to motivate a minority can then be a winning strategy. 30

Trump won by mobilising 80k voters in 3 states. First, he appealed to legitimate moral grievance in the Rust Belt, citing the neglect of manufacturing industries, infrastructure, and Midwest communities by coastal elites, and then without missing a beat he shifted to tribal anger with images of walls to keep out marauding criminalized immigrants, in districts where racial tensions were elevated or nascent.

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In Reagan's case the tribal focus was in Southern states and the nod was to racial violence, which he picked up in turn from Richard Nixon. Likewise, Trump's "Tariff everyone" trade policy seems new, but people have forgotten the stealth trade 30

war that Reagan fought in the 1980s against Japan, other Asian economies, and even the European car industry. We have been here before, but we forget that.

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Most people still trundled out to vote for "their" party after the Berlin Wall came down – Labour, the Social Democrats, the Democrats – but did it really matter anymore? The post-Cold War era was defined by a loss of political identity and the political disengagement of large parts of the population, especially by those most hurt by the economic changes of the period.11 33

Everyone was assumed to believe in some variant of a market economy and to embrace a cosmopolitan individualism. If you did not, you were considered a relic, or worse, a nationalist. When those ideas went up in smoke in the financial crisis of 2008, politicians had to find something new, and they did. So much of what we see today is politicians attempting to fill the vacuum created by a discredited neoliberal consensus with a more motivating set of political identities.

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Dialogue 2: The moral mobs and their handlers

The democratic process was frequently hijacked by technocrats enforcing "reforms" when there was no economic logic to support austerity. Angry people who rejected this narrative were right to do so. Their anger is rational and legitimate. In contrast to tribal rage, people motivated by moral outrage can often very clearly articulate why they are angry – that their interests, or those they care about, are not being taken into account, and that the perpetrators of wrong-doing are not being sanctioned. This is very different to tribal rage, which seeks not justice, but to destroy anything in its way. 38

Nussbaum, very perceptively, identifies specific triggers for moral anger, such as "status-injury". She quotes the psychologist Carol Tavris' study of anger in America, and "finds ubiquitous reference to 'insults,' 'slights,' 'condescension,' 'being treated as if I were of no account'".13 I think this response resonates with our observation that anger is a demand to be heard, a demand for representation. But it is also an expression of intent and significance – I matter and you better listen to me . In the political context, this is very pertinent.

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The economist Dani Rodrik usefully calls this the "political trilemma" of the global economy, where globalization, democracy and sovereignty are mutually incompatible in such a way that you can only ever have two out of the three.14 And once you have accepted globalization, you can either have democracy or sovereignty, but not both. 41

This generates an inherent tension between the openness of the global economy and the responsiveness of the state to the democratic wishes of the public.

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we have been through two big iterations of this tussle between states and markets, between openness and democratic responsiveness, in modern times. 42

The first set of rules was established in the aftermath of the Second World War and the Great Depression. The new rules were about limiting the reach of the market through controls on finance – making sure that capital is invested at home – targeting full employment to prevent the 1930s returning, and imposing high taxes and transfers across the economy in order to build a welfare state. This system, as we shall see, functioned quite well for about 25 years. But the flaw was that it generated inflation, and labour's bargaining power eroded profits causing declining investment spending. The response to the stagflation of the 1970s – falling growth and rising inflation – was to "disinflate" by opening-up financial markets, privatizing state assets, deregulating businesses, thereby "freeing" capital from the constraints of the nation state to find its highest return. This was construction of what we call today the neoliberal order – what Rodrik calls "hyper-globalization".

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It is very telling that the five states that were supposedly solidly blue-collar Democrat, but turned out for Trump 44

One of those states, Wisconsin, lost one third of its industry, not to Mexico or China, but to Southern "right to work" (union-free) states in the 1970s and 1980s as business migrated south. Wisconsin has been in relative decline for a very long time. NAFTA in 1994 and then China joining the WTO in 2001 accelerated that feeling of decline and actual job losses, and over time the Democratic Party coalition that tried to embrace unions, free-up trade, and profit from global finance all at once fractured. After all, these policies of trade openness and global capital were championed by Democratic administrations, but mainly hurt Democratic Party loyalists.

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Dialogue 3: Macroangrynomics: capitalism as hardware

Polanyi argued that what made capitalism distinct from previous modes of economic organization was that it rested upon the deliberate construction by the state of three "fictitious" commodities: labour, land and capital, without which you can have markets and exchange, but you can't have capitalism. 65

1944, book called The Great Transformation that captured the essence of the bug in the software that killed version 1.0 of liberal capitalism, the version that emerged in the nineteenth century, spanned the globe by the turn of that century, and crashed and burned in the aftermath of the First World War.

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If the version of capitalism you happen to inhabit has very few safety nets, and market relationships are the only ones that you can access to survive, there will be a demand by the citizenry for protection from the ups 65 *and downs of the market itself. Polanyi called this the "double movement". That is, any attempt to create a society dependent upon markets that treats labour like a commodity will inevitably produce a backlash against those policies precisely because labour is not a commodity like any other. That backlash will take the form of demands for "protection" from the market.*

That protection in turn can take the form of trade unions, it can take the form of Joseph Chamberlain's social imperialism, it can take the form of New Deal liberalism, or Italian and German fascism. Today, it takes the form of an economic nationalism that, in the words of Brexiteers, seeks to "take back control" and make the economy more responsive to politics. In short, if you want to understand what happened in the 1920s and 1930s when capitalism version 1.0 crashed, it's really a story about the attempt to sustain the economic fiction of labour as a commodity coming up against a political reality

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Prior to Keynes, economists thought that left on their own markets clear (buyers find sellers and workers find employment), and through free competition full employment would be produced. Keynes argued against this view 66

Keynes wants the state not just to act as a law-setting institution that creates Polanyi's fictions that makes markets possible. He wants the state to counteract emotional swings in private sector spending that cause depressions, by using public expenditure to stabilize employment and investment.

