McDonnellomics

How Labour's economic agenda would transform the UK

Graham Gudgin, Warwick Lightfoot and Jan Zeber
Foreword by Lord Mandelson

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Policy Exchange

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Published by
Policy Exchange, 8 – 10 Great George Street, Westminster, London SW1P 3AE

www.policyexchange.org.uk

ISBN: 978-1-913459-00-0

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Foreword

By Peter Mandelson

When John McDonnell says that a Labour government in which he serves would surpass "even the Attlee government for radical reform" he no doubt means it. There is a sense in the country now that we need a more humanised, less 'neo-liberal' economic system just as in 1945 there was a mood that society should not go back to the failures and divisions of the 1930s.

My perception of John is that he is a thorough and motivated individual who has notable political skills and considerable tactical sense and is asking some interesting policy questions. But at times I fear he is less interested in comparing himself to Attlee than he is in positioning Labour against Tony Blair. Herein lies the danger: that instead of moving Britain forward, with new ideas and utilising the opportunities that digital technology and AI, for example, offer us to transform the economy and public services, a Corbyn/McDonnell government wants to reassert the statist mindset that New Labour disavowed.

I am very proud of the achievements of past Labour governments – I served under Blair and Gordon Brown and my grandfather Herbert Morrison was Attlee's deputy, responsible for driving through all the complex legislation introduced by that great reforming government. The main thing McDonnell should take from this experience is that genuine transformations do not come from simply telling the movement what they want to hear. They come from grinding preparation, meticulous focus in implementation and care in not substituting one set of vested interests for another.

The relationship between employers and employees, for example, has become very unbalanced and there is a deep resentment towards financial and corporate 'elites'. I would be very happy to see the power of globalised capitalism blunted and out of touch management shaken up but not if corporate power is replaced by ill equipped civil servants and a new generation of trade union barons. Widening capital ownership across the population is attractive and forward looking but the current blueprint looks designed to create damaging controversy and benefit the Exchequer rather than the citizen.

The analysis in this Policy Exchange report is not for me to endorse or second guess but it is thorough and comprehensive. What interests me is the political landscape surrounding it and on which the coming general election will be fought. My judgement is that were it not for Jeremy Corbyn's extremely poor personal ratings – they make a majority Labour government an impossibility while he remains - Labour's prospects would be far stronger than the party's detractors imagine.

Labour's agenda is populist as much as it is socialist. It targets a series of perceived public grievances: austerity; inequality, student debt, rising energy and transport costs. But we have to ask ourselves whether lots of free offers – abolishing tuition fees, providing free prescriptions and social care, together with nationalisation of the utilities – are going to help develop the well funded modern public services that address today's needs in health, education and everyday living.

In a classic populist vein, Labour's agenda is framed around a series of 're-balancings' – from the private to the public sector, from the few to the many and from employers to employees. Without doubt, this reflects strong popular sentiment. Corbyn's strategists are right in thinking that the British electorate has a much greater appetite for radical change than is often appreciated. There are few if any of Labour's flagship policies that do not score good opinion poll ratings – until Corbyn is identified as their author.

A measure of the appeal of many of Labour's policies is their adoption by the Conservatives. This is not surprising as both parties are competing for a large pool of voters in the ideological ground between them – perhaps a quarter to a third of the electorate. They are economic worriers who favour security, law and order. They are collectivist in their thinking. They want markets to operate fairly. They care about national identity and tend to be eurosceptic. Brexit has skewed them towards the Conservatives but if you remove this factor they share many Labour instincts and are drawn to many of the 'populist' elements of Labour's 're-balancing' agenda.

These voters back higher spending on healthcare, education, policing and defence, which is why the Conservatives, while condemning Labour's tax and spend policies, are nonetheless turning on spending taps of their own. The Conservatives accuse Labour of racking up public debt but have ambitious designs of their own for the government balance sheet. They stop well short of nationalisation but they, too, have become disenchanted with the reality of many privatisations and are reaching for more 'belt and braces' regulation. Who has ridden a coach and horses through the sensible arbitration by the Low Pay Commission of the national minimum wage? A Conservative chancellor. It was a Conservative government which actually introduced the 'energy price cap' first advocated by Ed Miliband. Labour is proposing to curtail merger and acquisition freedoms, but the Conservatives have already moved in that direction.

Of course, in most cases the policies are not the same but Labour's ideas are already exerting an unmistakeable practical and ideological pull on the Conservatives. This will make it harder for the Conservatives to attack McDonnellomics in the coming election.

The 're-energised state' that Labour envisages, the empowerment of trade unions, the wholesale in-sourcing of local authority and other public services, and the placing of utilities under government control will be justified by Labour as "taking back control" for the benefit of ordinary people. But is there not a danger that one set of unaccountable elites will be exchanged for another?

Public investment in critical infrastructure and housing will be advocated after a decade of neglect and the goal is right. In an age, like now, of low real interest rates when there are fewer restraints on government's ability to borrow, PFI type schemes don't make sense. But it also doesn't make sense, as a matter of dogma, simply to exclude the private sector from providing any public services, or to assume that the "way we have always done things" is necessarily the best way to do them in the future.

Rhetorically, Labour has a lot going for it. The question in the public's mind will not be the validity of what Labour is proposing, or even its affordability given the Conservatives' spending plans, but the capability of its leadership in implementing such a battery of policies wisely and competently. There is almost no area of policy to be left untouched by Corbyn's and McDonnell's 'transforming' hand. Yet, overall, much of the policy and its presentation straddles a credibility gap. There will be many public doubts and John McDonnell and his re-assuring manner will be working overtime to overcome them.

Executive Summary

This report attempts to answer the following questions: what can we expect from a John McDonnell Chancellorship? Is the 2017 manifesto the whole extent of his ambitions? How can he square an ambition to "surpass the Attlee government for radical reform" with his promise to business to "always be straight with you about our intentions"? How would the Treasury under John McDonnell choose to react to an economic shock, such as a surprise recession, another financial crisis or capital flight after a win for Labour in a general election, coupled with legal challenges to their most significant policies?

In doing so, it brings together a range of sources: the 2017 Labour manifesto and explicit pledges contained within it; policy papers commissioned by the Labour Party from third parties such as *Land for the Many* and *Alternative Models of Ownership*; speeches given by John McDonnell at a range of political events, from the Labour Party Conference to the *New Economics* conferences organised by Labour and *World Transformed* conferences organised by third parties with links to Labour; speeches and publications by academics, aides, writers and other thinkers associated with John McDonnell recently and over the years such as the *Economics for the Many* edited collection; new interviews with some of these figures; and any other materials relevant to understanding the intellectual environment within which McDonnell resides, such as the writings of 20th century British socialists like G.D.H. Cole or R.H. Tawney.

Three groups of policies are examined in the report, which provide a guide not just to the thinking, philosophy and policies of McDonnell and the current Labour Party, but the wider movement referred to as the "resurgent left" or "democratic socialism" around the world.

1. **Taxation and spending measures,** which are the centrepieces of any political programme, and include health, social security, education, policing, and other areas commonly associated with state activity and public spending.
2. **Measures associated with issues of "ownership and control"** of the economy: it is less clear how a focus on this issue would translate into policy other than through nationalisations, but it is nevertheless repeatedly emphasised by McDonnell and held up as a distinguishing feature of his programme and the embodiment of its radicalism, and therefore warrants close attention.The ownership management and control of businesses would be substantially

modified.

3. **Policies aimed at reshaping the role of finance and public capital** in the economy, in particular the role of the state in both using borrowed capital and directing private capital through macroeconomic measures to shape the economy actively.

Taxation and Spending Measures

- **Proposed tax changes are focused on higher earners and corporations, which would concentrate the UK's tax base even further at the top, increasing volatility and uncertainty.** Most of the new envisaged revenue would come from business taxes (37 per cent from changes to corporation tax alone), a further 12 per cent from the top 5 per cent of earners through an income tax rise, and 12 per cent from Labour's tax avoidance programme, a particularly uncertain item of income. For comparison, in 2017-18, corporation tax receipts accounted for 8 per cent of the total tax take. It is therefore highly likely that revenues from these changes are overestimated, especially in the medium to long term, and especially in the context of other structural changes being proposed by Labour which could prompt further behavioural changes likely to lead to decreased revenues. These would include things like the contraction of the financial sector, which in 2017-18 generated £75 billion in tax revenue, or 11 per cent of total UK tax take, counting banks and insurance companies only[1] – including private equity, hedge funds, asset managers and others would make the figure even higher.
- **Financial services would be likely to be the most adversely affected sector of the UK economy, with implications particularly for London.** Proposed reforms such as the introduction of a financial transactions tax, the (floated) proposals for mandating the Bank of England to use the macroprudential measures to direct capital at certain priorities and an ambition to establish a banking system supported by the state – a long-time McDonnell ambition since the financial crisis – signal clearly that Labour considers the UK's financial sector as a problem rather than an asset. A significant decline of the sector in the UK would be possible, putting at risk 1.1 million jobs and 29 billion of tax revenue.
- **Labour's employment reforms would end the flexible labour market in the UK, bringing it closer to France or Italy, with greater protections and higher wages at the bottom but potentially in the long run higher unemployment and insider/outsider dynamics in the labour market.** The proposed changes to employment law and industrial relations law would raise the cost of employment and make the labour market less flexible.

1. https://news.cityoflondon.gov.uk/uk-financial-services-sector-makes-record-tax-contribution/

Greater use of collective bargaining frameworks across sectors and measures directed at limiting the dispersion of earnings within workplaces would have implications for the microeconomic functioning of the labour market with a likely compression of pay differentials within workplaces and across the economy as a whole. This would mean that the labour market would be less precise in pricing labour in relation to different levels of marginal revenue product. The full consequences of this modification of the labour market and the relative prices of labour and capital would be clear only when the economy experienced an adverse shock to demand that would expose the extent to which the labour market had been altered by these policies.

Ownership and Control

- **Focus on ownership and control of capital is a key distinguishing feature of McDonnell's approach, but there are questions around the transformational potential of this agenda, at least as it is conceived at the moment.** The explicit commitment to doubling the scope of the cooperative sector and using public procurement budgets to support local economies would be unlikely to have the promised transformative effect. Renationalising utilities and the Post Office, and in particular forced establishment of Inclusive Ownership Funds, with 10 per cent of equity in the UK's largest companies, would certainly have a transformational effect on the existing owners of those companies. Furthermore, capping the dividends which the Fund can pay out at £500 annually per worker and not having a credible plan for how nationalisaions can improve prices or services these companies provide throws into doubt the extent to which these policies can actually have a transformational effect on people's lives. The under-appreciation of this point is demonstrated for example by McDonnell committing to abolishing in-work poverty within five years, without announcing any specific income-supplement policies, but relying on the net effect of Labour's overall economic programme. This in turn raises the prospect of more radical measures when structural reforms do not result in the improvements hoped for.
- **Little justification for nationalisation is given beyond the desire to redirect profits and increase accountability, raising further questions as to what extent there is actually scope for transformational change in prices and quality of service directly arising from nationalisation.** In order to reap significant benefits, Labour would have to show comprehensively that problems in these industries stem from their being in private hands: the most common justification cited is that dividend payments to shareholders would be better going to workers and

government. Yet the scope for redirecting profits as the primary tool of transformational change is limited: in order to meet the pledge that nationalisation will not cost the taxpayer anything, any revenue stream will be needed to cover interest payments on the government debt issued to pay for the assets. It is also doubtful whether transforming an entire industry top to bottom, especially if it includes experimentations with novel, "democratic" management structures, can be costless. By the time all of that is taken into account, how much will there be left for lowering bills, increasing the pay of lowest paid employees, investing in infrastructure and improving service quality?

- **There is a danger that "democratisation" along the lines advocated is in practice bureaucratization – a key question not so far answered is how "democratic socialism" deals with non-socialists within its edifice.** As an idea, it appears to seek to replace individualised market relationships - where outcomes are decided by rights-holding individuals interacting with other rights-holding individuals and institutions - with bureaucratic relationships, where the outcomes are decided collectively, presumably via a localised mechanism for deliberation like a representative committee, citizen's assembly or a one-off referendum. At heart, it is an attempt to remove power from as many everyday relations between human beings and institutions as possible. What this gets wrong is that collective decision-making mechanisms are not always less "oppressive" than market relationships – both are relationships of power, except in a collective decision-making mechanism, the currency would be time, belonging to a union, knowing the right people, etc. It could simply be cronyism of a different kind.
- **The firm commitment to Parliament deciding the level of compensation to the owners of privatised companies has been couched in an ambiguous manner that poses a threat of expropriation of assets, much of which are held by pension funds, which would likely result in litigation against the government and significant damage to the UK's standing as a safe place to invest, which in turn could affect the cost of borrowing.** According to a briefing from the law firm Clifford Chance, the consequences of this would be extremely serious: there is no international example other than Venezuela of a government carrying out a nationalisation at below-market prices. There would be significant scope for legal action against a Labour government which attempted this, either under investor-state arbitration proceedings triggered by foreign investors under anti-expropriation provisions in a relevant free trade agreement, or bilateral investment treaty by foreign investors, or by domestic investors under the Human Rights Act. There would also be a danger that such a move would undermine investor confidence

which in turn would push up the cost of not only government borrowing but also the level of FDI in the UK.

Role of Public Capital

- **The proposed National Investment Bank is at the core of Labour's industrial strategy, but if the economic growth did not materialise or was below expectations, this would put a additional burden on the public finances.** As part of Labour's wider economic strategy the proposed bank might contribute a fiscal stimulus to UK economic activity in the short-term. However, boosting the UK's trend rate of growth and moving the economy onto a permanently faster growth path would depend on Labour's proposals to raise investment and productivity. If the projected growth did not materialise, tax revenues would be lower than planned, and borrowing and debt would be higher. It also leaves plenty of questions unanswered given the scale of the funds involved.
- **The "Preston Model" – the practice of pooling local public procurement budgets and spending as much of them locally as possible in order to support the local economy – is inherently limited by the budgets in question, and it is not yet clear that it would be able to 'spin out' businesses able to support themselves without a financial safety net, given the preference for cooperative form within the model.** The Preston Model, defined as public procurement prioritising local suppliers who are able to fulfil contract requirements competitively is no bad thing, and indeed simply good procurement practice. The key problem is not that it does harm (at least, if confined to a small scale) but that its transformative potential is overstated. If local businesseses are better able to fulfil the requirements of the tenders, then it is right they win the contracts – after all, Preston is not the only council with an ambition to award public procurement contracts locally wherever possible. But keeping as much money as possible local is not all there is to economic growth – indeed "growth" can happen only if wealth is being created, which in turn comes from scaling up the fruits of innovation. That in turn is less likely to arise in an environment where the focus is on trying to do everything locally as the primary objective.
- **The changes in the UK's macroeconomic framework suggested by Graham Turner's critique appears to hinge mostly on an assumption that the number one cause of the productivity crisis is insufficient finance for SMEs.** Britain unquestionably has a productivity problem, and availability of finance – particularly post-crisis – is part of it. But evidence that SMEs are being starved of finance is at best mixed, and questions about how to improve

productivity are vastly broader than those of financing and ownership. The CBI''s long-running *industrial trends survey* reports only about 5 per cent of firms mentioning access to finance or credit as a limiting factor on output – a share that has been very stable since 1980 except during the global financial crisis in 2008-2010. About 80 per cent of SMEs report being successful in getting the finance they need from their first provider.

- **Labour's Fiscal Credibility Rule would be meaningful only if the dividing line between investment and spending were clear.** Attempts to commit to a fiscal rule which mandates that the government can borrow only to invest, and not to cover shortfalls in current spending, is effective only if the definition of what counts as investment is meaningful. Most fiscal rules concentrate on borrowing and suffer from a lack of rules to contain spending as a proportion of national income. This Fiscal Credibility Rule repeats the flaw in Gordon Brown's approach to the public finances after 2000. It is worth mentioning that Brown's rule was also effectively meaningless with regards to actually holding the government to account, because it required balancing spending with borrowing "over an economic cycle", yet there are no hard and fast rules on where an economic cycle begins and ends.
- **Labour's plans for a Green Industrial Revolution mirroring the US Green New Deal on a much smaller scale highlights the trend to use industrial strategy and environmental policy to pursue social policy objectives –** the heavy emphasis on climate policy in Labour's programme is inherently linked to its social policy objectives. In essence, it is as much about tackling climate change as it is about controlling the economy.

Conclusion

Since the summer of 2015, Jeremy Corbyn and John McDonnell have set out an audacious socialist economic agenda. At its heart is an ambitious increase in public spending, borrowing and taxation. This is supported by the regulation of labour and product markets and a radical approach to finance that would transform the objectives, purpose and instruments of monetary policy, banking supervision and prudential regulation. It would involve profound changes to the structure of the economy, its framework of corporate governance, property rights and the balance between consumption and investment. Priority would be given to production and producer interests over those of consumers and taxpayers. It would involve novel uses of law, regulation, finance and monetary policy to modify the present pattern of the ownership, control and management of productive assets, principally those of publicly owned joint stock companies. These policies would have significant macro and micro-economic consequences for the UK economy.

This audacious socialistic agenda has emerged from heterodox analysis drawn from a wide-ranging literature of political economy that is distinctive from previous socialist economic programmes. Its ambitions are often expressed in a nostalgic rhetoric that benchmarks ambition against Labour 's 1945 election manifesto, *Let Us Face the Future,* and Clement Attlee's achievement in government. Yet apart from an interest in nationalising certain industries, it does not draw on the rich intellectual history of socialist economics exemplified by the writings of Enrico Barone, Evan Durbin, Abba P. Lerner and the British Fabian collectivist tradition embodied in the intellectual legacy of the Webbs. Planning, targets and controls replacing significant parts of the price mechanism or for example, do not form part of this analysis. The present Labour agenda appears to take little account of the interesting debate between Richard Crossman and Anthony Crosland about the balance between a planned socialist economy and a mixed economy with a high degree of free enterprise.

Instead it draws on a less hard-edged socialist literature that emphasises co-operation rather than competition and gives priority to enhanced opportunities for workers and communities to manage enterprises directly and for the wider political community to manage and control the investment and commercial decisions of publicly quoted corporations. A central proposition of this analysis is that the way finance and capital markets are presently structured explains the structure of enterprise and yields many results that this post-modern socialist critique of markets regards as malign. In this analysis it is modern financial capital that results in an unproductive economy that over-borrows, over-consumes, undersaves and underinvests.

Labour's proposals repeatedly rely on structural, microeconomic changes that are impossible to model. The range of changes to the labour markets, taxation, corporate governance, industrial strategy, employment rules, trade union reform, etc, would have cumulative and significant implications for the microeconomic performance of the UK economy in the medium and longer term. Given the potential scale of Labour's ambitions in these areas, the supply performance of the UK economy might in the long-term be constrained with potential malign implications for the future trend rate of growth.

What is truly radical are the structural changes to the fundamentals of the economy either already proposed by McDonnell or being consulted on. These changes are not rooted in a belief in maintaining a free market economy supported by enforceable property rights and then redistributing the proceeds. Like Tony Benn, McDonnell wants an "irreversible shift in the balance of power in favour of the working people."[2]

McDonnell's vision of a "democratic economy" is essentially an economy where fundamentals protected by judicially-enforcable private rights – and as such, ordinarily considered as above political debate – should not be *a priori* considered as fundamental. This is illustrated, for example, by the seeming disregard for the many legal considerations presented by their policies, namely threat of litigation from affected parties, such as shareholders in utilities open to being nationalised at below market-value,

2. https://www.opendemocracy.net/en/opendemocracyuk/tony-benn-really-was-dangerous-to-establishment/

landlords expropriated by their "right-to-buy" applied to private tenants, pharmaceutical companies forced to grant licences to a new state-owned drug manufacturer, or shareholders in companies being forced to form Inclusive Ownership Funds. These policies demonstrate that in balancing a rights-protected private sphere with a democratic public sphere they will lean more heavily to the latter – more than perhaps any post-war government. Herein lies their radicalism.

Part 1 - Introduction

> *"I want to surpass even the Atlee government for radical reform. The situation demands nothing less."*
>
> John McDonnell, New Economy conference speech, 2016

Since his election as Leader in 2015, Jeremy Corbyn has transformed the Labour Party. He has taken one of the UK's two main parties in an audacious left-wing direction. In doing so, he offers the prospect of taking the United Kingdom in a more collectivist direction.

The Shadow Chancellor of the Exchequer – John McDonnell, MP for Hayes and Harlington since 1997 – is the driving force behind Labour's economic policy. The relationship between Jeremy Corbyn and John McDonnell has been likened to Torvill and Dean, the ice-dancing duo: "Jeremy skates round the country with almost karmic serenity, winning admirers for his openness and integrity… John, meanwhile, plans the detail of their programmes and does most of the heavy lifting."[3] The two men share a deep political friendship that has developed over many years, with John McDonnell having a far deeper and meticulous interest in developing an economic programme for a Labour government.

What would a McDonnell-led Treasury mean in practice for the UK's economy? It partly depends how much he plans to do in addition to current Labour policy. As the *Financial Times* has put it, "*[the] main concern in the business community is whether the [2017] manifesto is the limit of McDonnell's ambitions or just an appetiser for a more radical programme once elected.*"[4] His *Who's Who* entry states that his favourite past-time is "generally fermenting [sic] the overthrow of capitalism". Asked about it last year in an interview with Reuters, he said: "I believe it. I am serious in my intent. I want to transform this economy."[5]

As a backbencher, he has supported a number of radical left-wing policies, such as gaining control of the larger banks and the Bank of England. Writing in 2012, he said:

> *In the first week of a Labour government, democratic control of the major economic decisions would be restored by ending the Bank of England's control over interest rates and bringing the nationalised and subsidised banks under direct control to force them to lend and invest their resources to modernise our economy and put people back to work.*[6]

There is the repeated ambition for the next manifesto to be "even more radical than the last."[7] Asked by *Newsnight* last April "whether Labour's plans represent evolution or revolution", he is clear: "OK, it will be a

3. https://www.ft.com/mcdonnell
4. https://www.ft.com/mcdonnell
5. https://uk.reuters.com/article/uk-britain-labour-mcdonnell/opposition-labour-party-plots-overthrow-of-capitalism-idUKKCN1NS17X
6. https://www.telegraph.co.uk/news/politics/labour/11863279/John-McDonnells-top-six-political-blunders.html
7. https://www.newstatesman.com/politics/uk/2018/09/corbynism-20-radical-ideas-shaping-labour-s-future

revolution." And he added: "And do you know? I think most people accept that now. We'll do it by taking people with us." And: "It is common sense socialism and the point about that first period of office when we go into government will be to lay the foundations for this transformation that we want."[8] Likewise, in his 2018 Conference speech, Corbyn said that Labour's programme represents "the new common sense of our time."[9] In a December 2018 interview with *The Times*, McDonnell claimed he wants "common sense socialism". "We're all socialists now," according to the Shadow Chancellor.[10] So there is a conviction in the Labour Party that the centre of politics has shifted to the left and that the people are ready for socialism.

McDonnell has gone to great lengths to stress that Labour will not turn more radical in office and has no "shadow manifesto".[11] Since 2018, he has been on a "tea offensive" – a series of meetings intended to reassure and placate business leaders – where he was not so much claiming that what he is proposing was not radical, but rather that there will be clarity as to what exactly he would do as Chancellor: business should not jump to conclusions based what he has said before:

> *Before we go any further, I'm not going to nationalise your bank. What you'll see from us is absolute clarity about what we"re going to do. On some of the policies we are advocating, I have said that if you convince me that we can achieve the same objective with a different policy, fair enough.*[12]

There is some openness, if not complete clarity, in his approach.

The purpose of this report is to assess what a Labour Government with McDonnell as Chancellor is likely to do. What is likely to be in the next Labour manifesto? Would a Corbyn-McDonnell Government stick to their manifesto promises or use them as a basis for a more ambitious collectivist agenda? We have a number of potential sources of guidance on which to base an assessment. Firstly, we have the 2017 election manifesto, accompanied by costings prepared by McDonnell; secondly, a series of speeches and interviews given by him since the last general election; and thirdly, a series of reports that he commissioned and inspired. To assess how ideas from these reports and the wider debate that the Shadow Chancellor has encouraged is extremely difficult and requires the greatest degree of nuanced treatment. In the course of preparing this report, Policy Exchange spoke to several figures associated with McDonnell and the intellectual tradition he represents, in order to attain a greater clarity on the extent to which his seeming endorsements or rejections of third-party reports and policy ideas should be taken as a strong indication they might or might not make it into the next manifesto.

The process of formulating policy under McDonnell has often consisted of commissioning reports from friendly academics and experts. These offer glimpses into the thinking and philosophy of McDonnell and the Labour Party and the wider community of ideas that informs them.[13] He has also hosted "New Economics" conferences since 2016, including the Alternative Models of Ownership conference in February 2018,[14] the

8. https://www.bbc.com/news/business-48094621
9. https://labour.org.uk/press/jeremy-corbyn-speaking-labour-party-conference-today/
10. https://www.thetimes.co.uk/article/john-mcdonnell-interview-radical-we-re-boring-i-gave-jeremy-a-book-on-allotments-for-his-birthday-95q0g75r2
11. https://www.newstatesman.com/politics/economy/2018/04/john-mcdonnell-trying-reassure-city-labour-doesnt-have-shadow-manifesto
12. https://www.ft.com/content/f852ca7e-70c0-11e8-852d-d8b934ff5ffa
13. Such as the ""Financing Investment: Final Report"" from GFC Economics and the policy papers accompanying the manifesto, notably the ""Richer Britain, Richer Lives: Labour""s Industrial Strategy"" and ""Alternative Models of Ownership.
14. https://www.john-mcdonnell.net/alterrnative-models-of-ownership/

(now annual) State of the Economy conference (which last took place in May 2018),[15] and the Future of the Finance Sector conference in April 2018.[16] At these events, academics, researchers, trade unions and think-tanks rooted in the environmental movement discuss Labour's philosophy and contribute to policy development.

