Institute for Innovation and Public Purpose

The self-financing state

An institutional analysis of government expenditure, revenue collection and debt issuance operations in the United Kingdom

Josh Ryan-Collins and Andrew Berkeley
(co-authors Asker Voldsgaard, Neil Wilson and Richard Tye)

UK MMT Conference, Leeds, 16th July 2024

Context

- Post 2007-08 GFC, growing interest in limits on fiscal policy, monetary-fiscal policy interaction and CB independence.
- Detailed academic research on U.S. public finance institutional mechanics by MMT scholars (Bell 2000, Tymoigne 2014; Fullweiler 2017).
- Very little on UK mechanics (c.f. Hills and Fellowes 1932, Ryan-Collins et al 2012; Pantelopoulos and Watts 2021)

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The self-financing state:
An institutional analysis of government expenditure, revenue collection and debt issuance operations in the United Kingdom

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WORKING PAPER
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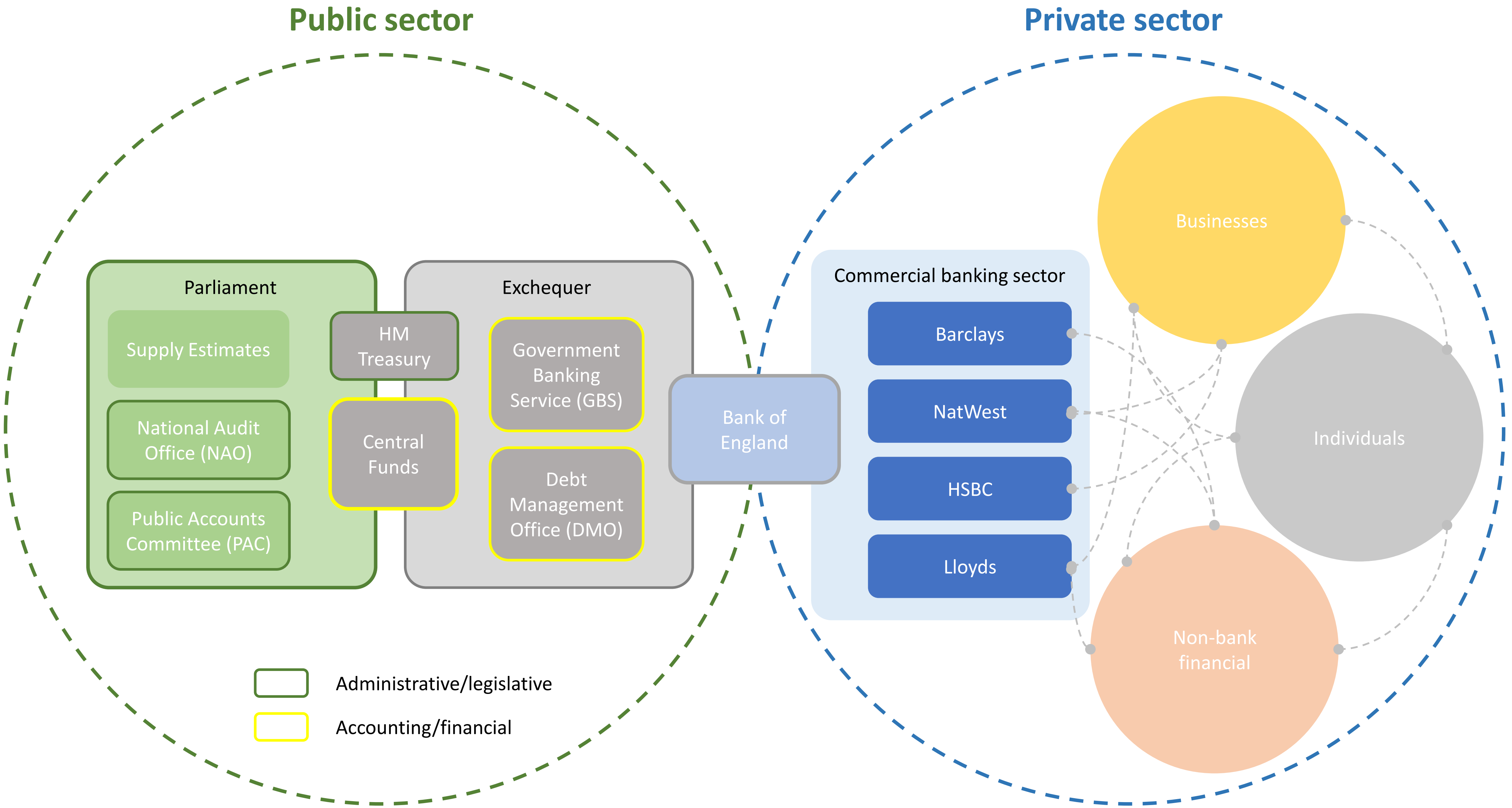
Methodology

- Extensive review of current and historical primary legislation, official publications from: HM Treasury, the Debt Management Office (DMO), Her Majesty's Revenue & Customs (HMRC) and the BoE
- FOI requests
- Historical literature
- https://gimms.org.uk/2021/02/21/an-accounting-model-of-the-uk-exchequer/