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when the multi-faceted cataclysm that was the 1930s occurred – the effects of pent-up First World War inflation on savings, the failed attempt to restore the 67

Gold Standard, the Wall Street Crash, the collapse of global trade – all of which compounded the pressures on labour, v.1.0 collapsed. As Keynes famously said, it turns out that "in the long run we are all dead", and the death of v.1.0 produced three distinct expressions of public anger.

The first one was fascism. Fascism was an attempt by the state to save the market by abolishing society. It is "totalitarian" in that the fascist solution to anger is for everyone to be disciplined by the state so that tribal anger is displaced onto the "foreign" and the "impure". The second one was communism, which is an attempt to use the state to abolish the market, thereby disciplining society through class homogenization and the forced elimination of inequality to produce model subjects. The last one is the most adaptive, a combination of democracy and markets, because in a democracy you get to vote, which gives legitimate voice to anger. But the problem with giving a voice to anger is that in v.1.0 what matters is money, not voice, while what matters in a democracy is votes. These two currents rather obviously come into tension. Capitalism version 2.0, if it was to survive, had to resolve that tension by making democracy and markets work together rather than undermine each other.

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Keynes' trick was to admit fully that (I) investment was the most important part of the equation and to agree with the v.1.0 view that without investment (I) there can be no wage growth, no productivity increases, nothing. But, he argued, what happens in a depression is that investors' expectations of future profits get crushed (who opens a new factory in the middle of a recession?) and once those expectations get embedded among investors as a class, it becomes irrational to invest. G – the government – has to spend money, not to pay-off clients or bribe the voters, but to alter the price signals to which investors respond, making it rational for them to invest again. This is why government spending is central to Keynes' view of the world. But once again, there is a politics to this, a politics that Keynes himself denied, and that is 69 *what effectively became the bug that crashes v.2.0.*

Given this, if you want to avoid fascism, communism, and put markets and democracy together productively, government spending to maintain consumption to avoid recessions and depressions is critical. It's a feature, not a bug. Successfully targeting spending by running budget deficits when needed becomes the key software rule, with full employment, high wages, constant productivity improvements, and a high level of redistribution through taxes becoming possible in v.2.0 for the first time. With the very real fact of communism in Berlin in 1945 focusing the minds of policy elites in the West, and the combination of depression and war breaking the old hardware, the advent of this new software for running the machine created the room for a massive reboot of the system. That reboot was hugely successful. For the first time, right across developed countries, the top of the income distribution in every country came down, the bottom went up, and the whole distribution moved up together, for nearly 30 years. This was the period when French national income tripled, the Italians talked about "Il Boom", the Americans discovered the middle class and British Conservative politicians built millions of units of public housing

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But since the 1920s and 1930s had shown that unemployment and poverty made people angry to the point that the system will collapse, the new system reset was designed to make sure that didn't happen again. But to sustain full employment and high real wages, the hardware of v.2.0 had to be fundamentally rebuilt too. 71

First, finance had to be put in a box and locked away. Finance that built factories and invested in technology was fine. Finance that sought to short currencies and speculate on bonds was banned. Labour was legally recognized as not being a commodity just like any other , and collective bargaining between unions and employers became the norm. This gave both sides political leverage, which meant that productivity gains were (more) evenly split between capital and labour. This, in turn, meant that if capital wanted to increase profits and full employment was the target, they would have to increase productivity to do so, which stimulated further investment. This produced a virtuous circle where high productivity created high wages, which meant high consumption and high tax revenues, all of which enabled the production of high quality public goods (healthcare, education, housing) that lowered labour's dependence on the market still further and took the anger out of the system.19 And all of this was buttressed by a set of international monetary institutions and agreements that kept exchange rates stable and capital local.20

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Kalecki argued that Keynes missed the politics of sustaining full employment over the long run. Far from being welcomed by the investor class, sustained full employment would consistently push-up wages and kill the returns to investment. 72

First, given strong labour unions and costless mobility from job to job, management's "right to manage" would be undermined, and labour indiscipline, especially strikes, would spike. This is exactly what happened in the 1970s across the rich countries of the world. Second, the only way that firms could hold onto skilled workers given such pressures would be to pay them even more in wages. But the only way that firms could absorb those costs would be to raise prices ahead of productivity. But if all firms respond this way it ignites a wages-chasing-prices-chasing-wages spiral of inflation that in turn provokes more strikes as workers realize that the wage increase they just secured is eaten away by inflation. It would also be the end of high wages forcing firms to be more productive.

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Kalecki had predicted in 1943 "stagflation" – the simultaneous combination of unemployment and inflation in the 1970s. 73

Crucially, an unanticipated acceleration of inflation acts as a tax on the returns to investment that, as Keynes realized, retards future investment. Kalecki predicted that under a policy of sustained full employment investment would fall and inflation would continue to rise, even as labour markets were tight.

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a powerful block is likely to be formed between big business and the rentier [financial] interests, and they would probably find more than one economist to declare that the situation was manifestly unsound. The pressure of all these forces, and in particular of big business, would most probably induce the Government to return to the orthodox policy of cutting down the budget deficit. (Kalecki 1943: 330)

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he had just predicted Margaret Thatcher, Ronald Reagan, the liberation of finance, and the beginnings of Capitalism v.3.0.

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This, plus a turn in economics to more microeconomic approaches provided the political representatives of capital – Kalecki's "Powerful Block" – with their new software. We call this set of ideas "neoliberalism".

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The new policy target for v.3.0 was not full employment – for that produced inflation – but "price stability" – that is, guarding against inflation at all costs.

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There were four key hardware changes that took place in the 1980s, which took inflation out of the system permanently, restored the value of capital, and in doing so built the world that we grew up in.

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The first was to destroy the power of organized labour to raise wages. Whether it was done through outright confrontations with organized labour epitomized by Thatcher's bitter battle with the British National Union of Miners in the 1980s, or through the migration of business to "right to work" (union-free) states in the US in the 1970s, or through EU-level policies for greater "flexibility" in the 1990s, union membership everywhere plummeted, and along with it so did labour's ability to capture the gains from productivity increases. This in turn shows up in how much income labour takes home from GDP growth. It has fallen dramatically. But what really accelerates these trends are two other hardware reconfigurations: the opening-up of financial markets and the globalization of production. A key hardware modification of v.2.0 was the insulation of the economy from financial flows.

