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Plan B and alternatives for economic growth

Sir, Christine Lagarde is right: a plan B is needed (report, May 23). The current programme of fiscal austerity is essential for keeping interest rates low, and in normal circumstances these low rates would stimulate private sector spending and investment, as well as helping our exports by keeping the exchange rate of the pound low. This is what Plan A is predicated upon.

However, none of this is working: banks are not responding to the demand for loans because of earlier losses that need to be recovered from heavily indebted householders who are saving, and those firms that do have money are refusing to spend it because of fears about the fallout from the euro crisis. Even the normally-to-be-expected lowering of the exchange rate has gone into reverse as the pound has gained "safe haven" status.

If monetary policy, which is what Plan A is based on, fails, the only way to fill the gap is by government action. The Bank of England could try to find better ways to ensure that any further quantitative easing goes to firms instead of sitting in bank "vaults", perhaps by buying bonds directly from companies. The Government could also spend on infrastructure, finding the money either by cutting spending further, or by further borrowing. It would be important for any such extra borrowing to be clearly earmarked to go only into projects which promptly generate a clear cash return that is more than adequate to repay it.

Our housing shortage, and road and rail congestion could all be tackled in this way, with the loans repaid from rents, tolls and fares respectively, with a boost to tax revenues deriving from economic growth coming as a further bonus into government coffers.

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DOMINICK REUTER / REUTERS

Is Christine Lagarde right to tell George Osborne that the UK needs a Plan B?

Sir, When challenged to explain why German taxpayers should continue to support profligate eurozone sovereigns, Christine Lagarde is among many who point to Germany's eurozone exports. Many companies certainly profit in that way, but their exports are effectively financed by the German exchequer. With bailouts and the continuation of open-ended Target2 credit from the Bundesbank, other eurozone countries are paying for German imports with money borrowed from Germany which may or may not be repaid. It is not obvious that this is a good deal for Germany.

An alternative suggestion is for German wage rates to be increased. While higher domestic demand and unit costs might displace exports, what assistance would that provide to nations whose capacity to produce requires radical structural reform?

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Sir, It is a bit rich for the former finance minister in an administration that was party to excessive public spending and fiscal policies that led to a downgrading of credit worthiness in her own country to lecture us about what is best for our economy. It is for our government to steer us through these choppy waters and advice on what taxes we should reduce is inappropriate for someone from the International Monetary Fund.

Of course we want more growth but we need responsible sustainable growth, not growth financed with excessive borrowing for short-term political gain or by the public "maxing out" their credit cards again. Growth is also not helped by an Opposition and media bent on making every very small percentage change in output figures into Armageddon and a political story.

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Sir, Do we have a Plan A?

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