

The collapse of neoliberalism

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This is a podcast I recorded a little over a week ago with my old friend Tony Groves, who runs the Echo Chamber podcast in Dublin.

It is now out from behind his paywall, so I offer it here today:

<https://www.youtube.com/watch?v=zubD5QyrNW8?si=1mPeaQAPn8MtwswH>

There is no transcript for this video to reproduce here. This, however, is my summary of the conversation:

About a week ago, I joined Tony Groves on his Echo Chamber podcast to discuss the political and economic crises now confronting Britain, Ireland and much of Europe. As ever with Tony, the conversation ranged widely, but there was a consistent theme running through it. Neoliberalism is failing, people are increasingly aware of that fact, and the political establishment has remarkably little idea what to do about it.

We began by discussing Andy Burnham, whose arrival as prime minister has been greeted with extraordinary enthusiasm by much of the British media. Tony questioned whether the establishment had simply found another politician it could promote as the answer to Britain's problems without requiring any fundamental change in economic policy.

I agreed. My concern is that Burnham claims to oppose neoliberalism while remaining committed to the fiscal rules that are central to its operation. Those rules demand that government spending be constrained by arbitrary financial targets rather than determined by the needs of society and the resources available to meet them.

I argued that fiscal rules are political inventions. They have no foundation in economic necessity. They are repeatedly changed when governments cannot meet them, but meanwhile they provide an excuse for refusing to invest in public services, infrastructure and the well-being of ordinary people.

The obsession with fiscal headroom is particularly absurd. It involves comparing economic forecasts, which are inevitably uncertain, with fiscal rules that are entirely artificial. The resulting numbers then supposedly determine whether people can have the healthcare, education, housing and other essential services they need.

That is not economics. It is a political choice to put financial interests before people.

The growing resistance to neoliberalism

Tony and I then discussed the protests taking place in France and Spain, where growing numbers of people, particularly younger people, are rejecting economic arrangements that deny them any reasonable prospect of security.

Housing was central to this discussion. Tony described the extraordinary pressures facing tenants in Madrid and Ireland, where property investors continue to seek ever-higher rents despite the obvious inability of many people to pay them.

I suggested that this demonstrated the difference between genuine profit and economic extraction.

Genuine profit arises when people combine resources, skills and effort to provide goods or services that meet real needs. Extraction occurs when those with economic power use their control over essential resources to take an ever-increasing share of other people's incomes.

Rent, interest, monopoly pricing and financial speculation can all facilitate that process.

Neoliberalism has increasingly become an economic system organised around extraction rather than productive activity.

The consequence is that young people are losing faith in the societies in which they live. Many have qualifications but cannot find secure employment. They cannot afford homes. They cannot imagine achieving the living standards their parents enjoyed.

I described conversations I have with young people who feel increasingly detached from society because they cannot see how they might establish a secure future.

That detachment matters politically. When people believe they have nothing to lose, they become willing to challenge the existing order. The protests in France and Spain suggest that this process is already under way.

The question is whether progressive politics can provide an answer before the far right exploits that anger.

What would a different economic policy look like?

Tony asked what I would do differently if I had the opportunity to reshape British economic policy.

I began with the Bank of England.

I would end its supposed independence because monetary and fiscal policy should be coordinated to deliver public well-being. At present, governments are expected to pursue growth and employment while the Bank of England can deliberately suppress economic activity through higher interest rates.

That makes little sense.

I would also bring the underlying banking payments infrastructure into public ownership. The payments system is essential national infrastructure. It should not depend on the continued survival of privately owned banks.

Private banks could continue operating on that publicly owned platform, but their failure would no longer threaten the entire economy.

I then explained how I would transform savings and investment.

Britain has enormous accumulated financial wealth, much of which is invested in ways that contribute little to the creation of new productive capacity. Rather than subsidising financial speculation, I would encourage people to save through an expanded National Savings and Investments system.

Those savings could be linked to investment in the NHS, education, housing, infrastructure and regional development.

People could choose to support investment in their own communities, knowing that their savings were secure and that the resulting investment would deliver something useful.

I suggested that hundreds of billions of pounds could potentially be mobilised in this way, although the actual constraint on investment would be the availability of labour, skills and other real resources.

One of my priorities would be creating what I call a carbon army.

This would involve training and employing hundreds of thousands of people to improve the energy efficiency of Britain's buildings through insulation, solar panels, better

glazing and other improvements.

Such a programme could provide secure, unionised employment for decades while reducing energy bills, tackling climate change and improving living standards.

This is the sort of economic transformation that governments should be planning. Instead, they remain obsessed with balancing spreadsheets.

Why we need a better song to sing

The final part of our conversation concerned political strategy.

I argued that opposition to neoliberalism is not enough. Progressive politicians need a coherent alternative that explains what they intend to achieve, how they will achieve it and why their approach will improve people's lives.

I have previously described this as the need for a better song to sing, borrowing the idea from the film *Educating Rita*.

History demonstrates why this matters.

Keynes had developed his economic ideas before politicians needed them during the Great Depression. Beveridge provided the foundations for the postwar welfare state. Thatcher arrived in office with an established neoliberal programme ready for implementation.

Political change requires preparation.

I recalled my own experience of helping develop the international response to tax haven abuse during the 2008 financial crisis, when ideas that had previously seemed marginal suddenly became politically relevant.

The same principle applies now.

I am currently writing ***How to Govern***, a book intended to explain why governments have surrendered so much of their capacity to govern to financial interests, and how that power might be reclaimed.

My argument is that we need what I have previously called the Courageous State, one willing to use its powers to meet the needs of society rather than defer continually to financial markets.

Modern monetary theory is an important foundation for that approach, but it is not sufficient by itself. We also need policies for care, housing, employment, climate change, public services and economic security.

Above all, we need a coherent vision of what government is for.

Tony and I concluded by discussing the importance of communicating these ideas effectively. I explained how the infographics I have recently been publishing are helping me reach audiences who might never read a conventional economics article.

That matters because having good ideas is insufficient if people do not understand them.

My conclusion from our conversation was that we are approaching a moment when the existing political and economic settlement may become unsustainable. The protests already taking place across Europe suggest that growing numbers of people recognise this.

The question is whether we will have an alternative ready when that moment arrives.

I intend to do everything I can to ensure that we do.