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Huge flows of capital, and rapid reversals, caused a series of increasingly severe booms and busts across the developing world, culminating in the Asian and Russian crisis in 1997–98. The developed world proved similarly vulnerable during the euro crisis. Northern savings flooded southern markets after the creation of the euro in 1999, looking for higher returns. As post-crisis fears over the stability of southern European banks and governments built, these flows reversed, exacerbating the pain.

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rich countries and ends up in capital-poor countries, such as China. Western firms benefit from this, as do their shareholders. Consumers in western countries benefit from cheaper goods, but the investment that would have happened in their country now happens elsewhere, which is a cost. This is why trade is now such a contentious issue.

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once you have disabled labour's ability to generate inflation, the only other possible source of inflation is the state since that prints the money (M)

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And with the rise of global financial markets that can punish states for policies that they don't like by taking their money out of the country, devaluing the currency, and causing a crisis, the case for giving authority over monetary policy to an "independent" agency, which took the long view rather than allowing politicians that always took the short-term view to make policy, became compelling.

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The result was a system that was once again similar across those countries that produced common outputs, but those outputs were the complete opposite of v.2.0 [77](#)

Capitalism v.2.0 1945–80 vs. Capitalism v.3.0 1980– Policy target : Full employment (vs. Price stability (low inflation)) Policy outcomes : Labour's share of GDP at historic highs (vs. Capital) Corporate profits low or stagnant (vs Wages) Inequality low (vs. High) Markets mostly national (vs. Globalized) Trade unions strong (vs. Weak) Finance weak and immobile (vs. Strong and highly mobile) Central banks weak and politicized (vs. strong and independent) Legislatures strong (vs. Weak)

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The first bug was trickle-up inequality. [79](#)

While globalization certainly benefitted workers in the developing world, workers in the bottom 50 per cent of the global income distribution captured only 12 per cent of total growth. Meanwhile, the top one per cent of the global income distribution made off with 27 per cent of total growth.

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The second was wage stagnation and massive dispersal across the wage distribution. [79](#)

But inequality is only a bug if another bug shows up, which it did in due course. That bug is wage stagnation, which is what happens when labour's ability to take their share of growth is politically hamstrung by a combination of globalization, technological change and the assault on unions. the bottom 60 per cent of US workers have not had a real wage increase (money wages less inflation) since 1979.

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third was a response to both of these factors that ended up compounding them – one of which you are most familiar with: leverage in the banking system.

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Wall Street bonuses in 2015, when the economy was still healing from the crash of 2008, totaled $28.5 billion. That's twice the total wages paid to every person in a minimum wage job in the US that year, which is around 3 million workers.

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When Fed Chairman Volcker increased interest rates in the early 1980s at the same time that finance was being liberalized it ushered in a period where real interest rates (the nominal rate minus inflation) stayed high while inflation fell fast. The result was that finance suddenly became fantastically profitable and finance makes its profits by providing credit.

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So, if you expect Capitalism v.3.0 to keep you in your job and maintain your standard of living you can borrow more against your future income. And even if your wages are not rising, with interest rates gradually falling, as they did by the 1990s from the very high real rates of the 1980s, you can still keep borrowing more. And borrow we did, with US and EU consumer credit almost doubling relative to disposable income from the 1980s to the mid-2000s. But if interest rates are falling and the banks make their money through loans, how can they still make money? The answer is simple: make even more loans, with the end result that the system as a whole becomes very highly leveraged. And in pursuit of ever higher profits banks themselves borrowed more to lend more, with the result that banks' equity fell to only a fraction of their assets (mainly mortgages), often by a factor of 30 to 1. Given this, when a bunch of mortgage companies and mortgage bond funds started failing in 2007, it didn't take long for it to develop into a full-blown crisis. The losses in these markets ate through the banks' relatively small equity base, rendering them insolvent. The system as a whole had a heart attack called the "credit-crunch".

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Version 1.0 crashed in the 1920s and staggered on until the 1930s, when it finally fell apart, with disastrous results. Version 2.0's crash provoked a lot of anger too, but the reboot was thorough, and it seemed stable until the inflationary bug began to play havoc. The problem with v.3.0's crash was that the world had become so financially interdependent and "globalized" that it was feared that the system as a whole might go down like in the 1930s. So rather than allow it to fail, we turned to the central bankers, the new guardians of the system, and told them to bail the whole thing out. Central bankers are a bit misunderstood. Even if they are independent, they ultimately take their orders from governments. 81

Eventually, the Fed, the Bank of England, the Bank of Japan, even the European Central Bank (eventually) bailed out the system, to the tune of around $17 trillion. And while such action saved the system, it was too late to avoid a global recession, the near bankrupting of Europe, and as a result of a series of major policy errors, unemployment in parts of Europe reaching levels and for durations not seen since the 1930s. Also, after the initial panic had been contained, it led to the tightening of government budgets around the world – so-called austerity policies – which made matters worse. But what also mattered in producing angrynomics this time around was that it was ordinary taxpayers who were paying the brunt of these costs through unemployment, reduced consumption, bankruptcy, and through the micro-stressors that these generated from drug-fueled deaths of despair to increasing suicides, taxpayers who in many instances were already heavily indebted and had seen their own incomes stagnate for years.23 They saw some of the richest members of their societies being bailed out as they were flung out of work. Labour was once again a commodity. Capital was protected – epitomized by the

US insurance company, AIG, paying out hundreds of millions in bonuses in 2009 after being bailed out by the taxpayer to the tune of $180 billion. The bottom 80 per cent were effectively paying for the mistakes of the top one per cent, while in the process bailing out the assets and incomes of the top 20 per cent – right across the world. It was, as I described it at the time, “the greatest bait-and-switch in human history” as the private sector liabilities of the banking system ended up being put on the public balance sheet of states as more public debt, which was then blamed by the political classes that had allowed all this to happen on a crisis of “overspending” by states that simply didn’t happen in the first place.