McDonnell has been careful to limit the firm commitments that arise from the wide range of ideas that he has stimulated. He is alert to the need to present policies that will be practical and not to overpromise. However, in interpreting the ambitions of his agenda there are complicating factors. As the *Financial Times* recognises, McDonnell may be more radical than he is willing to admit, to avoid repelling potential voters. We see this in the way he explores policies such as the four-day week, Universal Basic Income (and Services) and collectivisation of land to supporters, while to his critics he emphasises that he "has no tricks up [his] sleeve."[17] Secondly, it is worth bearing in mind that what he would achieve in office would not exclusively depend on his plans. It is possible that what would define a McDonnell Chancellorship is how he responds to the unexpected – complications around Brexit, for example, a US trade war, or a Chinese slowdown. There would be unexpected adverse economic shocks and constraints on a Labour government just like on any other government, not least the balance of payments, the exchange rate, the attitude of international markets to the gilt market and UK financial assets and structural difficulties in the Eurozone, which have been highlighted by a recent Oxford Economics briefing, which estimated the effects of a negative market reaction to a Labour government (findings of which will be discussed later).

We begin this report with a detailed description and analysis of Labour's 2017 manifesto, exploring the question of the extent to which the proposals were closer to a version of 1960s-70s Labour corporatism than to anything that might remotely be described as Marxist. The basis of the 2017 manifesto will then be supplemented by an assessment of John McDonnell's subsequent speeches and writing. To what extent, we ask, have the 2017 manifesto proposals been superseded or developed? The paper assesses the extent to which the next manifesto may be more radical and ambitious than that of 2017. We assess the intellectual framework that McDonnell draws on and has helped to stimulate. The intention here is to offer a perspective on a potential longer-term direction of travel. A careful assessment of McDonnell's explicit policy commitments would suggest a conventional neo-Keynesian fiscal stimulus supported by a structural increase in public expenditure, taxation and borrowing. The most significant result for the economy would be to significiantly raise the ratio of general government expenditure to GDP. This macroeconomic agenda would be accompanied by a series of novel changes in employee participation and different forms of ownership.

The extent to which these would fundamentally reshape the economy, if the current *explicit* policy commitments in these areas are as far as Labour would go, would probably be less significant than the overall change in

15. https://labour.org.uk/members/the-new-economics/
16. https://www.john-mcdonnell.net/74-2/
17. https://labourlist.org/2018/04/a-new-start-for-labour-and-the-finance-sector-mcdonnells-full-speech-in-the-city/

the ratio of public expenditure. As the report goes on to discuss, for all the rhetoric about democratisation and cooperatives, the only explicit commitment is to double the size of the cooperative sector in the UK. As far as other frequently-cited radical proposals such as the complete overhaul of the UK's macroeconomic framework or complete overhaul of the planning system and property taxation, they are not – as far as it is possible to tell – explicit commitments, rather a range of options Labour is considering. The paradox of the present Labour leadership is that the radical rhetoric sometimes drawing on a Marxist critique of the market economy obscures a more limited set of *express* policy commitments.

Yet the floated proposals are clearly still relevant to understanding where the current Labour administration are coming from, where they are at the moment and where they might go. There are examples of McDonnell expressing strong support for some very radical policies – for example, his seeming explicit endorsement of a proposal to allow private tenants to buy the homes they are currently renting at a discount, which would amount to a very serious intrusion on property rights in the United Kingdom.[18] Contrast that with caveats included in the *Land for the Many* report commissioned by the Labour party, making it clear these are not explicit commitments.

The key to understanding what a Jeremy Corbyn and John McDonnell government would do lies in looking holistically at their political backgrounds, what stances they have supported in the past, what political incentives they are facing at the moment, on what areas the left-wing intellectual environment is currently concentrating on the moment, what is and is not possible under the British constitution and the broader system of Whitehall checks and balances, as well as which of them they will be able to overcome. Such analysis suggests that the current Labour leadership is a group of people with backgrounds in the Bennite wing of the Labour movement who have found themselves in an environment where the intellectual environment is receptive to ideas recycled from that tradition: focus on "economic democracy" and cooperatives, using the power of capital to political ends. The ultimate aims of that political tradition were always radical.

But that is not to say that the effect of what Labour is currently explicitely commited to is going to be underwhelming. The range of changes that Labour proposes to the labour markets, taxation, corporate governance, industrial strategy, employment rules, trade union reform, etc. would have cumulative and significant implications for the microeconomic performance of the UK economy in the medium - and longer term. Given the potential scale of Labour's ambitions in these areas, the supply performance of the UK economy might in the long-term be constrained with potential malign implications for the future trend rate of growth.

18. https://www.ft.com/content/dc17d7ee-ccab-11e9-b018-ca4456540ea6

Part 2 - Labour's 2017 Manifesto

Here, the report sets out the basis that we expect Labour to build on – the manifesto published at the 2017 general election. This set out an ambitious agenda of increased public expenditure, taxation, and public intervention in the economy including proposals to nationalise several industries that were returned to the private sector in the 1980s. In many respects, it has the corporatist flavour of Labour policy in the 1960s and 1970s.

Labour's manifesto includes significant renationalisation, which would take rail, energy, water and the Post Office back into public ownership.

The manifesto is heavily focused on the problems of slow growth in real wages and insecurities that can arise from a flexible labour market, and shares many of the concerns that Theresa May expressed as Prime Minister when she set out the "Just About Managing" agenda. The manifesto emphasised five broad dimensions of economic policy:

- **An industrial strategy** to "*support businesses to create new, high-skilled, high-paid and secure work across the country in the sectors of the future such as renewables…with small businesses at the centre of the strategy*".
- **A major increase in expenditure on public services.**
- **Increased taxation on higher-income taxpayers and on corporations** to fund higher spending within the claimed limit of a continued fall in the ratio of public debt to GDP.
- **Proposals for changes in ownership** including the renationalisation of substantial parts of industry and an ambition to double the scale of economic activity accounted for by cooperatives.
- **Higher regulation of employment**, changes to industrial relations law and an extension of sectoral collective bargaining to all employees and sectors, a particularly far-reaching change with effects difficult to estimate across sectors.

Labour's Industrial Strategy

Labour's industrial strategy aims to "*deliver prosperity to every corner of our country*". The components of the strategy are:

Creating an "innovation nation" with the highest proportion of high-skilled jobs in the Organisation for Economic Co-operation and Development by 2030, meeting the OECD target of 3 per cent of GDP spent on research and development by 2030.

Infrastructure – investing £250 billion over the next ten years.
UK supply chains – targeted government support where there are gaps.
Trade – negotiating a new deal with Europe that "puts jobs and the economy first."
Procurement – requiring the best standards on government contracts.
Zero-carbon or renewable sources – to provide 60 per cent of the UK's energy by 2030**.**
A Council for each strategic industry (modelled on the Automotive Council) to oversee its future security and growth.
Fiscal incentives to encourage private investment, such as exemption of plants and machinery from the rateable value of business premises.

This strategy is similar to previous policies that were used by Labour and Conservative governments in the 1960s and the 1970s, but the detailed measures contain interesting and sometimes radical departures. A novel proposal, for example, is the suggested use of government contracts to influence the behavior of companies. The purpose is to require firms supplying national or local government "*to meet the high standards we should expect of all businesses: paying their taxes, recognising trade unions, respecting workers' rights and equal opportunities, protecting the environment, providing training, and paying suppliers on time*".

Much of it, however, consists of broad aspirations such as massively raising R&D spending. The aspiration is clear, but there is little detail on how it could become reality and how the private sector could play a role. The industrial councils evoke the institutional memories of the framework of indicative planning that Harold Macmillan's government initiated in the early 1960s. Institutionally, this was based around the National Economic Development Office (NEDO) and its subsidiary sector groups (the so-called little Neddies) which existed from 1962 to 1992.[19] Similar industrial bodies had been used before 1962 and their origins can be traced back to the wartime controls of the economy in the 1940s. In this sense, Labour's plans are a revival of corporatism. Labour's manifesto draws attention to the Automotive Council as an example for other sectors to draw on. Yet it is not clear how useful or encouraging the experience of this body is given that motor vehicles have become one of the UK's most troubled sectors (despite occasional good news such as the Jaguar expansion at Castle Bromwich).[20]

The centerpiece of this strategy is a National Transformation Fund, which would "*deliver the investment that every part of Britain needs to meet its potential, overcoming years of neglect.*" Using this £250 billion, ten-year fund, Labour would build new high-speed railways, extending HS2 into Scotland, and a Crossrail for the North, tying together our great northern cities. It would also build a new Brighton mainline for the south-east and deliver rail electrification and expansion across the whole country, including Wales

19. https://en.wikipedia.org/wiki/National_Economic_Development_Council
20. The main car producers assert that Brexit is not to blame for the downturn in the industry.

and the south-west. Additionally, Labour says it would "*deliver universal superfast broadband availability by 2022 and the research funding needed to create an economy fit for the 21st century.*"

The proposal in 2017 was to supplement existing sources of business finance by spending an extra £25 billion per annum via the new National Transformation Fund. This would represent an additional 10 per cent on top of existing capital formation by all firms and government. If, as suggested, this funding was to be targeted at small firms and local authorities, the increase would be a substantial 25 per cent.

Labour strategy has a strong focus on SMEs. The manifesto emphasises that: "*Labour is the party of small businesses. We understand the challenges our smaller businesses face.*"

Policies directed at helping small firms would include:

- The creation of a **National Investment Bank, and regional development banks** in every region. These would identify where conventional commercial lenders and private financial markets failed to meet the needs of SMEs. Their purpose would be to fulfil the ambition first identified by the Macmillan report of closing the funding gap that many small businesses face.
- Introducing a **lower rate of corporation tax** for small businesses.
- A package of **measures to change business rates,** which would include switching from RPI to CPI indexation, exempting new investment in plant and machinery from valuations, and ensuring that businesses have access to a proper appeals process – while reviewing the entire business rates system in the longer run.

Transforming the Financial System

Labour has a further interest in the way private credit and financial markets operate. This can also be considered as part of the wider industrial strategy given that it is largely directed at raising investment, particularly in small firms. In many respects, this is the radical dimension of John McDonnell's approach to economic policy.

Banking and the financial system are subject to an astringent critique by Labour. The 2017 manifesto said that its purpose was to "*stop our financial system being rigged for the few, turning the power of finance to work for the public good*". At the centre of Labour's approach to banking is a judgement that small firms and local economies are being constrained by a lack of finance. Note that this claim excludes medium and large firms and hence most of the economy.[21]

The 2017 manifesto proposed to establish a National Investment Bank that would make available sufficient privately-financed capital to deliver £250bn of lending. This new public institution would support a network of regional development banks whose purpose would be dedicated to supporting inclusive growth in their communities.

Labour would also:[22]

21. Businesses with more than 250 employees account for 48 per cent of turnover in the UK. Medium-sized firms (50-249 employees) account for 15 per cent and smaller businesses including the self-employed for 36 per cent. House of Commons Briefing Paper no. 06152 12 Dec 2018 Business Statistics by Chris Rhodes. Section 2.
22. 16, https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf

- *"Overhaul the regulation of our financial system, putting in place a firm ring-fence between investment and retail banking that will protect consumers."*
- *"Adopt a new approach to the publicly-owned RBS, and launch a consultation on breaking up the bank to create new local public banks that are better matched to their customer's needs."*
- *"A Stamp Duty Reserve Tax would be extended to cover a wide range of transactions in assets. The purpose of this would be to enable the public to get a greater share of profits generated within the financial system."*
- *"Impose a ban on branch closures in rural communities."*

Business Policy

One of the objectives of the manifesto was to share wealth more widely as well as increase the taxation of income and capital. The 2017 manifesto had several proposals directed at regulating companies. These included:

- Amend company law so that directors owe a duty directly not only to shareholders, but to employees, customers, the environment and the wider public.[23]
- Amend the takeover regime to ensure that businesses identified as being "systemically important" have a clear plan in place to protect workers and pensioners when a company is taken over.
- Legislate to reduce pay inequality by introducing an **Excessive Pay Levy** on companies with staff on very high pay.

Employment

The area of employment rights features in considerable detail in the party's 2017 manifesto, and reflects McDonnell's longstanding radical critique of the dynamics between capital and labour. The manifesto contains a "20-point plan for security and equality at work" in addition to a large number of other concrete policies and pledges to hold consultations, all unequivocally indicating Labour's intention to end the flexible labour market in the UK through extending the power of trade unions, increasing employment regulations and generally raising the cost of labour in an attempt to force a larger proportion of GDP to go to workers. The proposed measures can be categorised in three groups: those relating to trade unions, self-employment and employers' obligations, and institutional reforms.

1. Trade unions

The biggest reform in this area is a promise to repeal the Trade Union Act 2016 and roll out sectoral collective bargaining across the economy[24] – with entire sectors negotiating pay and conditions for all members of that sector in the country, regardless of whether they are in a trade union or whether they are in a workplace participating in the negotiations. This is already the case in most of the public sector and in several other places – in the UK overall, 26 per cent of employees were covered by a collective

23. It is worth mentioning that Companies Act 2006 s172 – the much-debated piece of legislation which addresses for whose benefit directors ought to run a company – already states that a director has a duty "to act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole," and makes reference to, amongst others, "likely consequences of any decision in the long term" and "interests of the company"s employees" as guidelines for applying the section.
24. 47, https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf

bargaining agreement in 2016.[25]

There is no more detail as to what role public policy might play in this, but ideas explored in a discussion paper published by the IPPR in May 2018 which also advocated greater coverage of collective agreements in the UK workforce, suggested that coverage in particularly low-paid sectors could be "delivered through establishing Sector Councils as part of a new Employment Act. Sector Councils would include representation from employers and from trade unions, and they would be tasked with developing sectoral collective agreements and setting out minimum levels of pay for given roles, as well as other terms and conditions."[26] Overseeing this would be a responsibility of a new Secretary of State for Labour, a revived department explicitly promised in the manifesto.[27] The IPPR report proposes a target of 50 per cent coverage for all workers, but the Labour manifesto has no such concrete commitment.

Labour have proposed repealing the Trade Union Act 2016 passed by David Cameron's government. Its repeal would have the effect of making it easier to take strike action while enjoying the immunity from tort provided by previous legislation, by removing the requirement of at least 50 per cent turnout in a ballot authorising strike action, as well as the minimum threshold of 40 per cent "in favour" for certain public service sectors contained in the Act. There would also be a shorter strike- notice period (seven days rather than 14) and the possibility of having new union members contributing to the political fund until the opt-out was restored. This would effectively restore the framework of industrial relations law which was in place before David Cameron's government and would in principle leave in place the fundamental reforms to industrial relations law passed in the 1980s, limiting the scope for the immunity from actions in tort. However, it is not clear whether that legislative framework would remain intact because of the implication in the manifesto that trade union law would generally be open to review and because of the interest McDonnell has shown in reforms to facilitate secondary strike action ("sympathy strikes"). For example, speaking at Airdrie, North Lanarkshire, in December 2018, he said: "When we go back into government we will restore trade union rights, and that will enable workers to take similar sympathy action on the basis of supporting fellow workers internationally."[28] He was referring to the action of workers at a Rolls-Royce plant at East Kilbride whose strike action was meant to disrupt the supply of Hawker Hunter planes to the Pinochet regime in Chile. The interesting thing about this example is that it illustrates a wider feature of much contemporary debate within the Labour Party and organisations closely connected to them. This is a rhetoric of nostalgia.

2. Employer's obligations

The suite of changes to employment regulation in the 2017 manifesto includes the complete banning of zero-hours contracts, in addition to a less explicit commitment to "strengthen the law so that those who work regular hours for more than 12 weeks will have a right to a regular contract,

25. https://stats.oecd.org/Index.aspx?DataSetCode=CBC
26. IPPR, 26, https://www.ippr.org/files/2018-06/cej-trade-unions-may18-.pdf
27. 46, https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf
28. https://www.politicshome.com/news/uk/political-parties/labour-party/john-mcdonnell/news/100423/john-mcdonnell-says-labour-would

reflecting those hours."[29]

There is also a commitment to having the same employment rights apply to all employees irrespective of whether employed on a permanent or temporary, full-time or part-time basis, with regards to parental leave, sick pay, holiday entitlement etc. Under such a system, an Uber driver would be entitled to the same benefits and protections as an employee. Given that under British employment law there is an intermediate category of a "worker" – known as a "limb b worker" named after the location of the legal definition in Employment Rights Act 1996 s230(3)(b) – it is unclear how this can be implemented without effectively abolishing this intermediate category of a worker.

Another measure explicitly outlined in the manifesto would ban unpaid internships, though working prescribed hours without remuneration is already illegal; it is unclear whether what is meant by this is strengthening enforcement, high regulation of volunteering or something else. The manifesto also promises to abolish employment tribunal fees. Here it is worth noting, however, that these fees were effectively abolished in 2017 as a result of a Supreme Court judgement which found them to be unlawful.[30]

3. Corporate governance and self-employment

Seen as part of the suite of labour reforms are corporate governance changes such as the requirement for all government contractors to have a maximum 20:1 pay ratio, amendment of the takeover code so that "every takeover proposal has a clear plan in place to protect workers and pensioners",[31] as well as a "civil enforcement system to ensure compliance with gender pay auditing."[32] A radical proposal is that an "Excessive Pay Levy" should be introduced, which would introduce an additional levy of 2.5 per cent on personal earnings above £330,000 per year, and 5 per cent above on earnings above £500,000.[33]

The 2017 manifesto identifies self-employment as an area of special focus for the next Labour administration. One of the most interesting sugestions is that the burden of proof on whether a worker is an employee or a contractor should be reversed and placed on the employer, as recommended by the Taylor report.[34] This would change the law so that "the law assumes a worker is an employee unless the employer can prove otherwise".

4. Workers Protection Agency: Jeremy Corbyn"s speech to TUC Congress in September 2019

In a speech to the 2019 TUC Congress, Jeremy Corbyn outlined a number of new concrete policies augmenting Labour's labour market reform offering to date. Most notably, plans for a "Workers Protection Agency" were announced – presumably an arms-length "quango" of the planned Ministry of Employment announced in Labour's 2017 general election manifesto. The Agency is intended to have "real teeth, including the power

29. 48, https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf
30. https://www.supremecourt.uk/cases/docs/uksc-2015-0233-judgment.pdf
31. 46, https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf
32. 48, https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf
33. https://www.ft.com/content/2fa5b1bc-3990-11e7-ac89-b01cc67cfeec
34. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf

to enter workplaces and bring prosecutions on workers' behalf."[35] A score of questions remain unanswered, such as whether the agency would function like a regulatory agency, with their own powers of investigation, prosecution and enforcement, or like an ombudsman office, which first has to have a complaint referred to it by a complainant. It is likely that much of the detail would be based on the proposals put forward by John Hendy QC and Prof Keith Ewing, who were name-checked in the speech, and who co-authored publications such as *Reconstruction after the Crisis: A Manifesto for Collective Bargaining* and *A Charter for Workers' Rights*.

Another significant announcement in the speech is the augmenting of the pledges on sectoral collective bargaining with a clarification that an incoming Labour administration will make it a number one priority for the newly planned Ministry for Employment: "At the core of its work will be rolling out collective bargaining across the economy sector by sector… so within 100 days of Labour taking office, we will repeal the Tory Trade Union Act."[36] Once again, "democracy" is the watchword Labour wants to emphasise: "Why should democracy end when you walk into work? Why should the place where you spend most of your day sometimes feel like a dictatorship?"[37] The specifics of the policy are yet to be ironed out, however. Laura Pidcock, shadow minister for the newly planned department, outlined a rough definition:

> *Our Labour government will re-establish national collective bargaining between trade unions and employers in each sector of our economy. That was the British way for most of the Twentieth Century and it still is the way that the successful economies of Northern Europe manage their industrial relations.*
>
> *Sector-wide collective bargaining will set minimum and legally binding pay, terms and conditions for every employer and every worker in the sector.*
>
> *In practice it means that rather than the employer having all the power to determine what your conditions and pay are at work, they will be legally obliged to enter into negotiation with your trade union – a giant step forward in rebalancing the unequal power relations that exist between worker and employer.*[38]

She went on to use the example of the care sector:

> *Because under a Labour government, those care sector employers would be legally obliged to come to the table and negotiate all aspects of the industry, the conditions in workplaces and, fundamentally, their pay. So, whether you are a care home worker from Dundee or Durham, you would be secure in the knowledge that minimum terms and conditions negotiated for the sector will restore dignity and a decent life to you and those you look after.*[39]

This would be a huge change in the UK's labour market, with the main effect likely to be flattening of pay across the country as wages start coresponding lss to local economic condition, though granular effects are difficult to predict since they depend on the outcome of negotiations.

35. https://labour.org.uk/press/jeremy-corbyn-speech-tuc-congress/
36. Ibid
37. Ibid
38. https://labourlist.org/2019/09/a-labour-government-will-establish-a-ministry-of-employment-rights-pidcocks-tuc-speech/
39. Ibid

However, such a loss in the ability to accurately price labour might, firstly, lead to an overall loss of employment in less well-off areas as employers are unable to meet the payment demands compared to marginal revenue product generated in those areas, and secondly, leave them much more vulnerable to sudden spikes in unemployment caused by economic shocks as any slack in the system is used up by labour. That said, it is worth highlighting that pricing labour through collective bargaining is much less predictable but potentially more flexible than pricing it through minimum wage policies, and it is possible that insider/outsider dynamics in labour markets common on the Continent might be avoided as workers accept pay cuts rather than layoffs. The situation is likely to vary from sector to sector and region to region.

Assessment of proposed employment and industrial relations changes

The proposed changes to employment law and industrial relations law would raise the cost of employment and make the labour market less flexible. Greater use of collective bargaining frameworks across sectors and measures directed at limiting the dispersion of earnings within workplaces would have implications for the microeconomic functioning of the labour market. There would likely be a compression of pay differentials within workplaces and across the economy as a whole that would mean that the labour market would be less precise in pricing labour in relation to different levels of marginal revenue product.

A less flexible labour market where employment costs are higher would amplify segmented labour markets, where insiders (those with jobs) enjoy effective power relative to outsiders (those without jobs). At a time when the cost of capital is very low, and during a period of dramatic technological innovation, there would be scope for private employers to modify the stock of capital in relation to labour and substitute capital and technology for employees. The full consequences of this modification of the labour market and the relative prices of labour and capital would be clear only when the economy experienced an adverse shock to demand that would expose the extent to which the labour market has been modified by these policies.

In practice, Labour's proposals would take the labour market to a position where its institutional structure would be closer to that of economies in Europe such as France. It is likely that in time the economy would exhibit changes where there are higher levels of productivity in the context of lower levels of employment and labour participation and potentially higher levels of structural unemployment.

Assessment of Industrial Strategy Financing

The core of Labour's industrial strategy revolves around its **National Transformation Fund** and its **National Investment Bank** plus its regional offshoots. There are claims that major infrastructure investments enhance productivity but economists have always struggled to demonstrate this convincingly. Faster and more reliable transport are a boost to civilized living and easier commuting can increase leisure time, but the time savings for commercial drivers and others provide a limited boost to aggregate productivity. This is especially the case when mobile phones and the internet mean that executives can work on trains and airports. Investments like HS2 and Crossrail are likely to be helpful, but might not play a major role in enhancing national productivity.

Neither is it likely that the **National Investment Bank would prove transformative.** We have estimated that the proposed £25 billion made available to small firms and local authorities would increase their investment by 25 per cent if all of it were taken up. A 25 per cent increase in investment and hence borrowing by small firms is more difficult to imagine. This might amount to an additional £20 billion per annum or 15 per cent of the £165 billion stock of debt held by SMEs in 2017,[40] doubling the existing stock of SME debt over five or six years.

The problem would be matching demand for loans to this large increase in their supply. The majority of small businesses prefer not to borrow at all, financing their expansion out of their internally generated earnings. Moreover the UK already has a government-owned investment bank, the British Business Bank founded in 2014.[41] By 2017/8 the BBB had £12.3 billion of loans outstanding to small firms in the UK. During 2017/18 the bank lent them a further £678 million. Following the Government's Patient Capital Review a further £2.5 billion has been made available for investment via the BBB. This reflects the lower scale of venture capital in the UK compared to the USA. Further expansion of equity investment is, however, likely to be difficult given the riskiness of such financing which typically leads financiers to focus on asset-backed investments.

The current cost of borrowing is in any case historically low. If a Labour government were to offer even cheaper loans, some of this is likely to crowd out existing lenders. One needs to ask why if profit-enhancing investment funds are available, firms are not using them. The number of firms seeking new loans has been declining and the latest figures show a new low with only 1.7 per cent of smaller firms seeking loans.[42]

This indicates that more will be needed than simply making finance more readily available. An intensive information and support operation to persuade more small firms to undertake additional productivity-enhancing investments might make more progress if accompanied by financial aid which takes on some of the characteristics of a grant rather than a simple loan. Even in this case, the wider social gains from productivity enhancements in individual firms come from the uses to which the displaced labour is put. The most obvious gains are likely to occur when labour is in short supply.

The proposed National Investment Bank is at the core of Labour's Industrial Strategy. As part of Labour's wider economic strategy, it might contribute to a fiscal stimulus to UK economic activity in the short-term. However, to raise the UK's trend rate of growth and to move the economy

40. The stock of debt held by SMEs as estimated by the Bank of England.
41. https://www.british-business-bank.co.uk/
42. https://british-business-bank.co.uk/wp-content/uploads/2018/02/364-Small-Business-Finance-Reportweb.pdf

onto a permanently faster growth path requires Labour's proposals to raise investment and productivity. If the projected growth did not materialise, tax revenues would be lower than planned and borrowing and debt would be higher. Our view is that raising investment and productivity should be attempted, but that the diagnosis of a funding gap for small business is not in itself sufficiently reliable to provide a basis for policy action. If the policy diagnosis is defective then the proposed policy would be unlikely to generate the hoped-for results.

