

Next time someone says 'Money Tree' send them this

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Convincing the electorate that running the country is the same as running your personal piggy bank is one of the [finest tricks the Tories ever played](#). Nobody wants to be in debt. Debt is bad. Surplus is good. Simple. Right?

Sadly, this isn't true when you're talking about a country (or indeed a business) and it plays into the Conservative ideology of austerity perfectly. The irony is, spending less when the economy is down actually worsens things. Don't believe me? Read on.

British economist John Maynard Keynes explained back in the 1930s (when he was celebrated for masterminding the economic policy that brought the US out of the Great Depression) that whether a balanced budget is a good or a bad thing depends entirely on the circumstances.

Granted, in a booming economy, deficit spending would be a bad idea and could even lead to 'crowding out' of business spending. However, in today's UK economy, whose underlying stagnation has been masked only by the printing of vast amounts of new money (which incidentally has found its way to the richest one percent), deficit spending would be a very good thing.

Think about it less as borrowing and more like investing. The government don't spend money on the economy, they invest it. Spending money on infrastructure projects, schools, nurses, hospitals, roads, litter picking, libraries, etc, etc, not only puts money in people's pockets (which they then spend and generate more tax) it's also an investment in making the country more prosperous in the future. Education, infrastructure, health, security, are all things that make a country more prosperous in the long-run.

There are economic principles, such as 'the paradox of thrift' whereby spending less during an economic recession (such as the austerity measures deployed by the Conservatives) leads to a fall in aggregate demand. Hence a reduction in economic growth. This implies that spending less actually damages the economy and growth.

Another economic principle, the multiplier effect refers to the increase in final income arising from any new injection of spending. So for example, for every pound the government spends on building projects, not only will that spend stimulate the economy in terms of creating jobs and more personal spending, it is likely that the overall tax return from the money working its way around the economy can be more than the initial spend.

This theory is underlined by the fact that spending had to rise when New Labour got into power at the start of the last decade to correct the neglect that had gone before. New schools and hospitals were built and as spending increased, so did our national wealth. The economy grew every quarter for 11 successive years.

Some Conservatives will argue that state spending suppresses private sector spending. A theory known as 'crowding out'. But this has been largely debunked, especially in a depressed, recessed or stagnating economy.

The narrative that Labour can't be trusted with the economy has taken hold to such an extent that they have fully costed their manifesto. And whilst there are no costings in the Conservative manifesto, the mud sticks to Labour.

So, it's worth noting that public spending as a percentage of GDP was lower under the last Labour Government (37 per cent) than it was under Thatcher (40 per cent), John Major (38 per cent), or the current Tory government (42 per cent).

In fact, after a decade in power, the last Labour government had cut the deficit and cut the national debt making it the most prudent Government in modern times.

Once the global financial meltdown occurred, public spending rose significantly as Labour fought to save the UK banks from collapse (it is worth noting that it still didn't reach the high water mark of 1981-83).

This underlines Keynes point. Cut the deficit in the good times, spend money in the bad times. Austerity doesn't work, and this was proved as Keynes economics brought the US out of the great depression.

If you believe the much repeated narrative that Labour can't be trusted with the economy, first you should check out the data.

As discussed in last week's The London Economic article '[5 Tory Narratives that simply aren't true](#)', one of the most annoying things for macro economists is the Tory narrative that the last Labour Government caused the 2008 financial crash.

The GLOBAL financial meltdown was caused by the collapse of the sub-prime mortgage market in the USA, causing a worldwide banking crisis. The meltdown happened as a result of high risk, complex financial products, undisclosed conflicts of interest, the failure of regulators, the credit rating agencies, and the market itself to rein in the excesses of Wall Street.

All Governments suffered at the hands of the banking crisis, no matter how strong or weak. Yet, the UK was one of the quickest to recover. In reality, swift action from then PM Gordon Brown prevented the UK banks from collapsing along with some of their American counterparts and other national banks.

