Funding the Future

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I posted this as a Twitter thread this morning:

I was asked recently to explain the fundamental differences between the economics of the right, centre-ground and left of politics. That seemed to be an invitation to do a thread, so here goes……

The big difference between the political right, centre-ground and left in economic terms comes down to how they think markets work. They are either true believers, naive optimists or non-believers. That's all you really need to remember.

The true believers are on the right wing of politics. In their opinion the only reason people exist is to function within markets. Everything else in life is secondary as far as they are concerned.

They also think that markets send out signals to all who engage in them (by which they mean everyone) that tell people how much they are worth and what options they have with regard to spending and so what they can buy and sell.

The right-wing think that this market information is readily available, free, and always enough for anyone to make all the decisions that they need to make. They think that the market needs to be kept pure and uncluttered by interference so that it sends out the right data.

Just so there is no doubt as to what I mean by being 'kept pure and uncluttered by interference', that means there should be minimal government action and minimal taxation, because both interfere with the supposed purity of the market and its data .

However, the most important thing about the right is how they think markets work. They believe that markets work instantly. So long as we all have the information that market pricing delivers because we have no other priorities in life we supposedly react to it instantly.

Right-wing economists do, in effect, believe that if the market says jump we all do, instantly. The result is that government need never intervene in any issue because if reaction was required it has already happened. And if there has been no reaction, then none was needed.

The trouble with this position is that it would appear to conflict with reality, almost always. But for the right-wing economist that does not mean their theory is wrong. Instead, it means they can say there has been too much impurity introduced into the market by the government.

So for the right-wing economist the answer to every failure is not that the market got anything wrong, or failed, but that the government intervened to prevent the market getting things right. So less regulation, less government and less tax is always their cure.

There is, of course, no evidence that this will work. No one knows how to get rid of regulation, government or taxation for the benefit of society - but this is to the great advantage of the right wing economist. They can keep promoting solutions that can never be proved to work.

They do that because although they must know that the condition required for their ideas that to work - which is no effective government - will never occur, demanding that that we must move in that direction suits their sponsors very well.

The resulting low tax, low government, light regulation agenda has let wealth flood upward for forty years supported by an economic theory so out of touch with reality that it is absurd that anyone still teaches it, and yet it dominates university economics agendas.

What of the middle ground economist - the naive optimists? These people are most commonly called neo-Keynesians, although I makeclear that Keynes would have no more recognised these people as followers of his ideas than Jesus might have recognised some Christians for following his.

These people accept that markets work. They have their roots in all the same stuff as the market fundamentalists. They even think that if only there was a long period of economic stability then markets would deliver an optimal outcome for society - equilibrium as they call it.

They are, however, realistic enough to recognise two problems. The first is that people aren't pure economic automatons; they've some other priorities in life. And second, what they realise is that people take time to react to data. They realise that change is not instantaneous.

So whilst deep down these economists hanker for the purity of the free-market models they were taught as students what they realise is that during the delay whilst people react to those free-market signals the government might have a role in helping the required transition along.

What you get as a result is the muddled thinking of most governments in the supposed neoliberal era. The politics these economists support promotes market solutions, but with a string of half-hearted measures added to the mix to soften the continual blows of market failure.

Those half-hearted measures are always offered subject to time limit. If a train company fails it is nationalised, but only temporarily. If wages are too low then support is provided, but not for long. The message is clear: help is there until we got used to our market fate.

The overwhelming message from these politicians is clear. They think that the market is the source of all economic wisdom. They believe it does deliver correct signals. They think they must heed them. Their only role is to assist people to adjust to those signals.

The outcome is all too obvious. An imperfect market, rigged against the interests of most people with all the votes (measured by wealth) held by a few is supported by governments intent on delivering what that rigged market wants. The resulting rise in inequality is inevitable.

Then there is the third group of economists. They are the non-believers in the market, or rather, in the signals that it supplies.

I stress that many of these economists will be entirely relaxed about there being markets and private enterprise. They will readily accept their role in the economy. What they don’t believe is that markets deliver signals that indicate the real priorities of society.

Economists who do not believe in market signals do not think markets fail because of government interference. They do instead think markets fail because as those markets now are in practice they are inherently flawed.