Energy Policy

Labour's policies on energy would have a major impact on the wider economy and provide insights into what a Labour government might do in practice. The 2017 manifesto sets out a series of objectives:

- Ensure security of energy supply and "keep the lights on".
- Ensure energy costs are affordable for consumers and businesses.
- Ensure we meet our climate change targets and transition to a low-carbon economy.
- Labour will insulate four million homes as an infrastructure priority to help those who suffer in cold homes each winter.
- Provide loans for increasing energy efficiency in houses.
- Support green energy technology, carbon capture and storage, tidal lagoons, etc.
- Labour propose to achieve these objectives by a series of radical proposals:
- An immediate price cap.
- Regaining control of energy supply networks through the alteration of the National and Regional Network Operator licence conditions.
- Supporting the creation of publicly owned, locally accountable energy companies and co-operatives to rival existing private energy suppliers, with at least one in every region.
- Legislating to permit publicly owned local companies to purchase regional grid infrastructure, and to ensure that national and regional grid infrastructure is brought into public ownership over time.
- Banning fracking.

The aims of providing low cost energy, especially for low income families, is laudable, as is the support for renewable energy, but there is little evidence that cost or policy effectiveness is being seriously considered in these proposals. Tidal lagoons and nuclear power generation, for instance, appear almost ruinously expensive at present but there is no indication of this in these proposals. Nor is there balanced consideration of fracking. The impression is rather one of bowing to lobby groups. There would be strong pressures on an actual Labour administration to modify or drop these policies.

Increased Public Spending

According to its own 2017 general election costings document,[43] Labour's spending plans in the 2017 manifesto would increase state spending on current public services and capital investment by about £75bn a year:[44] one third on infrastructure, one third on education (including the abolition of university tuition fees),[45] and most of the remaining third on health, social care and social security.

- £25bn a year over 10 years of capital spending through the National Transformation Fund.[46]
- £25.3bn a year in education spending (including £11.2bn on abolishing tuition fees).
- £7.7bn a year on health and social care.
- £4.6bn a year on various social security reforms, rises in maternity and paternity pay and minor reforms to state pensions.
- £4bn on lifting the public sector pay cap.
- £0.3bn on recruiting extra police officers.
- £0.6bn on miscellaneous spending including extra HMRC staff, abolition of employment tribunal fees and additional firefighters and border guards.
- £6.1bn on the Barnett effects of the above (corresponding spending increases in Scotland, Wales and Northern Ireland).

These spending commitments amount to 3.5 per cent of national income. The IFS estimates that this would take spending to the highest pre-crisis level since the mid-1980s, though lower than it was in the peaks of the mid-1970s and mid-1960s.[47] In its 2017 assessment, the IFS judged that these costs were a small underestimate due to higher costs of abolishing tuition fees.[48]

The costs above exclude the cost of nationalising energy, water, rail and the Post Office – a key priority which would be carried out as soon as possible, as highlighted by McDonnell: "*we will get this legislation through in the first (policy programme) Queen's Speech - we want to hit the deck running*".[49] External estimates suggest costs of at least £170bn[50] (around 9 per cent of GDP). Whether this would increase the net debt of the public sector would depend on the value of the assets acquired.[51] There has been some suggestion that companies might be nationalised at less than current market value, and Labour have since confirmed their commitment to Parliament deciding the level of compensation. As will be discussed later on, this would open up the UK government to significant risk of costly litigation.

Another major omission from the costings document is the cost of the National Investment Bank and of the regional development banks. According to *National Investment Bank for Britain*, a Labour policy document, the party is planning to "mobilise £500bn of investment over ten years to redress many of the structural problems in the British economy."[52]

43. https://www.politicshome.com/news/uk/political-parties/labour-party/john-mcdonnell/house/house-magazine/98359/gospel-according
44. http://labour.org.uk/wp-content/uploads/2017/10/Funding-Britains-Future.pdf
45. One of the most difficult aspects of estimating costs is the ambiguity over timelines.
46. National Transformation Fund, which would have a budget of £250bn over 10 years.
47. https://www.ifs.org.uk/uploads/Presentations/Carl%20Emmerson%2Cper202017%20General%20Election%2C%20manifesto%20analysis.pdf
48. https://cdn.obr.uk/March-2019_EFO_Web-Accessible.pdf 5
49. https://www.reuters.com/article/us-britain-politics-labour-nationalisati/in-government-uks-labour-would-nationalize-quickly-finance-spokesman-idUSKCN1M20GM
50. https://www.cps.org.uk/files/reports/original/180123105636-TheCostofNationalisationMASTERPDF.pdf and https://medium.com/oxford-university/what-is-to-be-done-about-uk-energy-bills-d778066ded9f
51. https://www.independent.co.uk/news/uk/politics/nationalisation-cost-tax-nothing-john-mcdonnell-jeremy-corbyn-labour-uk-politics-latest-a8204026.html
52. Page 5, https://labour.org.uk/wp-content/uploads/2017/10/National-Investment-Bank-Plans-Report.pdf

Not all of the £500bn would come from the taxpayer – the National Investment Bank would operate an "on-lending" model whereby it shared risk with existing commercial banks, credit unions and other lenders by part-financing some of their existing lending offers (though it is possible new products could be developed) and therefore make credit available to people, places and projects deemed too risky or too unprofitable thus far.[53] In terms of the extent of envisaged involvement of private capital, what is known so far from the policy paper is that National Investment Bank "would initially issue an equity tranche of £20bn, which would be purchased by the UK Government. Over ten years, the National Investment Bank would conduct ten annual bond issues, which would expand the National Investment Bank balance sheet to approximately £250 billion by the tenth year."[54] Labour is therefore envisaging £250bn in public borrowing over 10 years, and £250bn from the private sector, which means another £25bn on average per year should be added to their spending commitments,.

Finally, some proposals in the manifesto are either not mentioned in the costings document or have questionable budgets allocated to them. For example, Policy Exchange's sister think-tank Localis has previously estimated that the cost of Labour's planned extension of free childcare hours, included in the costings document within the £5.3bn for "Childcare and early years including more money for Sure Start" and given elsewhere at £4.8bn, would actually cost **£7.5bn** every year.[55]

We have already commented on the infrastructure projects within the National Transformation Fund. The most controversial is the £11 billion for the abolition of university tuition fees. While there is a case for a reduction in fees, because the wider population shares in the gains from a well-educated population, a complete abolition with no means test is regressive in that poorer tax-payers would fund the education of some richer students. In addition, £7 billion of the extra spending would be on nurses' bursaries and higher public sector pay. Together with the abolition of fees, this means that £18 billion of the £75 billion would not be dedicated to improved services.

Costing changes since 2017

In addition to the points outlined above, the costings also have to be viewed in light of the changing economic situation since 2017, as well as subsequent pledges:

- The most expensive item on the 2017 costings document, namely abolishing tuition fees and restoring maintenance grants, costed at £11bn, has to be viewed in light of increasing student numbers even without the additional impetous of abolishing fees, which is likely to increase them even more, raising the overall costs of policy significantly. According to data from Higher Education Statistics Agency (HESA) the number of undergraduate students studying for their first degrees has been steadily rising since the

53. https://www.kfw.de/KfW-Group/About-KfW/Identit-per centC3per centA4t/Volkswirtschaftliche-Wirkun-gen-der-KfW/
54. Supra note 29, p10
55. http://www.localis.org.uk/news/the-costs-of-extending-free-childcare-hours/

brief dip in 2011-12, caused by the fee increase.[56]

- McDonnell's commitment to abolish in-work poverty within 5 years could prove to be expensive if he is ready to pursue it even in a situation where his structural changes to the economy fail to give the desired result. Speaking at the Resolution Foundation, he stated: "I am commiting today to ending this modern-day scourage, to eliminating in-work poverty by the end of Labour's first full parliamentary term."[57] The pledge has not got a single policy attached to it, but rather is an ambition for the collective effect of structural changes Labour plans to carry out, such as "stronger industrial strategy, a network of regional public banks, stronger trade union rights, a £10-an-hour "real living wage" and workers on boards."[58] But the overall effect of such changes is far from certain, and questions remain as to what Labour would do in an event where desired economic and wage growth does not materialise. Would Labour choose to pursue policies such as further increases to the minimum wage, tax cuts for the poorest, or increases in transfer payments to working age households?
- The cost of financing the National Investment Bank has to be viewed in the context of the changing cost of borrowing as well as levels of market confidence post-Labour election victory. According to research carried out by Oxford Economics, "any boost to GDP growth from its looser fiscal policy would be offset by the damage caused by a weaker pound, higher borrowing costs and softer confidence."[59] This means that, for example, the inititial capitalisation for the National Investment Bank or the programme of investment through the National Transformation Fund could be more expensive than initially assumed, because the cost of government borrowing to pay for these programmes would rise as investors price-in political risk in government debt.
- A number of concrete announcements from the 2019 Labour conference without corresponding tax increases mean that Labour's tax and spend promises are now out of balance even on paper.

Health and social care

An additional £7.7bn per year available to the Department of Health and Social Care for current spending would have represented a budgetary increase of 6.2 per cent for 2017/2018[60] and adds up to £38.5bn over the course of a Parliament. Of this, £10.5bn (or £2.1bn per year) is earmarked for social care,[61] while £3bn (or £0.6bn per year) is for restoring nurses' bursaries.

Not included in the figure are funds earmarked for staff pay rises, which have to come out of the £4bn per year spending earmarked for lifting the public sector pay cap. Neither is capital spending (investment in new buildings, etc.), which would come out of the £25bn per year designated

57. https://labour.org.uk/press/john-mcdonnells-speech-resolution-foundation/
58. https://www.ft.com/content/8f19d8e2-a7d6-11e9-b6ee-3cdf3174eb89
59. https://www.oxfordeconomics.com/my-oxford/publications/507784
60. Assuming total departmental budget of the Department for Health and Social Care in 2017-18 was £124.7bn, see https://www.kingsfund.org.uk/projects/nhs-in-a-nutshell/nhs-budget
61. Slight discrepancy with the manifesto, which gives a figure of £9bn over the lifetime of Parliament
56. https://www.hesa.ac.uk/news/17-01-2019/sb252-higher-education-student-statistics

for capital expenditure, and which Labour says would amount to £10bn over the course of a Parliament.[62] The effective additional amount of money dedicated to healthcare is therefore difficult to estimate, but almost certainly higher than the £38.5bn of promised departmental spending.

This is not an insignificant funding increase. But according to the 2017 manifesto, it had to cover:

- Guaranteed treatment within 18 weeks, equivalent to taking one million people off waiting lists
- Guaranteed A&E waiting time of four hours
- Delivering the Cancer Strategy for England in full by 2022
- An unspecified funding increase for General Practice
- A halt and review of pharmacy cuts
- Ending the "postcode lottery" by ensuring level service provision across the country
- Ending hospital car parking changes
- A £250m Children's Health Fund
- Funding for health-related degrees (separate to nurses' bursaries)
- Creating the "Office for Budget Responsibility for Health"
- Creating "NHS Excellence", a new regulator
- "Real living wage" for all social care staff
- Increasing the Carer's Allowance to the level of Jobseeker's Allowance

These are broad, high-level, open-ended commitments. Their precise cost would turn on how the changes to the programme of spending were formulated. The overall impact on the economy of Labour's programme would be greater than the effects arising out of changes in expenditure, taxation and borrowing, given the ambitious programme of regulation and changes to the way labour and product markets would work.

Social Security

It is striking how little social security features in the 2017 manifesto. In the past, welfare and health spending was perhaps *the* key dividing line between the parties. This is no longer the case. The party's 2017 manifesto would keep most of the Coalition Government's welfare cuts.[63] Labour is a vocal opponent of Universal Credit, but commits only £2bn for a "review" of how best to reverse it – less than half than the £9bn required to completely reverse the changes. Labour has committed to a number of small bits of tinkering such as restoring housing benefit for under-21s or scrapping the so-called "bedroom tax" but is silent on big-ticket items which were a cornerstone of the Blair-Brown years, such as tax credits and child benefit, though in October 2018 Jeremy Corbyn appeared to commit to "ending the benefits freeze" in a remark at Prime Minister's Questions. This was followed up by Labour Party briefing, which clarified that Labour would "increase benefits in line with inflation", but not before confusion over the policy, with other spokespeople suggesting that "ending the

62. https://www.bbc.co.uk/news/election-2017-39916367
63. https://www.theguardian.com/politics/2017/may/20/labour-manifesto-keep-planned-tory-benefit-cuts-resolution-foundation

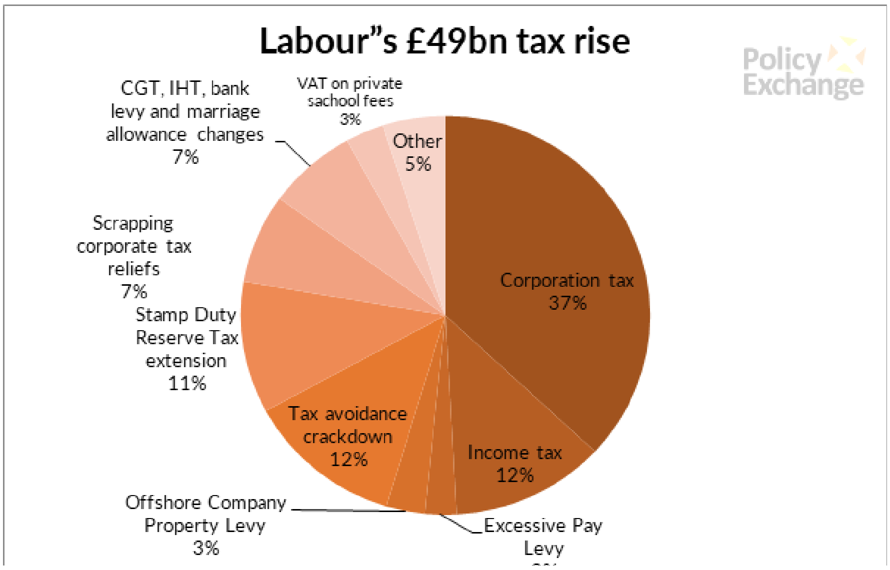
benefits freeze" was not the same as a commitment to uprate benefits in line with inflation, and that the exact amount would be spelled out in the next manifesto.[64] Uprating in line with inflation is, however, currently Labour policy.[65] This confusion over the policy is an illustration of how the focus appears to have shifted away from welfare and social policy, and towards arguing that Labour's economic policies will transform the economy to such an extent that welfare will be rendered "irrelevant", according to McDonnell himself.[66]

Higher Taxation

Labour has proposed to fund all increases in spending with corresponding increases in taxation. Additional capital spending will be financed through borrowing through the new equivalent of Gordon Brown's Golden Rule, i.e. a commitment to borrowing only to invest and not to fund current spending over an economic cycle. Labour scores their tax changes as a net increase in revenue of £48.6bn every year, the bulk of which would come from taxing businesses and higher earners:

- **£19.4bn** per year is scored as the yield from increasing Corporation Tax to 26 per cent
- **£6.5bn** per year from Labour's tax avoidance programme
- **£6.4bn** per year from making the Additional (45 per cent) rate of Income Tax kick in at £80,000 rather than at £150,000, with a new 50 per cent marginal rate kicking in at £123,000
- **£5.6bn** per year from extending the Stamp Duty Reserve Tax to derivatives and removal of "exemption"
- **£3.8bn** per year from an "efficiency review of corporate tax reliefs"
- **£3.7bn** per year from "reversing tax giveaways on Capital Gains Tax, Inheritance Tax, bank levy and scrapping the married persons' tax allowance"
- **£1.6bn** per year from introduction of VAT on private school fees
- **£1.6bn** per year from an "offshore company property levy"
- **£1.3bn** per year from an "excessive pay levy"
- **£2.6bn** per year from other minor changes
- **-£3.9bn** allowance for "behavioural change and uncertainty"

64. https://www.mirror.co.uk/news/politics/labour-vow-end-benefits-freeze-13512428
65. https://www.mirror.co.uk/news/politics/benefits-freeze-end-full-under-13479402
66. https://www.bbc.co.uk/news/uk-politics-46050691



Source: Funding Britain's Future

The main observation from these changes is that they are very concentrated. Most of the new revenue is envisaged to come from business taxes (37 per cent from changes to corporation tax alone). A further 12 per cent comes from the top 5 per cent of earners through an income tax rise; and 12 per cent from Labour's tax avoidance programme. For comparison, in 2017-18, corporation tax receipts accounted for 8 per cent of the total tax take.[67]

McDonnell is also proposing changes to inheritance tax, financial transactions, capital gains and marriage allowances as well as putting VAT on private school fees. Labour is explicitly pledging that if elected, 95 per cent of people will be protected from direct tax rises, although they may be indirectly affected if companies raise prices to maintain profits in the face of higher taxes. Labour ruled out any changes to the list of items "zero-rated" from VAT (apart from school fees) and any changes to National Insurance.[68]

Concentrating tax on the rich

According to the latest (July 2017) OBR Fiscal risks report, recent years have seen a marked trend in the concentration of the tax base – more and more tax being collected from fewer and fewer sources of revenue. First, the total number of income taxpayers between 2007-08 and 2017-18 has declined from 35.5 million to 30.8 million people, despite population growth.[69] At the same time, we are seeing the proportion of tax paid by the top 1 per cent of income taxpayers rise from 24.4 per cent to 27.7 per cent between 2007-09 and 2017-18.[70] This is projected to rise further to 27.9 per cent in 2018-19.[71] Yet the share of pre-tax income going to the top 1 per cent has declined – from 13.4 per cent to 12 per cent in the same period.[72] Labour's proposals would therefore make the distribution of income tax burden even more top-heavy than it already is, making revenues even more unstable. As the OBR report states: "evidence shows

67. Total tax take expressed as National Accounts Taxes (GCSU), corporation tax expressed as total onshore corporation tax including bank surcharge (CPSC) and total offshore corporation tax (CPSB), all figures from OBR Public Finances Databank for March 2019, https://obr.uk/data/
68. https://www.bbc.com/news/uk-politics-39829723
69. 2.1 Number of individual income taxpayers by marginal rate, gender and age, 1990-91 to 2018-19, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/710887/Table_2.1.pdf
70. 126, https://cdn.obr.uk/July_2017_Fiscal_risks.pdf
71. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/710882/Table_2.4.pdf
72. Ibid

that high-income taxpayers in particular respond to increases in their marginal tax rate by reducing the amount they work, migrating to areas with lower tax rate or engaging in tax avoidance schemes."[73]

This touches on the broader point that there is practical consensus among tax policy practitioners that in relation to the taxation of higher incomes there can be powerful behavioural responses in play that vitiate changes in rate structures so that there is an asymmetry between the behavioural reponse to an increase in taxation, compared to a cut in marginal tax rates. This means that an increase in higher marginal tax rates may fail to deliver the expected revenue that a static analysis would imply. The behavioural reponse to higher tax rates and a more intrusive overall tax burden is likely to make the revenue assumptions underlying many of Labour's proposed tax increases highly uncertain. When the top rate of income tax was reduced from 50p to 45p in the 2012 Budget, the OBR estimated that it would cost a mere £100m. It is not clear that an increase in the higher rate of income tax would bring in substantial additional revenue.

Policymakers in the UK face practical constraints in collecting revenue that turn on the taxable capacity of the UK economy. Different governments with varying microeconomic, macroeconomic and wider political policy agendas have constructed tax policies and rates of taxation that have varied a great deal. What is interesting is that the revenue that these very different tax bases and structures of tax rates exhibit appears to be remarkably constant. For example, tax as a percentage of GDP (as measured by "National Accounts Taxes") has only once risen above 34.9 per cent of GDP since 1951, and over the past 40 years, they have never been higher than 34.4 per cent (2018-19) or lower than 28.5 per cent (1993-4) despite the top rate of income tax varying from 40 to 83 per cent, and from 52 to 18 per cent for corporation tax.[74]

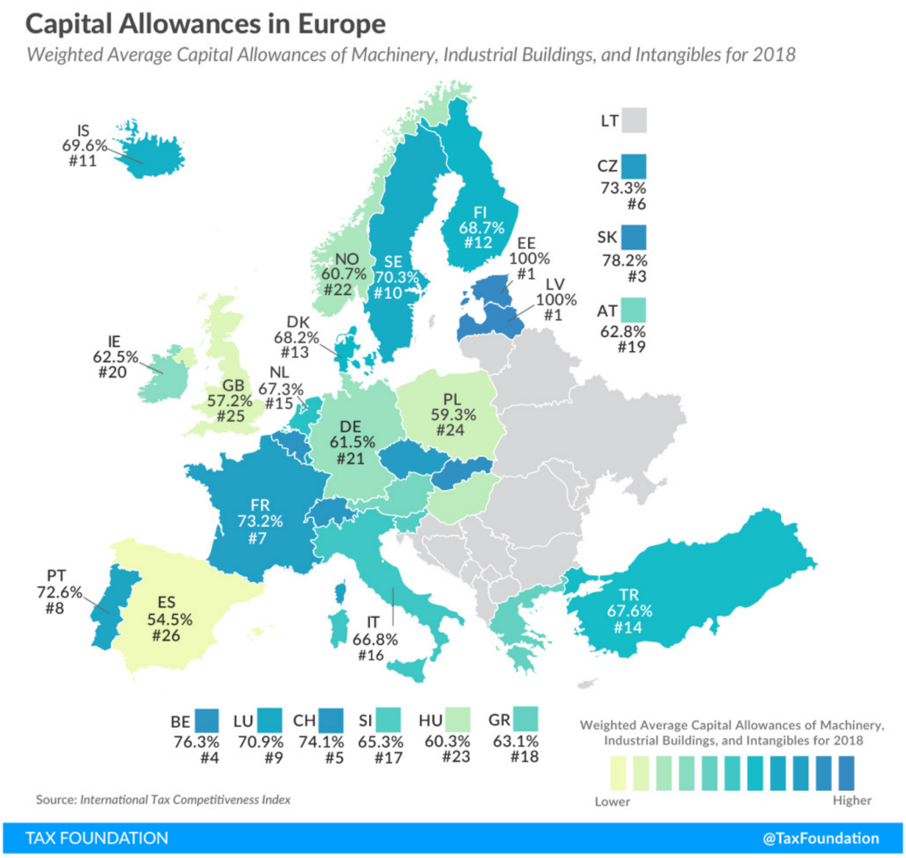
Business taxation

Labour planned to raise the corporation tax rate to 26 per cent – up from the current 19 per cent, which is scheduled to go down to 17 per cent in April 2020. This would return the tax rate to where it was in 2010. A higher rate of corporation tax is likely to raise significant amounts of revenue in the short-term. According to the latest HMRC "Ready Reckoner" set of estimates, increasing corporation tax by 1 per cent would (all other things being equal) raise £2bn in 2019-20, £2.9bn in 2020-21 and £3.1bn in 2021-22.[75] Labour's own costings indicate a projected £19.4bn a year, taking into account that the rise is likely to be phased.[76] It is by far the biggest revenue-raiser in Labour's fiscal plans, accounting for 37 per cent of the new revenue. The manifesto makes it clear that at least some of the revenue would be used to fund skills training, scored by their costings document at £25.3bn per year.

The 26 per cent rate would still mean the lowest rate of corporation tax in the G7. But the rate level is just one thing to consider when comparing relative competitiveness of corporate tax regimes. For example, the UK

73. 129, OBR Fiscal risks report
74. OBR public finances databank
75. HMRC, Direct effects of illustrative tax changes, https://www.gov.uk/government/statistics/direct-effects-of-illustrative-tax-changes
76. According to the 2017 costings document, the envisaged pace of rises was 21 per cent from 2018-19, 24 per cent from 2019-20 and 26 per cent from 2020-21. It is reasonable to assume a similar three-step process would be used if Labour wins the 2022 election.

has some of the lowest capital allowances in Europe – that is to say, the amounts which can be deducted from gross revenues in order to account for depreciation of capital investments such as machinery, building or patents. The more you are allowed to deduct, the smaller the amount on which a company will have to pay corporation tax, and so the smaller the effective marginal corporation tax rate. According to the International Tax Competitiveness Index, the UK has the second least-generous average capital allowances in Europe, allowing an average of 57.2 per cent of capital expenditure to be deducted: France allows 73.2 per cent, Germany allows 61.5 per cent, while Estonia and Latvia opt for 100 per cent.[77] Labour's plans for corporation tax should therefore be viewed in tandem with their other plans for business taxation. For example, the "efficiency review of corporate tax reliefs" is intended to bring £3.8bn in revenue, which would limit the deductible amounts even further.



Source: Tax Foundation

The main impact of higher corporation tax rates may be a reduction in foreign direct investment (FDI) into the UK. The OECD observes that studies suggest an average loss of FDI of 3.7 per cent for every one percentage point increase in corporation tax. The losses may be lower in the UK which has a large market to attract FDI irrespective of tax rates. The number of jobs in new FDI projects into the UK doubled to 70,000 per

77. https://taxfoundation.org/capital-allowances-europe-2019/

annum between 2005 and 2015 as tax rates fell from 30 per cent to 20 per cent, before falling back after the 2016 referendum.[78] This suggests a 5 per cent loss of FDI for each one percentage point rise in tax (which is at the high end of the range of impacts reported by the OECD).

Labour's proposals plan to increase spending by matched increases in taxation. Those discretionary tax measures are directed at companies and higher-income individuals. Labour's costings are based on the Treasury and HMRC published ready reckoners, which rely in the main on a static rather than a dynamic approach to revenue scoring, and they may not capture in full changes in behaviour that could result in the sort of discretionary changes in the tax regime that Labour is proposing. Labour itself in the 2017 manifesto offered some adjustment to take into account changes in behaviour and uncertainty, but whether the amount they scored for it was sufficient will not be clear. Moreover, part of the discretionary measures rely on over £6bn of revenue collection from making progress on reducing tax avoidance, which is always particularly uncertain.

