

British Government@LSE public lecture

John McDonnell on Labour's Economic Policy

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<http://press.labour.org.uk/post/139440665429/labour-is-interested-in-how-we-earn-money-not-just>

'Labour is interested in how we earn money not just how to spend it'

It is now five months since Jeremy Corbyn turned the British political world upside down and became leader of the Labour Party.

His campaign spoke of the need for a 'New Politics' and touched a nerve with thousands of people up and down this country who instinctively understand the need for radical change.

Our job is now to deliver that change, and I believe we have made real progress in doing so.

A few weeks after Jeremy asked me to take the job as Shadow Chancellor, George Osborne brought his so-called Charter for Budget Responsibility to Parliament.

Now these have become something of a farce in recent years. Each time, the Chancellor solemnly informs us this is how he will address the finances of the Government.

And each year he misses the targets he set himself, and tries again.

When we spoke to our colleagues it became clear that the mood which carried Jeremy to the Labour leadership was beginning to shift opinion throughout the Labour Party, and there was a real appetite for opposing Osborne's plans.

We voted against them and drew a clear unequivocal line in the sand.

From now on, the Labour Party is an anti-austerity party, which rejects the failed approach to macroeconomics that has done so much damage to this country and across Europe.

I am immensely proud of that, and I believe all of us in the Labour Party should be.

But this is just the very beginning. It is not just bad macroeconomic policy which holds back the potential of the UK.

We want to look root and branch at every aspect of the British economy and especially how it interacts with the process of government.

One of the first things we did was to commission a series of reviews by respected figures in their fields into the key institutions of economic decision making.

Lord Kerslake, the former Head of the Civil Service, is conducting a review into the workings of the Treasury. He has brought together an impressive team of experienced figures from the public and private sector to look at whether its current role and mandate are appropriate.

In particular, I have asked him to look separately at the roles of the Treasury as an “economics ministry” and as a “finance ministry”.

Alongside that, Danny Blanchflower, formerly of the Bank of England’s Monetary Policy Committee, is looking into the make-up and mandate of the committee.

I’ve asked him to report back on whether the MPC has the mandate it needs to meet the challenges and uncertainties of the future, or whether changes need to be made.

Professor Prem Sikka of Essex University is conducting a review for us into the operation of HMRC and whether it is fit for purpose.

This topic now seems even more important following the recent revelations about Google’s tax bill.

And finally, alongside these external reviews, my colleague Seema Malhotra is looking at the system of tax reliefs which has developed over the years.

We want to understand whether they work as intended in incentivising business investment.

But also we want to make sure the Government is monitoring them and making sure the taxpayer gets value for money for each one.

All this work is important to help us understand why the failed policies of the past are still dominating so much of public life.

Developing that understanding is vital.

But most of all we need to begin to put forward the radical alternative which our economy needs.

That's why I assembled our Economic Advisory Council. It brings together some of the foremost economists in their areas to advise us in their areas of expertise, which range from labour economics to shadow banking to monetary and fiscal policy. *[Ann Pettifor, Danny Blanchflower, Simon Wren-Lewis, Joseph Stiglitz, Thomas Piketty, Mariana Mazzucato, Anastasia Nesvetailova, Diane Elson]*

And that Economic Advisory Council is the backbone of our New Economics series, which was launched last month.

Right across the UK the members of our EAC, and others, are speaking to packed halls about the important economic issues of our day.

From the effect of technology on working patterns to the importance of a balanced economy, or the framing of economic narratives, we are opening up the debate and listening to the brightest minds on the biggest topics.

I hope that many of you here today will be able to join us for one or more of the events, which are all free, and advertised on the New Economics website.

Alongside the public events, we have instituted an ongoing round of stakeholder visits and meetings, ranging from individual businesses including Microsoft and BT, to business organisations including the CBI, the FSB, the City of London Corporation, various trade associations and the British Chambers of Commerce.

We have established a series of meetings with trade unions, the TUC, and a range of third sector organisations, think tanks and educational establishments. Also the Bank of England and the FCA.

We need to listen to new ideas, because the economy needs them.

But even more urgently, the Labour Party needs them.

Since 2008 we have allowed the Conservative Party to set the economic agenda and to define the economic narrative.

They successfully re-imagined the crisis of the banking sector as a crisis of the public sector.

And we need to learn lessons from that.

The message which comes through time and time again, from all the post mortems into last year's election defeat, is that the public don't trust Labour with the economy and the public finances.

