

If Labour is to win there is only one way to do it, and...

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If Labour is to win an election there is only one way to do it: it has to be bold.

Let me cover some background issues first, before I go to solutions.

Fundamentals

Fundamentally the neoliberal paradigm, created in 1979, failed in 2008. That has to be said time and again. There is no solution to be found to our current economic and political problems that entirely existed before that time.

And austerity, which tried to take the country back to the pre-2008 era was not only wrong in trying to do so, it failed in practice and always will. That also has to be said.

Believing is essential

But this has also to be believed. My criticism of Corbyn and McDonnell has been that they have not done so: they really have not tried to build a world view based on these two facts as yet. So far they have only been willing to tinker rather mildly economically without offering a coherent vision for change. If they believe in change they have to stop tinkering and say what they are really trying to do. If they don't stop tinkering they will fail, and rightly so.

Some background facts

To build an argument some background facts have to be stated. My core assumptions follow.

The UK is under-employed: people may be at work but productivity is very low. Millions of self employments are marginal.

There is no hope that the private sector is going to invest to create growth in the UK, or anywhere much else come to that. Modern capitalism is about wealth preservation for an elite and not investment for growth, let alone social purpose.

This does however mean that there is a mountain of cash in need of a home right now. This is why interest rates are low and will remain so.

Those low rates are, however, causing instability, not because the rates are low in themselves, but because low rates means very high asset prices as markets treat asset prices and low rates as the inverse of each other. This will result in an asset price crash at some time because, government bonds excepted, there is no fundamental reason why the price of the other assets with over-inflated prices (housing and shares in particular) should be as high as they are. Some day this will be realised and prices will fall. This could cause instability, but the risk of inflation (the neoliberal nightmare) is low.

The UK's tax capacity is constrained right now. The government is not spending enough and most people are not earning enough for it to grow significantly. Tax reclaims the impact of government spending on people's incomes: if that impact is declining because government spending is falling then tax revenue growth will also fall, and it is.

Monetary policy has failed. If interest rates are effectively nothing then there are no real options left for it.

QE has failed: it has not resulted in new spending in the real economy. It has increased inequality.

Inequality is rising. That's the result of near stagnant earnings for most people for a very long time.

The UK will leave the EU. It will probably be a hard Brexit. We will have the freedom to set our own economic rules as a result, including direct lending from the Bank of England to the government without the need for QE.

The question is how we want to use that freedom given these facts, as I see them.

Solution building

So, given these facts let's turn to the basis for solutions. There is only one option: it is to be radical. Playing around on the peripheries as the left has done for decades is not going to work. The problems the economy faces are fundamental. The solutions must be as well.

The first thing is to be clear about economic objectives. The left is about ensuring there is an economy where everyone can meet their basic needs and have the chance to fulfil their own goals. This is basic.

So too is the fact that the way we might do this has to change: we are not now living in a world where we think we can have unlimited 'stuff' without consequences. We know there are very real limits to material growth. But, that does not mean there is a limit on

what we can do for each other. Caring, education, the arts, many services; all these are labour based activities. We have surplus labour and urgent need in all these areas. They are the foundation of a future economy. Services will not be secondary in this new world: providing services for each other, locally, is the future of work for many in the UK. We need to get our heads around that fact.

But we also need to ensure that we can live together: housing, transport, broadband, hospitals, schools and more are required to let us do that. Let's not pretend otherwise: we need more of all of these, and it is the job of government to ensure they are supplied.

So a left wing government has a very clear role: it will build the foundation for the more equal, sustainable and services orientated future we want and need.

But let's also be clear, a government will not meet all need. So a left wing government has to make clear it believes in a mixed economy and wants the private sector to flourish. The key thing is that the flourishing will be in the context of competition on a level playing field. That means a world in which regulations are enforced, tax is paid, people (including other businesses) are protected from cheats and those businesses that do well prosper solely because they supply what people really want, not because they can abuse tax and other systems or know people in the right places. This is a radical approach to supporting the majority of honest businesses in this country who have been failed by the politics of neoliberalism as badly have many ordinary people.

So we will have a mixed economy, that must be firmly regulated, fairly taxed and which has as its goal the creation of well paid and sustainable work for all who want it.

We are long way from this goal right now. That means investment is needed. The investment needed is in infrastructure, skills, regulatory enforcement, businesses that are willing to work in the new ways that society will demand and a new understanding of the economy.

Of all these things the new understanding is most important. There are several parts to it. First, it has to be understood that an economy that pays people enough for the work they really do will collect enough tax to cover the current costs of running a government: in saying this I am simply offering a variation on Keynes' old maxim that look after unemployment and the budget will look after itself, albeit in a new and different environment.

Second, there has to be an understanding that a service based economy is a basis for prosperity: our obsession with material goods is in any event unsustainable and has to be discouraged. This strategy will happen to support a more sustainable approach to the balance of trade.

Third, the fact that tax is just a fiscal tool has to be understood. I explain this in *The Joy*

of Tax. It does not pay for government services: it reclaims the spend on them that the government makes using its power to create money.

Fourth, borrowing has then to be understood in the same light: this is something that the government can do if it wants to supply markets with the savings media they need. But it need not borrow: as QE has proved, and as will be easier post-Brexit. money printing is always an alternative and unless the economy is at full employment will not produce inflation.

Putting these needs and building blocks together is the foundation of a new economy.

Skills and regulatory spending are current government spending: in the long run it would be reasonable to expect them to be covered by revenues. But there is no reason for that in the short term. And there is never a reason for investment in both state spending and the private sector (if need be, via a state investment bank) to be covered by current revenues: indeed, it is foolhardy to think they should be. And a balanced budget is **anyway wholly unnecessary and often impossible to achieve.** **The argument for running deficits (and surpluses) has to be made if we are to have the economy we need and can enjoy.**

If that argument is won the freedom to build this new economy is established. And once it is all the rest of policy falls into place. But the foundation of a firm economic analysis built on earnings growth, investment lead job creation, private sector regulation alongside government backed investment funds and and emphasis on skills that deliver opportunity in every constituency - as a Green New Deal might - has to be a way forward.

Of course there is more to say than is mentioned here. But unless Labour really thinks big, builds new narratives and promises to deliver radical change I question what any of its recent agony has been for. But will it do these things? Time alone will tell.