Funding the Future

Why's Labour destroying jobs?

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Pat McFadden, Labour's Work and Pensions Secretary (for now), says the government should help people into employment instead of simply paying benefits. But how can Labour promise more jobs while supporting economic policies designed to suppress demand and increase unemployment?

In this video, I examine the contradiction at the heart of Labour’s employment policy. The Bank of England is maintaining high interest rates and pursuing quantitative tightening, restricting investment and reducing the number of jobs available. At the same time, ministers are placing greater pressure on health and disability benefit claimants to find work.

You cannot destroy jobs and demand that more people work at the same time.

I explain why the government should reconsider the Bank of England's independence, reduce interest rates, and end quantitative tightening. I also outline how reforms to ISA and pension tax relief could direct more than £100 billion a year towards productive investment in Britain.

That investment could support better transport, renewable energy, hospitals, schools, flood defences, housing and the national grid while creating worthwhile employment throughout the country.

It could also support people facing barriers to employment who need training, transport, appropriate workplace support, and help with special educational needs. Slogans and benefit sanctions cannot substitute for a credible full-employment policy.

Can Labour resolve this contradiction, or is a fundamental change of economic policy now required?

https://www.youtube.com/watch?v=WMoSS6qfJgw?si=L0ZCS9rPd4KJY5zw

This is the audio version:

https://www.podbean.com/player-v2/?i=d7sb5-1b13878-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

The Debate Ammunition for this video is available here.

This is the transcript:

In the dying days of Keir Starmer's government, I'm still so bored that it talks in slogans.

Pat McFadden, the Work and Pensions Secretary, has said the government must stop simply paying benefits to people. He says the government should provide more jobs instead, and that sounds reasonable at first hearing.

I guess it's his bid for his job under Andy Burnham, but this Labour government's policies are preventing the supply of the jobs that he says it should deliver, and he doesn't understand that. That is the problem that we are facing with the current Labour government, and I'm hoping that that will be resolved in the next one, in which case Pat McFadden shouldn't have a part in it.

Labour's position on job creation is internally contradictory. That's the point I'm going to make in this video.

Jobs cannot appear on the basis of political rhetoric alone. Government policy must create the conditions for full employment, and Labour is supporting policies that are directly designed to destroy jobs. That contradiction cannot be ignored, so let me explain it.

McFadden, in his comments, is attacking health and disability claimants. He's saying that he knows that some of these people cannot work, which is very nice of him, when we know, as a matter of fact, it is incredibly difficult to get most of these benefits.

The evidence required to support the claim is very high. And as a matter of fact, therefore, the vast majority of people who get these benefits are genuine.

But he implies that many of the people on these benefits could work instead, without any evidence to support his claim, at all. And so what he's doing is unfairly stigmatising claimants with the suggestion - a George Osborne-style suggestion - that they are shirkers and skivers.

But the fact is, he cannot promise them the jobs that he says they would want and which he says the government should deliver because the Bank of England is, with the full cooperation and assistance of the Treasury, ensuring that there is deliberate unemployment in the UK.

That is the consequence of its interest rate policy. Its interest rate policy is to create high interest rates in this country to deliberately reduce demand within our economy.

And at the same time, it is undertaking something called quantitative tightening, which reverses the previous quantitative easing process, done through 2008 after the global financial crisis, and in 2020 during the COVID crisis, by withdrawing the money that the banks were provided with then, which means there is less liquidity in our economy at present, and less capacity to create investment, and therefore fewer jobs.

These measures, in combination - high interest rates and quantitative tightening - are guaranteeing that Labour is letting the Bank of England destroy large numbers of jobs in the UK, and now Pat McFadden is saying the government should be creating jobs.

You can't destroy jobs and say you want to create jobs at the same time, Pat McFadden. That makes no sense. You have to have a joined-up policy. It was something that Tony Blair used to talk about, but Labour has never really understood.

What is more, the Bank of England's policy fails at every level. It assumes that high interest rates will beat inflation in this country, but almost all the inflation we've had in the UK since 2020 has been imported from overseas.

It was imported after the COVID crisis because there were supply chain problems outside the UK.

It was imported because of the problems that arose as a consequence of war breaking out in Ukraine.

And it's been imported as a consequence of war breaking out in the Gulf.

None of those things are measures over which the Bank of England had any control whatsoever.

But nonetheless, they're raising interest rates to supposedly suppress excess demand in the UK economy, when there is no excess demand in the UK economy, and all they are creating as a consequence are deliberately high levels of unemployment, and we know that.

The unemployment level has now reached 5% generally and 10% amongst young people.

Workers are paying the price for this mistaken policy, and it has to be changed.

And it could be, but it seems that Pat McFadden hasn't got the brain power to connect these issues together and therefore demand that Labour end its policy conflict.

That is the problem that we are facing. That is the problem that should be solved. And the resolution is easy to find.

First of all, Labour should end Bank of England independence now.

Why? Because that would mean we would not have this risk of a conflict between what the Treasury and the government wants and what the Bank of England wants.

At the moment, we're driving the economy with one foot hard on the accelerator. That's the Treasury, if Pat McFadden gets his way, to try to create new jobs. And one foot hard on the brake, that's the Bank of England.