Labour has a fight on our hands to win back economic credibility, but it's the most important fight in a generation.

We need to begin by underlining our commitment to bringing the government's day-to-day spending into balance.

We know the importance of borrowing for investment, which lays the foundations for future economic prosperity.

Few things are more urgent than delivering the infrastructure our economy is crying out for, infrastructure which pays for itself by expanding economic activity and raising tax revenues.

But this is still just the very beginning.

We need a tax system which is fit for the twenty-first century, in the era of globally mobile capital.

Because we need a complete rethink of not just how we spend money but how we earn it.

But still we need to look deeper at the fundamentals of our economy.

How assets are owned and shared. How wealth is created and by whom.

Moving away from the image of a party which thinks only about how much it can spend, to a party that is focused on how we earn.

In the autumn I spoke at Imperial College about the tremendous possibilities being opened up by technology and the so-called gig economy.

But also about the importance of finding ways that the benefits of this technology is shared by society, and does not just mean a race to the bottom in wages or workplace rights.

And at the Co-operating Ways Forward Conference in January I spoke about expanding co-operative ownership and developing a Right to Own.

Osborne's retreat

The aim throughout all of this is to begin the process of laying out how Labour can address the profound challenges facing our society, and how it can do so in a way that is fair, inclusive, and realistic.

These challenges are dramatic. We can list climate change, rapid technological advance, and an aging population as currently amongst the most obvious.

There are two ways we, as a society, can respond. One is that offered by the present government.

It is to retreat, and to take the path of least resistance.

It has become clear this is George Osborne's preferred path. His talk on entering Number 11 of a "march of the makers" and a "rebalanced economy" has proved to be just that: talk.

Manufacturing output is significantly lower now than it was in 2008, whilst service output has boomed.

Employment in London is up nearly 12% since 2010. Employment in the rest of the UK has risen by just 0.3%.

The UK's current account deficit has reached record levels in the last 12 months.

Household debt, after many years of shrinking, is now rising rapidly.

And productivity, that vital driver of economic growth, is lagging far behind comparable economies. The gap between the UK's output per hour and the rest of the G8 is now the biggest it has been since 1991.

So that's a shrivelled manufacturing sector. Geographical imbalances. A colossal current account deficit. A growing dependency on household borrowing. And productivity lagging behind international comparators.

It is a wearily familiar list.

These are long-term, structural problems. They are the result of deep institutional weaknesses in the UK economy that have now survived successive governments.

They will survive this one, too.

Far from marking a break with the past, Osborne is a reversion to failed type.

Since last year's election, the direction of travel has got worse.

The limited restraints that were placed on the UK's financial system are being loosened.

The head of the new financial watchdog, the Financial Conduct Authority, has been removed. A vital enquiry into the culture of the financial industry has been shelved. The bank levy is being whittled away to nothing, following lobbying from the large multinational banks.

Proposed new rules for senior bank managers have been ditched.

Piece by piece, "light touch" regulation is being restored.

The sole novelty that Osborne has offered is austerity.

This has little to do with sound economic management. There is now close to a consensus amongst macroeconomists that the austerity experiment has failed.

Austerity is, instead, a political choice.

It is about how the state operates in relation to the economy, and society as a whole.

It is a choice that for the UK economy is politically easy, since it works to the benefit of powerful vested interests.

It is a short-term choice. It leaves society dangerously exposed to the challenges ahead.

Maurice Obstfeld, shortly before becoming chief economist at the IMF, wrote a fascinating paper on how austerity can make political sense. Entitled "On Keeping Your Powder Dry", it describes how countries with very large financial sectors must also maintain small governments.

This is because a large financial sector imposes a high risk of the kind of systemic failure we saw in 2008.

But when the private financial system fails, it is the public sector that must step in, at vast expense. Bailouts must be arranged and deficit spending used to prevent a colossal slump.

So governments must be small, if financial sectors are large, because they need to, as Obstfeld says, "keep their powder dry".

To quote:

*"Our increasingly complex financial systems seem inherently prone to at least some instability...
"a precautionary approach to fiscal policy is essential for the credibility of government promises to support the financial system."*

This describes our current predicament perfectly.

Austerity is about cutting the public sector down to size, in case of further financial crises.

It is a profoundly conservative choice since it works to the benefit of the UK's vested interests.

Finance must be allowed its position in the driving seat.

