

Time for real leadership

SPEAKING FRENCH

DAVID FRENCH
THE INVESTMENT COLLECTIVE



Without the federal government's generous fiscal response to Covid-19, we may well have faced riots in the streets.

I am surprised though at the range of people saying that such levels of spending should continue unabated, in effect that printing money is on its own, good policy.

Printing money with few restrictions has in the past been associated with cataclysmic economic collapse, notably in Germany and South America. Relatively recently however, what is now known as Modern Monetary Theory (MMT) has gained traction.

The theory says that governments should continue to borrow or print money as long as the economy is below full employment. In doing so, there does not need to be any direct references to taxes or other means to repay the debt.

Obviously this line of thought has some appeal, governments can keep spending and giving money away until full employment results in rising inflation.

While MMT does provide some useful insights into the role and capacity of governments to dampen and even eliminate economic shocks, we need to realise several key conditions that make it largely unfeasible. From what I can see, MMT only works if:

- All countries print money at an equal rate; or
- Any particular country becomes self-sufficient in everything; and
- Interest rates remain low forever
- Any absence of these conditions will cause a fall in living standards for the country that prints the money because:
- Printing money unilaterally causes a decline in the international value of the currency. As a result, the purchasing power of countries that do participate falls as imports become more expensive.

Counties that do not participate become more powerful spending-wise.

Many final goods are made overseas or rely on inputs made overseas, where labour is cheaper and markets are much bigger than ours. Even if it was possible to make everything locally, it would be horrendously expensive and if the past was anything to go by the quality would be rubbish!

With the RBA cash rate effectively at 0, the costs of government borrowings are negligible.

Consider the difference when the massive transfer of baby boomer wealth starts happening and rates move to 5 per cent or more. Unbridled printing of money now is simply going to transfer today's problems to future generations.

That being the case, do we toss the ideas behind MMT out completely, or is there a role for increased fiscal intervention?



Printing money with few restrictions has in the past been associated with cataclysmic economic collapse.

I do think that there is a strong argument for universal income support for everyone between the ages of 23 and 60 comprising a payment of up to \$40,000 per annum (much the same as Jobkeeper).

Sounds crazy perhaps, but think about this:

- The period between leaving school and 23 years of age provides for self-investment by way of further education, and time to decide on life's direction. There should be no change to current support concessions over this time.
- People would be freer to make job and career choices, the fallback being a reasonable payment that would buy time to consider realignment and next steps.
- People facing situations of family violence would know they have options and the capacity to create a safer future for themselves.
- Productivity would skyrocket because the people at work would be those that want to work.
- People with skills not immediately suited to a standard workplace structure (artists, musicians and entrepreneurs for example)

would be free to test and hone their skills and pursue their goals over time.

- The career of homemaking would be financially rewarded. Society would benefit from increased parental investment in families (and consequently less delinquency). Partners could take time out to study, make a career move, or spend time at home. There would be a massive reduction in labour-market friction.
- Wages would increase because employers would be competing against a workforce with real options, based on personal preferences.

Interestingly, a significant component of the initiative would be self-funding.

Outside of the aged pension, government spending on welfare (Newstart, childcare payments) is already about \$100 billion a year. Much of this is distinctly wasteful and would be better directed to universal income support, resulting in people being better off through choice.

Some of the money would be taxed upon receipt but most would be spent, returning a

significant portion to the government by way of GST, income tax and corporate tax. Productivity gains would support higher wages and further increases in tax collection, with the economic multipliers enhancing these recoveries.

Spending on ineffective social support initiatives would collapse because people facing difficulties could consider their options and fund a new life. So would payments for personal and workplace related insurance claims (and hence premiums) because all those eligible would effectively be underwritten for the first \$40,000 of income.

The number of workplace tribunal hearings would also collapse because in many cases there would be little to no economic loss.

From any perspective, printing and distributing money for the sake of it is bad policy. Combined with other measures including labour market and welfare reform, it is an immensely valuable tool.

That is an opportunity for genuine leadership.



WIN A CHRISTMAS HAM

WIN 1 OF 20 \$50 HAM VOUCHERS

Name

Address

Phone




CQ Today & Boodles Meats are giving readers the chance to win 1 of 20, \$50 ham vouchers. To enter, simply fill out this form & drop into the entry box at Boodles Meats, 188 Berserker St, North Rockhampton or at CQ Today office, 4/214 Bolsover Street, Rockhampton. Entries close 5pm Thursday 10th December. *Terms & Conditions available at cqtoday.com.au/competitions