Financial Transactions Tax

The manifesto proposed an extension of Stamp Duty Reserve Tax (SDRT) to a "wider range of assets."[79] This has subsequently been reframed as a "Financial Transactions Tax", also known as "Robin Hood Tax". The policy specifies that SDRT would be extended to bond and derivative transactions, at a rate of 0.2 per cent for banks, hedge funds and other financial institutions, and 0.5 per cent for non-financial institutions.[80] The exemption for market-makers would also be removed, but government bonds would be exempt. Based on an analysis by Avinash Persaud, chairman of Capital Intelligence Partners, Labour estimates that the policy would raise £4.7bn a year, with £2.5bn coming from derivatives trading, £1.2bn from bonds and £1bn from market-makers.[81] According to McDonnell, the policy is to "eliminate the most destabilizing forms of speculative high-frequency trading."[82]

The tax would create a "cascade effect" if the intermediaries' exemption was removed. This is because if every intermediary which a trade has to pass through was taxed at 0.2 per cent, the cumulative effect would be much higher: law firm Clifford Chance estimates 1.3 per cent even for a relatively simple transaction with a minimal number of intermediaries.[83] As all financial transactions would be included and not just those forming a part of a high-churn investment strategy, it would have an impact on all institutions, from pension funds rebalancing their portfolios to an index-tracking fund, which would also have some degree of turnover.

This is a measure designed to target high-frequency trading, but it seems a blunt instrument for that purpose. There may be other, more effective measures such the use of margin requirements on derivative transactions. With this sort of tax measure there is always a tension between deterring behaviour that is regarded as a malign externality on the one hand, and raising revenue on the other. The more effective it is in deterring a perceived malign externality, the less revenue it is likely to raise.

78. Source data : fDi Intelligence, a subsidiary of the Financial Times.
79. P16, https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf
80. https://www.ft.com/content/c87d3a72-388c-11e7-821a-6027b8a20f23
81. ttps://www.robinhoodtax.org.uk/sites/default/files/Improving%20resilienc%2%20increasin%20revenue%20-%20May%202017.pdf
82. https://www.reuters.com/article/us-britain-banks-labour-factbox/factbox-how-will-the-uk-labour-partys-robin-hood-plan-to-tax-bond-and-derivative-trading-work-idUSKBN1AB1M0
83. https://www.cliffordchance.com/briefings/2017/07/labour_s_proposedukfinancialtransactiontax.html

Part 3 – Post-2017 Policy Proposals

The principal proposals set out in Labour's 2017 manifesto can be seen as informing a corporatist agenda of public intervention, involving higher spending and taxes, of the sort pursued by Labour governments in the 1960s and 1970s. Following the party's moderate success in the 2017 general election, Labour have energetically explored a more distinct and radical policy agenda. Many of the proposals that have been explored have come from reports commissioned as part of the policy debate that McDonnell has stimulated.

Some of the ideas proposed have become considered policies that are likely to form part of Labour's next manifesto, and should be included in an assessment of what a Labour government would in practice do. Proposals of this sort include the extensive programme of changes to ownership and corporate governance set out in McDonnell's speech to the Labour Party conference in 2018. There are others that have emerged from the policy debate, but are less likely to be included in Labour's manifesto. This part of the report will concentrate on identifying those proposals that should sensibly be included in an assessment of what the next Labour Party manifesto is likely to include.

McDonnell has encouraged a wide-ranging discussion of financial policy and the role of the central bank, and what its targets ought to be. This has included the suggestion that the inflation target should be modified to take account of house prices and a productivity target set for the Bank of England. It is likely that a Labour government would make significant changes to the institutional framework of the Bank, including relocating part of its functions to Birmingham, but at this stage, based on Policy Exchange's interviews with Labour insiders, we think it would be premature to expect the inflation target to be modified to include a productivity target.

Other ideas include radical changes to land use and land-planning processes, the sale to employees of shares in larger companies, directing bank lending away from housing and towards productive activity and the possibility of the nationalisation of assets at prices that might not reflect their market value. It is not always obvious how many of these proposals might feature in the next Labour manifesto, but they are all part of their policymaking discussions and help to illustrate the direction of travel of Labour's policy thinking.

1. Inclusive Ownership Fund

Both symbolically and consequentially, the Inclusive Ownership Fund (IOF) could be the most radical Labour proposal. Symbolically, because it is a step squarely in the direction set out by Clause IV and left-wing economic policy that is not based on redistribution but appropriation of capital and wealth. Consequentially, because the potential negative impact on investor confidence, pension funds and control of the country's largest companies could be enormous. As one left-wing commentator put it when the policy was unveiled: "Labour has just declared class war. Has anybody noticed?"[84]

Announced as the flagship policy from the 2018 Labour Party conference, this is the plan to require all companies employing over 250 people to transfer 10 per cent of their shares into the IOF over the period of 10 years, 1 per cent each year. The Fund would be governed collectively by employees, and pay out "dividends" each year. The amount of dividends would be capped at £500 per person, with the rest taken by the Government in tax. The Fund would be overseen by trustees elected by employees themselves. It would not be able to sell the shares (an "asset lock", as in the John Lewis partnership) and the employees would not be able to sell their stake in it.[85]

It is not yet clear how broad this policy would be. In 2018 there were 8,000 businesses with over 250 employees (0.1 per cent of the total) employing about 10.7m people, which accounts for 40 per cent of total employment.[86] Labour has confirmed that it cannot force companies listed elsewhere, but operating branches in the UK, to do this, and there are unanswered questions about what to do with companies that have unorthodox ownership structures (such as John Lewis) or companies which do not regularly pay dividends but qualify for the policy. It is unclear whether they would be forced to now do so. Analysis by the *Financial Times* and the law firm Clifford Chance showed that the policy would amount to a confiscation of shares worth £300 billion, an amount reached by cross-analysing total book value of all financial and non-financial corporations in the UK and the proportion of total corporate revenue coming from large companies.[87]

The inspiration for this policy comes from a 2018 paper published by the New Economics Foundation (NEF), *Co-operatives Unleashed*, which coined the phrase "Inclusive Ownership Fund" and said that the government should:

> *…either compel or strongly incentivise (or both) all shareholder- or larger privately-owned businesses to deposit a small, annual share of profits in the form of equity into a worker-controlled fund. Over time – like a beating heart in the economy – these funds would reach a tipping point, at which time employees could opt to take various forms of control over the running of the business.*[88]

The NEF proposals are vaguer than those put forward by McDonnell, but also spell out explicitly something which the Labour proposals do not do: namely, an ambition for workers eventually to control the running of

84. https://www.theguardian.com/commentisfree/2018/sep/24/labour-class-war-john-mcdonnell-workers-stake-firms
85. https://www.cliffordchance.com/briefings/2018/09/labour_s_plan_forthecompulsoryacquisitiono.html
86. https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf
87. https://www.ft.com/content/dc17d7ee-ccab-11e9-b018-ca4456540ea6
88. https://neweconomics.org/uploads/files/co-ops-unleashed.pdf

the business. At the time of the announcement, it was keenly emphasised by Labour that the stake would be capped at 10 per cent and transferred slowly, 1 per cent every year. At the time of the announcement, "one aide to the shadow chancellor" said that "It's a very, very small amount, 1 per cent a year," and "I don't see why shares would go down."[89] Business disagreed. The Institute of Directors labelled the plans "draconian", while the Confederation of British Industry said it was a "diktat" which would have investors "packing their bags".[90] In a series on "The Labour Revolution", the *Financial Times* and law firm Clifford Chance estimated (on the basis of book value) that the equity seizure would confiscate £300 billion worth of company shares.[91] Predicting legal challenges from the affected companies, Dan Neidle, a partner at the firm, stated that "there is no historic precedent for it."[92]

Effect on control of companies

Notably, in the context of large, publicly listed blue-chip companies, 10 per cent can easily make you the largest single shareholder. Though the scope of the policy would be much larger, just looking at the FTSE 100 index reveals that a 10 per cent equity stake would be the single largest in 70 of the constituent companies, and second-largest in the remainder. The table below illustrates what some of the effects would be on well-known British companies from a range of sectors:

Company	Market cap (£m)	1per cent (£m)	10per cent (£m)	IOF biggest shareholder?
Aviva	15,466	155	1,547	2nd biggest
AstraZeneca	96,135	961	9,614	Yes
Next	7,722	77	772	2nd biggest
Tesco	23,299	233	2330	Yes
M&S	3,549	35	355	Yes
Persimmon	6,539	65	654	Yes
Rolls-Royce	15,077	151	1,508	2nd biggest

Source: London Stock Exchange on 26 September 2019, annual reports, own calculations

The IOF policy should not be viewed just as a profit-sharing measure. Instead, a more significant dimension concerns the control of the company. How would the worker representatives administering the IOF be elected and held to account? This is of the utmost importance, because of the power they would be able to exercise – affecting the future of the UK's biggest companies. Traditionally, shareholder voting rights exercisable at AGMs and EGMs primarily relate to issues directly affecting company shares, such as stock splits and share buybacks as well as mergers and acquisitions. Shareholders usually have to approve the proposed executive compensation packages for that year, and they can vote for and against

89. https://www.ft.com/content/d7aa158a-bf52-11e8-8d55-54197280d3f7
90. https://www.cbi.org.uk/media-centre/articles/cbi-responds-to-labour-proposals-on-employee-ownership/
91. https://www.ft.com/content/dc17d7ee-ccab-11e9-b018-ca4456540ea6
92. Ibid

the appointment of members of the board of directors. But depending on the company, shareholders can also influence issues like the strategic objectives of the company, operational alterations and structural changes. Along with the separate policy granting a third of the board seats to worker representatives, this would give very significant amounts of power to organised labour both at board level and at AGMs where shareholders exercise their powers of accountability over company management.

It is also significant that McDonnell opted to cap the maximum annual dividend paid to workers from the fund at £500 and envisages that the rest would go to the Treasury. According to estimates by the *Financial Times* on the effects of the £500 cap, by the 10th year of the policy the Treasury take would amount to more than double what was going to workers: as much as £5.9bn annually could be "taxed" in this way.[93] There would also be a significant incentive for firms to reduce employment to below 250. It would discourage both capital accumulation and growth.

2. Nationalisation of energy distribution at a price decided by Parliament

On 15 May 2019, detailed plans regarding nationalisation of energy networks were published. Labour confirmed they would be seeking to nationalise the transmission and distribution networks, currently owned and operated by National Grid and the seven regional distribution network operators (DNOs).[94] In their place, a National Energy Agency (NEA) would be established, taking on the functions of the National Grid, with offshoot Regional Energy Agencies (REAs) taking over from the DNOs. Further possible devolution is envisaged, with local authorities able to set up Municipal Energy Agencies, essentially taking over the responsibilities of their REA, and, even beyond that, local communities being allowed to set up Local Energy Communities (LECs) - though those are intended to be "vertically integrated". These are also envisaged as spaces for local experimentation, e.g. if several housing estates want to pool their resources and sponsor solar panels on every roof.

Significantly, Labour confirmed that it will not be seeking to compensate shareholders in line with market prices. Instead, the commitment to compensation being "decided by Parliament" was reiterated, confirming previous statements that "perceived behaviour affects the price."[95] The plans state that "Parliament may seek to make deductions for compensation on the basis of: pension fund deficits; asset-stripping since privatisation; stranded assets; the state of repair of assets; and state subsidies given to the energy companies since privatisation."[96] The open-ended nature of the language used in these statements suggests unwillingness to commit to a clear-cut test, which in turn suggests the process is likely to be highly political. The plans cite nationalisations of the post-war Labour government as well as the Northern Rock case in the European Court of Human Rights as supportive precedents for below-market value nationalisations.[97] Indeed, reports in the past suggested that Labour is aware of the problems and is

93. https://www.ft.com/content/2a68e830-c027-11e8-95b1-d36dfef1b89a
94. https://www.labour.org.uk/wp-content/uploads/2019/03/Bringing-Energy-Home-2019.pdf
95. https://www.ft.com/content/409eb2f2-4765-386e-959b-501ab061b285
96. P18, https://www.labour.org.uk/wp-content/uploads/2019/03/Bringing-Energy-Home-2019.pdf
97. Ibid, p17

taking advice from lawyers on their nationalisation plans.[98]

Concerns about the economic efficacy and indeed the lawfulness of such a move have been widely expressed in the gravest possible terms. Firstly, the adverse impact on incumbent investors – amongst which pension funds are prominently represented, as utilities are considered particularly safe and stable – is a key consideration. Infrastructure businesses are 57 per cent owned by pension funds (24 per cent by public sector pension funds).[99] Secondly, and arguably far more importantly, there is the impact that nationalising at below-market value prices would have on the reputation of the UK as a jurisdiction with a strong rule of law, and the knock-on effect this would have on foreign investment in the UK. As Lord O'Neill pointed out in *The Times*: "Why would any investor ever trust any UK public company ever again? It's slightly scary. It would destroy the whole purpose of having an equity market."[100] According to a briefing from law firm Clifford Chance, the consequences of this would be extremely serious: there is no international example other than Venezuela of a government carrying out a nationalisation at below-market prices.[101] There would be significant scope for legal action against a Labour government which attempted this, either under investor-state arbitration proceedings triggered by foreign investors under anti-expropriation provisions in a relevant free trade agreement or bilateral investment treaty, or under the Human Rights Act by domestic investors.

3. Speech to UK Finance: Forcing capital towards green technologies

In a speech to UK Finance, a financial services trade body, McDonnell set out a series of measures aimed at making financial markets direct capital at investments deemed as green and sustainable, i.e. bonds and shares of companies in the renewables sector, companies with business models emphasising environmental sustainability, etc. The most arresting is a threat to delist from the London Stock Exchange (LSE) companies which, on the basis of some yet to be specified criteria, are not doing enough to tackle climate change.[102] Outlining the proposal, McDonnell said: "Regulation as well as incentives will be required to direct investment away from fossil fuels and into environmentally sustainable activities. One mechanism I have proposed is to legislate so that any company listed in London is required to contribute to tackling the climate change crisis and if it fails it should be delisted."[103]

As a policy to reduce the flow of capital to companies deemed to have particularly poor green credentials, at a time when capital is international, it seems extremely misguided. Even before speculating on what the measures for judging firms' green credentials must be, it has to be said that the choice of a stock exchange for listing has often nothing to do with where the company is headquartered: delisted companies would simply go elsewhere. The policy furthermore assumes that the LSE and the City of London are sufficiently attractive to incentivise companies to improve

98. https://www.independent.co.uk/news/uk/politics/labour-party-policies-tax-jeremy-corbyn-city-london-lawyers-corruption-a8463856.html
99. https://docs.preqin.com/reports/Preqin-UK-Infrastructure-Market-May-2016.pdf
100. https://www.thetimes.co.uk/edition/business/jeremy-corbyns-cut-price-power-grab-xhhnpt39h
101. https://www.cliffordchance.com/briefings/2019/05/uk_nationalisationthelawandthe-cost-201.html
102. https://www.cityam.com/city-anger-at-john-mcdonnells-financial-totalitarianism-climate-change-plans/
103. https://labour.org.uk/press/john-mcdonnell-speech-economy-labours-plans-sustainable-investment/

their green credentials in order to stay here. Yet Labour is proposing a host of other policies – such as higher corporation tax, a forced transfer of 10 per cent to a worker-controlled fund, a much less flexible labour market, etc. - which would seriously damage that attractiveness. In the end, many firms might actually leave of their own accord.

The speech goes on to mention three more important items: firstly, use of credit guidance to further decarbonisation, presumably by increasing regulatory capital risk-weighting with regard to assets not considered green. Again, much would depend on what criteria were used to asses a firm's environmental impact but this is arguably less radical, as there is evidence markets are already pricing in environmental risk associated with companies very dependent on fossil fuels.[104] The "Strategic Investment Board" previously floated by *Financing Investment* would be renamed as the "Sustainable Investment Board" and given a mandate to work with the Bank of England to steer investment towards green firms and sectors.

Secondly, there is a hint that the HMT Green Book rules of project evaluation – essentially Treasury guidance for civil servants charged with adjudicating on the feasibility, cost and impact of projects, policies and programmes[105] – would be adjusted to make it easier to green light a project, programme or a policy aimed at tackling climate change. As McDonnell made clear: "Treasury will look at the so-called Green Book and other rules on project evaluation to make sure they capture the environmental benefits and costs of acting – and costs of not acting."[106] This is significant in the context of other Labour programmes such as the industrial strategy and government-financing of green projects and technologies. A Labour government would almost certainly see a significant increase in policies, projects and programmes aimed at tackling climate change, but the level of scrutiny and requirements such as proof of viability would be likely to decrease. This could result in public money going on poorly designed and ill-thought-through projects.

4. Impact of the "new public banking ecosystem"

This is a hugely important dimension of McDonnell's agenda. Wholesale transformation of the UK's banking sector is something that he has always advocated. Immediately after the 2008 crisis, he called for wholesale nationalisation of the sector and for the government to "take control of all the major banks."[107] Announcing the suite of policies in April 2019, he said: "Finance is the central nervous system of the economy… it directs investment, deciding which businesses and projects get off the ground and which fail… For too long this vital part of our economy has been solely in the hands of the big banks and the speculators."[108] This highlights the centrality of the idea that control of finance means control over the shape of the wider economy – a claim that will be investigated later on.

The most eye-catching aspect of these reforms is a pledge to create a "Post Bank". This would be a publicly owned bank spun-off from the Post Office, which would be nationalised. It would have "a public service mandate to provide financial services according to clear principles set out

104. http://www.lse.ac.uk/GranthamInstitute/faqs/what-are-stranded-assets/

105. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf

106. https://labour.org.uk/press/john-mcdonnell-speech-economy-labours-plans-sustainable-investment/

107. Supra note 25

108. https://labour.org.uk/press/labour-sets-plans-radical-shake-uk-banking-system/

in primary legislation."[109] The Post Bank would be "owned under a public trust model whereby ownership is held in trust for the public benefit in order to ensure the bank is able to fulfil its public service mandate and safeguard against future privatisation."[110] As with all Labour's newly-proposed public institutions, it would be overseen by a diverse board of "local and regional stakeholders": it would be "capitalised by HM Treasury with £2.5 billion of capital… and will be funded mainly by retail deposits, including from personal current accounts, business current accounts, and savings products, as well as debt issued to financial markets of varying maturities."[111] The services offered would include "current account, savings, travel, insurance, and personal loan markets" and it would "establish a new business division focused on SME customers, which should be made a strategic priority."[112]

The most interesting aspect of this is the explicit objective to develop "relationship banking": whereby loans are de-risked through the bank building up strong relationships and understanding the businesses it lends to, rather than relying on the availability of collateral."[113] This emphasis also features in the *Financing Investment* report when setting out how the macroprudentialstability supervision framework could be adjusted with the use of data analytics to consider loans to SMEs – which often have little collateral – less risky in comparison to loans secured against real estate.

5. Green Industrial Revolution and Finance

The reforms being considered by Labour to the UK's financial stability framework are far-reaching. A much greater role for the Bank of England in actively shaping the economy is being considered, as well as a host of new policy tools, institutions and targets to that end.

The most important macroeconomic policy tool from a financial services perspective is "credit guidance". This is an envisaged macroeconomic policy tool available to the Bank of England which would aim to disincentivise private lenders from lending to a particular sector (or sectors), whilst incentivising lending to another sector (or sectors). In McDonnell's own words: "Credit guidance might not seem like the most exciting topic to everyone. But making sure our regulators have the power to play their part is crucial. With that power, I believe the Sustainable Investment Board can meet the 3 per cent productivity target as well as our decarbonisation targets."[114] The speech does not go into detail as to how exactly the credit guidance lever would work, but the report to the Labour Party *Financing Investment* from an economics consultancy GFC Economics – written by its owner Graham Turner, an economist close to McDonnell – explores this: "The banks have not done enough to support companies in sectors that are critical to raising the productive potential of the UK economy. Credit guidance is a new policy tool for the Bank of England designed to correct this flaw with monetary policy."[115]

In essence, it envisages the Bank adjusting the way in which the amount of regulatory capital that a given bank needs to hold is assessed, so that exposure to investments deemed productive and desirable, such as SMEs

109. 5, http://labour.org.uk/wp-content/uploads/2019/03/Building-a-new-public-banking-ecosystem.pdf

110. Ibid, 6

111. Ibid, 6

112. Ibid, 6

113. Ibid, 6

114. https://labour.org.uk/press/john-mcdonnell-speech-economy-labours-plans-sustainable-investment/

115. GFC, 17

in manufacturing in high technology sectors, will require less capital than investments deemed unproductive, unstable and undesirable - such as the real estate sector:

> *"Already, the Financial Policy Committee (FPC) has significant powers to adjust risk weights for specific sectors to achieve stated goals…These powers could be strengthened to influence lending to specific industries. The Bank of England will be required to take a more active role in the allocation of credit in the economy. Credit for the purchase of land and property could be redirected in favour of lending to productive sectors such as manufacturing or professional, scientific & technical activities. This will need to be done within the confines of Basel III."*[116]

The impact of such adjustments to financial regulation, so that it favours certain investments, is likely to be significant. The way in which risk-weighting is carried out under the Basel III framework – an international agreement governing financial regulation – is according to the "standardised approach to credit risk", which details how much capital should be held against exposure to different assets and sectors, though with a degree of discretion for the domestic macroprudential regulator. As is traditionally the case, a lot of emphasis is placed on the existence of collateral, which is why exposure to the real estate sector can be deemed to be safer – providing as it does an asset that can be repossessed in case of default, proceeds from the sale of which can cover the losses, thus preventing contagion. This is much less often the case with investments in business and particularly SMEs, which are riskier, since if the enterprise goes bust there are no tradable assets to recover. Hence the emphasis of the *Financing Investment* report on data analytics, as the idea is to improve lenders' and regulators' understanding of individual firms in the sectors Labour wants to prioritise so that the safety of collateral can be replaced with the safety of an informed bet on a future of the given business: "Improved analytics may allow for reductions of Pillar 2 capital requirements for small & medium-sized enterprise lending in certain sectors of the economy, to support the Industrial Strategy."[117]

A lot will depend on the degree to which Basel III regulations prove flexible enough for McDonnell's ambitions, and whether – should they prove too rigid – he is ready to direct the Bank of England to contravene them. Such a move could be hugely damaging to the UK's standing as a safe and stable place to invest, since it would raise questions about adequacy of other UK financial regulation aspects, and Government's willingness to bend them to political ends. Even if carried out within the confines of Basel III, there are questions about the wider macroeconomic effect of these reforms. There is, after all, a good financial stability argument for why the existance of collateral is seen as good, not just from a single-transaction credit risk point of view, but also from a systemic stability perspective – the liquidity that collateral can provide can stop a contagion from a default spreading.

That said, it has to be mentioned that there are legitimate questions

116.GFC, 15
117.GFC, 15

about whether Basel III gets the balance right. For example, the banks themselves have been warning that the regime throws the baby out with the bathwater in terms of correcting the mistakes of Basel II, and is generally overcautious, whilst ignoring the fact that in a widespread global downturn, existence of large amounts of collateral will not help if it is concentrated in a single asset class. Its insistence on collateral does also undeniably does make it more difficult for SMEs to access finance. As was pointed out by Stian Westlake and Jonathan Haskel in their book *Capitalism without Capital*, the fact that intangibles such as IP and software make up such a large proportion of modern companies value – yet make poor collateral, since a building or a piece of machinery holds obvious value to an infinitely larger amount of people than a piece of specialised software or a patent, which are therefore much less liquid – does have implications for the ability of these companies to access finance. The suggestion by *Financing Investment* that regulators and central bankers should be trying to figure out how to leverage big data to try to analyse and predict how such companies might fare or how valuable their intangibles might be irrespective of how the company does, so that investors are not put off by high information costs associated with lending to such companies, is broadly a good one and something Governments, regulators and other stakeholders will have to start looking at.

Furthermore, economists and central bankers are exploring fundamental questions about the relationship between monetary and fiscal policy in the context of very low interest rates, anchored inflation, and the future role of monetary and fiscal policy in the event of an adverse economic shock. Policymakers are increasingly recognising that they may have to pursue further novel approaches both to monetary policy and the relationship that monetary policy has in supporting fiscal policy in an economic crisis or downturn.

It is not clear that this novel and radical programme of changes to monetary policy and the central bank, such as a productivity target for the Bank of England, would form part of Labour's programme in government. This agenda is based on a radical critique of the financialisation of modern market economies and forms part of the wider policy analysis and agenda that has informed McDonnell's approach to economic policy and which in part he has himself helped to stimulate as Shadow Chancellor over the past four years. This paper will explore these ideas, their analysis and a policy programme which may or may not be adopted in the later parts of the report.

6. Land, housing and planning reform

The majority of proposals relating to land are contained in the most recent policy paper for the Labour Party, edited by George Monbiot. The proposals are not explicit commitments from the Labour Party, but it would "consider the report's recommendations as part of its wider policy development."[118] They are largely an elaboration of what has been previously hinted at by McDonnell. For example, speaking in 2018 at an

118.https://www.ft.com/content/19d0b7f4-8625-11e9-a028-86cea8523dc2 event organised by the socialist *Red Pepper* magazine, he said: "One of the big issues we're now talking about is land, how do we go about looking at collective ownership of land, Community Land Trusts, the development of those by local communities…".[119] The propositions are extremely wide-ranging, spanning areas that include taxation, planning and finance right down to such relatively minor matters as allotments. The list of proposals below concentrates on the most significant.

a. Property taxation

Land for the Many proposes far-reaching reforms in the area of land and inheritance taxation.

- Firstly, replacing council tax with a "progressive property tax" to be levied on owners rather than occupiers, based on property values subject to a more frequent revaluation: the rates would be set nationally and would be higher for second properties, empty properties or those registered as "main residences" but owned by people registered as non-resident in the UK for tax purposes following similar recommendations in the 2017 manifesto.
- Secondly, replacing business rates with a Land Value Tax, calculated on the basis of the rental value of the property.
- Thirdly, raising the rate of Capital Gains Tax "for second homes and investment properties" so that it is "at least in line with income tax rates" and removing the "main residence" exemption.
- Fourthly, scrapping Stamp Duty Land Tax for people buying a home to be registered as "main residence", but keeping it for purchasers resident abroad for tax purposes.

Any of these changes would amount to a significant change. Together they are a complete rewrite of property taxation. It has to be said that, at first glance, some of the proposals are interesting. Stamp Duty Land Tax, for example, is arguably on of the UK's most damaging taxes. Aligning Capital Gains Tax with the income tax rate would make the system more neutral between different types of economic activity, sharpening the price signals and quite possibly improving efficiency.

