Funding the Future

Polanski, Meadway and a bit of Murphy

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Zack Polanski published a new edition of his podcast last night, in which he is in conversation with James Meadway, about whom I have written here of late.

I have only had time to listen to the podcast once so far, and I may do so again. There may be nuances I have not picked up, but in writing this post, I also read the transcript, which seemed very accurate.

Three things stood out for me:

* James Meadway is obsessed with keeping bond markets happy.

* He has no theoretical narrative of change to back up any of his suggestions.

* This means that he appears to have no alternative explanations for how the economy might work, barring some very standard left-of-centre economic favourites right now, like a wealth tax. He is, therefore, offering a view that is hard to distinguish, except in detail, from that of the current Labour government, or that which the Treasury might prescribe.

What was notable about the conversation was its negative tone. That might be described by some as realism, but it came across as caution. The reason for that was easy to find. Underneath what was said was James Meadway's deep-seated paranoia about bond markets, because what he made very clear is that he sees them as holding the ultimate power and veto over democratic economic choice.

Meadway’s starting point was a logical appraisal. He was right to say that Britain is currently exposed to the whims of international finance, that a significant share of government debt is held abroad, and that sudden market reactions can, in the current debt management framework and understanding of its nature, and in the absence of capital controls, have real effects on interest rates, the exchange rate, and inflation. What I stress in that sentence is the phrase "in the current debt management framework and understanding of its nature, and in the absence of capital controls".

What is clear is that James Meadway has no plan to change that framework, or his understanding of it, or to consider capital controls. The implication of all he said is that markets are untouchable, as is our knowledge of them.

James Meadway lacks:

* A theory of money based on how it is actually created in the real world, whether by the Bank of England for the government, or by commercial banks for their customers.

* An understanding that the government can spend without tax or borrowing first, as is true based on real-world evidence.

* An awareness that taxes do not fund government spending, it controls inflation (about which subject it is obvious he lacks any real understanding).

* An awareness that governments need not "borrow" because they can always be funded by their own central bank.

* An understanding that what he calls debt is in fact nothing more than a safe deposit facility provided by the government to markets that are desperate for that facility because banks, pension funds, life insurance companies and the holders of sterling all need a safe place to deposit their funds and only the govbermment can provide it.

James Meadway has none of these narratives, and so he can only subscribe to the existing bond market narrative, which is that it is in charge, and can dictate its own terms and price, and can use that power to dictate the level of activity the government is permitted to undertake in the economy, and even what it might do with the funds available to it.

Over and over again, he returned to the same causal chain:

* If a government moves too fast or too boldly, he said, bondholders will lose confidence.

* If they lose confidence, they will sell gilts.

* If they sell gilts, yields will rise, the pound will fall, and imported inflation will follow.

This, he says, is how you end up with another Liz Truss moment. His language was explicit:

* Truss “kicked the bomb"

* The bomb “went off”, and

* The lesson is that any future government must carefully “cut the wires in the right order”.

That metaphor matters. It does a great deal of political work. It tells the listener that the economy is a rigged explosive device and that radical policy is not an act of democratic renewal but an act of recklessness. Once you accept that framing, the space for political choice collapses very quickly. You are no longer asking what the economy should be for. You are, instead, always asking how to avoid setting off the markets.

Meadway reinforces this by insisting that bond markets are not political actors, but are merely profit-seeking ones. They are, he says, "just people trying to make money" who want stability. But this is precisely where his analysis slips. Institutions that can punish governments for stepping outside narrow parameters are not rendered apolitical by the fact that they pursue profit rather than ideology. Power does not stop being power because it promotes a balance sheet instead of a manifesto. And if he affords the markets power - as his natrative does - they will, unsurprisingly, use it.

Meadway, admittedly, briefly acknowledges this himself when he describes debt as a "power relationship". But, he suggested that altering that relationship will provoke resistance from those who benefit from it and instead of following that insight through to its logical conclusion, he retreated. The task, he argued, is not to confront that power directly, but to reassure it. He claimed the need is not to challenge the markets with the power government has, but to get a "social majority", produce a credible long-term plan, and then be assured that the bond markets will calm down, although he did not explain why he thinks that will be the case. Democracy is, then, in his view, permitted to act, but only after it has persuaded creditors that nothing truly threatening will occur.