Literature on monetary–fiscal coordination and spending mechanics

- Post-GFC/Covid-19 – occasional monetary-fiscal coordination may be justified at times of crisis (Bartsch et al. 2020; Blanchard et al. 2020)
- MMT view: consolidation of CB & govt. balance sheets as '*theoretical simplification that makes sense once one understands the logic of the interrelations between the central bank and the Treasury, and between the government and non-government*' (Tymoigne and Wray 2015, 29).
- Some PK economists reject this view (Fiebiger 2012; Lavoie 2013; Palley 2015). E.g. Palley: consolidation hypothesis dependent on the willingness of CB to 'provide the government with the initial money balances to finance its spending.' (Palley 2015: 4-5) Governments can 'in principle, finance spending by printing money' but this 'requires a particular institutional arrangement between the fiscal authority and the central bank' (ibid).
- Literature emphasizes how monetary institutions have bypassed self-imposed constraints on CB financing of govt. spending, e.g. Tymoigne (2014, 652-656; 2016: 1323-24)
- Pantelopoulous and Watts (2021) argue BoE and HMT 'finessed' around FFR which requires all fiscal deficits to be matched by bond sales using HMT's Ways & Means overdraft account at the BoE and provide historical examples (e.g. during war).


Public sector
Private sector
Parliament
Supply Estimates
National Audit Office (NAO)
Public Accounts Committee (PAC)
HM Treasury
Central Funds
Exchequer
Government Banking Service (GBS)
Debt Management Office (DMO)
Bank of England
Commercial banking sector
Barclays
NatWest
HSBC
Lloyds
Businesses
Individuals
Non-bank financial
Administrative/legislative
Accounting/financial

Central Funds

1862
Contingencies Fund
Emergency spending

1787
Consolidated Fund
Spending and taxing

1968
National Loans Fund
Lending and borrowing

1932
Exchange Equalisation Account
Official Reserves

1998
Debt Management Account
Market trading

The legal and accounting structures:

- from which all expenditure arises,
- from which all government securities are issued, and
- to which all taxation and other receipts are surrendered

19 Liabilities and assets of National Loans Fund.

(1) The excess for the time being of the liabilities of the National Loans Fund over its assets shall be a liability of the Consolidated Fund to the National Loans Fund.

(2) Sums paid under section 15 of this Act shall be deemed for all purposes to be in satisfaction of the payment of interest in respect of the liability of the Consolidated Fund to the National Loans Fund imposed by subsection (1) above.

F65 (3) . . . .

(4) For the purposes of this section the liabilities [F66 and assets of the National Loans Fund shall be as determined by the Treasury.]

National Loans Act 1968

11 (1) Any excess for the time being of the liabilities of the Debt Management Account over its assets shall be a liability of the National Loans Fund to the Account.

[F133 (1A) The Treasury may pay from the National Loans Fund to the Debt Management Account an amount representing all or any of any excess mentioned in sub-paragraph (1) above, and if they do the liability there mentioned shall be extinguished or reduced accordingly.]

(2) Any excess for the time being of the assets of the Debt Management Account over its liabilities shall be a liability of the Account to the National Loans Fund.

(3) The Treasury may pay from the Debt Management Account to the National Loans Fund an amount representing all or any of any excess mentioned in subparagraph (2) above, and if they do the liability there mentioned shall be extinguished or reduced accordingly.

[F134 (4) If any amount paid under sub-paragraph (1A) or (3) above should not have been paid, the Treasury may repay the whole or any part of it.]

National Loans Act 1968 Schedule 5A

2 The Account's funds.

(1) There shall be issued to the Account out of the National Loans Fund, at such times and in such manner as the Treasury may direct, such sums as the Treasury may determine.

(2) Sums issued to the Account under subsection (1) above or under section 7(1) of the M1 National Loans Act 1968 (which corresponded to subsection (1) above) and which are for the time being outstanding shall constitute a liability of the Account to the National Loans Fund.

(3) If at any time the Treasury are of opinion that the assets in sterling of the Account are for the time being in excess of what is required for the purposes of the Account, the Treasury may direct that the excess shall be paid into the National Loans Fund.

Exchange Equalisation Account Act 1979

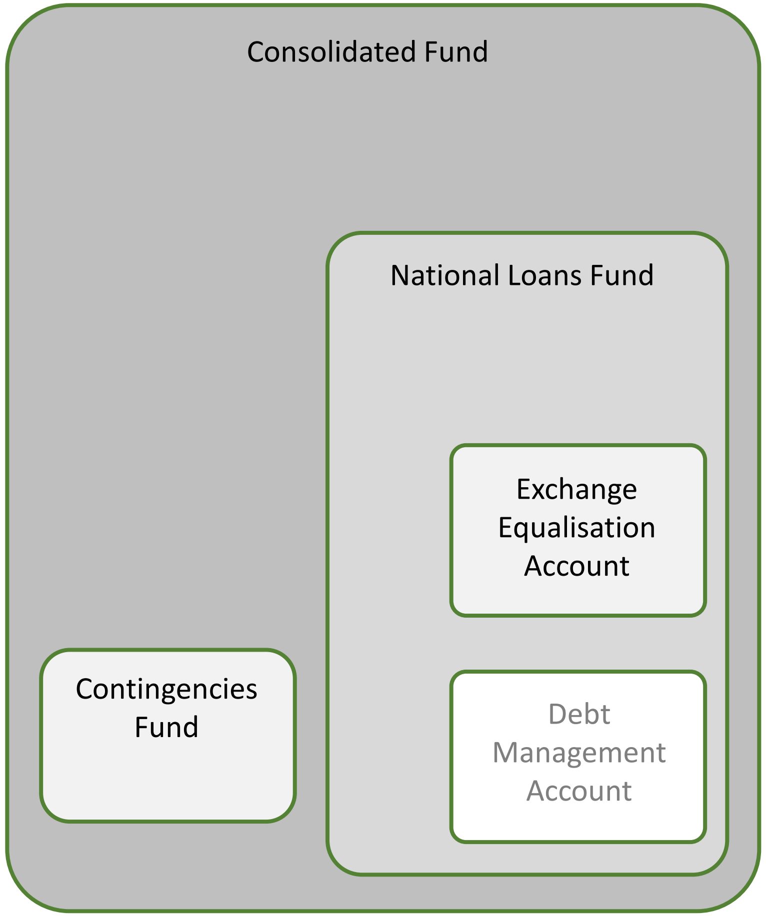
1 Maximum capital of Contingencies Fund.