Multinational corporations must be allowed free reign, virtually setting their own tax rates, just as Google have done.

It means doing nothing about the problems and long-term weaknesses that led to the crisis of 2008.

And it means leaving society dangerously exposed to the new challenges.

So we saw over Christmas how cuts to flood defence spending left tens of thousands exposed to flooding.

Our best predictions on climate change are that extreme weather like this will become more frequent in the future.

Collective provision can help deal with this.

And when working conditions are undermined and social provisions reduced, it means that those new jobs created by changing technology are left at the mercy of the market.

So when Osborne proposed cutting tax credits, it meant thousands of our new small businesses and the self-employed were facing serious cuts in their standard of living.

We need a social safety net to cope with how technology is transforming the world of work. Austerity cuts away at the net.

Labour's alternative

But we can view this choice the other way round.

We can think about how we can change our economy to suit our society, rather than changing society to suit our economy.

So Labour now opposes austerity.

We will always defend the good that has been won, whether that is the National Health Service or in-work benefits.

This is not enough, however.

We need to go much further than simply offering a defence of what we already have.

New Labour offered a political settlement in which the private sector and its major vested interests would remain largely untouched, but public spending would be maintained.

That political settlement came crashing to a halt in 2008.

We have to be honest as a party about this. That is the only way we can claim to have learned the lessons of the great financial crisis.

So we cannot turn the clock back to 1997.

However, Old Labour won't work now.

Demanding a higher and higher rate of public spending from an economy with the UK's structural weaknesses is unsustainable.

Nor can we simply demand top-down nationalisation as a panacea.

The old, Morrisonian model of nationalisation centralised too much power in a few hands in Whitehall. It had much in common with the new model of multinational corporations, in which power is centralised in a few hands in Silicon Valley, or the City of London.

It won't work in a world in which technological change is providing opportunities to decentralise power.

We cannot turn the clock back to 1945 either.

Labour's new path

Friedrich von Hayek, who taught for many years at LSE, is politically somewhat distant from myself, it's fair to say.

But he raised a profound point about how information operates in a society, when he noted that centralised bureaucracies can be overwhelmed by the information processing demands of complex, modern societies.

His preferred solution, of allowing the market to act as an information processor, was equally unviable.

Markets can be crude information processors at best, as the crash of 2008 showed. And they still create unviable bureaucracies.

We should look, instead, to how different forms of organisation can operate in the economy – not just the capitalist firm, or the nationalised industry, but many different ways of organising ownership and production.

We need a far more sophisticated argument about ownership that does not just fall into the caricature of either pure privatisation, or pure state control.

There is a rich tradition in the British labour movement of this kind of thinking. Another LSE academic, Harold Laski, did much to promote the idea of a decentralised socialism.

Or we can look at the co-operative movement, from the Rochdale Pioneers onwards, or at self-management and workers' control and ownership.

We have, too, a tradition of bringing in different voices into management. Other countries, like Germany, do this better. But here, too, we can think about the experiences and knowledge of how the shopfloor can make its way into management decisions.

Decentralisation and social entrepreneurship are part of the left.

We have to move beyond tax-and-spend, or command-and-control.

Democracy and decentralisation are to be the watchwords of our socialism.

We need a state that can address the serious social challenges we face.

But we need an economy that maximises opportunities for real social progress that technological change offers.

Getting this balance right will not be easy.

But the easy route for the left is now barred.

We must find a different way to the future.

Challenges ahead

To make this work, we need a wider conversation about the major institutions in British society.

Without addressing how those institutions charged with managing the economy operate, we will not be able to implement a path to the future.

What are the best ways for the Bank of England and the Treasury to oversee the economy?

How should these relationships function? How can we democratise these institutions?

How can our giant financial institutions function for the good of the whole of society? Can they function viably at this scale?

How can multinational corporations make a contribution to wider society via the tax system?

How do we promote and encourage new, more democratic ways of running businesses?

By launching a series of reviews of institutions I hope to start this conversation.

It will be a challenge. This country is well-used to a political conversation that fixates on the short-term knockabout.

Parliament, it has to be said, positively encourages it.

But if Labour and the left are serious about offering a viable alternative, it is a conversation we must open up.

And if we are serious as a society about creating an economy that cannot just match the challenges ahead, but begin to create opportunities, it is a conversation we must all be a part of.

We can create a fairer, more democratic society.

Thank you.