This is where James Meadway seemed to argue that the Liz Truss example is a disciplinary tale, but that was wrong. Truss did not fail because she challenged bond markets as such (because Andrew Bailey had already done that for her, the day before Kwasi Kwarteng's budget). She failed because she combined unfunded tax cuts for the wealthy, no institutional coordination, no central bank alignment, and no democratic mandate, in the context of already rising inflation. To generalise from that episode into a standing warning against bold economic restructuring is to mistake incompetence for inevitability, and that is what James Meadway did.

In fairness to Zack, he did challenge James Meadway on this. He made clear he saw me as the opponent to James' view, directly stating that:

I don't want to put words in [Richard's] mouth, but I think part of what he's saying is "kick the bomb". Like he's saying we need to entirely change the model.

That was almost right: what I am actually saying is not that we need to kick the bomb, because I would argue there is no bomb. Nor do we necessarily need to change the world by very much. What, instead, we need to do is recognise the reality of the world that exists. That is because I don't deal in models as such: I only deal in realities, and if we just understood how the world already works, we would see everything I am suggesting is possible, and no bomb, or anything remotely like it, is required. The problem is that James Meadway does not see that. He is playing with an economic model (and an incredibly conventional one) that describes debt as a bomb, and he is terrified it will go off, when it won't, because it can't, as it does not exist. That's the difference in our positions.

What emerged from all this framing was, then, not a strategy for transformation, but a politics of pre-emptive restraint. Meadway said he supports anti-austerity policies. He wants higher wages, better public services, climate action, and more equality. But all of this he made clear was fenced in by a constant injunction not to frighten the markets. Transformation, in his view, is acceptable only if it can be narrated in a way that bondholders find comforting.

This is, of course, how austerity has already survived long after its intellectual collapse. It has not done so as a doctrine that is openly defended, but, instead, as a background fear. The narrative now is not “we must cut”, but “we must be careful”. Not “markets are right”, but “markets are dangerous”. The effect is the same: democratic ambition is downsized in advance. This is the thinking of Rachel Reeves, and I can spot no significant difference in James Meadway's thinking.

The deeper problem is that this framing concedes the very point it should be challenging. If bond markets really do possess the power to destroy governments that pursue popular, necessary policies, then the question is not how to placate them. The question is how to redesign the monetary, fiscal, and institutional framework so that this power no longer operates in that way. At the very least, that means we must first understand them, as I think I do, and second, confront them rather than tiptoe around the relationship between the Treasury, the central bank, and the financial system.

Until that happens, warnings about “another Liz Truss” will continue to function as a brake on political imagination. Saying that, as James Meadway did (and as Rachel Reeves does), might sound prudent. It might feel responsible. But what it will actually do is ensure that the boundaries of policy are still set, not by democratic choice, but by fear of the bond market reaction. And the real problem is that markets will not permit:

* Full employment.
* Spending on the level of services we really need.
* The provision of care in all its forms,
* Funding for essential infrastructure investment, including social housing.
* Payment for a green transition.

The choice then, is simple:

* We play within the boundaries of what is, in effect, conventional neoliberal economics

and presume that there is a ticking bomb waiting to go off that we must tiptoe around, or

* We address the economic realities of money, government money creation, the function of tax, and the realities of bond markets, and the nature of savings and investment and the current disconnect between them, and manage the world as it really is to ensure we can have all those things I just noted, which are the things people want - and which I know are deliverable, because as Keynes once said, "whatever we can do, we can afford".

James Meadway offers the first choice.

I offer the second.

I think I know the one most Greens would prefer.

And I stress, I am not making this personal: I am making the point because this matters. If the Greens are the only hope we have for decent government in this country in the foreseeable future (and I stress, I am talking England here: Wales and Scotland have other choices) - and that might be the case - then understanding these differences matters, because they are massive, and massively important to future well-being.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, **here.**

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

Comments