It is worth noting that in the UK, the Conservative Party actually supported further banking deregulation prior to the financial collapse.

So, next time someone says 'where is Labour's money tree coming from', give them a little lesson in economics and send them this article.

[Ollie McAninch](#)

Ollie McAninch is an economist turned digital media pioneer; developing new systems to allow members of the public to supply their own stories, features, photos and videos to the national press. Ollie has become one of the UK's leading digital content experts.





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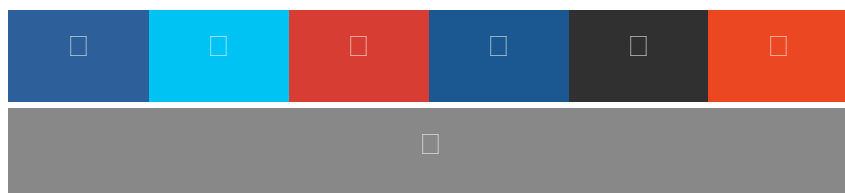
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Economics Politics

Five Labour narratives that simply aren't true

Guest Contributor May 31, 2017

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Given that they hold so much influence over our hearts and minds, it's a bit of a

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problem for our democracy that the majority of the UK press is owned by a handful of foreign-based billionaires, who predominantly back the Tories..

The proprietors of our favourite newspapers have significant financial interests elsewhere and as such it is no surprise, or secret, that they have traditionally aligned themselves with the Conservative Party. So, it's not a shock either that many Tory Party narratives seem to seeped their way into our national newspapers. The impartiality of our mainstream media has all but disappeared as newspapers scrap for a slice of the ever falling circulation; trying to appeal to the core newspaper purchasing market.

Whilst political jousting through the press has always gone on, we seem to live in a climate where the truth need not get in the way of a good lie. Here are five narratives that should't be taken at face value...

1) Labour can't be trusted with the Economy

This is a narrative that has really taken hold. However, public spending as a percentage of GDP was lower under the last Labour Government (37%) than it was under Thatcher (40%), John Major (38%), or the current Tory government (42%).

In fact, after a decade in power, the last Labour government had cut the deficit and cut the national debt making it the most prudent Government in modern times.

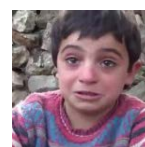
Granted, once the global financial meltdown occurred, public spending rose significantly as Labour fought to save the UK banks from collapse. It is worth noting that it still didn't reach the high water mark of 1981-83.

If you believe the much repeated narrative that Labour can't be trusted with the economy, first you should check out the data.

2) Labour destroyed the economy (in 2008) and left the country in a mess

One of the most annoying narratives for economists is the idea that the last Labour Government caused the financial crash.

The GLOBAL financial meltdown was caused by the collapse of the sub-prime mortgage market in the USA, causing a worldwide banking crisis. The meltdown



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happened as a result of high risk, complex financial products, undisclosed conflicts of interest, the failure of regulators, the credit rating agencies, and the market itself to rein in the excesses of Wall Street.

All Governments suffered at the hands of the banking crisis, no matter how strong or weak. Yet, the UK was one of the quickest to recover. In reality, swift action from then PM Gordon Brown prevented the UK banks from collapsing along with some of their American counterparts and other national banks.

It is worth noting that in the UK, the Conservative Party actually supported further banking deregulation prior to the financial collapse.

3) More Public Spending will Cripple the Economy

Running an economy is not the same as running your piggy bank at home. It's probably fair to say that most people can't get to grips with the concept of national debt being quite different from personal debt.

There are economic principles, such as 'the paradox of thrift' whereby spending less during an economic recession (such as the austerity measures deployed by the Conservatives) leads to a fall in aggregate demand. Hence a reduction in economic growth. This implies that spending less actually damages the economy and growth.

Another economic principle, the multiplier effect, shows that spending is better thought of as an investment to a healthy economy. The multiplier effect refers to the increase in final income arising from any new injection of spending. So for example, for every pound the government spends on building projects, not only will that spend stimulate the economy in terms of creating jobs and spending, it is likely that the overall tax return from the money working its way around the economy can be more than the initial spend.