(1) The capital of the Contingencies Fund, including the permanent capital of £1½ million, shall not at any time exceed an amount equal to [F1 50 per cent] of the authorised supply expenditure for the year ending on the previous 31st March; and accordingly the sums issued out of the Consolidated Fund under section 3(1) of the M1 Miscellaneous Financial Provisions Act 1946 (temporary increase of Contingencies Fund) and remaining unrepaid to the Consolidated Fund at any time shall not exceed a sum which, when added to the said permanent capital, equals the limit then imposed by this section.

(2) In this section "authorised supply expenditure" means, in relation to any year ending on 31st March, the total of the sums which Acts passed before the end of that year have authorised the Treasury to issue out of the Consolidated Fund and apply towards making good the supply granted to Her Majesty for the service of that year.

Contingencies Fund Act 1974

Central Funds



Exchequer and Audit Departments Act 1866

1866 CHAPTER 39 29 and 30 Vict

An Act to consolidate the Duties of the Exchequer and Audit Departments, to regulate the Receipt, Custody, and Issue of Public Moneys, and to provide for the Audit of the Accounts thereof.

[28th June 1866]

All receipts paid into Consolidated Fund

Payments only with authorisation of Parliament

Two types of authorisation:

1. Standing Services = permanently authorised
2. Supply Services = annually authorised

Once authorised and verified, HM Treasury may order Bank of England to issues to Principal Accountants

10 Gross revenues to be paid to Exchequer, and daily returns to be sent to Comptroller and Auditor General.

[F1]...; [[F2]All public moneys] payable to the Exchequer shall be paid [[F3]into the Consolidated Fund]; and accounts of all such payments shall be rendered to the Comptroller and Auditor General daily, in such form as the Treasury may prescribe: [F4]....

11 Moneys to form one fund in the books of the Banks of England and Ireland applicable to Exchequer issues.

All moneys paid into the Bank of England [F1]. . . on account of the Exchequer shall be considered by the Governor and Company [[F2]of the said Bank as forming one general fund in its books]; and all orders directed by the Treasury [[F2]to the Bank] for issues out of credits to be granted by the Comptroller and Auditor General, as herein-after provided for the public service, shall be satisfied out of such general fund; and with a view to economize the public balances, the Treasury shall restrict the sums to be issued or transferred from time to time to the credit of accounts of principal accountants [[F2]at the Bank], as herein-after provided, to such total sums as they may consider necessary for conducting the current payments for the public service intrusted to such principal accountants; and the said principal accountants may consider the sums so transferred to their accounts as constituting part of their general drawing balance, applicable to the payment of all the services for which they are accountable; but such sums shall be carried in the books of such accountants to the credit of the respective services for which the same may be issued, as specified in such orders: Provided always, that this enactment shall not be construed to empower the Treasury or any authority to direct the payment, by any such principal accountant, of expenditure not sanctioned by any Act whereby services are or may be charged on the Consolidated Fund, or by a vote of the House of Commons, or by an Act for the appropriation of the supplies annually granted by Parliament.

[[F1]15 Payment out of Consolidated Fund: sums authorised by Parliament.

(1) This section applies in respect of sums which Parliament has authorised, by Act or resolution of the House of Commons, to be issued out of the Consolidated Fund.

(2) The Comptroller and Auditor General shall, on receipt of a requisition from the Treasury, grant the Treasury a credit on the Exchequer account at the Bank of England (or on its growing balance).

(3) Where a credit has been granted under subsection (2) issues shall be made to principal accountants from time to time on orders given to the Bank by the Treasury.

(4) An order under subsection (3) shall specify the service on account of which the issue is authorised.

(5) The Bank shall send to the Comptroller and Auditor General a daily account of all issues made from the Exchequer account in pursuance of this section.