Yet there would be downsides too. The first measure, replacing council tax with a "progressive property tax" levied on owners, with a higher rate set for second properties and properties owned by people or organisations not resident in the UK, is primarily likely to lead to an immediate increase in rents as higher liabilities on landlords are pushed onto the tenants. There may also be an additional upward pressure on rents as landlords who are pushed into lossmaking territory put their properites up for sale, particularly in areas where pushing the cost of the new tax onto tenants is unrealistic. Arguably, the more important significant effect is likely to be asset-rich but income-poor individuals hit with tax bills they struggle to afford being forced to sell their homes.

119.https://www.newstatesman.com/politics/uk/2018/11/how-john-mcdonnell-plans-transform-state-within

b. Planning and development

The paper contains several proposals which would have a very significant impact on land ownership:

- **Compulsory Sale Orders (CSOs)** – "proposed new statutory power, giving public authorities the power to require land that meets certain criteria – for example, left vacant or derelict for a defined period – to be sold by public auction to the highest bidder, with community groups offered the right of first refusal."[120] This is modelled on a proposal by the Scottish Land Commission applying to "buildings or land that are either derelict, have been vacant for an undue period of time or both, and where their being in this condition is having a detrimental impact on the surrounding community."[121] Planning authorities would be able to "require the site to be sold by public auction or unconditional tender to the highest bidder."[122]
- **"Community Right to Buy" –** is a right of first-refusal for community bodies to purchase land which goes up for sale. This is already in place in Scotland since the passing of the Land Reform (Scotland) Act 2003, and is augmented by the Scottish Land Fund, an umbrella organisation charged with supporting community bodies that want to purchase and develop land.
- **Compulsory Purchase Orders at Existing Use Value – permission for** local authorities to issue CPOs at "use" rather than "hope" value. Currently, a CPO requires the issuer to compensate the owner for the "hope" value of the land – i.e. the value it would have if at some point in the future it would be granted planning permission it does not currently have. This is the case even if the owner has no intention of ever applying for such a permission. By contrast, "existing use" value is the value of the land in its current form, if an assumption is made that it will be continued to be used as it is now for the foreseeable future. *Land for the Many* explicitly recommends that the compensation law should be changed to "enable development corporations and other public authorities to acquire land at prices closer to its current use value."[123]
- **Community Participation Agency and "Planning Juries" –** a wide-ranging set of plans for greater inclusion of local residents in the planning process. Firstly, the establishment of a "Community Participation Agency"– an "independent national body with a federated structure", which would be tasked with giving "all sectors of the community influence over local planning," as well as to "help future tenants participate in the design of new housing" and "participation of citizens in major infrastructure planning."[124] Secondly, the jury service for the planning process involving "local people selected at random" and charged with "designing local and neighbourhood plans at the earliest possible stage."[125]
- **Changes to council's planning framework –** three changes are

120. 58, http://labour.org.uk/wp-content/uploads/2019/06/12081_19-Land-for-the-Many.pdf
121. 7, https://landcommission.gov.scot/wp-content/uploads/2018/08/CSO-Proposal-final.pdf
122. Ibid
123. 7, http://labour.org.uk/wp-content/uploads/2019/06/12081_19-Land-for-the-Many.pdf
124. 54, http://labour.org.uk/wp-content/uploads/2019/06/12081_19-Land-for-the-Many.pdf
125. 55, http://labour.org.uk/wp-content/uploads/2019/06/12081_19-Land-for-the-Many.pdf

proposed to the current planning framework. Firstly, councils would be given a right to set their own planning application fees above a national minimum, and fees could increase if "applications are submitted more than once…where advice has not been followed, or policy has been ignored."[126] The intention of this measure is to "shift the balance of power away from deep-pocketed developers."[127] Secondly, since it is thought to lead to poor quality housing, development rights to turn offices and farm buildings into residential housing would be abolished. Thirdly, there is an unclear commitment to require councils to "set housing targets based on identified local housing needs, rather than simply responding to national targets based on demand."[128] Fourthly, local authorities should be supported in preparing sites for development rather like a Public Development Corporation.

- **Commitment to end all sales of public land –** with an end to sale of all public land, land owned by public bodies will used to deliver affordable housing through arms of the Government.
- **Common Ground Trust –** this would be an institution to which a prospective home buyer could apply in order to purchase a building only, with the Trust purchasing the land in return for the buyer paying a rent to it in perpetuity.

It is not clear how much of the report would be implemented, but other indications suggest that there would be changes to council tax, likely to make it more progressive: the approach proposed in *Land for the Many* could well be one of the options.

Such planning changes vary by degree of significance. For example, as already mentioned, a number of these measures are already in place in Scotland.

c. Right to buy on private properties

In early September 2019, McDonnell told the *Financial Times* that he is considering instituting a "right to buy" for private tenants:

> *Mr McDonnell said he wanted to "tackle the burgeoning buy-to-let market" to make it easier for workers to buy the homes they live in. He suggested the sum paid by tenants would not necessarily be the market price. "You'd want to establish what is a reasonable price, you can establish that and then that becomes the right to buy," he said. "You (the government) set the criteria. I don't think it's complicated."*[129]

While far from confirmed, this policy would be the most far-reaching of all the land reforms, possibly the most radical of all his policies. Since the price would not be decided by the market, and the policy affects the single most prized possession most people will own in their lifetimes, this is the clearest indication to date that McDonnell is willing to strike at the most fundamental rights protecting people from theft and expropriation. Yet the reason why he does not appear to think the policy is "complicated" and

126.51, http://labour.org.uk/wp-content/uploads/2019/06/12081_19-Land-for-the-Many.pdf

127.52, http://labour.org.uk/wp-content/uploads/2019/06/12081_19-Land-for-the-Many.pdf

128.52, http://labour.org.uk/wp-content/uploads/2019/06/12081_19-Land-for-the-Many.pdf

129.https://www.ft.com/content/dc17d7ee-ccab-11e9-b018-ca4456540ea6 talks about it in very common sense manner is because he does not think about politics and society in terms of inalienable rights, but in terms of popular democracy.

7. Green Industrial Revolution

In 2008, the Labour Government's Climate Change Act created the institutional architecture for meeting the UK's climate change targets. In particular, it created the Committee on Climate Change (CCC), an advisory scientific body tasked with setting "carbon budgets" for the UK. These five-year budgets act as upper limits for emissions and their downwards trajectory is designed to ensure the UK meets its longer-term obligation of reducing carbon emissions by 80% by 2050 compared to 1990 levels. Practical policies to stay within these limits is left to Parliament, in recognition of the inherently political implications of responding to the CCC's scientific analysis. Whilst the CCC provides analysis and advice on possible technologies and policy mechanisms, these are advisory only.

This "evidence first" system has proved effective and politically popular: the Coalition and Conservative Governments since 2010 have not always followed the CCC's advice, but they have retained the institutional infrastructure. Indeed, the May administration commissioned a report in 2018 to assess the feasibility of achieving net zero emissions by 2050 (instead of an 80% reduction). The CCC reported that "Net Zero" would be feasible, but difficult, and would require an investment of around 1-2 per cent of GDP per annum. HM Treasury is currently conducting a more detailed assessment of the likely costs and benefits of this dramatic economic and societal transition, but its initial estimate was £1 trillion over the next 30 years.

Labour's achievement in establishing the institutional infrastructure to guide such policymaking, together with delivering cross-party consensus around it, should not be underestimated. It is in stark contrast to the politicisation of environmental policy in the USA and Australia.

More recent environmental policymaking in the Labour Party appears to have departed from the CCC's institutional anchor. Whilst several policies are simply ambitious on renewables deployment, others create seemingly unrealistic pressures that may undermine political processes and economic systems. For example, the headline environmental commitment from Labour's 2017 election manifesto is to "ensure that 60 per cent of the UK's energy comes from zero-carbon or renewable sources by 2030."[130] This appears feasible, given recent deployment rates.

However, at the 2019 Labour conference, against staunch opposition from some trade unions, the party voted to commit to implementing net-zero carbon emissions by 2030.[131] Given the upheaval required by a transition to net zero emissions, as set out by the CCC, this change has been deemed unrealistic by a number of unaffiliated commentators. Of perhaps more concern are the mechanisms Labour intends to employ for achieving this sudden and dramatic change.

130. 14, https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf

131. https://www.ft.com/content/8927da7e-dec7-11e9-9743-db5a370481bc

Labour's environmental policy is provided by *The Green Transformation: Labour's Environmental Policy* paper, which sets out in general terms the aims and objectives of Labour's environmental policies, and lists a very large number of policies with varying degrees of specificity, breaking them down by policies relating to energy, housing, transport, water, farming, fishing, wildlife management, as well as international action and action across government. Notable proposals include:

- Banning fracking (since supported by the Green New Deal motion passed at the 2019 Conference).
- Reiterating Labour's commitment to nationalisation and decentralisation of management of the energy grid.
- Financial support for home insulation.
- Zero-carbon standard for new-build homes (including council houses).
- Introducing a Clean Air Act.
- Free bus travel for under 25s.
- Expanding freight transport through a publicly owned freight railway.
- Placing heavy obligations relating to noise and air pollution on any airport expansion.
- Reform of farming subsidies to prioritise "sustainable practices, smaller traders, local economies and community benefits".
- Reform of fishing quotas so that it benefits small-scale fishing fleets.
- Phase in a total ban on real fur.
- Important yet little-noticed policy is the explicit commitment to "oppose investor-state dispute systems in international trade and investment agreements, and other trade rules that can be used to undermine domestic or international environmental protections." This has to be viewed in the context of possible international litigation against a prospective Labour government possibly initiated by aggrieved investors in privatised utilities and/or companies forced to establish IOFs.

But the *Green Transformation* policy paper – though detailed on granular interventions and reforms – touches only lightly on a key concept at the heart of its "Green Industrial Revolution", the British equivalent of the American Left's "Green New Deal". The central concept of a "just transition" helps to explain the centrality of environmentalism in Labour's policy proposals.

The concept of a "just transition" means a commitment to ensuring that any negative effects of green transformation – such as increases in energy prices, losing secure, well-paid working-class jobs in fossil-fuel reliant industries, increases in fuel prices, etc. – do not fall on workers and the less well-off. The International Labor Organisation (ILO) defines "just transition" through a series of guidelines, high-level principles and general policy priorities orientated towards using environmental policy and green transition measures for achieving wider ILO policy goals, such as creation of jobs that are highly paid, highly secure and available widely – both geographically and socially:

> *The greening of economies presents many opportunities to achieve social objectives: it has the potential to be a new engine of growth, both in advanced and developing economies, and a net generator of decent, green jobs that can contribute significantly to poverty eradication and social inclusion.*[132]

Elsewhere, the OECD's Just Transition Centre comments thus on the ILO's guidelines:

> *The ILO's vision of just transition is broad and primarily positive. It is a bridge from where we are today to a future where all jobs are green and decent, poverty is eradicated, and communities are thriving and resilient. More precisely, it is a systemic and whole of economy approach to sustainability. It includes both measures to reduce the impact of job losses and industry phase-out on workers and communities, and measures to produce new, green and decent jobs, sectors and healthy communities. It aims to address environmental, social and economic issues together.*[133]

One of the clearest examples of these principles operating in practice is the Canadian pledge to phase out coal-powered electricity generation by 2030 (part of the "Powering Past Coal" initiative, run jointly with the UK), and more specifically, the accompanying measures aimed at easing the transition, which included establishing the "Task Force on Just Transition for Canadian Coal Power Workers and Communities", which published its final report in December 2018.[134] It recommended a familiar suite of measures, which include support for re-training, pension-bridging and income support during the transition, alongside a huge investment programme in green technologies, which is partially intended to generate jobs for displaced workers in addition to its primary objective of generating technology capable of decarbonising the economy to a level that will bring down emissions to levels capable of halting or slowing the pace of global warming.

The principle of a "just transition" has significant merits. There is a moral dimension: the less wealthy should not be made to pay for addressing environmental problems. However the logical sequitur of this is that voters will reject attempts to make them over-pay for environmental policies. At a domestic level, such costs might include forcing consumers to pay for new hydrogen-based domestic boilers to replace gas boilers or imposing a regressive carbon tax on imports with no compensatory dividend. At a non-domestic level, it might include decommissioning industrial facilities which are deemed to be incompatible with a Net Zero economy (known as stranded assets). Some trades unions oppose Labour's adoption of a 2030 Net Zero target partly for fear of its impact on industry. Many of these transition policies are likely to affect the less well paid more than the wealthy (whose methods of acquiring wealth may have created the

132. https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_432859.pdf

133. https://www.oecd.org/environment/cc/g20-climate/collapsecontents/Just-Transition-Centre-report-just-transition.pdf

134. http://publications.gc.ca/collections/collection_2019/eccc/En4-361-2019-eng.pdf

environmental problem in the first place). Governments must act to avoid such inequities, hence the concept of a "just transition".

However, there is a difference between preventing an unjust transition and using the environmental crises as cover for a package of economic measures that may be not only unconnected to the environment but actually damaging. Labour has explicitly said that matters of social justice and environmental crises are intrinsically linked. For example, announcing a suite of environmental policies, including fitting solar panels on 1.75m homes, the Shadow Business Secretary said:

> *"In this country, too often people are made to feel like the cost of saving the planet falls on them. Too many think of green measures as just another way for companies or the government to get money out of them, while the rich fly about in private jets and heat their empty mansions. Labour's approach is different. Our green industrial revolution will benefit working class people with cheaper energy bills, more rewarding well-paid jobs, and new industries to revive the parts of our country that have been held back for far too long. By focusing on low income households we will reduce fuel poverty and increase support for renewable energy. Social justice and climate justice as one. Environmental destruction and inequality not only can, but must be tackled at the same time."*[135]

A comparison of the US Green New Deal Resolution[136] and Labour's rhetoric and announcements to date on the Green Industrial Revolution side by side reveals a number of parallels. Of particular interest is the heavy emphasis on considerations not traditionally associated with environmental policy. Listing preconditions deemed necessary to address climate change in an adequate manner, the Resolution lists things such as:

- "(4)(H) guaranteeing a job with a family-sustaining wage, adequate family and medical leave, paid vacations, and retirement security to all people of the United States",
- "(4)(I) strengthening and protecting the right of all workers to organize, unionize, and collectively bargain free of coercion, intimidation, and harassment",
- "(4)(K) enacting and enforcing trade rules, procurement standards, and border adjustments with strong labor and environmental protection to
  - (ii) grow domestic manufacturing in the United States", or
- "(4)(O) providing all people of the United States with
  - (i) high quality healthcare;
  - (ii) affordable, safe and adequate housing;
  - (iii) economic security, and
  - (iv) clean water, clean air, healthy and affordable food, and access to nature."

This approach appears to treat the environmental crises as opportunities for job-creation schemes. Yet in its policy document *The Green Transformation: Labour's Environmental Policy*, the Party states at the outset that the "scale and

135. https://labourlist.org/2019/05/labour-reveals-plan-to-install-solar-panels-on-millions-of-homes/

136. https://www.congress.gov/116/bills/hres109/BILLS-116hres109ih.pdf

scope of Labour's environmental policies will be defined, not by political compromise, but by what is necessary to keep temperatures within safe levels."[137] This is important, because the level of prioritisation and special status afforded to environmental policies stems precisely from the physical reality of climate change and its magnitude.

These priorities and the impetus behind each of them are different: climate change is a matter of physics, whereas socio-economic policy is not. Addressing them as one is likely to create conflict. For instance, what if the labs working on the most promising technologies, or companies best able to deliver promises such as equipping 1.75m homes with solar panels, are concentrated within the "Golden Triangle" of London, Oxford and Cambridge? What if the company making the best wind turbines is not located in the UK? What if the commitment to collective decision-making and greater economic democracy, present in both the Green New Deal Resolution (4F) and, for example, in Labour's plans for nationalising energy transmission and distribution networks in a decentralised fashion, come into conflict as urgent decisions become either bogged down in procedure or do not lend sufficient weight to expert, scientific advice?

McDonnell is clear that he wants the cost of the green transformation of the economy to be borne by 'the few': "We simply will not win the central argument on the need for a red-green transition if we cannot show how the costs will be borne by the few not the many."[138] But what if it proves more difficult than Labour assumes to extract the volume of capital investment needed or wanted from the richest alone, as discussed earlier? Consider Labour's recent pledge to build 37 new offshore wind farms, 51 per cent owned by the state, dubbed by Labour the "People's Power Plan" and costed by them at £83bn in partnership with the private sector.[139] But even assuming the private sector will put up just under half that sum, that is almost one-fifth of the £250bn National Transformation Fund, which priority will ultimately take precedence if it turns out it is more difficult to extract more and more tax from a narrow base than expected?

Given the climate emergency and the urgent need for developing technologies and capabilities best able to substitute carbon-intensive products and services is the number one priority, placing so many additional requirements on environmental policy seems at odds with this goal.

A key plank of Labour's energy policy is the renationalisation of the Grid and the Distribution Network Operators (DNOs). A motion passed at the 2019 Labour Party conference would also commit the party to nationalising the Big 6, but there is no way to know whether this will make it into the next manifesto. John McDonnell has rejected various estimates of how much this might cost as unrealistic. He invokes the precedent of Northern Rock, whereby Parliament set a price it deemed appropriate for the company. Documents relating to Labour's renationalisation plans for the water sector suggest that valuations would be decided by Parliament and account for "asset stripping since nationalisation."[140] Effectively, a Corbyn-led government could appropriate assets at a price below their

137.5,https://www.labour.org.uk/wp-content/uploads/2018/09/The-Green-Transformation-.pdf

138.https://jacobinmag.com/2019/05/john-mcdonnell-labour-green-industrial-revolution

139.https://labourlist.org/2019/09/labour-unveils-peoples-power-plan-to-build-offshore-wind-farms/

140.https://www.labour.org.uk/wp-content/uploads/2018/09/Conference-2018-Water-pamphlet-FINAL.pdf market value.

Criticisms of this proposed underpayment are relatively obvious. They would undermine investor confidence in the UK and such a policy would encourage capital flight. Whilst some Labour representatives have claimed that the price decided by Parliament would be fair, this is irrelevant. What matters is how investors around the world view the scenario. If a pension fund manager fears that a British Prime Minister may indulge in appropriation, they will price the risk accordingly, or stay out altogether.

The problem of such political risk is not notional, nor is it limited to capital flight. Risk is defined as measurable uncertainty. It can therefore be "priced in" via credit ratings, among other mechanisms. If political risk rises, so does the cost of securing credit for new investments. If the cost of credit rises, this increases the cost of investing in new technologies, which are already relatively high-risk. Therefore such political interventionism directly raises the costs of and undermines exactly the innovative technologies that are needed for a rapid transition to a low-carbon economy.

Once the major energy companies have been nationalised, running them becomes the ultimate responsibility of Ministers. It is true that – as exemplified in the *Bringing Energy Home* policy paper – Labour is wary of repeating the 20th century experience of nationalisation and stresses that the system would be much more decentralised. However, for the most important decisions such as those relating to funding for large scale investment, there will inevitably be political involvement from the centre. In such a system, decisions about funding and investment become political. The UK's electricity transmission grid, operated by National Grid ESO, already requires significant investment to help it evolve to a radically decentralised, dynamic, low-carbon system. Such investments require access to credit markets, public funding or a levy on bills (the latter is the current norm). As set out above, political risk would raise the costs of market borrowing. In the case of public funding, investment in the National Grid would effectively compete with the National Health Service (probably unsuccessfully). As with regards to a levy on bills, Labour has made it clear that they plan to reduce bills, making it politically challenging to make the investments required to achieve a ten-year decarbonisation programme.

All of the above criticisms are neatly encapsulated in Labour's most recent announcement on offshore wind. Labour proposes to spend £83 billion to create 37 offshore wind farms, delivering 70,000 jobs in the process. The government would take a 51% stake in these assets. 20% of profits would be invested into coastal communities and 80% into decarbonising the economy.

It would be churlish to argue about "picking winners", given that recent Conservative and Coalition governments have invested heavily in offshore wind. It is also not unreasonable to seek a massive expansion in wind generation, since future demands on electricity generation will be several times that of the current system due to electrification of transport and heat. However, the policy displays a number of highly questionable elements.

It is unclear why private investors would wish to invest billions into such assets, given that the Labour Government will have shown disdain for private capital, rejected market valuation and taken control of the assets. It is not much of a leap to assume that dividend payments for the minority shareholders would be heavily scrutinised.

However, assuming that Ministers did find sufficient private investment, any connected credit agreements would have priced in the large political risks. This leads us to compare the business case with the existing offshore wind sector. The sector has thrived under the Contracts for Difference (CfD) subsidy regime and clear Ministerial backing over several years, summed up in a recent Offshore Wind sector deal. The result has been a plummeting strike price under the CfD, reaching around £40/MWh (in 2012 prices), down from over £114/MWh just four years ago. This is the result of investors queueing up to invest in a secure, growing industry with 15-year subsidy contracts, as well as significant technological advances. This now highly cost-effective technology is paving the way to lower bills for everyone, providing a payback for subsidies paid to develop it. It is therefore strange to meddle with a highly successful model and likely make it more expensive by creating political and therefore credit risks.

Impressive as offshore wind has been, it is not the only option in decarbonisation. A host of other technologies are also required, partly for their unique attributes, whether geographical or functional. For example, some energy sources (such as bioelectricity) provide flexibility services that wind cannot and therefore help to smooth out peaks and troughs on the grid. Such services are important and a proper mix of technologies is needed. Such a mixture could be delivered by a high economy-wide carbon price, possibly delivered via a carbon tax, which would allow the market to allocate resources cost-effectively across multiple technologies and even lower political risks. It would also create new income for a Labour Government to fund its decarbonisation plans or support those on lower incomes.

In summary, climate change offers an extraordinary political mandate. Labour appears to be using this mandate to centralise large parts of the British economy under state control, claiming to be doing so in order to expedite climate action. In fact, the political interventionism and Labour's proposed approaches are more likely to raise costs and scare away innovation. This will create higher energy bills, but also make it harder to create jobs in low-carbon sectors. In effect, it would slow down progress towards a net zero economy.

8. 2019 Conference announcements

Labour's 2019 conference saw a number of radical announcements, spanning educational, health and in particular economic and environmental measures. The sense from the overall policy package together with notable confirmed motions is that it is, in the words of Owen Jones, an "affirmation of the most radical incarnation of Corbynism yet."[141]

141. https://www.theguardian.com/commentisfree/2019/sep/26/labour-activists-radical-agenda-corbynism

a. McDonnell speech: 4-day week "by the end of the decade"

John McDonnell's speech to the 2019 Labour conference contained a number of clarifications, explicit commitments and statements of ambition, which were arguably some of the most radical thus far. More generally, there is a sense that in the second half of 2019, with a string of radical announcements, the tone Labour adopted was arguably more radical than the "tea offensive" of 2018.

By far the biggest explicit announcement was the commitment to "reduce the average full time working week to 32 hours [4 days] within a decade."[142] There would be no loss of pay, and the shadow chancellor confirmed that "we'll end the opt out from the European Working Time Directive", which stipulates that an employee may not work more than 48 hours per week without signing a waiver. He has also said that "we'll include negotiations over working hours. We'll require working hours to be included in the legally binding sectoral agreements between employers and trade unions. This will allow unions and employers to decide together how best to reduce hours for their sector." This is a clear signal that rolling out sectoral collective bargaining will be a key Labour priority, alongside other elements of rolling back the Thatcher- Blair -and Cameron-era curbs on trade union power.

b. Universal Basic Services

Perhaps the most interesting takeaway is the strong flirtation with Universal Basic Services (UBS) beginning with pledging free personal care for over-65s who need it as an element of the policy –which Labour says will cost an additional £6bn in 2020-21 and £8bn in 2030-31.[143] The Labour Party is also firmly committed to free bus travel for all under-25s and over-65s, free universal childcare for all 2-, 3- and 4- year olds for 30 hours per week, free higher and further education, free universal school meals for all children and a commitment to greater provision of local services such as libraries and parks.[144] Though not part of the explicit UBS white paper, Labour has also committed to leasing 30,000 British-made electric vehicles to be made available for hire via an app, at a cost of £300 million, in a policy dubbed "Community Car Clubs".

But as the newly unveiled white paper on UBS makes clear, the ultimate ambition of this agenda is to "inspire a new imagining of our public realm and set a new ambition for where the principles of universalism and collectivism can be extended."[145] What this means is a steady progression towards more and more things guaranteed by the state, and not just basics such as food and shelter – as the report makes clear: "[nor] must free, universal public services be limited to the bare essentials we need to stay alive. Cultural experiences, pleasant surroundings and places and spaces to enjoy leisure time are human needs just as much as food and shelter are."[146] This commitment to expanding universalism is particularly interesting because it reveals how McDonnell sees the world – he sees virtually no value in markets, because he considers that everything that they do, the state or "communities" could do just as well, except better

142. https://labour.org.uk/press/john-mcdonnells-full-speech-labour-conference-2018/

143. Based on calculations by the King"s Fund, p.3, https://www.kingsfund.org.uk/sites/default/files/2018-05/A-fork-in-the-road-next-steps-for-social-care-funding-reform-May-2018.pdf

144. P.22-26, http://labour.org.uk/wp-content/uploads/2019/09/12730_19-Universal-Basic-Services_v5.pdf

145. p.6, http://labour.org.uk/wp-content/uploads/2019/09/12730_19-Universal-Basic-Services_v5.pdf

146. Ibid, p.2

because the fruits of the enterprise do not accrue to the owner.

c. Net-zero carbon emissions by 2030 (motion)

Importantly, the party is also now committed to a target of net zero emissions by 2030, an imperative, which no doubt will be used to expedite the rolling out of the "Green Industrial Revolution". The adopted motion reads that Labour will "in collaboration with the trade unions and scientific community work towards a path to net zero carbon emissions by 2030."[147] The motion was given an initial endorsement by the Shadow Business Secretary Rebecca Long-Bailey, and significantly also contains a commitment to nationalising the Big Six energy companies.[148] Though the motion is not a guarantee that part or all of the motion will be in the next Labour manifesto, this particular motion was very well publicised and Labour did not so far make any effort to distance themselves from it.

d. State-run pharmaceutical company

The other major policy announcement, accompanied by a new policy paper, *Medicines for the Many*,[149] is the establishing of a new, publicly-owned pharmaceutical manufacturing company which would supply the NHS with cheaper generic medicines manufactured under a licence from the government – known as a "compulsory licence" – which can be granted by the state for a patent-protected drug provided certain conditions are met.

e. Abolishing private schools (motion)

The announcement that perhaps made the most headlines in the area of education was the passing of a motion tabled by Labour Against Private Schools (LAPS) which essentially called for them to be abolished: their charitable status would be revoked, along with VAT relief on private school fees and other tax advantages, there would be a 7 per cent cap on private school pupils in university admissions, and their properties and endowments would be redistributed.

f. £6bn on free social care

An explicit commitment was made to make personal care free at the point of use, funded out of general taxation. Labour costs the policy at £6bn, in line with King's Fund's estimates of introducing free personal care in England. This forms part of Labour's "National Care Service" package.

