LABOUR LEFT
Briefing

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FROZEN IN THE HEADLIGHTS OF RECESSION

The G20 summit in London, on April 2nd, looms ahead of the Government. As finance ministers from around the world trail in and out of the UK for 'preparatory discussions', the only clear consensus is that something needs to be done. Beyond this, countries either don't agree or don't have a clue.

Some common ground is easy in principle – clean up the banking system, get tough on hedge funds, crackdown on tax havens. In practice, there's still no clarity about a political will to do so decisively. The World Bank, IMF and United Nations could, de facto, make all tax havens illegal by placing them outside the banking system; refusing to trade with or through such banks or governments and refusing to honour or recognise debts owed to them.

Hedge funds could have a "Tobin tax" placed on all derivatives transactions and those lending out shares for "short selling" could have a 50% tax rate on any fees they earned. The mechanisms for reigning in the cowboys are not difficult to identify. The difficulty is global leaders have been convinced that nothing should stand in the way of the road ahead.

So it is that national leaders start to look for other intervention measures. The trouble is that they're still being advised by the same people who took them into the mess in the first place. The economist J.K.Galbraith once described this as 'horse and sparrow' philosophy: It is the idea of a farmer, wanting to promote bird life and biodiversity around his farm, who increases the amount of grain he feeds to his horses on the presumption that some grain will eventually go straight through the horse and feed the sparrows on the ground. The heresy is to point out that there are easier ways of feeding sparrows.

Throwing money into the banking system has the same effect. Some money will eventually come out at the other end, but the process is essentially about feeding the horse. In this case the horse – the bankers – is being less than honest about the state of its digestive system. Much of the industry is still in partial denial about the extent of its toxic debts. Successive appearances before the Treasury Select Committee seem to confirm what MPs discover about individual constituents in the middle of a crisis; you never get told the whole story when it's first presented to you.

It usually takes until the third meeting before critically important, but omitted details come to the surface. "Oh, that £3 billion pounds of debt! We weren't sure you were interested in that." Such details will continue to surface for the foreseeable future and the preoccupations of the banks will be to restock their own coffers rather than to refinance the economy.

It doesn't get any better with the idea of "quantitative easing". The problem isn't in the Government printing money but in the decision to buy gilts rather than put this into direct public investment. The Bank of England website describes the process whereby institutions sell their gilts to the Bank as a way of directly boosting money circulating in the economy. The trouble is that large amounts of these gilts are held by foreign investors and the money is unlikely to be put back into the UK economy. The institutions holding such gilts will almost certainly switch the Government money into overseas debt or other top quality bonds. As far as the economy is concerned, quantitative easing becomes indistinguishable from executive relief. I have no difficulty about the Government wanting to put two tranches of £75bn worth of spending back into the economy. I just want us to be spending it on the sparrows and not the horse.

If we want to address the housing situation, give money to local authorities to buy, build or improve properties. The money will go directly into retaining jobs in the construction industry. It will slow the collapse in house prices and reverse the slide into homelessness. More than this, it would deliver the long awaited boost for a shift into low carbon renewable energy technologies that need incorporating into our basic concepts of housing.

Internationally, we need to be heading in the same direction. Rather than persuading countries to extend the finances of the IMF, we should be signing up to a 1% transfer of GDP from the rich to the poor. The whole history of IMF intervention has been to force developing countries to cut social expenditure, deregulate markets and privatise their public assets. As a consequence, many of the poorest nations on the planet are more heavily indebted than ever. Greater IMF / World Bank involvement will almost certainly be in the interests of rich corporations rather than poor communities. The United Nations may be a better channel for putting the public into the driving seat of economic recovery; directing resources into the common ownership of economic development rather than its privatisation.

National leaders may bleat on about their fear of protectionism. The reality, however, is that every nation – rich and poor alike – now knows that the future of its energy security, food security, water security and social infrastructure will not be secured by neo-liberal greed. As ever, the more we hold the future in common, the more secure we will be.