And what we know happens as a result is something like doughnut turns or whatever Jeremy Clarkson used to call them. We just spin, going nowhere.

And monetary policy at the moment is not supporting the government's objectives. And that has to change. And the way it can be changed is to bring the Bank of England back under central government control.

And if that was done, the second measure should be to reduce the Bank of England base rate . It is too high. It is out of step with the rest of the world.

The only reason it is so high is to attract hot mobile cash into the City of London so bankers can make more money than they would otherwise do. And that is a cost to everyone else in our economy.

That base rate should be reduced. And if it was, every other interest rate in the UK economy would be reduced as well.

The government would spend less on interest. We would spend less on interest. We would spend more on buying things. There would be more jobs.

It is as straightforward as that, but the government doesn't understand that.

And there is a third measure that Labour should put in place if it restores control of the Bank of England within the Treasury.

It should end quantitative tightening now. It should simply come to an end. And in fact, quantitative easing should be considered again.

Why? Because financial markets need adequate liquidity. They've been denied it by the deliberate process of the government withdrawing the funding that it previously supplied.

It is the only central bank in the world to have tried this. We are suffering as a consequence. And providing a change of policy would encourage investment instead of restricting it, which is what is happening now.

And let's be honest: when we come to talk about encouraging investment, we could change our savings system.

I've talked about this before, but it's absolutely fundamental. If we are to have more jobs in the UK economy, we need more investment.

That can come from the government, or it can come from the private sector. The private sector is not delivering, and the government claims it can't borrow.

But my suggestion is that the government should provide changes to the rules on ISAs in pensions so that all ISA savings are in bonds that are used to fund investment in the UK.

There is no reason why this could not be done, and about £70 billion a year could be released into investment in the UK economy, as a consequence.

This would not increase UK government borrowing because there would be assets to back the investment. Therefore, it is in government borrowing terms, net neutral.

And part of every new pension contribution could also be used in the same way as a condition of getting the tax relief on the savings product.

This could increase the amount of money available to invest in the UK economy to over £100 billion a year.

And if the private sector doesn't know what to do with that money because all it wants to do is speculate, then the government should be spending this on all the things we know we need.

Better transport systems, a better national grid, better electricity generation, better hospitals, better schools, better roads, you name it, better flood defences, insulated houses, solar panels in every house in the UK, making every single house a power station.

All of that is possible. We could create the jobs we need by changing our savings system and turning it into a source of capital for job creation.

Labour could do this. It is possible, but there is a constraint. We do need to have the people available to work.

And in this sense, Pat McFadden's right and wrong. There are people who might be able to work, but there are barriers to them working, and that is a big issue we need to overcome.

Simple things like making driving lessons and tests available so people can get to work are really important.

Providing essential skills is important. And in this context, many of the people who are now unemployed might have had special educational needs when at school.

Special educational needs do not end when you leave school. If you needed support to get through education, you might need support to get into work, but that isn't available.

We need to reimagine how vulnerable people need training and support to equip them for the demands of the workplace, for which they have not been prepared by education.

This is essential. If Pat McFadden wants more people to work, we've got to help them to work, not just tell them to work. Slogans don't work.

So at this point we have got a plan, but Labour has to do something else to make it work.

It has to abandon the Treasury view. The view that has prevailed inside the UK Treasury for a century now, that says the UK government is unable to change the level of economic activity because money is a scarce resource, and if the government uses it, it prevents the private sector using it.

So, a shift from private sector to public sector activity does, according to the Treasury, not boost the overall level of activity in the economy, and therefore it's a waste of time.

This was proven to be wrong by John Maynard Keynes in the 1930s. It's been wrong ever since, but it is what the government believes via the Treasury.

And the consequence is that, at the moment, they will not use their economic power to create jobs.

This is the big impediment to progress, and Pat McFadden isn't talking about changing that view. In fact, he subscribes to that view. I know he's told me in person that he does by implication of the language he used.

So, we do need to create jobs. We do need every government department to prepare plans to invest the sums that I could create by changing ISA and pension rules.

The government should be funding productive projects. It should be investing in creating employment opportunities. It should be changing the rules around the Bank of England.

This is how jobs could actually be delivered.

There is a real choice to be made. Labour can continue with today's failed policies, or it can create the conditions for full employment.

I've explained how it can be done. It is possible. It would be straightforward. It would not upset the world because they would know that we were doing this with a plan.

A plan for full employment. A plan for growth. A plan to improve the prosperity of the UK. A plan to provide the underpinning for the future prosperity of both the public and private sector in this country.

Nobody is going to react adversely to that.

And if anyone should lose their job because they are the problem that needs to be removed if we are to implement this plan, it is Keir Starmer, Rachel Reeves and Pat McFadden.

The three of them have done enormous harm to this economy.

It's time to move on. It's time for Labour to change its spots. It's time for Labour to deliver for people and not for finance.

That's what I think. What do you think? There's a poll down below.

Please let us have your comments. Please share this video and like it if that's what you do.

And if you'd like to make a contribution so that I can afford to buy Tom a coffee, that would be great.

Poll

[poll id="458"]