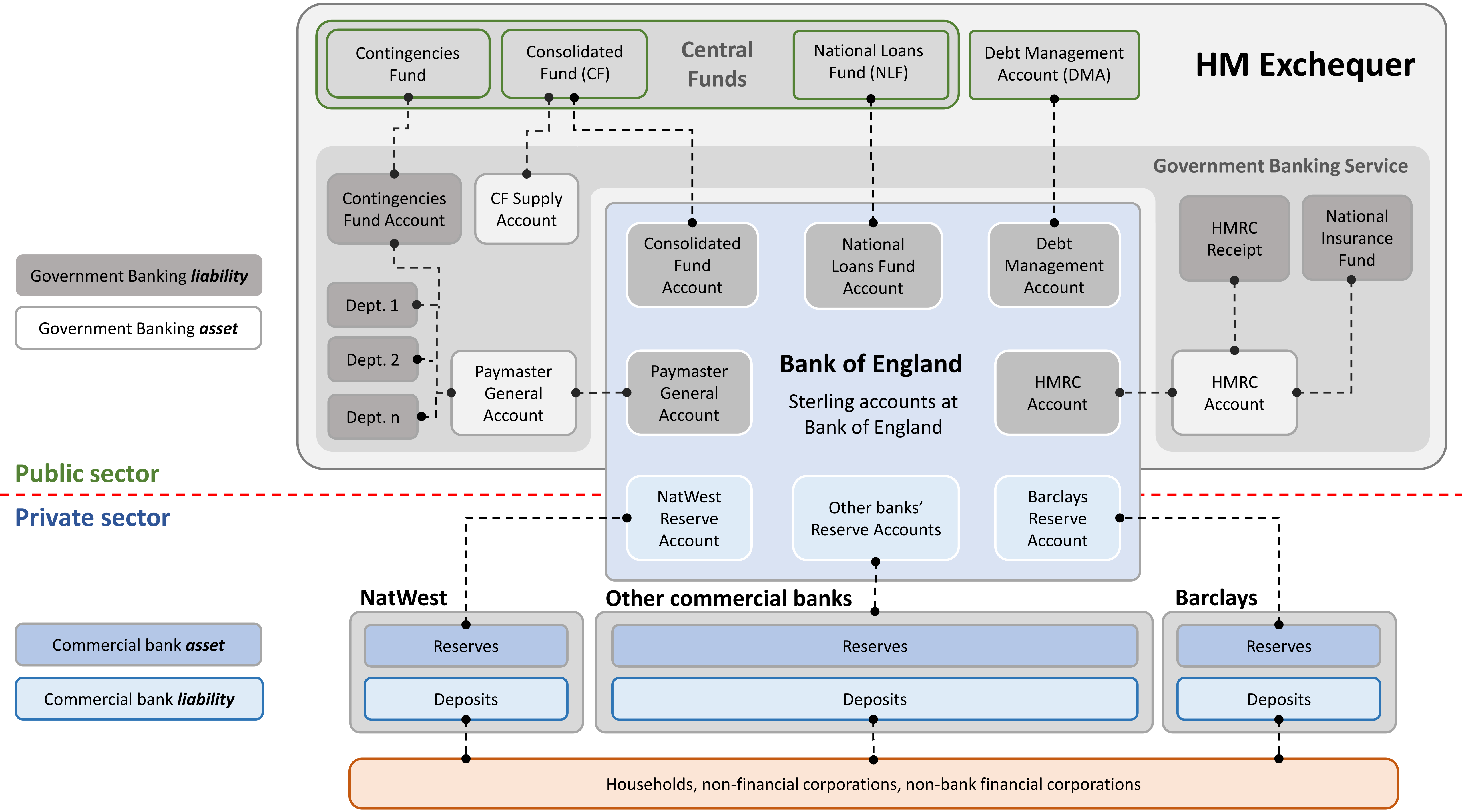
(6) The Treasury shall send to the Comptroller and Auditor General a daily statement specifying the service on account of which each issue was made from the Exchequer account in pursuance of this section.]

Finance Act 1954

34 Amendments as to Sinking Funds, and as to manner of accounting for issues out of Consolidated Fund.

(1), (2) F1

(3) Any sum charged by any Act, whenever passed, on the Consolidated Fund shall be charged also on the growing produce of the Fund F2...



HM Exchequer
Central Funds
Contingencies Fund
Consolidated Fund (CF)
National Loans Fund (NLF)
Debt Management Account (DMA)
Government Banking Service
Contingencies Fund Account
CF Supply Account
Dept. 1
Dept. 2
Dept. n
Paymaster General Account
Bank of England
Sterling accounts at Bank of England
Consolidated Fund Account
National Loans Fund Account
Debt Management Account
Paymaster General Account
HMRC Account
NatWest Reserve Account
Other banks' Reserve Accounts
Barclays Reserve Account
HMRC Receipt
National Insurance Fund
HMRC Account
Government Banking liability
Government Banking asset
Public sector
Private sector
NatWest
Other commercial banks
Barclays
Reserves
Deposits
Reserves
Deposits
Reserves
Deposits
Commercial bank asset
Commercial bank liability
Households, non-financial corporations, non-bank financial corporations

Government expenditure

Monthly requisition

Exchequer balance sheet expansion with parliamentary allocation as departmental “deposit” assets matched by claim on the Consolidated Fund

Daily cash drawdown

GBS “cashes in” some Exchequer credits for a balance of central bank money via E&AD Act 1866 (s13 or s15)

Bank of England balance sheet expands

Department spends

Deposits adjusted

Reserves transferred to recipient bank

GBS balance sheet contracts

(GBS commercial partner, NatWest, unaffected. Not shown)

Outcome

Recipient holds net financial asset

Consolidated Fund holds net liability, including to Bank of England

GBS still holds some cash at Bank of England

		1. Monthly Treasury Requisition	2. Daily Cash Drawdown	3. Deptmental Spending	Balance	
Consolidated Fund (CF)	Assets					Increased liabilities
	Liabilities	+100 GBS	-15 GBS +15 BoE		85 GBS 15 BoE	
Government Banking Service (GBS)	Assets	+100 CF	-15 CF +15 BoE	-10 BoE	85 CF 5 BoE	
	Liabilities	+100 Dept		-10 Dept	90 Dept	
Department (Dept)	Assets	+100 GBS		-10 GBS	90 GBS	Increased assets
	Liabilities					
Bank of England (BoE)	Assets		+15 CF		15 CF	
	Liabilities		+15 GBS	-10 GBS +10 Comm	5 GBS 10 Comm	
Commercial Bank (Comm)	Assets			+10 BoE	10 BoE	
	Liabilities			+10 Payee	10 Payee	
Payee	Assets			+10 Comm	10 Comm	Increased assets
	Liabilities					