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And if we think in terms of the three bugs that together brought down v.3.0 – wage stagnation, bank leverage and inequality – we can see that these bugs in the system still remain. 82

Populism is the result of not resetting the system after a crash. Whether it’s the anger that gives us polarization in US politics, populism in German politics, or Brexit in British politics, the system should have been reset and it wasn’t. By failing to make fundamental changes to a system that has become a stress generator for the majority of those populations, we have created the conditions for another round of transformative angrynomics. We should not be surprised by this. As we have discussed in this dialogue, macro-systemic crashes always produce public anger. That anger can be righteous indignation that can be addressed, or a tribal energy that can be weaponized. We are in the midst of one such moment. But that is only the half of it. The other half is the micro side of angrynomics.

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Dialogue 4: Microangrynomics: private stressors, uncertainty and risk

We do not like changes in our environment. Or rather, change requires cognitive effort, and cognitive effort can be very stressful. Even when it comes to thinking itself, once we have settled on an agreed framework of beliefs – religious, political, scientific, or empirical – we can find it stressful to have that framework challenged or undermined by facts, events, or intellectual challenges, which is part of the reason why social media is so powerful, often unpleasantly aggressive, and self-segregation is so common.

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Babies and young children, encountering the world for the first time, learn and adapt quickly. Give them a phone and they experiment – including by smashing it. The older we are the more vested in learnt practice we become. The elderly often respond to change in our settled environments differently to the young.

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let's complement the macro focus of the third dialogue by dropping down to the micro to examine the more constant, micro-level drivers of uncertainty and insecurity that also generate, not just anger, but the preconditions that give rise to it. While many culprits can be identified, from the growth of the "gig economy" to the increasingly precarious nature of work, four factors in particular seem especially relevant to angrynomics.

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The first is the massive changes in the past 30 years which have occurred in product markets, or the different sectors of our economy, including consumer retail, technology, financial services and manufacturing. More intense competition caused by deregulation and rapid technological change translates into more stressful working environments. If businesses are constantly changing or under competitive threat, work is insecure and skills can quickly be made redundant. The Capitalism v.2.0 norm of predictable or stable career paths no longer holds. The second is the stressor to come – the much-heralded fourth industrial revolution where, according to some reports, up to 60 per cent of all jobs will become automated, and work as we know it will disappear. In the past, technological innovation was framed with optimism for huge improvements in standards of living, today the prevalent narrative seems one of fear and dystopia. The third micro-stressor is the fact that the populations of developed countries are getting older, which has both short-and long-term consequences for how economies function and how the old stress out the young. The final one – real or imagined – is immigration, a topic which has certainly been used by the media and parts of the political class to fuel tribal anger across much of the developed world. Beyond cynical electoral tactics and scare-mongering to create fictious enemies, it's worth trying to further understand why this has become such an issue and why now.

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This is relevant to private anger because in highly flexible labour markets, firms with razor-thin margins who are extremely price sensitive will have strong incentives not to raise wages, and their survival will require a strong propensity to hire and fire. That goes someway to explaining low wage growth. As more and more sectors are affected by these forces, many of those stresses will be passed on to workers. We see this in the rise of zero-hours contracts in the UK, the rise in minimum-wage jobs, and the growth of platform driven employment such as Task Rabbit and Amazon Mechanical Turk – the so-called "gig economy".

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whenever we transition from one technological order to another there is an increase in the dispersion of returns, who gets what and how much of it, the creation of new winners and losers, which affects capital as well as workers. So, the inequality we see in income and wealth has a mirror in the returns to capital itself. Today's "monopolists" – such as Facebook and Google – provide their products (social media and online search) for free , while introducing intense competition in the market for advertising. In the same way that Amazon, through scale economies, has destroyed much of the capital value of traditional retailers. Likewise, social media companies and the internet have substantially damaged the capital value of traditional media industries. The inequality evident in the distribution of the ownership of private wealth has been mirrored in the dispersion between winners and losers within capital. Recognizing these factors alters our usual interpretation of what's happened in the labour market and gives us an insight into what has been generating insecurity even before the latest crash. While v.3.0 established the trend of income going to capital rather than to labour, and the associated rise in financial leverage compounded this, there was also a huge dispersion of income occurring within capital as a whole that had strong second-order effects on labour. Rapid innovation, scale economies, and competitive markets push down one end of the distribution to be sure, but they also generate big winners at the other end.

July 31, 2020

What is true for capital has been true for labour. These dynamics are very clear in the sports industry, with the top clubs and stars taking the majority of the spoils. [95]

Take English football, which is today globally consumed. The number of Manchester United fans today lies in the millions and they can all pay to watch their team play (or steal the game via streaming – more tech disruption), whereas in the 1940s and 1950s, only 70,000 fans – the capacity at Old Trafford – were able to see their team play. Today, there is no such constraint. Given this, Manchester United is now fantastically profitable The result is a handful of really big winners with quasi-monopoly status at the top, and a very long tail with everyone else earning a fraction of their returns. If you take this as a model of what is happening in sectors everywhere, you can see that most people are going to be in that long tail with the low returns.

July 31, 2020

"Uberization" of the low end of the labour market hasn't actually happened, at least not in the way and to the extent that we expect. There were actually less people employed in so-called "contingent" work arrangements in 2017 than in 1995. [96]

So how then do we understand the self-reported data on how workers feel about their employment being insecure? Globalization, technological change, margin suppression, the reclassification of employees as contractors as firms face stiffer competition, and the intensification of competition all increase the uncertainty felt by workers, even in supposedly well-paid and secure employment. One does not have to be a member of the precariat to feel precarious. And feeling precarious as a permanent state is a giant insecurity generator.

July 31, 2020

Concerns over technology replacing jobs are as old as capitalism itself. And yet, despite all those concerns, from the followers of Ned Ludd (the original "Luddite") in the early nineteenth century who broke weaving machines to save hand-weavers' jobs, to the "Race Against the Machine" crowd at MIT today

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So where were we in the race? We needed numbers, and they were duly supplied. An early study from Oxford University estimated that almost half of all US jobs could be automated within ten years. The Bank of England later reduced that number to a third. The OECD then took it down to 9 per cent, as reality took hold.24

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once the hysteria died down, certain things started to become apparent.