9. Conclusion: What can we learn from post-2017 policy debate?

John McDonnell has stimulated an interesting debate that places great emphasis on the environment, decarbonisation, changes in ownership and the definancialisation of the economy. Many of the wider ideas being canvassed will be explored in this paper in the next section, and they

147. https://www.huffingtonpost.co.uk/entry/labour-backs-radical-2030-net-zero-carbon-emissions-target-green-new-deal_uk_5d8a094fe4b0938b59347146?lzb

148. https://labourlist.org/2019/09/labour-conference-commits-party-to-2030-net-zero-carbon-target/

149. http://labour.org.uk/wp-content/uploads/2019/09/Medicines-For-The-Many.pdf

cannot be classed as hard policies. Yet they suggest a radical direction of travel about ownership, ways of organising economic institutions and the allocation of resources. If pursued in practice, the result – to the extent it can be predicted – would be a "bureaucratised" economy, characterised by more decisions about the allocation of capital and use of property taken not by free economic actors but either some form of collective decision making process (e.g. local governance of utilities, local decision-making about use of land) or according to centrally-set political priorities (e.g. plans for directing capital through macroprudential stability tools, and distributing capital through a system of public banking).

Overall, there would be much more regulation and government intervention, and its rationale would be an assumption that financial markets and private economic agents do not allocate resources better than the government – important to say "government" here and not "the community" or to use another democratisation term, because at the end of the day, the principles for allocation would be set centrally. This is reminiscent of concepts such as Indicative Planning of the 1960s and the 1970s, which do not have a good track record.

As already mentioned, the post-2017 policy debate confirms that structural changes being proposed by Labour are far more important than than any commitment on spending or borrowing. Changes to the structure of the labour markets are particularly important – a services-based economy like the UK's relies particularly heavily on the flexible labour market, and so would be particularly vulnerable to a spike in unemployment should Labour significantly increase the cost, risk and difficulty of employing people, particularly in the event of an economic downturn.

The proposals on planning and land – in so far as we can assume they are an indication of direction of travel – actually contain a number of policies which are interesting. For example, the proposals for eliminating Stamp Duty is worth exploring, but others – like introducing a Lifetime Gift Tax in place of inheritance tax – would be an administrative nightmare and strike at the very strong bequest motive, meaning people are likely to find a way to avoid it somehow. The most significant changes to the planning framework are the aspects of community involvement and the treatment of empty or vacant land and properties. It is difficult to predict what effect the envisaged mechanisms for making the planning process more "democratic" might be, but the plans surrounding issues such as Compulsory Sale Orders touch on the sanctity of property rights and contribute to the overall sense that McDonnell at times does not appear to appreciate just how radical some of his plans are because property rights do not occupy a special place in his worldview.

The financial sector is likely to be most affected, not just because of the measures already announced such as the financial transactions tax extended to foreign exchange and derivative transactions, but also because of the in-built scepticism of finance of the current Labour leadership. For that reason, it would not be correct to assume only those parts of the financial sector that rely on high-frequency trading such as trading divisions of investment banks have something to fear. Labour see the role of finance as a force for shaping the economy they want, and therefore financial activities which do not contribute to that effort have to be supressed. McDonnell's manifesto states clearly that "…our financial system is still holding back too many of our small businesses and local economies."[150] In the past, he saw the financial crisis as a major opportunity for the state to take control of the banking system, which he considers predatory and not serving the needs of the "real economy":

> *I believe that the only way to secure probity and to ensure that people's funds are safe and secure and that we can invest in our economy in the long-term to create jobs is through a publicly owned and democratically controlled banking system. […] We should take full ownership of the larger banks.*
>
> *We already own Northern Rock, RBS and Bradford & Bingley and a large part of Lloyds. We should take public ownership and control of the UK-based operations of Santander, Barclays and HSBC, and we should create a unitary industry. That would enable us to control investment, secure savings, stop the paying out of large bonuses and ensure that any surpluses are returned to the public by investing in the public good. That is secure and safe banking, which is what I thought was the House's objective.*[151]

John McDonnell has also indicated that he would move to outlaw bonuses in the City of London – in an interview with the *Financial Times*, he stated: "If it continues and the City hasn't learnt its lesson, we will take action, I'll give them that warning now…people are offended by bonuses."[152] The policy is likely to simply result in a corresponding increase in salaries, benefits, equity-based remuneration etc. But the announcement is significant as a clear indication that Labour simply does not consider the City of London as an asset to the country.

On 12 September, McDonnell also welcomed a report that recommended the extension of the proposed financial transactions tax to "expand the tax to transactions of foreign exchange and commodities as well as related derivatives such as foreign exchange swaps. The proposed tax would apply to interbank foreign exchange deals, but not retail purchases of foreign currency by members of the public."[153] There was also a clarification that the tax would be payable by UK tax residents and not applied on the basis of the location of the trade, a measure intended to prevent capital flight.

Perhaps most telling of all is a commitment to hold a public inquiry into the financial sector under the Inquiries Act 2005. In McDonnell's own words, the inquiry "will put the facts on the table, get immoral and unlawful practices out in the open, and make clear what needs to change for finance to serve people and the wider economy."[154]

150. 16, https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf
151. Hansard, https://hansard.parliament.uk/Commons/2013-03-11/debates/13031112000001/FinancialServices(BankingReform)Bill?highlight=%27nationalisation%27%20%27banks%27#contribution-13031155000090
152. https://www.ft.com/content/c5ce2538-cfbc-11e9-99a4-b5ded7a7fe3f
153. https://www.ft.com/content/a32a4e5c-d48b-11e9-a0bd-ab8ec6435630
154. https://www.ft.com/content/e2467f36-b46d-11e9-8cb2-799a3a8cf37b

Part 4 The Philosophy Of McDonnellism

1. Undoing New Labour's work

When asked by the *Financial Times* this summer what his holiday reading would be, John McDonnell mentioned *The Making of a Democratic Economy* by Marjorie Kelly and Ted Howard. This collection of essays explores a series of critiques of contemporary market economies and identifies examples of radical and innovative policymaking from Preston City Council in the UK to Cleveland, Ohio. At its heart is the belief that modern economies are "extractive" and distinguished by a process of "financialisation" that is reflected in high levels of financial claims, especially privately-held debt in relation to real assets. This analysis of contemporary problems is often couched in an elegiac interpretation of the past in a rhetoric of economic nostalgia.

Both Jeremy Corbyn and John McDonnell were energetic opponents of New Labour's revisionist shift to the right in the Labour Party led by Tony Blair and Gordon Brown. As backbench Labour MPs, they offered a vivid and radical critique of New Labour. As Shadow Chancellor, McDonnell has set out to stimulate a debate among economists, researchers, and people working in trade unions as well as in the wider environmental and green movement. Their policy ideas explore how capitalism can be changed and even potentially replaced. This has resulted in a lively and enthusiastic generation of ideas. Many of them are interesting and would be by any measure radical and transforming, but are very unlikely to form part of Labour's next manifesto or the programme of a Labour Government in office. This part of the report tries to identify the broad threads of these ideas and the implications that they might have if they were to be pursued.

The New Labour programme retained most of the Thatcher reforms including the fundamentals of a flexible market economy – crucially, New Labour's "modernised" Clause IV of the party's constitution, which had committed the party to public ownership. Its active policy focused on the introduction of the minimum wage and the radical increase in social transfers to working-age households (in the form of tax credits and child benefit), as well as wide-ranging education reforms. Labour reversed the spending cuts undertaken by the previous Major government but by 2007 state spending at 40 per cent of GDP was the same as at the start of the Major period (though part of this is down to the fluctuations of the economic cycle: Major began in a recession whereas Labour came into power during a boom). It was the banking crisis of 2008/9 which caused the big increase as GDP slumped and benefit payments soared.

Almost all aspects of the New Labour project would be reversed by the Corbyn-McDonnell Labour Party. John McDonnell talks favourably about bringing back the original Clause IV.[155] The party is also critical of a flexible labour market and has already outlined far-reaching plans, such as abolishing zero-hours contracts and bringing back sector collective bargaining. Its relationship with business – despite the "tea offensive" – is very different to that under Tony Blair. McDonnell's view of entrepreneurs is summed up in his statement:

> *Unless they've got that wealth creator, that engineer and that work person, that skilled person at the bench to fulfil that idea . . . they're nothing.*

It is misleading to view the programme offered by Labour as traditional socialism, associated with controls and planning of the sort practised by the socialist economies of central and eastern Europe after the Second World War, or in the USSR for some 70 years before the fall of communism in Europe. One of the key aspects of the programme put forward by McDonnell is his emphasis on not repeating the mistakes of the past. In a speech given at the London School of Economics in 2016, he said:

> *Old Labour won't work now… we [cannot] 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."*[156]

2. From Redistribution to Predistribution to Economic Democracy

What is truly radical are the structural changes to the fundamentals of the economy either already proposed by McDonnell or under consultation. These changes are not rooted in a belief in maintaining a free market economy supported by enforceable property rights, then redistributing the proceeds. Like Tony Benn, McDonnell wants an "irreversible shift in the balance of power in favour of the working people."[157]

The process of laying down the intellectual foundations of the pre-distribution approach began before Jeremy Corbyn became leader. September 2012 saw Ed Miliband give a speech in the London Stock Exchange outlining his concept of "pre-distribution."[158] In it, he attacked his predecessors' legacy of relying on ever-higher social transfers and taxes to raise living standards, made possible by a booming economy.[159]

> *Centre-left governments of the past tried to make work pay better by spending more on transfer payments. Centre-left governments of the future will have to also make work pay better by making work itself pay.*

155."I say the Clause IV principles are as relevant today as they were back then."

https://labour.org.uk/press/john-mcdonnells-full-speech-labour-conference-2018/

156.http://www.lse.ac.uk/Events/Events-Assets/PDF/2016/20160216-Transcript-John-McDonnell-on-Labours-Economic-Policy.pdf

157.https://www.opendemocracy.net/en/opendemocracyuk/tony-benn-really-was-dangerous-to-establishment/

158.https://www.bbc.com/news/uk-politics-19503451

159.http://www.politics.co.uk/comment-analysis/2012/09/06/ed-miliband-s-redistribution-speech-in-full

Elaborating on what pre-distribution might mean in practice, he went on to talk about a range of issues including "proper industrial policy", addressing short-termism, "the relationship between finance and the real economy," "not allowing cosy cartels to develop in any sector", as well as the need to invest in skills and services.[160] However, the Miliband ideas were criticised in the pro-Corbyn *New Socialist* as "extremely mild, reliant almost entirely on labour market interventions".

The term pre-distribution was coined by Jacob Hacker, Professor of political science at Yale University, in a paper for the *Policy Network* think-tank entitled "The Institutional Foundations of Middle-Class Democracy".[161] It has been summarised thus:

> *...the aim of pre-distribution is "to focus on market reforms that encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits". Instead of equalizing unfair market outcomes through tax-and-spend or tax-and-transfer, we instead engineer markets to create fairer outcomes from the beginning..*[162]

For McDonnell, however, this is but a starting point. It's one thing to have the economy allocate resource and rewards more equally at the outset, another a question of who has control over it.

3. Intellectual foundations of "economic democracy"

A recurring theme in McDonnell's rhetoric is that of tearing down hierarchical structures. His vision of a socialist society is predicated on the direct involvement of not just "labour" but also "communities" and "the people" in as many aspects of economic life as possible. Slogans such as "When we go into government, we all go into government together" proliferate.[163]

Joe Guinan, senior fellow at the American think-tank *Democracy Collaborative*, and Martin O'Neill, academic philosopher at the University of York and editor of the left-wing journal *Renewal*, summarise this shift away from redistribution and towards ownership and economic democracy (which they dub "Labour's institutional turn") thus:

> *Largely unnoticed by its enemies within and without, the Corbyn Project is cohering around a programme for transformative change that could form the basis for a new political-economic settlement. Building on popular elements of Labour's 2017 manifesto, For the Many Not the Few, and encompassing cutting edge thinking from the Alternative Models of Ownership report and beyond, the leadership is assembling the tools and strategies to enable a Labour government to pursue a bold transformation of the British economy organised around ownership, control, democracy, and participation.*
>
> [...]
>
> *Virtually alone amongst the parties descended from the Second International, Corbyn's Labour is now charting a course beyond neoliberalism, reanimating*

160. Ibid
161. It has since been scrubbed from Policy Forum's website
162. https://philarchive.org/archive/ONETPO-5v1
163. https://newsocialist.org.uk/when-we-go-into-government/

> *British politics through a vision of democratising the economy. Widely described as a (merely) social democratic programme, For the Many Not the Few in fact contains the seeds of a radical transformation beyond social democracy. Policies such as taking the major utilities, railways, and postal service back into public hands, establishing a national investment fund to help "rebuild communities ripped apart by globalisation", linking public sector procurement to a regionally balanced industrial strategy, creating a National Investment Bank and a network of new regional public banks in support of small and medium-sized enterprises, and democratising ownership by supporting co-ops and worker-owned firms, all represent a break with neoliberalism. In combination with a commitment to devolving and decentralising power and decision-making to local communities, and forming a Constitutional Convention that "will look at extending democracy locally, regionally and nationally, considering the option of a more federalised country", a very different pattern of political economy begins to appear.*[164]

In essence, the above posits that a market relationship – that is to say a relationship based on the free exchange of goods and services facilitated by legal and institutional foundations for the enforcement of property rights – is undemocratic, fundamentally oppressive and is failing to generate any significant improvements for large groups of people.

The "democratisation" agenda was summed up thus by McDonnell himself in his 2018 Labour Party Conference speech:

> *The Labour movement has always believed that democracy should not stop when we clock in at the factory gate, in the office lobby, or – like my Mum in BHS – behind the counter.*
>
> *Democracy is at the heart of our socialism – and extending it should always be our goal. Our predecessors fought for democracy in Parliament, against the divine right of kings and the aristocracy. They fought for working people to get the franchise.*
>
> *Our sisters fought for women's suffrage in the teeth of ferocious opposition and our movement fought for workers to have a voice at work. The trade unions founded this party to take that democratic vision even further. So in 2018 I tell you that at the heart of our programme is the greatest extension of economic democratic rights that this country has ever seen.*[165]

McDonnell shows awareness that such radical and ambitious pronouncements have to be backed up by credible plans. Explaining the democratisation agenda in the *New Socialist* in June 2018 he wrote:

> *Who will take planning decisions where the failed logic of the market is swept away? How are those decisions taken? What kind of decisions are best made at a national level and which are best devolved to workplaces? What levels of regional decision making are appropriate for different industries or sectors? [...]*
>
> *In short: the labour movement as whole needs to put in place structures for a truly participatory system of economic decision making – not just for making*

164. http://renewal.org.uk/articles/the-institutional-turn-labours-new-political-economy

165. https://labour.org.uk/press/john-mcdonnells-full-speech-labour-conference-2018/

policy but also for implementing it.[166]

This illustrates the objective of McDonnellomics very clearly: replacing the market mechanism of economic decision-making with another one, based on collective decision-making by all or selected stakeholders. His belief is that outcomes based on markets are unjust, inefficient or both, enriching shareholders at the expense of everyone else. McDonnell frequently distances himself and his party from the experience of nationalised industries and utilities in the latter part of the 20th century, criticising the "Morrisonian" model of nationalisations, which – as he said in the February 2016 speech to the London School of Economics – were too centralised and created an unaccountable, distant elite. The Morrisonian "model" (which will be further discussed later on) refers to Herbert Morrison, at the time cabinet minister responsible for nationalisations, who opted to take a "state corporatist" route, where newly nationalised industries would be run by experts appointed by the sponsoring Government department and be wholly owned by it, with workers' voices expressed only through union representation rather than participation in management or ownership.

4. Hayekian influence

What sets this apart from the more traditional socialist tradition is the emphasis on the organised community rather than the state. It recognises the failures of central planning, and does so drawing on Friedrich von Hayek, the 20th century Austrian economist and philosopher known for his work on understanding how markets communicate information. Speaking at the London School of Economics in 2016, McDonnell said: "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."[167]

He went on to say:

> *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 shop-floor can make its way into management decisions. Decentralisation and social entrepreneurship are part of the left. We have to move beyond tax-*

166. https://newsocialist.org.uk/when-we-go-into-government/

167. http://www.lse.ac.uk/Events/Events-Assets/PDF/2016/20160216-Transcript-John-McDonnell-on-Labours-Economic-Policy.pdf

> *and-spend, or command-and-control. Democracy and decentralisation are to be the watchwords of our socialism.*[168]

Another influence on McDonnell is Hilary Wainwright, an academic sociologist, co-editor of the socialist *Red Pepper* online magazine, fellow of the *Transnational Institute*, an Amsterdam think-tank. She has been associated with the Labour radical left since becoming Deputy Chief Economic Adviser to Ken Livingstone, then Leader of the Greater London Council (GLC) in 1982. There, she would have come across McDonnell, who at the time was a GLC's chair of finance.

She has written numerous books and articles on the intersection of socialism and democracy, her latest being *New Politics from the Left*, published in 2018 – a polemic which frames McDonnell's and Corbyn's takeover of the party as an opportunity to transform politics and society along the lines envisaged by the tradition they both come from. It is helpful in this context as it provides a useful background on that tradition and how it differs from other forms of socialism. She calls it "A New Politics of Knowledge", a term which highlights the connection between Hayek's theorising of practical knowledge in his 1945 article, "Use of Knowledge in Society", for the *American Economic Review*, and the ideas around democratic socialism. In the aforementioned book, she accepts the value of practical knowledge and rejects centralised planning, but also rejects the idea that the conclusion is free market classical liberalism. As she puts it, recounting her visit to Prague in 1990:

> *It was understanding the appeal of this [Hayekian] justification of the free market to young East Europeans, and straining to think how to answer it, that led me to recognise the importance of…social movements – the women's and radical shop stewards' movements, for example, in which I was active. There, in the practice of these movements, in the sharing of the practical and tacit knowledge that is the lifeblood of their organisations, was a crucial but under-theorised innovation. They illustrated, in the way they organised, how this tacit knowledge might be shared – mutually and horizontally – and hence enable its holders to have knowledge beyond their own personal times and circumstances.*[169]

5. Economics vs democracy

As the left-wing writers Joe Guinan and Thomas M. Hanna write in their contribution to *Economics for the Many*, a collection of essays edited by John McDonnell, "[t]he central idea of economic democracy is the notion of extending principles of popular sovereignty from the realm of politics and governance into economics."[170] G.D.H. Cole, an early 20th century British political theorist, historian, writer and pioneer of "Guild Socialism" – who McDonnell lists in his interview with the *Financial Times* as one of his key influences – wrote that democracy should apply "not only or mainly to some special sphere of social action known as "politics", but to any and every form of social action".[171] This is how historian Anthony Wright, writing in the *Journal of Contemporary History* examining G.D.H. Cole's ideas around guild socialism, understands this statement:

168.http://www.lse.ac.uk/Events/Events-Assets/PDF/2016/20160216-Transcript-John-McDonnell-on-Labours-Economic-Policy.pdf

169.Hilary Wainwright, A New Politics from the Left, 8-9

170.Guinan and Hanna, Economics for the Many

171.GDH Cole, Guild Socialism Restated

> *Stated bluntly, if the people of Leicester had the democratic right to elect Ramsay MacDonald to the House of Commons, they also had the right to elect their leaders in their place of work and to exercise a continuous scrutiny over their performance in office. It was this lack of economic and social democracy which nullified the exercise of political democracy.*[172]

A more contemporary statement of this principle is in the Alternative Models of Ownership paper, an independent report to the Labour Party commissioned by McDonnell:

> *There is a commonplace implicit assumption in UK society that there is a natural separation between the political and economic realms, with democratic structures and processes only applying to the former. The economic realm, unlike the political realm, is deemed too complex and sensitive to be treated in the same way, and in consequence of the lack of democratic process, economic decisions are often made by, and on behalf of, a narrow elite, with scant considerations of the well-being of the general population. The process of privatisation has further increased areas of society that are not subject to democratic decision-making.*[173]

The importance of this concept cannot be overstated, because it provides the clearest, most explicit formulation of the ultimate ambition of the democratisation agenda. It is an attempt to break down the barrier between the economic sphere, which is underpinned by judicially-protected property rights and the right to free exchange that they convey, and the political sphere, which is underpinned not by protected political rights but by popular sovereignty.

Of course, the two interact – the political sphere constantly redefines and changes the economic sphere, and similarly, the power which a person or a group of people is able to exercise is to a certain extent affected by their wealth, though this varies from country to country. But fundamentally, the division is a creature of Western liberalism, that is to say, of the idea that humans have inalienable rights, such as a right to life, liberty and property, and those rights should be separate to the political sphere. What exactly should be out of bounds for the democratic process is naturally a political question and the tension between the two spheres is perhaps *the* most discussed question in political philosophy.

McDonnell's democratisation agenda assumes that the democratic sphere should extend much further into the economic sphere. It is in this sense an attempt to limit liberalism – as understood as legal protection of rights such as a right to peaceful enjoyment of property, viewed as not up for democratic debate – and expand democracy.

6. "In and Against the State"

But his criticism of the state goes further. Speaking last year at an event organised by the socialist *Red Pepper* magazine, he went as far as arguing that the state is something which is inherently hostile to the working class; he declared – echoing a 1979 pamphlet of the same name[174] – that Labour must be "in and against the state"[175]:

172. Anthony Wright, Guild Socialism Revisited, http://www.jstor.org/stable/260274
173. 7, https://labour.org.uk/wp-content/uploads/2017/10/Alternative-Models-of-Ownership.pdf
174. https://libcom.org/library/against-state-1979
175. https://www.newstatesman.com/politics/uk/2018/11/how-john-mcdonnell-plans-transform-state-within

> *The state is a set of institutions, it's also a relationship, it's a relationship of dominance, particularly a dominance of working class people about how they have to behave, how they can receive any forms of support or benefits from the state, the parameters in which they operate or even the parameters in which they think, to conform to the existing distribution of wealth and power within our society.*

What does it mean to be "in and against the state"? Speaking alongside McDonnell the same year at a panel discussion titled precisely "In and Against the State" at The World Transformed, a "4-day politics, arts and music festival running alongside the Labour Party Conference," Hilary Wainwright recalled her time working at the GLC under Ken Livingstone [transcript]:

> *This is something that John knows he'll be up against, but in the GLC it was still significant… We faced enemies. We were isolated at the bottom because we were seen as political appointees and slightly dodgy…*
>
> *There was this one officer who was completely hostile and undermined everything we did, but very quickly she was got rid of, I don't think she was just thrown onto the streets, but she was put somewhere else where she could do less damage. This was the context of being against the state, but the key point was that we all came from social movements, I was responsible for creating the Popular Planning Unit, and our first staff were from the women's movement… from the shop stewards movement… people involved in community organising in other places… we were a gang of people whose job it was to unlock the resources of the GLC, to support social movements, and for me In and Against the State was represented symbolically by a tie… it was there just on a hook, and it was there because most of our men would never be seen wearing a tie, but in order to be in the state, they had to wear a tie, so in order to be effective in unlocking the resources of the GLC for the communities that we were supporting, the men had to pick up that tie, go to the committee and with the tie had to present the case… for sometimes millions of pounds to be given to movements, resource centres, People's Plan centres across London…*
>
> *I once went to get support to buy the Royal Docks… because we were supporting the People's Plan for the Royal Docks as an alternative to the City Airport… in theory we had the power to buy the land as we did with Coin Street, which was again in support of a popular movement, an alternative which had resisted property development. A key principle of the Popular Planning Unit was that where there's resistance, there's also a belief in something different… so we were using the powers of the GLC like compulsory purchase, procurement, contract compliance, a past echo of what is now being done in Preston… we looked at every power we had to support popular initiative.*[176]

How would this outlook translate should McDonnell become Chancellor? Lord Kerslake, former head of the Civil Service, has conducted a review of the Treasury for him, arguing that it is "overbearing" and "overstretched."[177] There are legitimate criticisms of how Whitehall operates, but many things

176.https://socialistproject.ca/leftstreamed-video/in-and-against-the-state/

177.https://www.civilserviceworld.com/articles/news/treasury-overbearing-and-overstretched-warns-lord-kerslake-–-review-stops-short which could be considered "obstacles" are in fact constitutional checks and balances, and McDonnell's interest in this area suggests he is well aware that even if should he become Chancellor, his radical policies will face opposition from civil servants. These difficulties were pointed out as early as 1985 by the Scottish journalist and writer Neal Ascherson in his Mackintosh Memorial Lecture:

> *...it is not possible to build democratic socialism by using the institutions of the Ancient British state. Under that I include the present doctrine of sovereignty, Parliament, the electoral system, the civil service - the whole gaudy old heritage. It is not possible, in the way that it is not possible to induce a vulture to give milk.*[178]

It is not unreasonable to expect that McDonnell will hold the same conventions, traditions and other limits placed upon the office by the British constitutional system of checks and balances in low esteem. This is precisely the reason why it is so difficult to predict what exactly would happen if he were to become Chancellor.

