

What Labour should be saying on the economy now

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I have [already posted my speaking notes](#) from an event last night where I talked about where I saw Labour's economic policy going. I should add that when doing so I have an advantage: I am not a member of the Labour Party and am not an adviser to anyone in Labour on a formal basis and so watch from the sidelines whilst knowing that last summer (at least) my ideas had some influence.

There are three issues to address. The first is that Labour is not selling whatever story it has got going, and that is deeply frustrating. I saw John McDonnell speak on Tuesday and the set piece speech was not good although in Q & A John was very much better. That just about summarised it all: there is a story there, but it seems that Labour does not know how to say it yet.

So, second, what is the story? The first one is that Labour is laying the groundworks to make sure it can deliver. This might seem unimportant but if addressed properly it is not just vital but also a key part of the strategy and the political messaging. Three reviews are going on, of the Bank of England, of HMRC and the Treasury. The aim in each case is to revise the structures in which these are run.

That is vital because in the case of the Bank of England its mandate is out of date, potentially undemocratic, gives undue influence to bankers and does not focus on the real economic needs of the country but on those of the City of London. Unless that focus of this powerful instrument of economic management is changed then Labour can say what it likes but the Bank could stop it. Reform is vital if the economy of the UK is to be run for the benefit of the people of this country.

Second, HMRC's governance is under review. The current structure, in place since 2005 and based on that of a large company, is hopelessly inappropriate for a tax authority. The Board is dominated by big business interests. Most of the senior executives know relatively little of UK tax. The culture is of cost cutting. Few if any seem to have any understanding of the macro-economic role they play. And the issue of the tax gap is downplayed, hopelessly inappropriately, in pursuit of a light touch business agenda which is actually fundamentally pro-cheat and anti-honest business. All that has to

change if a progressive tax on a level playing field where all are treated equally is to happen in future.

Third, the Treasury is under review. This may be the most important review of all. The 'Treasury view', as it is known, is that austerity is a good thing and always works. It has crippled a great deal of UK economic management for over 90 years. To make the Treasury a book-keeping function and to create a department dedicated to economic management of the programmes now needed in the UK to build a twenty first century economy is vital.

So, why, oh why, isn't Labour trumpeting the fact that it is doing this work now to lay the foundations for it to challenge banks, take on vested interest, build fairness and tax justice and promote economic growth that benefits the UK as a whole when it gets into office? I just don't know, but I know it is not.

What is the third essential theme then? That's a simple one. It is that team Corbyn got its economics right last summer. The tax gap was and is an issue that has to be addressed and only they were saying it. And, more important, what I called green quantitative easing and which Labour renamed People's Quantitative Easing (but otherwise left as was) is the policy that can now drive the UK economy forward in the face of the problems it faces.

Last summer the idea faced a barrage [of hostility in places like the FT](#). But, as I told them at that time, it was a policy designed for a downturn that I forecast was coming. This [is what the FT noted](#):

The man behind Jeremy Corbyn's most eye-catching economic policy says the Labour leadership hopeful's plan will only work if there is another economic crisis - but adds there is almost certainly going to be one.

Mr Corbyn is one of a number of people who has backed the idea of a ["people's quantitative easing"](#) in which the Bank of England would print money to fund a national investment bank that would invest in capital projects such as housing, roadbuilding and green technologies.

Richard Murphy, a prominent advocate of people's QE, told the Financial Times the idea works only if the current government's plan fails badly. "People's QE is necessary only if George Osborne's plan comes off the rails pretty fast, which it almost certainly will," he said. "There is a significant risk of another recession."

Let's move then to February 2016. [Yesterday the Guardian noted that](#):

The OECD has called for its rich-country members to ease up on austerity and collectively agree to spend more on infrastructure projects to boost flagging growth.

The Paris-based Organisation for Economic Cooperation and Development expressed

concern about the state of the global economy as it cut growth forecasts made three months ago and warned that low interest rates and money creation by central banks were no longer enough for a lasting recovery.

Marking the latest stage in its shift away from support for austerity, the OECD criticised the over-reliance on monetary policy — low interest rates and the money-creation process known as quantitative easing — and urged that countries adopt a more balanced approach.

Let's put that another way: they are saying Osborne's policies are failing, as I predicted they would.

The Economist has also noted that. [Its editorial today says:](#)

World stockmarkets are in bear territory. Gold, a haven in times of turmoil, has had its best start to a year in more than three decades. The cost of insurance against bank default has surged. Talk of recession in America is rising, as is the implied probability that the Federal Reserve, which raised rates only in December, will be forced to take them back below zero.

One fear above all stalks the markets: that the rich world's weapon against economic weakness no longer works.

That failure they summarise as follows:

Ever since the crisis of 2007-08, the task of stimulating demand has fallen to central bankers. The apogee of their power came in 2012, when Mario Draghi, boss of the European Central Bank (ECB), said he would do "whatever it takes" to save the euro. Bond markets rallied and the sense of crisis receded.

But only temporarily. Despite central banks' efforts, recoveries are still weak and inflation is low. Faith in monetary policy is wavering.

In other words, John McDonnell's Bank of England review is spot on.

But so too is People's Quantitative Easing. As the Economist notes, the fear is that central banks are 'out of ammo' and that another weapon is needed. They describe this as:

The time has come for politicians to join the fight alongside central bankers. The most radical policy ideas fuse fiscal and monetary policy. One such option is to finance public spending (or tax cuts) directly by printing money

That is PQE in a nutshell.

Now, admittedly The Economist prefers the option of using the tool to effectively cut

taxes and stimulate consumption - which I think foolhardy because of the leakage from the domestic economy that will result in - but the principle of money printing is now going main stream. It takes time for ideas to take hold, but this one is moving like wildfire.

So why isn't it happening? The Economist says:

The problem, then, is not that the world has run out of policy options. Politicians have known all along that they can make a difference, but they are weak and too quarrelsome to act. America's political establishment is riven; Japan's politicians are too timid to confront lobbies; and the euro area seems institutionally incapable of uniting around new policies.

But labour could shout that it has already taken a lead. And with good reason. As The Economist adds:

If politicians fail to act now, while they still have time, a full-blown crisis in markets will force action upon them.

And:

Behind the worry that central banks can no longer exert control is an even deeper fear. It is that liberal, centrist politicians are not up to the job.

Labour is already showing that it understands the demand. I am bemused as to why it is not saying so.