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The first was that almost none of these technologies either exist or are deployable at scale. Self-driving cars and trucks are probably the most developed of these technologies, but they only exist in pilot schemes and are subject to innumerable legal and practical obstacles. Think about the following problem. How do you write a computer command in advance to tell the self-driving car to "always hit the car with fewer people in it" in order to minimize losses, and not get sued by the family of the fewer people in the car? Second, while some aspects of almost all jobs can be automated, even ours, not every part of a job can be decomposed. Consider that the fastest growing category of job by volume of jobs produced in the US today is elder care nurse/home help/ nursing assistant. Despite the efforts of many Japanese firms, there is no robot for taking care of Grandma – nor do most people want one. As we've discussed, the mere existence of a technology does not make it a success. Demand drives supply. Tech boosters and neo-Luddites assume the opposite. Third, while AI and ML are real and are different, as seen in the success of products such as Amazon's Alexa and Google's AlphaGo engine, it's not clear that their deployment at scale, which is still a long way off, is zero-sum against either workers or wages. Take AI and power grid optimization. An intelligent programme monitoring and optimizing flow across a carbon-smart grid could save huge amounts of energy, reduce costs for all firms and households, and help with climate change. At least some of those savings would show up in cheaper products and demand for new goods and services, not all of which can be done by robots.

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What we should really care about then are the returns to robot-makers. 100

we don't want a situation where ownership of critical technologies creates a tiny class of trillionaire investors who earn monopoly profits while the rest of us eat gruel

July 31, 2020

At a time where inequality and unfairness and the cry that "the system is rigged" had become hot-button political issues, it also seemed that the very people who got bailed out were about to make the biggest killing of all by permanently depriving the folks who didn't get rescued of their livelihoods by replacing them all with robots. 101

The tragedy of this coincidence is not just how it increases the uncertainty and anger of individuals, but how it links into the other stressors we want to talk about, which are aging and immigration. With the whole world getting older and with immigration being increasingly contested, unless you are able to embrace technological change and augment productivity, you are definitely about to get a lot more stressed out.

August 4, 2020

poverty among the young unemployed is four to five times the rate among pensioners in Greece, despite the cuts. Greece could have distributed to the young, but they chose to protect the old. This is, once again, an inter-generational transfer. 103

in 1950, 12.5 per cent of the population of Europe were of pension age Today, 25% the British government quietly privatized the UK's higher education system after the financial crisis, introducing tuition fees of approximately £9,000 a year. But if the state is no longer subsidizing higher education, where did all those savings go? "They went to the NHS." (To be verified)

August 4, 2020

The US Federal Reserve has some research that explains why some boomers ended up making off with almost all the cash. Firstly, they received a massive capital endowment legacy from the people who came before them. The parents of the boomers – the so-called "Greatest Generation" – paid very high taxes and invested massively in infrastructure and education in the immediate aftermath of the Second World War, which their kids, the boomers, got for free. Then the boomers themselves had fewer kids. Now if economic growth is determined primarily by technology and demography – the number of workers times the number of hours worked plus the amount of capital with which they work – the boomers arrived in a sweet spot where it was hard not to grow really fast. 104

But because the boomers had fewer kids, the demographic component of growth fell at the same time as they accumulated more and more assets. As such, the rate of capital formation, a core determinant of investment, is slowing as the dependency ratio – the ratio of workers to retirees – is shifting over time, which in turn slows future growth, while still compounding the massive amount of assets that those "top twenty" boomers have accumulated already.

August 4, 2020

Second, if the assets owned by that generation are highly concentrated, then what Piketty calls a new "patrimonial capitalism" arises that compounds the problem. If the top 20 per cent of boomers owns a huge chunk of everything, they can spend as much as they want in retirement, end-of-life care, and still pass on huge endowments to their children, which is unmeritocratic and keeps inequality structurally high. In short, aging itself becomes a regenerator of inequality across the generations at the same time as slowing growth overall.

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Firstly, as the Fed research points out, an economy of old people will grow more slowly. The US population is still comparatively young, but your average Italian and Japanese is 47 years old. It is wholly implausible that an elderly population will have a high rate of consumption growth . And without that you cannot expect these economies to grow much at all.

August 4, 2020

This then is our third stressor, after inequality in returns and technological disruption – what aging does to capitalist economies. An economy where the young have all the liabilities and a fraction of the old have all the assets is a deeply stressful one. Unless you are lucky by birth, your ability to form assets over the life cycle is seriously impaired while your taxes will be used to pay for the old who weren't in the top

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20 per cent of the income distribution. We see this already in a myriad of ways. In the US, boomers went to college basically for free, whereas millennials in the US have $1.7 trillion in student loans. The Trump tax cuts handed out, guess what, $1.5 trillion dollars to, primarily the rich, the vast majority of whom are old.

Given stagnant wages, high debts, increased competition, and a future where they are constantly told they will be replaced by technology, add in the unwillingness of boomer-age politicians to do much about climate change and is it any wonder that young people are especially disaffected from traditional political parties and institutions? The old do not stress the young deliberately. And 80 per cent of US boomers may be as poor as many millennials. But structurally, aging, plus low growth, plus low wages, plus debt, leads to a stressful place. One that cries out for a target, and increasingly that target seems to be immigration.

August 4, 2020

What a deeper analysis of Brexit revealed was that the real action was in the rate of change in a variable rather than in its absolute values. What Brexit voting showed us was that while it was true that the absolute level of income did not matter, what did matter was how income had shifted over time. 107

If an area saw a relative downward shift in income or house prices over a sustained period of time, and at the same time it experienced a rise in the number of migrants, then that area, especially if it was rural, was likely to vote to leave.27

August 4, 2020

Economics and immigration were then inseparable. If you think your environment is slowly getting worse over time, while immigrants are coming in, it's almost inevitable that this correlation – house prices down, foreigners up – will be turned into a causal statement 108 *that "I am getting worse off relatively because 'they' are coming in". And the more of an identifiable group "they" are, the easier it is to do this and capitalize upon it if you are a populist politician.*

Moreover, it is uncomfortable for people like us who support immigration to recognize it is a real stressor in its own right and not just as a tribal reaction and a political tactic. And that's because one's lived experience of immigration, therefore one's fear of it, varies across the income distribution.