Payment to HMRC sort code (managed by Barclays)

Straightforward bank transfer from taxpayer's bank to Barclays

Taxpayer's bank's balance sheet contracts

Barclays balance sheet expands

GBS now holds deposit at Barclays

Transfer to HMRC Exchequer account

GBS deposit at Barclays transferred into HMRC account at Bank of England several times per day

Barclays balance sheet contracts

HMRC holds central bank money

End of day sweep to Consolidated Fund

Central bank money transferred from HMRC to Consolidated Fund at close of business

Outcome

Taxpayer has reduced assets

Consolidated Fund has reduced liabilities (generally) to Bank of England

Receipt of tax payment

		1. Payment to Sort Code 08 32 00 (Indirect Taxes)	2. Transfer to HMRC General Account	3. HM Treasury sweep to Consolidated Fund	Balance	
Consolidated Fund (CF)	Assets					Decreased liabilities
	Liabilities			-5 BoE	-5 BoE	
Government Banking Service (GBS)	Assets	+5 Barc	-5 Barc			
	Liabilities	+5 HMRC	-5 HMRC			
HM Revenue & Customs (HMRC)	Assets	+5 GBS	-5 GBS +5 BoE	-5 BoE		
	Liabilities					
Bank of England (BoE)	Assets			-5 CF	-5 CF	
	Liabilities	-5 Comm +5 Barc	-5 Barc +5 HMRC	-5 HMRC	-5 Comm	
Barclays (Barc)	Assets	+5 BoE	-5 BoE			
	Liabilities	+5 GBS	-5 GBS			
Commercial Bank (Comm)	Assets	-5 BoE			-5 BoE	
	Liabilities	-5 TP			-5 TP	
Taxpayer (TP)	Assets	-5 Comm			-5 Comm	Decreased assets
	Liabilities					

Commissioners for Revenue and Customs Act 2005

44 Payment into Consolidated Fund

(1) The Commissioners shall pay money received in the exercise of their functions into the Consolidated Fund—

(a) at such times and in such manner as the Treasury directs,

(b) with the exception of receipts specified in subsection (2), and

(c) after deduction of the disbursements specified in subsection (3).

Daily consolidation process mandated by National Loans Act 1968

18 **Daily balancing of Consolidated Fund**

(1) At the commencement of business on 1st April 1968 the Treasury shall pay out of the Consolidated Fund into the National Loans Fund any balance in the Consolidated Fund at the close of business on the last previous working day.

(2) On any day (from 1st April 1968 onwards) on which payments into the Consolidated Fund exceed payments out of the Consolidated Fund the Treasury shall pay out of the Consolidated Fund into the National Loans Fund sums equal to that excess.

(3) On any day (from 1st April 1968 onwards) on which payments out of the Consolidated Fund exceed payments into the Consolidated Fund the Treasury shall pay out of the National Loans Fund into the Consolidated Fund sums equal to that excess.

(4) All payments made on any day (from 1st April 1968 onwards) into the Consolidated Fund by way of payment into the Exchequer Account at the Belfast branch of the Bank of Ireland shall be paid at the close of business on that day into the Exchequer Account at the Bank of England.

(5) Notwithstanding the provisions of section 13 of the [1866 c. 39.] Exchequer and Audit Departments Act 1866 and of section 1(3) of this Act, payments under this section shall be effected without the granting of credits by the Comptroller and Auditor General.

Consolidated Fund starts every day with a zero balance at the Bank of England due to transfer to/from National Loans Fund every night.

Any other remaining sterling balances within Exchequer also loaned to National Loans Fund in overnight "sweep".

Result is the *Net Exchequer Position*, a sterling balance held at the Bank of England by the National Loans Fund

Daily accounting cycle

Deficit scenario, spending exceeds tax receipts

		1. Balance from Spending (Table 1)	2. Balance from Taxation (Table 2)	3. Transfer GBS Cash Balance to NLF	4. Transfer CF Cash Balance to NLF	Balance	
Consolidated Fund (CF)	Assets						Increased liabilities
	Liabilities	85 GBS 15 BoE	-5 BoE		+10 NLF -10 BoE	85 GBS 10 NLF	
National Loans Fund (NLF)	Assets			+5 BoE	-5 BoE +10 CF	10 CF	
	Liabilities			+5 GBS	+5 BoE	5 GBS 5 BoE	Net Exchequer Position
Government Banking Service (GBS)	Assets	85 CF 5 BoE		+5 NLF -5 BoE		85 CF 5 NLF	
	Liabilities	90 Dept				90 Dept	
Department (Dept)	Assets	90 GBS				90 GBS	Increased assets
	Liabilities						
Bank of England (BoE)	Assets	15 CF	-5 CF		+5 NLF -10 CF	5 NLF	
	Liabilities	5 GBS 10 Comm	-5 Comm	+5 NLF -5 GBS	-5 GBS	5 Comm	
Commercial Bank (Comm)	Assets	10 BoE	-5 BoE			5 BoE	
	Liabilities	10 Dep	-5 Dep			5 Dep	
Depositors (Dep)	Assets	10 Comm	-5 Comm			5 Comm	Increased assets
	Liabilities						

The Ways and Means account

HM Treasury has a permanent "overdraft" facility at the Bank of England

Dates back to ~1866 as legal requirement to issue Exchequer bills to the Bank of England as security for quarterly deficits replaced by "book debt"

Formal government debt security backing Bank of England note issuance, but non-transferable.

