Labour's chief economic adviser confirms it is committe...

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I delve into Labour party issues again with some reluctance, but it's important to do so. This time the issue is right on my home territory. It's economics and modern monetary theory. James Meadway, who heads John McDonnell's economics team, wrote this on Carol Wilcox's facebook page in a debate starting at 3.06pm on Saturday:

MMT is just plain old bad economics, unfortunately, and a regression of left economic thinking. An economy "with its own currency" may never "run out of money": but that money can become entirely worthless.

This was the reply from Howard Reed, who comments on this blog, quite often, and is a great economist:

MMT makes a lot more sense than Mrs Thatcher's handbag Economics (which is where the mainstream seems to be at, unfortunately). Very important for John McD to get out of that neoliberal mindset. He may well have escaped it already - you'll know better than me!

Meadway came back saying:

Well, I disagree - in terms of what a genuinely radical and transformative Labour government would need to do on the economy, its prescriptions are close to catastrophic (for all that it has grasped some correct formal insights ahead of neoclassicism). Any country that isn't the US trying to apply MMT's prescriptions would find itself in the same position.

Howard then asked:

Why is the US different?

Meadway never replied. Nor did he reply to this series of questions from me, which I posted (I have added paragraph breaks, not in the original):

Interesting James. How do you think money is created? Do you think the government is *incapable of creating it? If not, how do you explain QE? And how do you explain the fact that the economy has survived it?*

Whilst on the subject, do you think QE should only be for the benefit of bankers?

And what do you think the role of tax is in the economy? Might you explain how tax is paid if government does not create the cash to pay it in the first place?

And might you also explain why aiming for full employment by creating the demand to deliver it is such a bad thing to do?

And, come that that, why full employment on at least living wages would be such a bad thing for the economy that it would destroy confidence in the country and the currency?

Your comment requires responses on all these issues. Where would you like to start?

Maybe I'd have been tempted not to respond if I was James Meadway. He's dug himself a pretty immense hole here, but let me look at why. This is important: Meadway revealed just where Labour economic thinking is right now. Unpacking what he says reveals what he is saying.

First, it is that Labour thinks it has to live in fear of the money markets. And so bankers. And so their supposed ability to manipulate exchange rates.

Second, it shows that Labour is committed to leaving bankers (Carney & Co) in charge of these issues.

Third, it seems that Labour does remain committed to mainstream economic thinking, call it neoclassical or neoliberal if you wish.

Fourth, it thinks that to go back to a belief in full employment and the use of fiscal policy to achieve that and growth is a 'regression in left economic thinking'.

And, fifth, Meadway apparently thinks that achieving the goals of full employment and growth will leave the currency valueless.

I think these are all entirely fair extrapolations. On the basis of them is also possible to say that Meadway thinks Labour thinks, as Liam Byrne said, that the money can run out, and that it may have actually done so.

And that he thinks banks will be setting the agenda for Labour.

And that austerity will remain in place.

And that all the possibilities of fiscal policy; the power to create money to achieve social goals and (as importantly) to create the means to settle tax to keep inflation under control in that situation should all be ignored.

In other words, and let's not be too unsubtle about this, what Meadway is saying is expect Labour to deliver more Tory economic policy. Howard challenged him on this, and decoding his reply his response was 'markets won't let us do anything else'.

There is no surprise here: the reason why I refused the job of being McDonnell's chief economic adviser in 2015 (Meadway was to be my deputy) was because McDonnell was adamant that he had to sign up to Osborne's fiscal charter that required balanced budgets. That is still Labour policy, bar borrowing for investment, but with that borrowing to, however, be financed at market rates, and so be entirely within the goodwill of the banking system as Labour wants to see it. I maintain that in the circumstances I was right to quit: I could never have lived with such a timid approach towards the economic policy that this country needs for the radical transformation that is required to provide us with the basis for prosperity in the 21st-century. Meadway obviously can, and is delivering what John McDonnell wants in the form of deeply neoliberal, and profoundly conventional thinking. He can't even get his head around the fact that tax plays a fundamental role in MMT.

And if you want to know why I think Labour is not a radical party capable at present of delivering anything like the change this country requires because it is led by people far too right wing, and far too conventional in their thinking to do so, that is it.