In fact, many economists believe that public spending is the best tool available to inject investment into the economy from the bottom up.

This theory is underlined by the fact that spending had to rise at the start of the last decade to correct the neglect that had gone before. New schools and hospitals were built and as spending increased, so did our national wealth. The economy grew every quarter for 11 successive years primarily under the Labour government.

4) Jeremy Corbyn has no leadership

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Ever wondered by [Jeremy Corbyn](#) has won two Labour leadership elections? Despite what you've read in your newspapers, could it be because he is a hugely popular leader within the Labour Party with a strong support base.

Whilst Jeremy Corbyn has inspired record numbers of new members to join the party, there are still some Labour members who feel that the lack of wider appeal, lack of PR awareness, and lack of spin, means the party will never get into power. This may be true as Corbyn certainly isn't one to cosy up to the media or dilute his values for the sake of wider appeal. Perhaps this is a naive mistake on his part, but isn't this exactly what the public have been calling for?

Anyway, the last two years has seen a shift away from the 'Tory lite' New Labour movement back to the grass roots of the Labour Party. This has caused a few factions within the party which are highly reported.

Which political party doesn't have some in-fighting? What is fascinating about this particular narrative is the fact that the Tory party has been ravaged by the issue of Europe for the last 30 years. No Conservative leader has been able to unite the Party during that period. This resulted in the party almost being ripped apart, the rise of UKIP, and David Cameron calling an EU referendum for the sake of party unity, rather than for the national interest.

5) Jeremy Corbyn is 'hard-left'

To the surprise of many, the Labour Manifesto has been warmly received, and has resulted in a significant narrowing of the polls. It appears that their Manifesto isn't particularly 'hard-left' at all....

It's actually no surprise to those who follow Corbyn closely. He is painted as a hardcore far-left idealist in the UK's national press, which has become somewhat of a smear. However, some political commentators observe that we've been pulled a long way to the right by the emergence of UKIP in recent years, meaning the centre ground appears like the extreme left.

Political analysts living within some of Europe's top-performing countries, such as Norway and Sweden, find it strange that we label Corbyn as being 'hard-left' where he would be considered a run-of-the-mill centre-ground politician in their countries.

Despite the popular and progressive looking Manifesto, thanks to the media's narrative that Labour plan to take us back to the 1970's, a large portion of the

electorate still think Labour is some kind of communist party.

With strict General Election reporting rules in place, the public are now getting a truer picture of all party leaders, but will that be enough for Corbyn and the Labour party to dispel the myths.

Guest post by Robert Owens.

Can you think of other narratives that should be mentioned in this article? Let us know...



Who Decided Jeremy Corbyn Is Unelectable?

This weekend Jeremy Corbyn was re-elected Labour leader fending off rival Owen Smith by some 119,000 votes with a victory that delivered an even more commanding mandate than when he first took the nation by storm in 2015. But that has done little to appease the media, his co-politicians or the raft of doomsayer commentators. ... [Continue reading](#)

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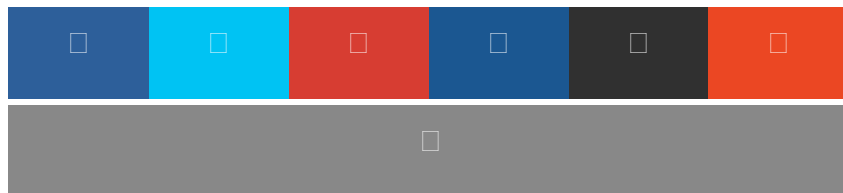
Think Jeremy Corbyn is a loser? Oh dear, you've been brainwashed...

If you think Jeremy Corbyn is a clown or a total waste of skin, it could be too late for you – you've already been brainwashed by a handful of foreign billionaires. We all agree that newspapers play a crucial role in British democracy, but what is troubling is that the majority of the UK ...
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