

Labour's new policy and the Bank of England is fundame...

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I try very hard to be positive about the Labour Party's economic policies, and I promise you, it is hard. Take this morning as an example. As the [Guardian](#) and many other newspapers have reported:

The Bank of England could be given a mandate to boost productivity growth under a Labour government as part of opposition plans to overhaul the country's "economic architecture".

Revealing the findings from a review of the UK financial system, the shadow chancellor, John McDonnell, will on Wednesday make the case for a fundamental transformation that could include a revamp of the Bank's remit in order to help drive economic growth.

I stress that I cannot find the original document to which this report refers: as yet it does not appear to be on the Labour Party's website, but since all the reports are broadly similar the Labour Party must have issued a press release focusing on these issues, although that release is also not in its web site as I am writing.

I have to say I am completely bemused as to what Labour are trying to achieve.

First of all, why is Labour maintaining an independent central bank? This feature, which is an absolute mark of right-wing neoliberal thinking, and which is a legacy of the Gordon Brown / Ed Balls era from which I would have thought John McDonnell was keen to disassociate himself, has three incredibly unfortunate consequences in that it removes economic policy from democratic control, puts bankers in charge, and makes monetary policy the focus of attention when fiscal policy has to be the future direction of all economic policy. The time for economic policy to come back solely under the control of elected politicians within the Treasury has arrived: it is deeply disappointing to see that Labour has not embraced this idea.

Second, I have long argued that for the Bank of England to have a single economic objective of maintaining the inflation rate at 2% is absurd, particularly when inflation is,

in itself, no longer any real risk to the UK economy. This will even be true if we have a significant spike as a result of a Hard Brexit, because that will be externally imposed and there will be nothing that the Bank of England could do to control it. In that case, the adoption of another one, or more, goals was appropriate, but to make that new goal labour productivity was not. In fact, of all the goals that I can imagine, productivity has to be about the worst that Labour could have picked. That needs explanation.

Productivity is measured by recording the amount of output from a process given a fixed input of the variable that is the focus of attention. So, for example, if labour productivity is being measured then the focus is upon the amount of output for each unit of labour input into the process (e.g., a working hour). So what Labour is saying by adopting a labour productivity measure as a Bank of England target is that it wants the amount of productivity in the economy to rise for each unit of labour input. This has some quite serious consequences.

First, it very obviously encourages the substitution of capital for labour. In other words, the target necessarily encourages increasing unemployment, particularly among those with low skills, where we have a major social problem already.

Second, since the measure is eventually made in financial terms, there is also an obvious incentive to deliver low wage increases, which is (I would have thought) the last thing that Labour wants to encourage.

Third, this goal does not take into consideration the distribution of the benefit of the increased productivity. We have seen decades of overall rising productivity in our economies, but with the vast majority of that gain going to capital. The result has been increasing inequality, rising corporate profits, and increasing relative poverty and there is nothing whatsoever in this new target that reverses that situation.

For all three reasons, the recommendation made is remarkably pro-capital and remarkably anti-labour, in the sense of being very largely counter to the best interests of those who work for a living. I can see very little to applaud about that.

The alternative measure that should have been adopted has been discussed here, often. The appropriate target was rising median wages.

Median wages must be the target because the mean is heavily skewed by very high paid to a few people in the workforce.

And median pay must also be targeted because it makes clear that the goal is an increasing reward to the person who works for a living, and who earns around the normal level of pay, who I would expect to be at the epicentre of Labour's concern.

And median pay needs to be considered because this then requires investment in new productive capacity, but of a type which does not leave large numbers in the country

behind, as a pure productivity target might well do.

I would love to say I could see any logic to what Labour has done. Maybe someone can enlighten me as to what it is. But right now Labour appears to be polishing its credentials as a deeply conventional, and fundamentally neoliberal party when it comes to economic policy.