Liability of the National Loans Fund since 1968

Exempted from constraints on central bank lending (Maastricht and Lisbon treaties, UK law)

Used routinely through 20th century as a daily monetary policy balancing item but policy to minimise use today

<u>The Ways and Means account represents the *default* consequence of the expenditure provisions in the E&AD Act 1866</u>

Bank of England Annual Report and Accounts Issue Department 2022-2023

3: Securities of, or guaranteed by, the British Government

	2023 (£mn)	2022 (£mn)
British Government Stocks	1,166	1,328
Ways and Means advance to the National Loans Fund	370	370
	1,536	**1,698**

The Ways and Means advance earns interest at Bank Rate.

The European Union Budget, and Economic and Monetary Policy (EU Exit) Regulations 2019

Bank of England

6.—(1) The Bank of England must not —

(a) provide overdraft facilities or any other type of credit facility in favour of central government, regional, local or other public authorities, other bodies governed by public law, or public undertakings of the United Kingdom; or

(b) purchase debt instruments directly from them.

(2) Paragraph (1) shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by the Bank of England, shall be given the same treatment by the Bank of England as private credit institutions.

(3) Nothing in paragraph (1) prevents the Bank of England from acting in a way that would not have contravened Article 123 of the Treaty on the Functioning of the European Union as that Article applied in the United Kingdom immediately before exit day, and in particular from —

(a) pursuing its monetary policy objectives within the meaning of section 11 of the Bank of England Act 1998(1);

(b) purchasing debt instruments issued by any person listed in paragraph (1) on a secondary market;

(c) maintaining the Government's "ways and means" facility; or

(d) acting as a fiscal agent for the persons listed in paragraph (1);

consistently with that Article.

Cash management

Following central bank independence for monetary policy (1998), since 2000 practice is for the DMO to offset the Net Exchequer Position by undertaking daily market trading

- The Debt Management Account (DMA) maintains a large, positive balance which is expected to remain stable
- Net balance on National Loans Fund account transferred to DMA each night
- DMA balance returned to target by repo trading collateralised with government securities

DMO has a Key Performance Indicator for avoiding the Ways and Means account

Outcome

Government effect on banking sector liquidity neutralised

Exchequer's positive or negative cash balances at Bank of England extinguished

Net government expenditure or revenue is realised in terms of change in government debt held by private sector

		1. DMA Initial Position	2. Net Exchequer Deficit Position (Table 3)	3. DMO Offsetting Market Activities	4. Transfer DMA Cash to NLF	Balance
Consolidated Fund (CF)	Assets					
	Liabilities		85 GBS 10 NLF			85 GBS 10 NLF
National Loans Fund (NLF)	Assets	105 DMA	10 CF		-5 DMA	100 DMA 10 CF
	Liabilities	5 BoE 100 DMA	5 GBS 5 BoE	-5 DMA +5 Comm	-5 BoE	5 BoE 95 DMA 5 Comm 5 GBS
Debt Management Account (DMA)	Assets	100 NLF 5 BoE		-5 NLF +5 Comm +5 BoE	-5 BoE	95 NLF 5 Comm 5 BoE
	Liabilities	105 NLF		+5 Comm	-5 NLF	5 Comm 100 NLF
Government Banking Service (GBS)	Assets		85 CF 5 NLF			85 CF 5 NLF
	Liabilities		90 Dept			90 Dept
Department (Dept)	Assets		90 GBS			90 GBS
	Liabilities					
Bank of England (BoE)	Assets	5 NLF	5 NLF		-5 NLF	5 NLF
	Liabilities	5 DMA	5 Comm	+5 DMA -5 Comm	-5 DMA	5 DMA
Commercial Bank (Comm)	Assets		5 BoE	+5 NLF +5 DMA -5 BoE		5 NLF 5 DMA
	Liabilities		5 Dep	+5 DMA		5 DMA 5 Dep
Depositors (Dep)	Assets		5 Comm			5 Comm
	Liabilities					

Some conclusions on the functioning of the Exchequer…

Tax receipts not used to fund government spending

- Consolidated Fund starts every day with a balance of zero
- Tax receipts transferred to Consolidated Fund at end of day
- Tax receipts ONLY used to buy back previously issued debt

All spending arises as new money

- Spending proceeds via Bank intraday credit in first instance
- Can be formalised as overnight overdraft
- No spending authorised by Parliament can be prevented
- Government cannot "run out of money"

Government cannot default on debts

- Payment of principal and interest on debt is expenditure permanently authorised by Parliament "with recourse to the Consolidated Fund" (National Loans Act 1968)

Taxes are paid using state issued money, not commercial deposits

- Taxes must be transferred to Consolidated Fund by law
- Consolidated Fund account is held at Bank of England
- Requirement to settle tax creates demand for state issued money

Sales of government securities are motivated by monetary policy

- Intention is to offset the government's impact on banking liquidity
- Trading activity is discretionary policy only

Market for short-term government debt is guaranteed

- DMO is monopoly supplier of UK government securities
- Daily demand for government securities matches daily supply