7. Where next: Economic Democracy in Practice

As shown above, the intellectual foundations underlying McDonnell's philosophy relate primarily to the idea of extending popular democracy into realms from which it was hitherto excluded, which are governed primarily by rights-based liberalism, which McDonnell considers oppressive. He envisages an economy made up not of rights-bearing individuals engaging in voluntary exchange of property and labour, but of groups deliberating internally about how to organise their social, political and economic existence, without an assumed primacy of preconditions and limits posed by legal concepts such as private property rights or economic concepts such as "efficiency".

That is not to say that should Labour take power, any of this would take place. In fact, what is at times striking is the gulf between the hugely audacious and transformative rhetoric employed by Labour, and the concrete policy positions taken to date, especially – as will be shown below – in the context of cooperative ownership. However, the logical conclusion of the ambitions are nevertheless far-reaching.

The remaining sections of the paper analyse in greater depth two strands of current Labour thinking which did not feature heavily in the 2017 manifesto, but are nonetheless key to understanding what is unique about this Labour leadership.

178.https://www.opendemocracy.net/en/opendemocracyuk/ancient-britons-and-republican-dream/

Part 5 Ownership and "Democratisation" in practice

"It's easy to miss just how radical Labour's new economics really is, in the original sense of "getting at the root of the matter." When it comes to economic fundamentals, there has been a decades-long deficit of new thinking and ideas on the left. Most social democrats are still splashing around far downstream from where the real action is, seeking a way forward among the muddy puddles of "tax-and-spend" transfer policies and modest redistribution left behind by the high tide of Keynesianism and the welfare state."

Joe Guinan and Thomas M. Hanna

1. Democratisation at a glance

There isn't a single policy, speech, book or white paper which would neatly summarise the policy detail of McDonnell's economic democracy. But it is possible to outline in broad terms a group of policies which all contribute to promoting this agenda:

- **Labour and trade union reforms ("it starts in the workplace")** – a package already floated in the 2017 manifesto which includes the restoration of sectoral collective bargaining.
- **Workers on boards ("employees who create the wealth have no say in the key decisions that affect their future")** – a third of seats on company boards to be allocated to workers.
- **Inclusive Ownership Fund ("workers… who create the wealth of a company…should share in its ownership")** – mandatory transfer of 10 per cent of equity into a collective vehicle managed by workers, paying out dividends capped at £500 per year with the rest taken in tax.
- **Nationalisations ("We are extending economic democracy even further by bringing water, energy…and rail into public ownership")** – full renationalisation of utilities, rail and the Post Office, though with a commitment to "unprecedented openness and transparency" and no "return to the past."
- **Promoting alternative models of ownership** – explicit commitment to doubling the UK's cooperative sector with the help of the National Investment Bank as a provider of finance,

and introducing a more detailed legal definition of a cooperative, presumably intended to introduce quasi-legal limits and guidelines (akin to the rules in the corporate governance code) determining what kind of a company can become a cooperative and how it should behave in order to have access to an advantageous funding structure and other benefits.

- **"Right to Own" –** a right for all employees to be the buyer of first refusal when the company they work for is being sold.
- **Collective ownership of land ("…how do we go about looking at collective ownership of land, Community Land Trusts, the development of those by local communities…") –** little policy detail so far, other than a hint at promoting the development of community land trusts, which are small-scale developments run by local communities.

2. Nationalisations: cost and consequences

Public ownership of Royal Mail, water, energy and rail is one of the most prominent, most popular, and most expensive Labour commitments. McDonnell has promised that his government would set up a "Public Ownership Unit" in the Treasury "immediately" after taking office to oversee the process of nationalisations. As he has put it: "We will get this legislation through in the first (policy program) Queen's Speech – we want to hit the deck running."[179]

Repeat polling results indicate that – at least in the abstract – the public is broadly supportive. A deep-dive poll by Populus for the Legatum Institute found that 83 per cent supported nationalising the water sector, while this figure stood at 77 per cent for electricity and gas and 76 per cent for railways. Perhaps more interestingly, support for nationalising banks was 55 per cent, 35 per cent for "food distribution and retailing", 24 per cent for car manufacturing, and even 23 per cent for travel agents.[180] The findings for the privatised industries are generally consistent – a YouGov poll carried out at around the same time found support for post, railway, water and energy nationalisations at 65, 60, 59 and 53 per cent respectively.[181] Higher results for energy (68) Royal Mail (67) and railways (66) were recorded by YouGov four years earlier in 2013.[182] Immediately after the Labour manifesto leak in 2017, ComRes found 49 per cent in favour of renationalising energy and 52 per cent for railways.[183] So the level of support varies but does not dip much below 50 per cent at any one time for any of the four main categories of nationalisations.

How much it would cost to nationalise the above is difficult to estimate, not least because McDonnell is ambiguous about how the envisaged process would reward current owners. A number of approximations have been carried out, but since the publication of the *Bringing Energy Home* white paper in May 2019, which confirmed that the level of compensation would be decided by Parliament, the costs are uncertain and at any rate, are meaningless in the context of the wider economic impact of a decision

179.https://www.cnbc.com/2018/09/22/in-government-uks-labour-would-nationalize-quickly-finance-spokesman-says.html

180.15, https://lif.blob.core.windows.net/lif/docs/default-source/default-library/1710-public-opinion-in-the-post-brexit-era-final.pdf?sfvrsn=0

181.https://yougov.co.uk/topics/politics/articles-reports/2017/05/19/nationalisation-vs-privatisation-public-view

182.https://yougov.co.uk/topics/politics/articles-reports/2013/11/04/nationalise-energy-and-rail-companies-say-public

183.https://www.comresglobal.com/wp-content/uploads/2017/05/Daily-Mirror-GE2017-Labour-Party-Manifesto-Poll-Data-Tables.pdf?utm_source=ComRes+-Pollwatch&utm_campaign=a59a6b3d23-EMAIL_CAMPAIGN_2018_02_26&utm_medium=email&utm_term=0_2a-865c1a3f-a59a6b3d23-89363503

to nationalise at below-market value.

In his contribution to the 2018 *Economics for the Many*, the collection of essays edited by McDonnell, University of the West of England academic Rob Calvert Jump argues that national ownership can lead to reduced prices for consumers as private providers are stopped from extracting monopoly profits, more long-term investment as the companies are freed from the short-termist influence of institutional shareholders demanding returns, more even and equal standard of service provision and more ability to set strategic goals such as tackling climate change.[184] These are a reiteration of the 2017 arguments in the "National Ownership" section of the *Alternative Models of Ownership* white paper,[185] indicating that they are at the heart of McDonnell's thinking on the issue.

Two aspects concerning nationalisation will be examined. Firstly, given the prominence of the arguments concerning profits and dividends in the case for nationalisation, an attempt will be made to quantify potential savings. Secondly, the possibility of a more democratic and accountable nationalisation will be examined.

a. Profits and dividends; how much could nationalisation save?

A key part of Labour's argument for nationalising these industries is that the privatised companies are charging higher and higher bills while making more profits and paying it out in dividends – money which should be used to lower bills and/or reinvest in the company. In 2017, Labour research gave a figure of £37bn paid in dividends since 2010 by 23 privatised companies, of which £4.8bn was paid out in 2017.[186] The simplicity of the argument is clear and on the surface attractive – in public hands there would be no shareholders to pay dividends to, meaning that money could stay in the company, and be used to lower bills, increase wages for the lowest-paid staff, or invest in new infrastructure.

But there is little attempt to try to quantify what kind of money might be available for any particular company or sector, and how much difference those amounts could reasonably make. For example, would the money made available every year be enough to meet Labour's commitment to reduce household bills by £220 annually, or (though not an explicit commitment) to reduce the cost of rail travel?

Perhaps the biggest problem with this argument is how it interacts with Labour's claim that nationalisations will not cost the taxpayer anything, because in exchange for the money the Exchequer will receive a productive asset. Assuming the government will issue debt to pay for the assets, any revenue stream will be needed to cover interest payments on the government debt issued to pay for the assets. It is also doubtful whether transforming an entire industry top to bottom, especially if it includes experimentations with novel, "democratic" management structures, can be costless. By the time all of that is taken into account, how much will there be left for lowering bills, increasing the pay of lowest paid employees, investing in infrastructure and improving service quality?

184.Rob Calvert Jump, Better Models of Business Ownership

185.27, https://labour.org.uk/wp-content/uploads/2017/10/Alternative-Models-of-Ownership.pdf

186.https://labour.org.uk/press/over-37bn-paid-out-in-dividends-by-privatised/

b. The challenge of management, control and investment in nationalised industries

Nationalised industries have always exhibited challenges in relation to control and ownership. It's not clear whether the professional managers of the industries appointed by their sponsoring departments are in control of these industries or whether they are subject to the political guidance of the sponsoring department and their ministers. This turns on practical questions like who should be appointed to run the business and how much they should be paid. Historically, UK nationalised industries found it difficult to recruit senior managers because they did not pay enough and it has been suggested that in recent years the pay of senior management at the Royal Bank of Scotland has been less generous than that of its banking competitors and that has arguably had an adverse effect on the bank's performance along with other Treasury controls on the business. Borrowing by nationalised industries will be scored as part of the public sector borrowing requirement (PSBR). The Treasury always ends up in practice constraining the borrowing or the external financing of nationalised industries as part of wider public expenditure and borrowing control. The same challenges we exhibited by nationalised industries in France in the early 1980s. It was one of the reasons why water was privatised – the government knew more investment was necessary, but unaffordable by the public sector at that time.

c. Morrisonian Model, Municipalisation and Democratisation

A word which frequently accompanies any pronouncements on nationalisation by McDonnell is "Morrisonian", referring to Herbert Morrison, the Labour politician who was the Deputy Prime Minister under Atlee responsible for overseeing the programme of nationalising key industries.

According to the *Alternative Models of Ownership* white paper, the mistake made by the revered post-war Labour administration was too much centralisation. The failings of the nationalised industries were, McDonnell argues, down to the fact that the state-owned firms were:

> *…highly centralised, top-down and run at "arms-length from various stakeholder groups, notably employees, users and the tax paying public that ultimately funds them. The post 1945 nationalisation programme set the trend here with what has been termed the "Morrisonian Model" (after Herbert Morrison, the Minister overseeing the programme). The model was justified at the time as being about enlisting "business" or "expert" groups who would manage in the "national" interest, rather than give voice to "vested" interests, which was usually aimed at trade unions or the idea of worker representatives."*
>
> *The result was that a small private and corporate elite – in some cases the same people who had been involving in managing the pre-nationalised private sectors (which were riddled with underinvestment, deteriorating infrastructure and poor performance) - ran and oversaw the nationalised industries. While they were nominally under the control of a particular minister and government*

> *department, there was little democratic scrutiny or debate around their operation. Unlike the parallel nationalisation programme in France, where industries had access to finance from state owned banks, the British nationalised industries were also heavily constrained in their ability to borrow to finance investment, meaning a chronic lack of infrastructure modernisation by the 1970s.*[187]

For McDonnell, the radical alternative to both privatisation and centralised national ownership is therefore "municipalisation" – ownership of the means of provision of water, electricity, transport and other utilities by local rather than national government – and the increased accountability he believes this would provide. As Rob Calvert Jump writes, "the benefits of municipal ownership stem from the advantages associated with local control of services, including local democracy and accountability. In turn, one would expect this to reduce the welfare losses associated with regional disparities in wage levels, employment and investment that stem from the current dominance of private ownership and control."[188] The *Alternative Models of Ownership* white paper similarly states that: "The localisation of economic activities and control serves to strengthen economic resilience and to enhance the democratic nature of decision making. By being more closely managed, the economy can be geared in such a way as to place priority for the well-being of its constituents above a devout commitment to the interests of private corporations."[189]

But it is worth noting that although it is true that the boards of British Coal, British Steel, British Rail and others were appointed by respective Secretaries of State and were run in a hierarchical manner until the Thatcherite wind of change in the 1980s initiated privatisation, this was a time when trade unions were much more powerful and arguably provided a very effective way for organised labour to exert their power on the management. That Thatcherism also eroded trade union power is why, presumably, McDonnell wants to bring back sectoral collective bargaining and bring these organisations into the institutions.

Further, structures for wider stakeholder representation in privatised utilities already exist, many of them - such as the Consumer Council for Water - on a statutory footing. They have a lot of formal mechanisms along the lines of those in McDonnell's democratised economy, yet there is little 1980s discussion of the strengths and weaknesses of the current channels.

Municipalisation and local public enterprise carries great risk in terms of public expenditure control. Moreover, many small, municipally run businesses are likely to be thinly capitalised and inefficient. They will potentially raise complex questions of local monopoly and substitution and displacement effects: for example, would the cooperatives displace businesses already in the area?

187.29, https://labour.org.uk/wp-content/uploads/2017/10/Alternative-Models-of-Ownership.pdf

188.Rob Calvert Jump, Economics for the Many, 91

189.Alternative models of ownership, 20-21

3. Co-operatives and cooperative forms of economic organisation

Cooperatives are a natural embodiment of McDonnell's vision of economic democracy and workers owning and controlling capital. In a speech to the Cooperative Ways Forward conference in 2016, for example, he said that cooperatives should "play an essential part in the economy of the future."[190] He went on to say that:

> *Co-operative businesses are more stable. Whilst only one in three new businesses makes it through the difficult first five years, four out of five co-ops do. An effective economic strategy for the left would look now to build on this. It means thinking beyond using the state to redistribute incomes. It means thinking about how we can ensure assets are distributed more fairly.*[191]

In their contribution to *Economics for the Many*, Joe Guinan and Thomas M. Hanna put cooperatives in the context of the democratisation agenda:

> *A large worker-owned and cooperative sector could form an important institutional base for a new place-based economics and politics in Britain, one that is capable of overturning simplistic notions of "pro- or anti-business" and replacing them with new alignments around embedded democratic local and regional economies in opposition to footloose, extractive multinational corporations.*[192]

Rob Calvert Jump, in his contribution to the *Economics for the Many* collection, argues that there are two main advantages to cooperative ownership: stability of employment and increased productivity. On the first point, it is argued that "worker cooperatives appear to adjust labour costs in response to negative demand shocks by decreasing wages and hours, rather than decreasing employment."[193] On the productivity point, the author cites a 1994 study of the US plywood industry, which showed a 6-14 per cent productivity advantage associated with the cooperative form.[194]

Similarly, in a 2018 paper, *Cooperatives Unleashed*, the think-tank New Economics Foundation argues that productivity in cooperatives is "at least as high if not higher than 'conventional' firms, primarily due to improved motivation through a sense of collective ownership and profit-sharing, and more effective internal coordination due to higher levels of trust and the better use of employee know-how."[195]

Cooperatives also feature prominently in the *Alternative Models of Ownership* white paper, which lays out the specific measures which should be put in place to stimulate the growth of the cooperative economy. It primarily highlights access to finance as a major obstacle for the cooperative sector, as "conventional finance institutions are unlikely to lend to firms over which they have no control,"[196] and the risk that due to labour being inalienable but capital not, cooperatives could revert to private ownership as members sold their stakes.[197] It recommends the "creation of new banking support networks" and "shelter institutions" - essentially institutions able and willing to provide cooperatives with long-term financing and other forms

190. https://labourlist.org/2016/01/its-the-new-economics-full-text-of-john-mcdonnells-co-op-speech/
191. Ibid
192. Guinan and Hanna, Economics for the Many
193. Rob Calvert Jump, Economics for the Many, p.88
194. Ibid, p.89
195. P12, https://neweconomics.org/uploads/files/co-ops-unleashed.pdf
196. Alternative Models of Ownership, 17
197. Ibid

of support when they run into trouble and there is a risk that shares could fall into private hands.

McDonnell has made a concrete commitment to double the size of the cooperative sector and to introduce a "proper legal definition". It is not clear what a proper legal definition would mean, but it could be an attempt to control what sort of companies would be able to get any envisaged advantages (such as National Investment Bank funding or any other preferential treatment).

While there is no single legal definition of a cooperative in the United Kingdom, and there are many different types of cooperatives, an organisation calling itself a cooperative is generally understood to be an entity which is owned and collectively governed by its members, and run for their benefit.[198] This is in contrast to the joint-stock corporation, which is owned by the shareholders and run for their benefit, but is governed in a hierarchical fashion by its board of directors, who may or may not also be shareholders in some form.

According to the latest (2018) data on the cooperative economy, there were 7,226 independent cooperatives in the UK, employing 234,577 people and in 2018 turning over £36.1bn, up from £35.3bn in 2017 and £35.1bn in 2016. [199] On this data, the cooperative economy in 2018 accounted for just under 1 per cent of total private sector business turnover and approximately 0.8 per cent of total private sector employment, whilst the total number of cooperatives accounted for 0.1 per cent of the total number of private sector businesses in 2018.[200] A pledge to double this sector is admirable, but surprisingly modest given their prominence in the Bennite tradition.

Despite their prominence in the narrative, it is unclear what role exactly McDonnell has envisaged for cooperatives in the economy he would try to create. This is all the more striking once we consider that cooperative ownership and similar forms of ownership are the logical bedrock of his philosophy, at the heart of which, as mentioned earlier, is a fundamental critique of the individual profit motive and distaste for private enterprise. It would not be unreasonable to ask how far in policy terms this critique goes. It could be that doubling the size of the sector is the full extent of the ambition, and other tenets of 'democratisation' will be prioritised. It could be that further incentives will be offered to businesses who wish to take on the cooperative form. On the other hand, the key question is to what extent the emphasis on cooperatives and other alternative forms of ownership will be voluntary. The IOF policy shows that Labour is willing to use sticks as well as carrots. For the *Telegraph* writer Juliet Samuel, the key is to view it alongside the philosophy:

> *The lesson, for Mr McDonnell, was that the real fight would not end with Labour winning power. "Once you're in there, you have to then be against the way it's operating," he told the wide-eyed audience at "The World Transformed", a radical side conference linked to the hard-Left Corbynista group, Momentum. Alongside ideological fellow travellers, Mark Serwotka of the PCS Union and*

198. https://www.uk.coop/about/what-co-operative
199. http://reports.uk.coop/economy2018/
200. https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06152

> *Leftie activist Hilary Wainwright, all the speakers urged their audience to prepare for battle. Labour needed "radicalism in every community and every workplace, [to] maintain radicalism at the top by maintaining pressure from the bottom," said Mr Serwotka. Labour must "open up national government at every level," said Mr McDonnell.*
>
> *This is Labour's real agenda and the connecting thread between all of its policy announcements. It is also a clue that what we have seen so far is just the tip of the iceberg, because this utopian vision relies on a total transformation of state and economy. Forget its 10 per cent worker ownership plan. In reality, Mr McDonnell wants to hand ownership of all private businesses to employees and replace management with voting. He wants all housing owned by the local community, all decisions about public services taken by those who rely on them. He wants every state building opened for use by the public. He wants the supreme demos to vote on whether to retaliate in the event of a nuclear strike on Britain.*

4. Effects of ownership and control, discussion of democratisation from first principles

John McDonnell and his circle of advocates of economic democratisation expect it would yield significant benefits including more investment, higher productivity, less inequality and the divorcing of the ownership of companies and capital from the malign, short-termist, "extractive" influence of private hands, especially big financial institutions. As expressed by Common Wealth, a think-tank launched in April 2019 by former Institute for Public Policy Research (IPPR) analyst Matthew Lawrence, in one example of the hyperbolic language characterising this area:

> *How a company is owned vitally shapes how it operates and in whose interest. Today, most of us lack a powerful stake and a say where we work, and too many businesses are engines of wealth extraction for external shareholders and managerial elites. The consequences are damaging for workers, communities and businesses alike: stagnant wages, stark inequalities, sluggish productivity growth, weak investment rates, but runaway pay at the top and record dividends for shareholders.*
>
> *[…]*
>
> *There is no one solution. Instead, we need a deep and inventive institutional pluralism in how we organise and own enterprise. Common Wealth designs economic institutions where capital is owned and controlled by publics within the company and beyond, at varying scales. From co-operatives, community enterprise and employee owned firms, to institutions that can transform corporate ownership at scale, from local wealth building strategies, to citizens' wealth and ownership funds that give everyone a stake and say in the economy, we can democratise the economy, and ensure we all share in our common wealth.*[201]

201.https://common-wealth.co.uk/what-we-do.html#1

There is merit to examining ownership as a potential avenue of economic reform. Cooperatives, for example, can be can be an effective way or organising a business in the context where members have relatively homogenous interests, the sector is not capital intensive and not subject to constant change. A number of successful cooperatives both at home and abroad show that there is a place for a plurality of ownership forms.

But there is a danger that "democratisation" along the lines advocated is in practice bureaucratisation. As an idea, it appears to seek to replace individualised market relationships, where outcomes are decided by the result of rights-holding individuals interacting with other rights-holding individuals and institutions, with bureaucratic relationships, where the outcomes are decided "democratically", presumably via a localised mechanism for deliberation like a representative committee meeting, citizens' assembly or a one-off referendum.

At heart, it is an attempt to remove power from as many everyday relations between human beings and institutions as possible. The market relationship described above is deemed to be oppressive to "the many", because it distributes power according to wealth, which is unjust, and therefore needs to be replaced by a democratic relationship, where power is distributed equally because every person has one vote and an equal right to be heard and exercise their democratic rights.

And as Anthony Crosland, Labour MP for South Gloucestershire (1950-55) and later Great Grimsby (1959-77), a prominent socialist intellectual of that period, puts in his 1956 book *The Future of Socialism*, while commenting on co-operatives:

> *The difficulty is that these natural, self-created groups may be far from expressing the co-operative ideal. It is not merely that groups may develop (as anyone with experience of small political or religious or refugee groups will know) extremely disagreeable characteristics – intolerance of dissent, excessive conformity, arbitrary cruelty in the exercise of their ultimate power to ostracise (in modern language: send to Coventry) : but even if they do not, their purpose or function may be in no way communal or altruistic so far as objectives and institutions outside the group are concerned. On the contrary, their function and behaviour may be wholly selfish, and the element of identification or cooperation with the firm or industry entirely lacking. Thus they may, as industrial research has demonstrated, serve to restrict output, not to expand it: to worsen relations with management, not to improve them : to foster resentment and discontent, instead of harmony and a sense of common purpose."*[202]

Delving deeper into the point Crosland makes on the possible industrial behaviour of cooperatives, for example with restricting output, an illustrative example is that of Yugoslavia, which was the "fastest growing socialist economy in the post World War Two era. In fact, as noted by Balassa and Bertrand in 1970 , it was one of the fastest growing countries in the world."[203] Yet research by Leonard Kukic, academic at Universidad Carlos III de Madrid, traced the slowdown in 1965 to labour distortion brought about precisely by the problems associated with worker ownership.[204] As

202.CAR Crosland, *The Future of Socialism*, Jonathan Cape paperback, p74

203.https://capx.co/do-workers-need-capitalists-new-lessons-from-yugoslavias-socialist-experiment/

204.http://personal.lse.ac.uk/KUKIC/Kukic_Socialist-GrowthRevisited.pdf

Victoria Bateman, Cambridge economist, puts it:

> *Amongst other things, these work councils were now free to decide on the distribution of income between wages and investment. In one sense, this policy change was a success: income per worker increased and wages became a bigger share of the economic pie. However, labour-managed firms seem to have reaped such rewards by hurting other members of the labour force, restricting the employment of new workers so as to limit the worker-based labour market competition that could scupper the wage demands of the "insiders".*[205]

In other words, the power held by workers in Yugoslavia led to the labour markets there displaying insider/outsider effects – namely, overall losses of efficiency that benefit a narrow group of "insiders" (usually those already in employment) at the expense of "outsiders" (the unemployed, or those employed in less "powerful" sectors and industries, or those who lose their jobs in a powerful sector or industry as a result of wages failing to adjust).[206] It also can impact negatively innovation incentives and competition, as incumbent workers use their position within an organisation to resist necessary changes if they adversely affect them.

McDonnell's emphasis on democracy in the workplace and beyond paints a picture of a homogenous group of people with perfectly aligned, homogenous interests, and ignores inherent unresolvable trade offs, zero-sum effects and conflicts of interest present in any diverse economy with sophisticated division of labour. But attempting to resolve these conflicts through some sort of democratic system of decision making instead of the market mechanism will not make them go away – it will merely change the rules of the game and who the winners are.

The cooperative form, where decision making is done by consensus among *a priori* equal members of the cooperative functions best in simple enterprises focused on a single activity, on which the organisation is completely dependant, and to which members contribute more or less the same amount of value, i.e. all members are replacable to an equal extent: the cooperative lanundry in Cleveland, OH (discussed in the next section in the context of the "Preston Model) is a perfect example. It does not work well in complex organisations employing both high and low skilled workers engaging in a range of activites. As put by ProfessorJoseph Heath, author of *Filty Lucre: Economics for People who Hate Capitalism:*

> *If a dairy cooperative takes both milk and eggs as input, it immediately politicizes a whole range of questions, creating controversies and factions where previously none existed. How much of the advertising budget should be used to promote butter? Should new investments be made to enhance the productivity of the cheese operation? How many quarts of milk is equivalent to a dozen eggs when it comes to dividing up revenue or assigning voting rights? In a milk-only cooperative, people may disagree over all sorts of questions, but it reflects mere differences of opinion – there is no underlying conflict of interest. A farmer who supplies only eggs, however, has very different interests from one who supplies only milk.*

205. https://capx.co/do-workers-need-capitalists-new-lessons-from-yugoslavias-socialist-experiment/

206. https://pubs.aeaweb.org/doi/pdf/10.1257/jep.15.1.165

The UK's (albeit limited) past experience of trying to use cooperative ownership as a form of social policy and economic transformation is not encouraging. In the United Kingdom, the Labour Party in the 1970s had an enthusiasm for worker cooperatives was at its highest in the 1970s and 1980s, with Tony Benn being a prominent advocate. A small number of such co-operatives were formed during the 1974 Labour Government as workers took over firms and supported them following the bankruptcy of a private firm in a desperate attempt to save the jobs at risk. Lord Barnett, the Chief Secretary to the Treasury in that Labour Government, vividly referred to them "Benn's Follies" in his memoir *Inside the Treasury*. However the change in ownership structure was usually unable to resist the underlying market and competitive difficulties that had lead to commercial failure. The best known example was the Meriden motor-cycle cooperative in the West Midlands which took over the assets of the ailing Triumph business. There was also support for Kirby Manufacturing and Engineering, a small engineering company, and the Scottish *Daily Express*. Lord Barnett commented that the three cooperatives had one thing in common - they all began life with just about the worst possible prospects for success. Each grew out of a sit-in by the workers after private owners had failed to make a success of the business. Each co-op eventually failed. This not only resulted in the workers losing their jobs, but often losing them after they had invested their redundancy payments in the failed ventures. His attempt caused a breach with the then-permanent secretary at the department, Sir Peter Carey, whose *Times* obituary states:

> *Carey's robust character was demonstrated in 1975 when he sought an accounting officer minute — a formal instruction to proceed with expenditure that a civil servant deemed improper — from Tony Benn, the Secretary of State for Industry, who had rejected his advice over one of Benn's unfeasible schemes offering financial assistance to workers' co-operatives: in this case a suggested grant of up to £3.9 million to the Kirkby workers' co-operative. An accounting officer memorandum was the civil servant's "nuclear deterrent", as it activated the unwelcome — for government ministers — interest of the Public Accounts Committee. Few civil servants before Carey employed such a device."*[207]

207.https://www.thetimes.co.uk/article/sir-peter-carey-mqjxfgb6mfx

France's Programme Commun: Neo-Keynesian Economics in One Country

One example of an attempt to introduce "democratic socialism" was France in the 1980s. Much like the McDonnell agenda, the Programme Commun was meant to "free the state and the economy from capitalist domination, to improve the working and living conditions for the vast majority and to democratise the institutions of daily life".