These economists know that the votes within markets are distributed on the basis of income and wealth, and that as a result the interests of those in possession of them are overweighted when it comes to the signals that are sent.

Economists who do not believe in market signals also know that markets are not innocent. They can be abused to send incorrect information. Advertising invariably does that. So too do things like accounts - which deliberately suppress data on the impact of companies on society.

And they know that markets manufacture wants and then deny responsibility for the resulting debt oppression and climate change and straightforward waste, as well as the waste of human lives lived in pursuit of false dreams.

Worse, markets do not behave as both groups of market apologists suggest. Many (maybe most) are not now driven by companies driven by a desire to make profit from meeting customer need in competition with a host of rival suppliers, facing risk of failure if they don't succeed.

Instead large companies now actively suppress competition. Very often they supply products unavailable from anyone else. What large companies seek to do is to exploit brands to extract maximum income from people. This is rentier capitalism.

Rentier capitalism is not about profit. It's literally about rents. Some is that rent is from housing, which we are familiar with. But now we rent software, music and cars too. And those renting to us want to make sure we are hooked in, and can go nowhere else.

The aim is to defeat the signals markets supposedly send and which are suggested by market apologists to be the reason why we must heed what markets have to say. Rentier capitalism wants you to stay, even when the signal might say move. They are overruling the market signals.

What the market non-believers have realised is that much of the so-called market we now have is nothing like a market. That's because there is massive interference in it. But that interference does not come from the government. It comes from the players in the market.

That's why the non-believers in the supremacy of markets send out very different messages from both those groups who apologise for markets. This group says markets can't deliver the signals those other economists say we should rely on. They say we must look for something else.

These economists rarely say we should get rid of privately owned business. Almost no one does that now unless, that is, private ownership results in inefficiency, confusion and rent extraction, as it does in the case of natural monopolies like electricity, gas, water and rail.

Instead what they say is that because it is apparent that markets fail to deliver correct indications of priorities and do not, as a matter of fact as a result appropriately meet need or wants without significant consequences arising, they must be regulated.

We know this, of course. From health and safety, to protecting employee rights, to environmental regulation to proving proper accounts, regulation already (but insufficiently) addresses the market failure we know exists but which many economists refuse to acknowledge.

I should add that non-market believing economists do not think we could do away with this regulation if only we gave markets enough time to address the problems within them. The non-market believers know that market failure is hard-wired into modern markets. That’s a fact.

What this means though is that these economists have to look elsewhere for their indicators of priority, because markets, market pricing and market driven income and wealth distributions do not deliver data on what is desirable for society as a whole.

This is why these economists want better democracy. It is why they promote better governance and accountability. It is why they favour consultation and proactive participation in it. It is why plurality in the media is their concern.

That’s because what these non-market believers do is think that democracy, and the interests of all people, are what should drive policy within society. There is nothing more to this than the principle that drives our democracy, which is that each person counts, whoever they are.

In pursuit of this people-focussed concern what these non-believers in the supremacy of markets have done is to stand back and appraise the evidence.

As a result what they can see is that markets are not working because they are very obviously not delivering for everyone.

They also note that all the economics based on the assumption that markets work - whether from the right-wing or the neo-Keynesian centre-ground - assumes something that is not true, which is that left alone markets can put their own failure right. They very obviously can’t.

So based on evidence, rather than myth, these economists suggest that governments must intervene in the economy if we are to have the best possible outcomes for all. That’s because that is what the evidence suggests.

More than that, at present there is no evidence for a counter-argument. And yet the false claims of right-wing and centre-ground economists who are apologists for the market hold sway across much of the political spectrum.

No wonder people are disillusioned with politics. Politicians under the spell of an economic delusion have little appeal. Nor can their policies inspire confidence.

But right now due to the overwhelming majority of professional economists being market apologists we face this political bankruptcy daily.

We need not do that. But to break free we have to stop believing that markets tell us anything more useful than the actual fact that the rich are getting wealthier as a result of government policy. And then we need policy to tackle market failure.

Until then another way to look at the fundamental differences between economists is that most exist to increase inequality, and a few don’t. And that’s what has to change.