The Treasury Bill, Bank of England Quarterly Bulletin, 1964 Q3

> *"There is a difference, important in any analysis of holdings, between those whose decision to increase or decrease their holdings of Bills is quite autonomous ... and the banking system ... whose aggregate holding is initially determined in part by forces beyond their control ... with no cash balance to speak of, the Exchequer's needs have to be met from day to day. As the system works, the banks and discount houses between them find themselves inevitably holding the residual amount of Bills necessary to bring into balance the Exchequer's cash position - and the market's. The banking system fills this gap, however big it may be; but not by any conscious decisions each day to buy the particular amount of government securities needed to produce a balance. Rather it is a reflex action of the system. Government payments that are not financed by government income, or by borrowing from outside the banking system, give rise at once to surplus cash in the banks ... The banks cannot prevent the system working in this way, except by holding on to the surplus cash; this would be unlikely, however, because it would deprive them of earnings."*[139]

The Contingencies Fund and COVID-19

Clear illustration of Parliamentary supremacy for government spending and discretionary policy around cash management

Contingencies Fund operates as "Parliamentary overdraft"

Allows limited spending to be undertaken without explicit Parliamentary approval based on previous year's total expenditure

Contingencies Fund Act 2020 passed on 25th March 2020 days after pandemic declared

HM Treasury announce intention to use Ways and Means account on 9th April 2020

Contingencies Fund Act, 2020

1 **Temporary increase of capital limit of Contingencies Fund**

(1) Section 1(1) of the Contingencies Fund Act 1974 (which provides that the capital of the Contingencies Fund must not exceed 2 per cent of the authorised supply expenditure for the year ending on the previous 31 March) is modified as follows.

(2) The reference to 2 per cent is to be read as if it were a reference to 50 per cent.

(3) The modification made by subsection (2) has effect in relation to any time before 1 April 2021.

DMO Annual Review 2018-19

The DMA is used to manage the Exchequer's net cash position. Balances in central government accounts contained within the Exchequer pyramid are swept on a daily basis into the NLF and the DMA is required to offset the resultant NLF balance through its borrowing and lending in the money markets. The DMA is held at the Bank of England and a positive end-of-day balance must be maintained at all times; it cannot be overdrawn. Automatic transfers from the government Ways and Means (II) account at the Bank of England would offset any negative end-of-day balances, though it is an objective to minimise such transfers. Thus, evidence of meeting this objective is provided by reference to the number of occasions the DMA goes overdrawn.

KPI 1.1: Ways and Means end of day transfers for cash management purposes must be avoided by ensuring that there is always a positive DMA balance.

- The DMO ensured a positive end-of-day DMA balance for the whole of 2018-19.

Return to sound money?

"Every commitment a Labour government makes will be based on sound money…Siren voices may claim that that there are no limits on what government can spend, or that tax cuts will pay for themselves. We reject this flawed ideology that was tested to destruction by the disastrous Conservative 'mini-budget'."

Source: Labour Manifesto, https://labour.org.uk/change/strong-foundations/

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Keir Starmer: Labour ditches £28bn green investment pledge

8 February · 6690 Comments

PA MEDIA

By Chris Mason & Paul Seddon
BBC News

Labour is ditching its policy of spending £28bn a year on its green investment plan, in a major U-turn.

The spending pledge, announced in 2021, had been a key part of the party's plans to reach climate targets and secure green jobs.

Implications for fiscal policy

- Focus of UK fiscal policy should be on achieving government objectives, not size of budget deficit or arbitrary debt stock rules
- Limits on government spending are 1) Price stability &, relatedly, 2) productive capacity of the economy. These should be basis for evaluating fiscal policies.
- Purpose of taxation:
    1. create demand for sterling unit of account
    2. control inflation
    3. *reallocate resources* to enable government spending to be effective

Implications for CB independence & M-F coordination

- BoE is never independent in the sense that it can decide *not* to facilitate public expenditure via reserve creation. MMT consolidation hypothesis seems to make more sense.
- Public debt is issued to influence *monetary* & *financial conditions*, not to fund the government. Unclear why responsibility was removed from the BoE to the DMO in 2000.
- Pre-2006, the 'full funding rule'(FFR) neutralized the monetary impacts of government spending under the previous 'corridor' reserves system.
- Under floor reserve mgt. system since 2006, primary role of debt issuance is to provide a store of value and source of collateral to private sector (i.e. *financial stability* objective), not to maintain liquidity.
- Purpose of continuing FFR therefore unclear (of £413bn debt issued between March 2020-July 2021, 99.5% matched by BoE gilt purchases).
- Removing non-binding constraints such as the FFR and debt stock based fiscal rules would increase transparency of how government spending actually works.

HM Treasury submission to Parliamentary Select Committee on Treasury, November 1999

"... The *Bank's money market operations are geared towards delivering the Monetary Policy Committee's decisions on the level of short-term interest rates, whilst offsetting the effect of the Government's short-term interest cash transactions with the banking system. If the Government's short-term cash transactions do not of themselves create a daily shortage in the money markets, then the Bank creates a shortage by draining liquidity through the sale of Treasury bills. Hence, although Treasury bills are a government debt instrument, the Bank's monetary considerations determine the level of the weekly tender. Having created the shortage, the Bank is in a position to relieve it by lending money to the market at its chosen interest rates. The Bank, acting as the banker for the Government, provides the market with sufficient funds to cover its daily cash needs, such that any variation in expenditure or revenue not met by longer term debt instruments, results in a change in the level of the Government's Ways and Means borrowing from the Bank.*"

Further information

- The Self-financing state accepted paper at JEI: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4890683

- https://gimms.org.uk/2021/02/21/an-accounting-model-of-the-uk-exchequer/

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Labour fiscal austerity plans

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Keir Starmer: Labour ditches £28bn green investment pledge

8 February · 6690 Comments

By Chris Mason & Paul Seddon
BBC News

Labour is ditching its policy of spending £28bn a year on its green investment plan, in a major U-turn.