August 4, 2020

Pro-immigration forces, tended to be wealthier and bore no downside costs from being pro-immigrant. Ignoring the asymmetric benefit and costs of migraton makes for an easier politics. It's easier to chastise the poor for their racism than to do anything about their poverty. But if we do want to do something about angrynomics, we need to take this stressor seriously too. 110

Indeed, researchers who have studied immigration for a long time have known forever that immigration has long been unpopular with the majority of the citizens of western nations.28

August 4, 2020

Quite simply, having handed all the levers of policy to central banks, they now appear to be saying, "we've done all we can, over to you". Now why is there a crisis in the regime of technocrats? Well, firstly, just as they pronounced their greatest achievement, the so-called "Great Moderation", which eliminated the business cycle, the wheels truly fell off the wagon and we had the most severe recession since the Great Depression. 114

But there also seems to be another problem that has come to the fore in the last three to four years, which is that interest rates don't seem to work anymore. Increasingly, the central banks are declaring their impotence. Whereas the entire governing ideology had been, "Don't worry, interest rates always work. Inflation is always and everywhere a monetary phenomenon", that now appears to be asymmetric. We may sometimes live in an inflationary world, such as the 1960s and 1970s, where inflation was accommodated with money supply growth, but when we get deflation, like in Japan, or in Europe, where inflation has been below target for a long period of time, the central banks seem ineffective. It appears that the hitherto policy tool of choice – interest rates – may be hardware-dependent .

August 6, 2020

Let me clarify that. Think of the crisis Kalecki predicted would happen in v.2.0 – a crisis of inflation. Monetary policy plays a big role in the reset of that system. 115

To kill inflation, the Fed, the Bundesbank, the Bank of England could all jack up interest rates very aggressively and, as long as you had political cover, that would kill inflation. Now the irony is that just as the 1970s stagflation was relatively unique in capitalist history, so were the relatively high real interest rates that prevailed at the end of this era when inflation was crushed. Given this, we start in the mid-1980s with very high levels of real interest rates, and very low levels of debt, which had been inflated away in the prior decade. From that point onwards, every time there was a cyclical problem there was plenty of room to cut interest rates. Central banks had huge monetary power to unleash with lower interest rates, which was their response to every recession in the subsequent 20 years. The result was 20 years of reasonable success. But every time interest rates are cut, we lose the scope to ease further, and the leverage starts to rise. Eventually you get to zero, or even slightly negative, and the game is up.

August 6, 2020

The 2008 financial crash and the monetary policy response has caused a deep crisis in this policy framework and we've discovered that we hadn't eliminated recessions after all. The tragedy is that we gave over all powers of macro policy-making to central banks to use interest rates to determine everything, and now we're saying, "no, we still have cycles and, oh, the single lever that we built our institutions and intellectual framework (interest rates) around no longer works". We need to get past this framework of governing the economy, and there are good reasons for doing so. 116

But there is an upside if this is the case. Kalecki's pessimism that it all has to end in an inflationary nightmare of class conflict doesn't appear to be the inevitable fate it once was. We now have large parts of the developed world where unemployment has reached 40-year lows and there is no inflation. In some parts of the world, such as central and eastern Europe, inflation is also proving to be relatively unaffected by high wage growth.

August 6, 2020

Something new has happened, which must prompt a fundamental rethink: we have a combination of close to full employment with interest rates so low that without new tools central banks are impotent. If you believe in the importance of preventing recessions, which we do, this has to be addressed. At the same time we have two problems which are crying out for direct, powerful and compelling policy responses: climate change and inequality. The centre of politics cannot hold. It has no ideas on either of these most pressing issues. 116

We need to address the deep-seated source of legitimate anger, which neoliberal ideology brushed under the carpet and has been brutally revealed in the post-crisis regime. We need to simultaneously unleash the productivity potential of technological change to cope with the challenges of demography and aging, while addressing extreme and corrupting inequality of wealth and income. We also need to revisit the labour market – can we keep the benefits of deregulation, but mitigate or eliminate the stressors? We agree that the supposed impotence of central banks in a world of low interest rates, is in fact a huge opportunity, both for a more effective monetary policy and for a smart expansion of the state's balance sheet. The unexpected post-crisis success of high employment, no inflation, and negative real interest rates in fact frees government up to make some critical interventions.

August 6, 2020

Dialogue 5: Calming the anger: from angrynomics to an economics that works for everyone

Explain what you mean, without the jargon, why secular stability is so important and why Keynesian v.2.0 solutions are now more rather than less possible.

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First, we have the facts. The policies of the 1980s and 1990s, of globalization, deregulation of product and labour markets, destroyed inflation. The reason many economists and politicians heralded "no more boom and bust" was therefore somewhat understandable. The experience of the 1970s taught them that inflation was the main source of recessions. And in many lower-income economies – like Turkey, India, Brazil and South Africa – inflation still is a major problem that critically prevents them from stopping recessions by easing fiscal and monetary policy. Of course, as is now obvious, although policy-makers were right to herald the control of inflation they forgot about the second source of major instability: the financial sector. Worse still, they ignored the risk that in response to great economic stability due to the control of inflation, the private sector would take on more financial risk, and eventually this would be hugely destabilizing. The severity of the crash was in part a reflection of success. Having relearnt the lessons of economic history, it is important to take stock. We need to maintain the heavy regulation of banks that has been hard won. But we don't want to re-regulate the rest of the private sector and bring back Kalecki's inflation, or there will be very costly trade-offs. While the costs of inflation are often exaggerated, high inflation economies are absolutely not beacons of stability and well-being. There is also a very strong policy reason for not bringing back inflation. In a heavily regulated and uncompetitive economy, such as prevailed in the 1970s, the idea that the government could follow the Keynesian recipe and print money in a recession to ease the pain was discredited. The result was always higher inflation and the unemployment rate rose. The result was stagflation , inflation and unemployment rising together. But having killed inflation on a structural level, these policies now work. You and I think they can be dramatically improved, but the evidence is overwhelming that in competitive, deregulated, developed economies, printing money to stave off deflation and prevent recessions is costless in terms of inflation.

