Funding the Future

Labour is going for the wrong sort of growth

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Labour has based its strategy on promoting private sector growth without showing any understanding that some of that growth might be harmful to the well-being of the people of the UK, and might even lead to the economy taking a nose-dive.

https://www.youtube.com/watch?v=k5Yo3Y_SMow?si=turqcQP0rEpQNlE8

This is the audio version:

https://www.podbean.com/player-v2/?i=zvrw3-179c682-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

This is the transcript:

Can the private sector really grow the UK economy in 2025? It's a question that needs to be asked because that is Keir Starmer's aim. That is what the UK government wants.

I've got quite a lot of experience with the UK economy. I've worked in it for a long time. I've observed it for 50 years. That's enough to be able to ask the question about whether his goal is realistic or not.

Let's just stand back for a moment and think about the conditions for growth in the private sector economy. There are essentially three of those conditions. I'm simplifying, but that's fair in this situation.

The first is that companies must have more or better products to sell to people. That's obvious. You can't have growth unless there is more sold. It's a simple, straightforward fact.

The second thing, therefore, is that people can be persuaded to buy those products. Remember, most of the things that are now sold in the UK aren't items that naturally come to our minds as being essential for our well-being. We are told they are important to us. And how do I know that? Because it's advertising that tells us this is the case. And the world of advertising would not be as big as it is if we didn't have to be told about the products that are available to us to buy.

Thirdly, people must have the means to buy those products, whether that be sufficient income to do so or the capacity to borrow to buy whatever it is that companies want to make available to us.

Those are the three conditions for growth. But there are problems.

First of all, there are no real signs of technical innovation in the UK economy at present. I know the world is going mad about AI and talking about what it can do, and I have not the slightest doubt that in some areas of technology, for example, drug development, AI is going to be phenomenally useful. But people are already being alienated by AI in some areas. For example, nobody wants to look at an AI-generated video. People can see through that straight away. They don't want it. They don't like it. And actually, they're even rejecting it.

And the same is true of many other products. ChatGPT is nothing more than a glorified Google search. And I'm aware that AI is more than just ChatGPT. But the consumer ultimately has to be persuaded to buy products including these things, and I'm not convinced they're going to.

More than that, I'm not convinced that people are going to be able to afford whatever it is that is delivered by technical innovation. The reason why I say that is that household incomes in the UK are stagnant. The incomes of the middle class are, in real terms, falling in many cases because the pay of professional people is not keeping up with growth in the economy as a whole, and they've been the traditional driver of growth.

Consumer debt levels are also high. And, as we know from the USA, the rate of defaults on consumer debt are rising. And that phenomenon is likely to become true in the UK as well.

In other words, this model of growth from selling more to people who can be persuaded to buy, and who will part with their money to do so, it's one that isn't looking too good for business.

And in fact, business knows that. This is my critical point. They've known it for so long that this is not now how business even tries to grow. This model of improving human well-being by letting people consume more is not how businesses have actually recorded more profit.

Instead, business growth has come from a very few sectors. Tech is one of them. Tech is the reason why the US stock market has grown by 20 per cent each year over the last two years. And that's all based on the hype of AI.

We've seen such hype before. We saw it in the late 1990s. We had the dot com boom, as it was called, which was motivated by the growth in the internet, which was going to totally transform the way in which we lived. And it did, but by no means as quickly as tech believed. And it did not deliver all the promises at the time that they were made. So the dot com boom was, of course, followed by the collapse in share values early in 2000. And that is what is possible now as well. Growth has been there for the time being, but tech is an extremely vulnerable basis for it.

The second sector, which has grown heavily, is banks. Banks have grown because interest rates are high, aided and abetted, of course, by the action of central bankers, who happen to be on the side of the banks and not on the side of ordinary people when it comes to this issue. So, the ability of banks and other financial services companies to extract more profit from us has grown heavily in recent years, and we all feel worse off as a result.

And then there's the third sector, which has delivered growth in the private sector, and that is private equity. Private equity is the business of investing in other businesses. That's what private equity does. One company buys up other companies, holds them for short periods of time, sometimes sells off little bits of them, asset strips them, refinances them, repackages them, and sells them on at a profit, they hope.

A lot of private equity profit is, however, looking pretty fictional right now. Private equity companies can actually make a profit by simply deciding to revalue the companies that they've already bought, even if they can't sell them. They can make up a value and record that as profit. There's a large degree of vulnerability in the valuation of many of those companies at present, but people like Keir Starmer have fallen for the myth that private equity is the way in which we need to go and believes that that is the way in which profit is earned, even though the accounts of private equity companies are amongst the most dubious of any that you might read.

In other words, all of this activity comes from speculative tech activity, exploitative banking activity, and financial engineering through the private equity market. These are not the basis for the growth in well-being of the people of this country.

Speculative tech might provide us with nothing. Banks exploit us all and extract value from the economy. And AI does something pretty similar, except in this case, most of the people who suffer are the employees of the companies subject to ownership by private equity. We are living, therefore, in a way that is actually designed to actually reduce the capacity. to provide people, like you and me, with the funds that are necessary to go and fund conventional business growth.

Banks reduce our capacity to spend.

The growth in AI is going to reduce the number of people, if it works, in employment, reducing the capacity of people to spend.

And private equity works by trying to reduce the number of people who are employed in the companies that they engage, to increase the profitability, to increase the value of the companies, to record a profit for the private equity capitalists without any concern for the people employed in them, who will no longer be able to afford to buy conventional products.

In other words, in the sectors of the private sector where there is growth, that growth is happening at cost to conventional business activity, which is designed to meet need. You literally couldn't make up this paradox more clearly.

And there is no way at present that accounting can differentiate between these types of activity. It doesn't tell you what is a good profit and what is a bad profit; what is a sustainable profit and what is unsustainable; what is one which is shared with the people within an organisation, a company or whatever, and one that is not; and one that is actually part of a virtuous cycle of activity which is self-fulfilling in terms of meeting need, and that which is exploitative by trying to extract value from that cycle of meeting need to simply increase the wealth of the already wealthy. The government also has no way of identifying those differences.

It also isn't possible to tell within the GDP data which type of private sector activity is going on. In other words, the government is flying blind.

And it's flying blind because it can't tell the difference between beneficial private sector activity and that non-beneficial activity, which tech, banks and private equity are delivering.

This worries me. We're going for growth. We're going for private sector growth. And what we might actually be going for is bust.

If we get this wrong, if we promote growth that is unsustainable, if we promote growth that is all about enhancing the well-being of a few tech entrepreneurs. some bankers, and some private equity capitalists, and we don't deliver for real people, we make the well-being of this country very much worse.

That is the risk that Labour is taking by going for private sector growth when it doesn't understand what the private sector really does, can't differentiate between beneficial and harmful private sector activity, and has no way of measuring the difference. That's where we are, and we're in trouble because of it.