The spending pledge, announced in 2021, had been a key part of the party's plans to reach climate targets and secure green jobs.

Green Prosperity Plan[6]

The Green Prosperity Plan will be funded in part by a time-limited windfall tax on the oil and gas giants making record profits, with the rest of the funding coming from responsible borrowing to invest within Labour's fiscal rules – catalytic investment that will leverage higher private investment and boost economic growth.

For transparency, we have given an annual average across the parliament given the exact profile of projects will be driven by partnership with business.

Funding (annual average)	£bn	Policies funded (annual average)	£bn
Windfall tax on oil and gas giants	1.2	Great British Energy	1.7
		National Wealth Fund	1.5
		British Jobs Bonus[7]	0.3
		Warm Homes Plan[7]	1.1
		Barnett consequentials	0.2
Total	1.2	Total including Barnett consequentials	4.7
Borrowing to invest within fiscal rules	3.5		

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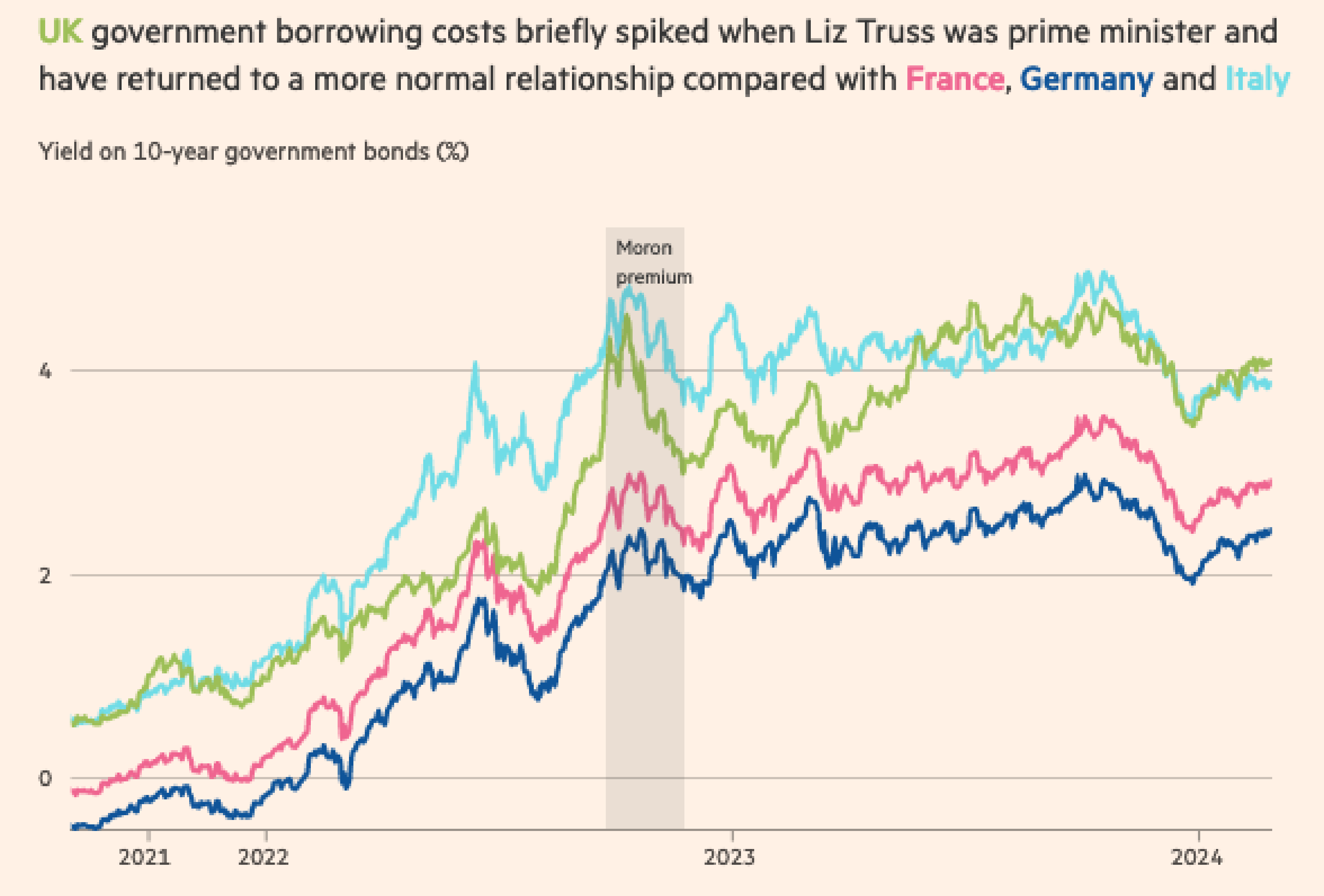

Source: FT, 1st March 2024 https://www.ft.com/content/18eedb62-a5c7-496e-9e8e-c6273f217fdb