Minouche Shafik is not going to save Labour's economic ...

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In 2018, Minouche (or, more formally, Nemat) Shafik wrote in an article entitled 'A New Social Contract', published by the International Monetary Fund, of which she had been a deputy managing director, but which was written in her role as director of the London School of Economics and Political Science at that time, that:

Intergenerational fairness and social mobility are issues that will take time to address; in the near term, some degree of redistribution is essential. Tax systems have become less progressive as advanced economies lowered corporate taxes and top rates on personal income in the 1980s and 1990s and raised value-added taxes. This is especially problematic given widening inequality in market incomes. And because wealth has grown even more unequal than income, we should explore taxing wealth such as inheritance, land, and real estate.

You might expect me to agree with her. However, appearances can be deceptive.

Subsequent to writing this article, Minouche Shafik was appointed as a life peer in 2020. It is also worth noting that she was a deputy director of the Bank of England from 2014 to 2017, had also served as a vice president at the World Bank, and subsequently was head of Columbia University during the 2024 Columbia University protests, which it is widely thought that she mishandled poorly.

In the aftermath of leaving Columbia, she has been advising the UK government and has now been appointed as Keir Starmer's new chief economic adviser.

This is not a minor announcement. In that role, she will help shape Rachel Reeves's autumn budget because she will be the point of contact between Reeves, as Chancellor, and Keir Starmer, as Prime Minister. The role is particularly important because it is known that he has so little understanding of this issue. More broadly, she will also anchor Number 10's entire approach to the economy. In that case, it is worth looking at what her appointment really means.

At first glance, Shafik looks like a break with the recent past. As noted, she has said that wealth needs to be taxed more heavily.

She has pointed out that the link between hard work and success is, in her words, "pernicious."

She has also argued for redistribution and what is sometimes called pre-distribution to address intergenerational unfairness.

She has supported the idea of property and inheritance taxes.

All appears to be promising, and is precisely why the [Daily Telegraph] wasted no time in accusing her of wanting to "punish success."

That claim is, of course, absurd. Taxing unearned gains is not an attack on effort. No one who inherits a large estate or rides the wave of a property boom has worked harder than the nurse or the care worker who rents their home and leaves little behind when they die. In fact, the absence of effective taxation on wealth entrenches the opposite of a meritocracy: it creates a system where the already wealthy become wealthier without effort, while those who work the hardest are denied a chance to create economic security for themselves and their families. The Telegraph appears to be confused about what success might mean in that case, and as a result, the right-wing caricature of Shafik is misplaced.

The reality is that Shafik is not a radical intent on dismantling the market economy. She is, instead, a mainstream technocrat who believes, as many within the OECD, IMF and World Bank now do, that some form of wealth tax is inevitable if social contracts are to survive. To present her as some kind of dangerous revolutionary is to distort her record beyond recognition.

That does not mean, however, that Shafik's appointment offers the change this country needs. The reality is that her entire professional life has been spent within institutions that define the neoliberal consensus: the World Bank, the IMF, the UK's Department for International Development, and the Bank of England. She has risen to the highest levels in those organisations. She has most definitely learned to speak their language, and that language is one of fiscal rules, debt sustainability, independent central banks, and above all, the permanent need to reassure financial markets, which all these organisations appear to live in perpetual fear of.

When Shafik spoke of a "new social contract," it was most definitely within those boundaries. She might have proposed more generous education and training schemes, portable pensions, and stronger safety nets, but she did so based on the assumption that the government must first of all demonstrate its fiscal credibility, in other words, presuming that social reform is always conditional on first reassuring the bond markets.

And this is where the real problem with her appointment lies. As I keep pointing out, the government of the UK cannot run out of sterling. Its spending capacity is not limited by money, but by the real resources available in the economy: people, skills, technology, and natural assets. These are the only genuine constraints on government spending. It is only if they run out, meaning that demand exceeds what the economy can deliver, that prices can rise. That is the pinch-point where policy has to be managed.

