Funding the Future

Labour's economic policy: a new era in social democrati...

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Labour's economic policy

A new era in social democratic thinking?

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Speaking notes for a presentation at the University of East London

* **Last summer I discovered I was the author of Corbynomics.**
* I am not saying I am sorry about that

* What I am saying is that much that was in Jeremy Corbyn's policy document published as part of his Labour leadership campaign seemed to have been borrowed from my blog

* Well that's why you blog

* And as an academic this was good impact.

* But, I stress this happened without me being a member of the Labour Party. To this day I remain a critical friend of that Party who is also happy to acknowledge the friendship of others.

* **So the question is, what is Labour's economic policy about?**

* **Corbynomics was based on three key ideas**
* The need to invest in infrastructure to get the UK economy going again
* With the resulting implication that fiscal policy was back in town

* The possibility of using People's QE to fund that investment if need be.
* Within which was an implicit suggestion that the mandate of the Bank if England might be reviewed

* Creating a more progressive tax system
* And backing that up with a better resourced and reformed tax authority

* And a review of the tax reliefs and allowances given by past governments to make sure that they remain appropriate now

* Plus a crack down on tax abuse to close the tax gap

* And the creation of a more level playing field on which all people and businesses cam operate as a result

* **But what do these ideas imply?**
* I stress I can only offer a personal view

* I might know Jeremy Corbyn and John McDonnell

* And I talk to their teams

* I also rather hope that they read at least some of my blogs

* But I stress, I am not a team Corbyn team member or adviser in any formal sense

* **That said, first, there is an acceptance that monetary policy has reached the limited of its usefulness**
* When everyone, from all the FT's main columnists to the IMF and OECD onwards say that central banks are at the limits of monetary policy

* And even former ECB board member Lorenzo Bini Smaghi says there is a stunning silence in response on fiscal policy from the Treasuries of the world

* Then the fact that Labour is embracing fiscal policy whilst being willing to wrap it in the monetary wrapper of People's QE is real economic innovation on a staggering scale for an opposition party

* The challenge this presents when George Osborne is mute to the demand that he acts is significant

* **Second, there is explicit endorsement of fiscal policy**
* Fiscal policy has been dead in the water for so long Labour's return to it is significant

* But it is important to note that this is neither boom and bust

* Nor is it old style fiscal policy: the understanding that this policy can be funded by monetisation of debt moves fiscal policy into a new era where the government does not just accept its role as the agent that must stimulate the economy when all else fails but

that it must also create the necessary funding to achieve this goal when the private sector banks cannot or will not

* This is then creating a whole new role for government, combining monetary and fiscal policy and at the same time accepting that the central bank is not a passive agent under notionally independent banker control but is an active agent that must be integrated into the overall scheme of government economic management

* **Third there is an understanding that tax is much more than about revenue raising**
* Tax has six roles

* Reclaiming the money that the government will now have to spend into the economy in pursuit of its goals

* Ratifying the value of money - when tax has to be paid in a domestic currency trading in anything else - including Bitcoin - makes almost no sense. Tax due then has to be big enough to ensure a government has effective control of its own currency

* Reorganising the economy through fiscal policy

* Redistributing income and wealth

* Repricing market failure

* Raising representation in a democracy - which is why taking those on lowest incomes out of tax is not a benevolent act but one that means that they, almost literally, do not count

* I think Labour is beginning to embrace these ideas

* **Fourth there is recognition that the architecture of economic power needs to be revised**
* But what all this means is that Labour ha to reclaim the instruments of economic power

* In that context do not see the policy reviews on the powers and structures of the Treasury, HMRC and Bank of England as mere admin matters: these are about challenging the powers of the established financial elites and reclaiming them for social purpose

* **Fifth, and I can't say this enough, there is a belief in a mixed economy**
* I think this is fundamental

* I do not think there is a real appetite for Clause 4 socialism in the Corbyn Labour Party

* What there is instead is a real understanding that there are horses for courses

* There are situations where the state is easily the best actor to deliver services
* Education

* Health

* Law and order

* Defence

* Pensions and the social safety net

* Our social and communications infrastructure

* And maybe, even, some parts of banking

* Plus energy infrastructure

* The risks of failure in these sectors is too big to outsource them

* Economies of scale and the existence of natural monopolies means that private sector capture and the risk of the exploitation of rents is too great to contemplate

* Just as there are others when we have to be quite honest about the fact that the private sector does best
* Food and retail suplies

* Almost all wants

* Much of IT and technical services

* Pharmaceiticals

* Raw materials productionand processing

* And so much more

* But this realisation is based on an acceptance that neither sector is better or worse than the other
* The aim is to bring out the best in both for the common good

* With each part being expected to make that contribution to that common good whilst nurturing and appropriately rewarding those who work within them

* **Sixth, there is as a consequence a statement of belief in the broader economic and social role of the state**
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This is fundamental to the Labour approach

* And it changes 37 years of UK thinking

* **Seventh, this is rooted in a belief in justice**
* It is about the concept of democratic justice - that the people must have control of the instruments of power and that those instruments must be run for the benefit of people

* And economic justice: it says that the imbalances and inequalities that have arisen in the UK and elsewhere are unacceptable

* It is about tax justice

* And it is about market justice: creating a level playing field on which all can compete equally in a way that existing policy has never done because it has favoured big companies over small and international against national

* **Eighth then, there is here an architecture for social democratic thinking for the 21 St century**
* Where the constraints on government imposed by historic roles and the artificial divide between fiscal and monetary policy are thrown off

* Where there is a real understanding that money is costless to create and that it is the role of government to create it when necessary to liberate the potential within an economy
* Subject only to the constraint to keep inflation within acceptable limits - but that is a positive rate of at least 2%

* Where the social and fiscal functions of tax are understood and embraced

* Where the power of elites is challenged and social accountability is at the core of policy

* Where the partnership between state, citizen and private sector is recognised and mutually respected

* And where the aim is the realisation of the potential of people and the constraints that monetary policy have for too long placed in the achievement of this are not accepted

* **In conclusion, you can argue that Labour has said nothing as yet on economics and civic engagement**
* But I beg to differ

* Implicit in what Labour has already said is an economic policy for an age where the power of financial elites is not only alienating voters but is giving rise to demand for real change

* But, and this is key, Labour has to work out how to say that is what it is doing