

The political difficulties of Corbynomics and how to re...

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Andrew Baker is a political economist at Queen's University, Belfast. I should mention straightaway that he and I have co-authored on the subject of corporation tax in Northern Ireland for the Sheffield University Political Economy Research Institute (SPERI). What concerns me today is an article he has had published by that same Institute entitled [*The political difficulties of 'Corbynomics'*](#).

As Andrew notes:

A month ago nobody had heard of 'Corbynomics'. Today Google records 174,000 search results. It is becoming difficult to escape the term in any form of media. If Jeremy Corbyn wins the Labour leadership election, its contents and claims will shape political debate in the UK for some time.

And as he then, correctly comments:

[*Corbynomics*](#) is not yet a fully-fledged and coherent programme or philosophy. It is a collection of ideas about how money and the economy works and the appropriate role of government that sets out to challenge conventional thinking as the beginning of an evolving process.

I agree with that. As I do with this:

*In the UK fiscal policy has been immobilised by a highly political 'deficit reduction narrative', conventional monetary stimulus is exhausted, and deficit reduction and low inflation targets have [*ceased to act as a reliable guide for policy*](#). The government needs alternative policy levers.*

Andrew has stated the obvious: [*it seems to have passed 55 economists in the FT by*](#).

Andrew is also spot on in saying:

*[T]he fiscal deficit has been elevated as the primary economic problem the UK faces, [*suffocating proper debate*](#) about a strategy for the UK economy and the role of*

government policy.

Why has it been so hard, I wonder, for others to see that this is the context within which I have been working?

Andrew than notes the nature of PQE, I think pretty accurately, whilst noting that:

An alternative form of PQE based on helicopter money has also been suggested by [economist Simon Wren-Lewis and former chair of the Financial Services Authority Adair Turner](#). Here the central bank creates money and distributes it directly to households. Both variations of PQE, as [Wren-Lewis acknowledges](#), are a form of money-financed fiscal stimulus. The Wren-Lewis version is a temporary monetary stimulus, when interest rates have been immobilised.

And adding:

Both [Wren-Lewis], and for that matter the LSE Growth Growth Commission, also acknowledge there is a compelling macroeconomic case for creating a UK public investment bank to support infrastructure and encourage private-sector investment. The Wren-Lewis view, as well as that of others, is that this can be financed by conventional government borrowing when interest rates are low. In other words, Wren-Lewis and the Corbyn PQE approach share a diagnosis of the UK economy and the general remedies required, but differ on the details of precise instruments and their execution. They are nevertheless a lot closer to one another on the orientation of policy than they are to the current UK political consensus.

This Andrew contrasts with the 'mainstream view':

The substantive basis of the [current complaints against Corbyn PQE from the mainstream economics fraternity](#) has two elements. First, it is suggested that using PQE as a means of financing infrastructure is conceding too much to deficit fetishism by not borrowing. Second, PQE has uncertain institutional implications for central bank independence and will subject the BoE to excessive political direction.

Before asking:

On the first point, is it possible that economists are as committed to unpicking the deficit narrative as their opponents are to defending it that they are missing alternative ways of opening this up for the public at large? To an extent PQE is already doing this and changing the public conversation about the nature of UK economic challenges.

And:

On the second point, the true extent of BoE independence in recent times is very questionable. What's more, if inflation targeting has been redundant as a true guide for monetary policy for over seven years, then maybe the terms of central bank

independence and the nature of the most appropriate institutional design should be the subject of public debate again?

Before saying:

Unfortunately, even that part of the economist fraternity which is sympathetic to the kind of debates Corbyn wants to provoke tends to regard central bank independence as a sacred cow. The BoE establishment is also unlikely to be passive if it perceives a challenge. In short, the substance of complaint about PQE in particular and Corbynomics in general is primarily political, institutional and sociological in nature.

Spot on.

So, how to resolve this? Andrew says:

And it is here that the real difficulty lies. Corbyn's political label as an extreme far left candidate is preventing a mutually beneficial dialogue with broadly compatible intellectual voices.

Wren-Lewis and his associates should recognise that, if they want their undoubtedly many good ideas to receive political take-up, [Corbyn is probably their best bet](#).

For their part, the Corbyn team could go beyond PQE and MMT, broaden their policy base and further grow their political appeal through such an engagement. They are certainly open to ideas and accept further debate and refinement is required.

However, for reasons of professional esteem and incentives, at least one side of that engagement is likely to be unwilling. For those wishing to shake the current political consensus on the deficit, that is a great shame.

So, let me rise to the challenge (as I am also doing, I hope, behind the scenes).

First, let me reiterate that Jeremy Corbyn has said he thinks that my ideas are nothing more than proposals. They are not acst in stone.

Next, I have made, I thought, three things clear. Firstly, PQE is about reframing when the narrative has been against all spending that might create deficits. I am bemused as to why so many have ignored this political reality when commenting on the supposed economics of this. I do not think economics exists in a void independent of politics: in fact, it can only exist in my opinion in political space and that is a major factor in PQE's design. I have not bowed to neoliberalism. No have I in anyway said government spending crowds out the market (funding mechanisms can't do this anyway: only the investment I am supporting can, so that argument makes no sense). I am simply suggesting ways to change the narrative.

Secondly, I have made clear that PQE is not an instrument for all occasions: it would not

be at a time of full employment, for example. But, we are a long way from there. What I have also made clear is that I think the demand for infrastructure investment far exceeds current government estimates. And I have also made very clear that I think deficits on current government spending are going to continue for some time - and will certainly be significant in 2020 given the scale of what I think is a developing emerging market driven next financial crisis.

So, in that case, I think there is likely to be a need for significant bond borrowing for some time to come, and potential new financial instruments to counter the risk to the economy from continuing market failure, and in that case I see no risk in suggesting both the use of bonds and PQE and that doing so will not, I think, leave the market short of the high quality debt it may crave.

But, if it does, as Jeremy Corbyn said the other evening on Channel 4 News, and it was necessary to issue debt (and not use QE to cancel it as effectively happened to almost all new debt issued from 2009 to 2012) then issue debt the government must.

In other words. what I am seeking to do is add to flexibility to the armoury of tools that I think will be needed to keep the UK and other economies going over coming years, which is most especially important when monetary policy has effectively ceased to have any role in this process and the Bank of England has lost its prime macroeconomic function as a result.

I am willing, of course, to discuss, these issues. I am willing to change my mind on what will be the right tool at the right time: a wise person does change their minds when the facts change. But I remain bemused at the refusal of so many to engage with thinking on what we must do next if we are, as I think likely, to face another crisis with an armoury that is almost bare of tools, based on current thinking, to tackle it.

Isn't this just prudent?

And isn't it, in that case, imprudent not to proceed on this basis?

Comments of the quality received on this issue of late are most welcome.