August 7, 2020

advised Bernie Sanders and known as modern monetary theory (MMT). They argue for aggressive fiscal spending given structurally low inflation. 122

In the absence of inflation, it is true that we have a great deal more fiscal and monetary flexibility. MMT economists don't have a credible explanation of why inflation is dead. Hyman Minsky, their intellectual forefather, was completely wrong about inflation. Ironically, some of their policies might undermine price stability and end up limiting fiscal flexibility as a consequence. As you argued so forcefully in your book Austerity , and which has since become the consensus, aggressive fiscal and monetary stimulus should be used to counter recessions. But when the resources of the economy are fully employed, increasing the role of government requires resources to be taken from somewhere else. MMT often gives the impression there is a free lunch. In recessions, there is, but at times of full employment, there isn't. MMTers typically either talk as if this is not the case, or they revert to a Panglossian view of state intervention. Indeed, the MMT answer to inflation is to raise taxes. But for me that raises a question of politics.

August 7, 2020

But new research is showing us how it exacerbates health inequalities, restricts social mobility and undermines democracy.29 124

Taxes are one answer And as you mentioned a moment ago, it's worth remembering that in the US case, taxes were introduced to tame plutocracy at the end of the nineteenth century as much as they were brought in to raise revenue But we need to go beyond taxes that the super-rich and their paid-off politicians will fight against tooth and nail as the reaction to Senator Warren's wealth tax proposals in the 2020 US election campaign show clearly. By providing ownership of assets to those who have very few or even none we can insure against the change and risk that is built into our economy.

August 7, 2020

The second more technical problem is low interest rates. This is partly a legacy of v.3.0's success in controlling inflation, but it is also a consequence of demographic change and high private sector debt levels. The problem posed by close-to-zero interest rates is that central banks are impotent in the face of an economic shock that threatens recession. If interest rates are already so low, cutting interest rates and buying bonds is pointless. 125

sometimes bracketed under the unhelpful moniker of "helicopter money". This involves transferring cash to households to support consumption. But we have also outlined how a system of dual interest rates could be harnessed to turbocharge investment in sustainable initiatives.

August 7, 2020

A smart policy has to have three features. First, it has to make a big difference. Second, it should be simple and explainable. Third, it should cut across traditional political lines such that it garners and keeps support across electoral cycles. 126

If it has those three features, it can allow a new politics that calms the anger. It works, it's sellable, and there is no reason to oppose it.

August 7, 2020

The challenge we set ourselves is simple. We want everyone in the economy to have assets that generate income. Why should a big inheritance, or a trust fund, be the purview of the rich? [127](#)

In most of the developed world the top 20 per cent of the population owns more than 80 per cent The old idea was to use taxation. This fails two points of our three-point test. While it works, there is huge political opposition to tax raises and capital is global – it's too hard to catch. So, we need a different fix. So let's try national wealth funds.

August 7, 2020

Now Singapore, the Gulf States and Norway are an odd group of countries. Can we copy them? Do we want to? [127](#)

Yes, and no. Let me explain. The origin of these wealth funds is typically a very large balance of payments surplus (these countries export lots more than they import and have to bank the receipts or send them abroad to earn an income with them), which creates a financial dilemma for these states. A country that is an oil producer, or simply an extremely successful exporter like Singapore, can respond to a huge trade surplus either by allowing their exchange rate to strengthen – which could damage other parts of their economy – or it can use the foreign currency it receives to accumulate assets on behalf of the state, which is what these countries have done. Our twist is to do this without large balance of payments surpluses. We think we can do this by taking the upside of the financial crisis – there is one! – along with the help of global demographic trends and low inflation.

August 7, 2020

One of the things that has happened since the 2008 financial crisis is that the government is able to borrow at a negative real interest rate. That means that the private sector is actually paying the government to borrow. 128

The bizarre thing in this context, is that instead of governments capitalizing on this collapse in their cost of finance, we have seen the opposite – central banks handwringing over how low interest rates are, and governments adopting “austerity” policies. This is economic illiteracy. So let’s think this through. In Germany, France, and the UK, for example, the government can issue 20–30-year bonds at negative real interest rates. The US 10-year treasury bond is similarly on a negative yield, after inflation. The existence of negative real interest rates for the government is like discovering oil. It is a source of wealth. The surplus generated every 10–20 years in this way could be distributed in the form of individual trust funds to the 80 per cent of households who own the fewest assets. These trust funds could be drawn upon for specific earmarked uses, such as housing, education and healthcare, and business start-ups.

August 7, 2020

There are two distinct features. 129

Firstly, we are exploiting a unique feature of the world today: negative real interest rates. It is absurd that governments are not taking advantage of this. The only reason a very large national wealth fund can be created quickly is because the cost of debt to the government is so low. This is part of the solution to secular stagnation. The second distinct feature of what we are proposing is distributing ownership to those who don’t have assets. We want to create a national inheritance that goes beyond national insurance.

August 7, 2020

Why is the government able to borrow so cheaply, and why might it be uniquely positioned to exploit the excess return that it can generate from buying 131 *private-sector assets?*

There are two forces at work that have created this unforeseen opportunity. The first are the demographic trends that we have discussed. The second is an unintended consequence of a world of very low inflation – government bonds have become insurance policies for the private sector. A lot of very risk averse old people and their pension managers are buying government bonds with very low real returns because they want certainty – even if they will lose money after inflation.