Shafik does not start from this reality. Instead, she accepts the Treasury's claim that there is a "black hole" in the public finances, which must be filled with tax increases or spending cuts. Within that framework, wealth taxes look like a way of plugging the gap. But taxation is not about raising money to fund government. It is about shaping distribution, controlling inflationary pressures, and closing down rent-seeking. By failing to make that shift, Shafik remains trapped inside a paradigm that has been failing Britain for four decades, and this matters.

First, it means that her apparently bold ideas are in practice much less radical than they seem. Wealth taxes are proposed not as part of a wider plan to re-engineer the economy around fairness and sustainability, but as adjustments that might restore fiscal credibility. That makes them vulnerable to being watered down, delayed, or abandoned whenever the bond markets demand.

Second, it means that redistribution is being talked about while the engines of inequality are left running. Shafik advocates predistribution, i.e. investing in people so that inequality is less extreme before taxes and transfers are applied. That is sensible. But unless the rents extracted from land, property, energy, and finance are confronted directly, predistribution will leak back into private profit. You can train people all you like, but if they spend their lives funnelling their wages into inflated rents, excessive interest payments, or inflated bills charged by monopolies granted power by the state, little changes.

Third, it means that the enforcement infrastructure of taxes is largely ignored. Talking about taxing wealth is politically bold. Making it happen requires plumbing. It requires the measures described in the Taxing Wealth Report 2024, and additionally, it requires banks to report data on individual and corporate bank balances and deposits to HMRC automatically. It also requires directors to be held liable when companies phoenix away their tax bills. And it requires comprehensive registers of land, property, and wealth as well as enhanced action against tax havens and secrecy jurisdictions. Without these things, new wealth taxes will be little more than statements of intent. Shafik has said little about any of them.

Fourth, her economic worldview continues to give primacy to the Bank of England. She has been deputy governor there, and accepts the 1990s model of independent central banks, inflation targeting, and fiscal rules. That model has delivered decades of underinvestment and social failure in the UK. It guarantees that fiscal policy is always subordinated to the task of reassuring markets. A new settlement would mean the Treasury and Bank working together with a dual mandate to deliver full employment and price stability, with the Bank being the most definite junior partner. That is not part of Shafik's thinking.

Fifth, her global perspective also remains cautious. On aid and development, she has argued for stronger multilateralism, but always within the framework of debt sustainability. That is the language of the IMF, not of those seeking to re-engineer the global financial order so that poorer countries can avoid crises, deliver public services, and tackle climate breakdown without being trapped by creditors.

Put bluntly, Shafik's worldview is one of soft neoliberalism. It accepts the fiscal myths of scarcity. It accepts the primacy of financial markets. It offers modest redistribution without structural reform. It promises investment in people, but without confronting the rents that drain their wages away. And it proposes wealth taxes without the enforcement infrastructure to make them unavoidable.

That is why her appointment is no answer to the real challenges Britain faces. We need investment in housing, health, education, and climate transition. We need to rebuild public capacity and public ownership. We need to tax rents out of the economy, not just shuffle them through the tax system. We need to tell the truth that the government of the UK cannot run out of money, and that taxation is not about funding spending but about reshaping society. None of that is on offer from Minouche Shafik.

The Daily Telegraph is wrong to smear her as a dangerous radical. She is nothing of the sort. But that is precisely the problem. Britain is being offered cautious technocracy dressed up as bold reform. What we need is a new macroeconomic settlement: one that starts from the recognition that money is not scarce, but resources are; one that uses taxation to tackle inequality, rents, and inflation, not to fund spending; and one that restores democracy as the final arbiter of economic policy, not the bond market.

Shafik's appointment suggests Labour has no intention of delivering that. Instead, it might present modest wealth taxes within a neoliberal frame as if they were transformational. That may fool some for a while, but it will not solve the UK's economic crisis.

And meanwhile, fascism marches on, aided and abetted by the fact that nothing will really be done to tackle the justified grievances of people in this country.