August 7, 2020

l "helicopter drops" in Foreign Affairs in 2014, and we've talked about it for as long as we've known each other. It has become much more broadly accepted as an idea among the mainstream economics profession and even among some central banks. The simple version is that we give central banks the power to transfer money directly to households. 138

Think of the UK where a large share of the mortgage market was based on variable-rate mortgages, or adjustable-rate mortgages as the Americans call them. As soon as the Bank of England cuts interest rates for many households their disposable income immediately goes up. They are handing you money. It's just done in a non-transparent way and it can only work when you have high interest rates. But that no longer works anymore because we have reached the point where the interest rates are close to zero. Banks are saying that rates are now so low that they can't pass on cuts to households, while borrowers are saying "have you seen how high our debts are?" We need to rethink all of this. There is a lot of confusion, not least among economists about so-called helicopter drops. The name hasn't helped. Many get hung up on how to define it, rather than how to do it. The Czech paper is refreshingly to the point. They have a very clear name for it, direct support for consumption . That's what we are advocating. We don't really care what it's called, but let's give central banks the power to transfer cash to households. And if central banks already have the power – which arguably the European Central Bank does – all they need to do is clearly explain how they will use it next time a recession strikes.

August 7, 2020

By definition, at that point, the recession is over and then you can raise interest rates and stop handing out the cash. And it will be cheaper than QE. Given where we are structurally with interest rates, I believe that this is an idea that one nation state will eventually adopt, perhaps it will be the Czech Republic, and it will work. There will be a positive contagion of ideas and we will all wonder why we didn't do it sooner. 139

You have a simple problem, which is that people aren't spending enough. You can jack up asset prices to try and make them feel better, you can buy assets way above their true value from a tiny minority of the population and hope that spills over, or you could just give everyone £1,000 or $1,000, and do it every quarter, until we're at full employment and inflation hits target.

August 7, 2020

Dual interest rates would allow central banks to separately target the rate of interest savers receive on their deposits and the rate borrowers pay on their loans. 141

The best way to explain the power of dual interest rates is to contrast it with the current policies of negative interest rates. The problem with negative interest rates is that the effect of lower rates nets to zero – as you said earlier. So yes, if interest rates go negative it is – in theory at least – great for borrowers (assuming banks pass on the negative rates), but terrible for savers. This has led some economists to suggest that there is a "reversal rate", a level of interest rates where further reductions become a restriction on spending and no longer act as a stimulus. It is highly likely that we have already reached this point. Negative interest rates cause huge problems for banks, which rather obviously makes them less likely to lend. Similarly, it makes savers spend less and save more. By contrast, dual interest rates are win-win. If the central bank leaves deposit rates at zero, or say at 0.5 per cent, and this determines the money market rate which is the benchmark for deposits, savers are at least not being punished or are receiving a modest income. This is a huge improvement on the current negative "tax" on deposits. At the same time, to improve the lot of borrowers, the central bank lends to the banks at a steeply negative interest rate, conditional on the banks making new loans for productive investments by the private sector.

August 7, 2020

Postscript: angrynomics in a pandemic

We saw the first examples of targeted lending being deployed by the Bank of England and the ECB. These organizations recognize that during the pandemic large, well-capitalized businesses will likely have reasonable access to funding through public markets and banking relationships, but that SMEs would face the most difficulty. They also provide large shares of employment. In order to mitigate against these effects both the ECB and the Bank of England redeployed existing direct lending schemes targeting SMEs. 155

In the ECB's case the interest rate on this round of TLTROs (targeted longer-term refinancing operations, which incentivize banks to lend by varying the rate at which they can borrow, depending on the area of the economy they are loaning to) has been made available at a rate below that at which the ECB remunerates bank deposits (reserves). This is the first case we are aware of where a central bank has explicitly introduced dual interest rates. The power of this remains under-appreciated. For example, if the ECB made 12-month loans to banks and required banks to extend these to SMEs, small firms would actually receive income payments. It is entirely reasonable to adjust the targets of such lending and dual interest rates depending on the nature of the shock. In more normal times we hope these tools are redeployed towards sustainable investments.

August 7, 2020

The institutional divergences we have discussed, particularly between the US and Europe, have again come to the fore. Congress does have an ability to fall in line and deliver huge fiscal easing when it is needed, albeit with all the special interests looked after. But at least it gets there. 156

Fiscal policy in Europe has again been incoherent and disorganized. At least the EU Commission has recommended a suspension of the absurdly restrictive fiscal rules, which was subsequently endorsed by the council of ministers. The Germans have even suspended their quasi-mythic budgetary “black zero” rule in order to respond to the pandemic. So there is progress. At the ECB, after an initial faux pas at President Lagarde’s first press conference triggered a minor panic in European government bond markets, the ECB stepped up and collapsed eurozone sovereign spreads with an “unlimited” commitment to quantitative easing (again). This combination of low yields underpinned by the central bank and a suspension of the fiscal rules, means individual countries across Europe have lesser fiscal constraints on their ability to borrow, which is still more constrained for some (Italy) rather than others (Germany). Hence the ECB’s commitment to close spreads really matters if Italy is to respond effectively. Mutualized debt, a genuine new Coronabond, still seems beyond the pale at the time of writing, but the austerity snake oil does seem to have been finally thrown out – for the moment. The great danger for Europe is to do “whatever it takes” during the crisis and then reach for the austerity lever as soon as it’s over. That would be a re-run of the 2010–14 years, which crushed growth throughout Europe. Southern European unemployment still has not recovered from the last crisis. The pandemic will ensure it balloons to as much as 30 per cent. If Europe decides to squeeze budgets from that point, the anger generated will be uncontainable.

August 7, 2020

Another weakness is how to organize state support for the corporate sector. 157

We have proposed to policy-makers that rather than bailing-out bad management, a preemptive set of equity injections into strong companies within affected markets makes most sense. Moreover, if priced correctly and structured well, these assets should provide the seed capital for the debt-funded National Wealth Fund (NWF) we have proposed in this book. At the same time, by placing these assets in an NWF, with an independent board, a clear code of practice and rules prioritizing environmental and social governance, funds can be disbursed immediately, with conditionality and improvements in governance introduced on an ongoing basis.

August 7, 2020