When Francois Mitterrand was elected in May 1981 he implemented a joint Socialist-Communist common programme. Mitterrand applied a neo-Keynesian programme of economic expansion to expedite the recovery in economic activity given the perceived sluggishness of the French economy inherited from Valery Giscard d'Estaing. Its purpose was to insulate France from the international recession. These polices resulted in rapid and strong growth in private domestic consumption and sustained inflation. Transfer payments and the minimum wage were increased and working hours were reduced. This increased social spending was only partly financed through higher taxation and a new wealth tax. The government budget balance swung from a surplus of 0.3 per cent of GDP in 1980 to deficits of 1.6 per cent in 1981 and 2.9 per cent in 1982. Monetary policy accommodated this fiscal expansion. Domestic credit expanded by 16 per cent in 1981 and 1982. There was a sharp monetisation of the budget deficit, with lending to the government sector rising by 22 per cent in 1982 and 23 in 1981.

An economic expansion fuelled by consumption, where investment stagnation resulted in a severe balance of payments problem, aggravated by entrenched high inflation relative to other economies. As world commodity prices fell, French inflation fell, but not by as much as in other countries. Despite attempts by government ministers to talk down wage growth domestic wages increased in double digits and the growth rate of real wages roughly doubled. This resulted in the French rate of unemployment rising from 6.3 per cent in 1980 to 8.6 per cent in 1982. Higher employment costs and higher wages resulted in a decline of company profits. The French current account deteriorated sharply from a deficit of $4.2 billion in 1980 to $12.1 in 1982. Imports rose in volume terms by 2.4 per cent and exports fell by 3.5 per cent. The weakness in export volumes was not simply the result of weak international markets, but strong domestic markets that diverted output from the exporting traded-goods sector. There were sharp outflows of private capital and there was heavy French official borrowing from abroad with net officially authorised borrowing trebling to almost $12 billion a year in 1982.

This resulted in growing concern about France's accumulating external debt and the stability of the franc within the European Monetary System (EMS). The combination of relatively high inflation, rising unemployment, a progressively less competitive manufacturing sector, a haemorrhaging balance of payments position aggravated by an exchange rate constrained by the EMS, was by any criterion an awkward mix that could not be sustained. France devalued twice within the EMS at this stage. These realignments – devaluations against the deutschemark – offset France's adverse inflation performance, but they were not accompanied by the necessary fiscal measures needed to curtail domestic spending on consumption

This led to a third devaluation in March 1983, coupled with a severe domestic austerity package. Discretionary increases in taxes and cuts in spending equivalent to 2 per cent of GDP were announced. The measures focused on cutting domestic consumption spending and induced an unpredicted squeeze in real consumer spending. Social Security taxes were increased by a surcharge of 1 per cent, excise duties were raised and monetary conditions were tightened, with tough lower targets for both monetary and credit growth.

This ended the experiment with neo-Keynesian demand management in one country. An open international economy could not sustain an expansion of domestic demand, because of the vulnerability of its balance of payments. Moreover structural rigidities in the labour market meant that far from experiencing a reduction in the rate of unemployment the labour market deteriorated. The only way the policy could have been sustained would have been to erect protectionist barriers to shut out imports. That would have further distorted the French economy and diverted resources to inefficient industries, and have triggered retaliation that would have lowered French exports. Given that exports of goods and services accounted for about a third of GDP, such protection would have hurt France.

France then embarked on a policy of macro-economic monetary and fiscal caution supervised by its Finance Minister, Jacques Delors. Over the next seven years a policy that became known as the Francfort transformed France into Europe's strongest financial economy. France in effect attempted to outbid Germany in terms of monetary stringency. The authors of the Programme Commun would never have expected that their Socialist agenda would have dissolved into such a stringent version of financial orthodoxy. Orthodox monetary policies based on adhering tightly to German monetary conditions within the framework of the ERM delivered low inflation and a strong balance of payments surplus. High public expenditure and taxation along with inflexible labour and product market regulation resulted in disappointing economic growth and rising structural unemployment. France systematically made micro-economic policy mistakes that damaged employment, living standards and economic growth.

Whatever else the Programme Commun may have been, it is was not an encouraging advertisement for the ideas and analysis that lay behind much of the Alternative Economic Strategy in the UK in the 1970s and 1980s. It failed in its own terms and had to be abandoned. The leakages of increased demand through the growth of imports and the problems of import protection without retaliation exposed the impracticality of conventional Keynesian demand management in one country.

5. Conclusions: can "democratisation" ever work without the need to resort to centralised coercion?

What the discussion above shows is that history is full of examples of attempts to "democratise" everyday market relationships; to replace them with something which distributes power more equally. Yet they all show that one relationship of power is simply replaced by another.

We pointed out earlier the gulf between the radicalism of McDonnell's rhetoric on ownership and democratisation along with the logical conclusions of his philosophy, and his actual explicit policy commitments, and the confusion and uncertainty it creates amongst those trying to anticipate what a Government led by him would do.

The biggest question around Labour's "democratic socialism" is this: how "democratic" would it be to non-socialists? Would they be sidelined and frozen- out of decision-making at board meetings of local municipal energy and water companies? How would those who disagree with cooperative principles be treated if they end up working at a cooperative in their local area? These questions are important, because as we mentioned earlier, there is no reason why McDonnell should not mandate a much more radical and, more importantly, *coercive* expansion of the democratic economy.

Part 6 - Role of public capital in the economy

"Imagine if every Labour city were setting up its own banks, supporting worker-owned businesses and credit unions? Imagine it. That would be our way of taking back control."[208]

Cllr Matthew Brown, Leader of the Preston City Council

What are the right macroeconomic conditions for a fundamentally different economy, in McDonnell's view? Democratisation can be seen as putting in place people and institutions which, given the right conditions, can implement McDonnell's vision. But these people and institutions need to be given the right tools and materials, which in practice means capital. They need supporting institutional infrastructure.

1. Fiscal Credibility Rule and investment

This is where Labour's Fiscal Credibility Rule becomes important.[209] Devised primarily by economists Jonathan Portes and Simon Wren-Lewis, and one of the only concrete pieces of direct policy influence from the now-defunct Economic Advisory Council (a group of very high-profile economic advisors convened by John McDonnell – see Appendix 2 for full details of the Council) it is a political commitment by the Labour Party that should they win office, the Government would borrow for capital spending only – never for day-to-day (current) spending. This is not unlike the Golden Rule set out by Gordon Brown in his first budget speech as Chancellor in 1997, which argued that for the purposes of intergenerational fairness, measures which benefit the current generation of taxpayers have to be paid by them in the entirety, while investment for the future can be paid by borrowing which will affect future generations.[210]

However, as Wren-Lewis explains in his contribution to *Economics for the Many*, the Fiscal Credibility Rule includes a "knockout" clause which says that if monetary policy can no longer operate normally – for example, because there has been an adverse shock, but cutting interest rates will not work because they are already as low as they can be (the "zero bound" problem) – then the Bank's Monetary Policy Committee can suspend the rule so that fiscal policy can be used to stimulate the economy, for example through quantitative easing.[211] As Wren-Lewis makes very clear, this would have prevented the (in his view) erroneous response to the 2008 crisis which saw monetary expansion but net fiscal-tightening as part of George

208. https://www.theguardian.com/commentisfree/2018/jan/31/preston-hit-rock-bottom-took-back-control
209. https://labour.org.uk/wp-content/uploads/2017/10/Fiscal-Credibility-Rule.pdf
210. 83, https://www.ifs.org.uk/budgets/gb2009/09chap5.pdf
211. Simon Wren-Lewis, Fiscal Credibility Rule in context, Economics for the Many

Osborne's austerity programme, which he believes made things worse.

But for this commitment to be meaningful, there has to be a clear demarcation of what counts as long-term investment and what counts as current spending, which Labour seems to ignore. There is naturally the accounting definition of what can be classified as capital expenditure (mainly buying or upgrading tangible assets such as buildings and machinery) but the control of how tightly these rules are adhered to by government departments and agencies is not hard and fast. And there are good reasons to believe that as part of the effort to have the Treasury "widen the range of economic theories and approaches" (as stated in the McDonnell letter to the Treasury mentioned in the first section) the definition of what exactly constitutes long-term investment is likely to be elastic, as has also been pointed out by the Sky News Economics Editor Ed Conway: "By classifying spending on nurses or teachers as "investment" they could render his fiscal rules useless."[212]

For example, in her contribution to *Economics for the Many*, Professor Özlem Onaran, of the University of Greenwich who publishes mostly on the questions of wages vs profit, the role of investment, inequality and the economics of gender,[213] makes an extensive critique of what in her view is a too-narrow definition of what should be considered "investment", arguing that spending on education, health, social care and childcare should be considered "investments in social infrastructure at the same level of priority as physical infrastructure."[214]

Onaran goes on to say that:

> *Despite the value of these services to society, day-to-day spending in these sectors, e.g. the wages and salaries of teachers, nursery teachers, nurses, doctors or social care workers, are considered as current spending in our public finance and national accounts; thus they are not considered as investments in assets (or capital spending) which will produce future streams of output. This is not consistent with the notion of investment, because public spending in education or health services delivers benefits over a long period both to the people who receive these services and also to businesses and society as a whole, with substantial productivity impacts on all other sectors of the economy, by increasing the skills, health and innovative capacity of people.*[215]

It is true that having public services does generate positive outcomes, and those in turn can translate to positive impacts on the economy. Onaran goes on to make an argument for the unquestionable productivity and welfare benefits of a high-tax high-spend economy. She argues that there is at least very good correlation between the level of public spending on public services and investment (which in the absence of any discussion about differences suggests she considers to be equally beneficial) and the effects they are supposed to have, i.e. improved outcomes for people who use those services, which in turn translate into the recipients being more economically active, generating growth. She also makes the argument that "a rise in public spending generates sales for businesses as well as private and public sector jobs; then employees spend their income, leading to

212. https://www.thetimes.co.uk/article/should-the-city-trust-john-mcdonnell-comrade-charming-csn-jfvznt

213. https://www.gre.ac.uk/people/rep/faculty-of-business/ozlem-onaran

214. Özlem Onaran, 'Public Investment in Social Infrastructure,' *Economics for the Many*, 187

215. Ibid, 187

further increases in sales for private business."[216]

This dual set of assumptions – that *a priori* public spending always translates into better societal and economic outcomes, and secondly, that public spending increases should be viewed as putting money in people's pockets which they then "spend into the economy" boosting private sector sales – is the foundation of McDonnell's attitude to the role of public capital in the economy. He is well aware of the effectiveness of this argument, with "investment" - one of the most frequent words he uses (appearing in the Labour manifesto in one form or another 85 times) - and as discussed earlier in the report, is one of the key reasons behind the shift from emphasis on welfare spending to "investment in good jobs."

We could ask: if the second part of that thesis is true, why the Fiscal Credibility Rule? Why the separation of investment and current spending if both have multiplier effects? One answer could be that the level of multiplier is much higher for investment than for current spending, though if that is the case, it is not stated. But a more interesting question is whether that separation would be meaningful under a McDonnell Chancellorship, due to his liberal attitude as to what should be considered investment. And if the argument is that the separation is misguided, then what is the point of the FCR?

2. National Investment Bank and Regional Development Banks: the role of public capital in sheltering the democratic economy

The National Investment Bank is part of Labour's clear commitments but it also emerges out of much wider discussion on the role of finance in the modern economy. This is an important part of McDonnell"s agenda, and not just because of the sums involved: the National Investment Bank is intended to "mobilise" £500bn over a ten-year period, a figure which is envisaged to involve both public and private funding.[217] According to the blueprint for the bank – the Labour white paper *National Investment Bank for Britain* – it is intended as a source of credit for predominantly small and medium-sized enterprises and "to support innovation in forms of productive organisations."[218] The aim is based once again on the belief that finance is broken, and that the failure of banks to lend to business is a primary cause of the economic problems facing the UK. Most importantly, going on to describe the broad aim of the bank, the document states:

> *More broadly the ambition of the National Investment Bank and regional development banks is to work in a context of a long-term industrial strategy and economic policy intended to permanently reshape the British economy so that it is fairer, more democratic, less wasteful of resources and able to meet the challenges and opportunities of Brexit.*[219]

It should by now be clear that this strand of McDonnellite economic policy is intended to work in tandem with the democratisation and ownership policies to provide the financial and economic environment in which

216. Ibid, 192
217. Supra note 41
218. Ibid, 8
219. Ibid, 8

"democratised" institutions and enterprises can function. Literature on alternative ownership[220] frequently refers to "shelter" institutions whose job it is to prevent cooperative "degeneration" – that is, gradual shift of a cooperative organisation towards a privately owned one, for example as a result of members selling their stakes to a single owner, or in a less formal way, as a result of their democratic decision-making processes becoming dominated by a small group of people which becomes insulated from the rest, or simply as a result of going out of business with all assets and liabilities purchased by a private company.[221] The National Investment Ban is intended to be one such shelter institution.

3. Community Wealth Building Unit: scaling up the "Preston Model"

In February 2018, John McDonnell announced a "Community Wealth Building Unit", and said that "Labour would work with the Co-operative Party and trade unions and think tanks to implement the community wealth building model across the UK."[222]

The Lancashire town of Preston has been called "Jeremy Corbyn"s model town" [223] and a "success story for Corbynomics".[224] According to McDonnell, who visited the town in March 2019: "[t]he Preston Model has become famous now and it has become a model for a lot of Labour councils around the country… We need to spread this inspiring work around other Labour councils, so we can bring services back in house, stimulate the economy and provide decent jobs, extend ownership and control, and strengthen local democracy."[225]

"The Preston Model" is a UK example of a mode of regional development dubbed "Community Wealth Building" (CWB) with a first UK pilot carried out by the Preston City Council between 2011 and 2013. CWB is the brainchild of Ted Howard and his project Democracy Collaborative, which in 2007 spearheaded the development of Cleveland, Ohio, in a way which provided the blueprint for Preston. In a nutshell, the idea is a form of localist protectionism where "anchor institutions" – such as the local council, hospital, police, university, FE college and other large public sector employers – use as much of their procurement budget locally to keep their local economy afloat. For example, instead of relying on a large national supplier to procure food for the canteens in the school, university, hospital etc, as much as possible is sourced from local businesses and farmers. Every locality will have different capacity, but services like catering, printing and repairs tend to be most ripe for "localising."

The model is a departure from the orthodoxy because according to the rules governing public sector procurement, which have a heavy EU component to them, public bodies have a duty to secure the best value for money for the taxpayer. The ordinary framework, therefore, prioritises the lowest-price bidder, and those tend to be large national or international suppliers able to drive down their costs through economies of scale. It also tends to result in contracts which are too large for smaller suppliers,

220. For example the Alternative Models of Ownership white paper

221. On the cooperative degeneration thesis see for example Meister, 1984, Webb,

222. https://www.thenews.coop/126193/sector/community/john-mcdonnell-announces-formation-community-wealth-unit/

223. https://www.economist.com/britain/2017/10/19/preston-jeremy-corbyns-model-town

224. https://www.newstatesman.com/politics/uk/2018/11/how-preston-uk-s-most-improved-city-became-success-story-corbynomics

225. https://www.lep.co.uk/news/latest/preston-model-setting-standard-for-labour-councils-across-country-says-shadow-chancellor-mcdonnell-1-9665419

who often cannot afford even to spend the time necessary researching opportunities and submitting the bid, in stark contrast with the big suppliers who have dedicated bidding staff. As part of the implementation of the Preston Model, therefore, large contracts have been broken up into more manageable "lots" for which local firms are able to submit competitive bids which do not contravene procurement regulations aimed at preventing protectionist practices. Preston City Council is adamant nothing about their procurement approach should be considered "protectionism". As their strategy documents make clear, "[u]nder a community wealth building approach a local contractor may only be awarded a contract if they can show that they can credibly compete on price, performance and quality."[226]

Preston Model's connection to the democratised economy

Channelling public money to the local economy is only one part of this approach, however. In Cleveland, Ohio, the strategy has been combined with using procurement to foster growth of worker cooperatives, with the first and most enduring one being the Evergreen Cooperative Laundry, which today is profitable and employs 150 people.[227] Access to finance is deemed one of the most significant obstacles for cooperatives – the money provided by the public sector anchor institutions (e.g. a hospital or university hiring a food co-op for catering or a local mutual providing finance) is seen as a way to bypass the problem and provide reliable financing for the institutions. In Preston, this stage is already under way, with the Preston Development Cooperative Network being set up to mirror the Evergreen Cooperative Corporation with £10m initial funding from George Soros' Open Society Foundation.[228] The aim is to give rent-free premises as well as initial funding of up to £1m to ten local cooperatives. There are other initiatives, all following the same philosophy of persuading institutions able to provide funding to create an environment where money is available for local projects and local cooperatives. These include an agreement by the Lancashire County Pension Fund to invest £100m in a new student accommodation development in Preston as well as the redevelopment of The Park Hotel, setting up Red Rose Fairer Power, a partnership between OVO Energy and Cheshire East Council aimed at providing a local, cheaper alternative to the Big Six , and most significantly, plans for a Lancashire Community Bank, a not-for-profit source of credit for small businesses and individuals.[229] Other forms of this philosophy in action (but for the moment not used by Preston) include local currencies (e.g. the Bristol Pound).[230] In essence, the idea is to use a mixture of institutional arrangements to keep as much money as possible circulating locally.

The results in Preston appear to be positive. It has been deemed "the UK's most improved city" in 2018, driven mainly by the reduction in the unemployment rate from 6.5 per cent in 2014 to 3.1 per cent in 2017 as well as rising skill levels for 16-24 year olds.[231]. So far it has not incurred any significant cost to the taxpayer, since the bids are competitive and the seed funding for the cooperative network is being provided through an

226.https://www.preston.gov.uk/thecouncil/the-preston-model/preston-model/

227.https://community-wealth.org/content/cleveland-model-how-evergreen-cooperatives-are-building-community-wealth

228.https://www.uclan.ac.uk/news/ambitions-high-for-preston-model.php

229.Brown et al, 'A new Urban Economic System: The UK and the US, Economics for the Many

230.https://bristolpound.org

231.https://www.pwc.co.uk/government-public-sector/good-growth/assets/pdf/good-growth-for-cities-2018.pdf external charitable foundation. It is also a valuable source of information, because such localised policy experiments are generally good for testing the principles behind big ideas. It would, for example, be useful to observe the progress of the ten cooperatives chosen by the Preston Development Cooperative Network especially after the seed funding runs out, as well as the portfolio of the Lancashire Community Bank, as presumably the principles behind which it would operate would be similar to those of the proposed regional development banks (at least in terms of what kind of institutions would be prioritised for lending).

There are several questions which ought to be explored, the most obvious being to what extent does this approach actually improve people's lives - and even more importantly, on what scale? The literature presents CWB as nothing short of a revolution able to "transform society, right here, right now" and "a big opportunity to create the society we want, at every level. Let's take it! *The movement grows!*"[232] But as good as it might feel for Corbynite local authority leaders to talk about "building an alternative to capitalism, a capitalism that has failed this city and this country,"[233] it should be remembered that if a local economy is to grow, it cannot be made completely dependent on the local slice of the procurement budget of the anchor institutions, since that budget is finite, and would then become the limit to growth.

The real test for community wealth-building will be its ability to "incubate" enterprises which can then be spun out as viable businesses in the wider economy. Cooperatives under the Cleveland Evergreen umbrella are certainly growing , but the initial reaction to Red Rose Fairer Power is mixed. The company has 10 customer reviews on the website Trust Pilot, eight of which gave the firm one star out of five, with a majority highlighting unexpected increases in rates and poor customer service.[234]

Is the "Preston Model" really something new? It has certainly succeeded in winning praise from Corbynite politicians and policy wonks, a process which began with a report from the Centre for Local Economic Strategies.[235] But aiming to spend as much of the procurement budget locally as possible is not a new idea – for example, the Conservative-run East Sussex and Surrey county councils have a joint procurement strategy which includes a "Focus on increasing our spend with local suppliers across all categories, with a particular emphasis on developing local supply chains in sectors that will deliver the biggest impact on economic growth, including employment and skills opportunities, over the longer term."[236] A question arises, then: to what extent is Preston special? To what extent can the improved economic outcomes in the area be attributed to community wealth building? In 2017, the median wage in Preston was still below both the UK average and the average for the North West.

232. *Supra* note 236, 141

233. https://www.theguardian.com/commentisfree/2019/mar/06/brutal-cuts-fight-back-preston-dragons-den

234. https://uk.trustpilot.com/review/fairerpower.co.uk

235. Community wealth building through anchor institutions, CLES

236. https://www.eastsussex.gov.uk/media/8466/procurement-strategy-2015.pdf

4. Financing Investment: Graham Turner's Blueprint for a McDonnellite economy

The most comprehensive resource on this question is a report, "Financing Investment", by Graham Turner's GFC Economics, an independent report to the Labour party which should not be read as concrete policy, but rather as a direction of travel. A one-time Respect Party donor, supporter and economic adviser, Turner is revered by McDonnell, whom he now advises: "On economic policy in terms of the Bank of England you install people like Graham Turner. You must make him the governor of the Bank of England."[237] He was not a member of the Labour Economic Advisory Committee, but in 2015 McDonnell confirmed that Turner gave a weekly briefing to his team. He has in the past written in support of policies such as basing corporation tax on turnover rather than profits, a Tobin tax on foreign exchange transactions and generally limiting the ability of capital to flow freely between and within economies.[238] He has also been an outspoken critic of Gordon Brown's and Alistair Darling's response to the 2008 crisis, which he argues was based on a misunderstanding of Keynes, a theme which comes up time and again in his writing.[239]

Having spent part of his career in Japan, he witnessed first-hand the effects of fiscal stimulus when not preceded by cutting interests rates as soon as the crisis hit. The vast sums of borrowed money injected into the economy sent Japanese debt soaring from 65 per cent to 175 per cent of GDP, which in turn caused yields on Japan's government debt to jump as investors feared a spike in inflation, pushing Japan's cost of borrowing up and thus preventing reflation – something which might have been averted if interest rates had been cut first to act as a counteracting force to loss of investor confidence. (Scared investors' divestment from government debt pushes the cost of borrowing up, but cutting interest rates pushes it down).[240]

Economists at the time argued that cutting interest rates is an additional inflation risk, which is what drove loss of investor confidence in the first place. But Turner points out that in a housing bust-fuelled downturn, the primary concern is deflation and not inflation because there is a sharp fall in domestic demand which offsets the increase in money supply.The primacy of cutting the cost of borrowing through interest rate reduction is for Turner the key lesson, so far not understood, from the 2008 crisis.[241]

But the Japanese experience also helps to explain Turner's broader outlook, which is much more radical and boils down to the view that finance is holding back the "real economy" by preferring to lend "unproductively" to real estate, fuelling housing bubbles, instead of focusing on business lending to productive sectors, which he considers to be manufacturing, professional scientific & technical activities, information and communication, and administrative and support services.[242]

The result, according to Turner, is an economy dependent on debt-fuelled consumption for growth – debt which is allowed to rise off the back of rising asset prices and thus gives an illusion of prosperity. And

237. https://www.thetimes.co.uk/article/john-mcdonnell-s-economic-adviser-graham-turner-funded-an-anti-labour-party-george-galloway-respect-tsgdcxwmw
238. https://www.theguardian.com/business/2005/apr/18/ukgeneralelection2005.economicpolicy and https://www.theguardian.com/commentisfree/2009/apr/24/budget-tax-economic-policy
239. https://www.theguardian.com/commentisfree/2008/oct/27/recession-creditcrunch
240. https://www.annpettifor.com/2008/10/graham-turner-on-keynes-misunderstood/
241. http://www.renewal.org.uk/articles/causes-of-the-credit-crunch
242. GFC, 80

when inflated asset prices eventually crash, they take everything with them because domestic demand falls in an economy almost entirely dependent on it. As he puts it in *Renewal*, a socialist journal:

> *In the short run, housing bubbles can provide a stimulus to economic growth if they hoodwink people into believing they are wealthier. And governments that have been promoting the free trade and profits first agenda are content to foster the delusion. Indeed, governments rely upon money illusion, hoping homeowners will take a myopic view of their record debts. Witness New Labour's boast – "ten years of GDP growth, the longest for 300 years" (Brown, 2005). Growth was everything, it told the electorate. Runaway house prices were a function of the strong economy and a shortage of properties. A similar refrain was widely uttered in Japan during the late 1980s. Record debt levels did not matter, it was claimed, because property prices were soaring. Just focus on the asset side of the balance sheet. Eighteen years on, Japan is still suffering from that disastrous miscalculation.*[243]

What Turner argues needs to be done instead – drawing on his experiences in Japan which pulled itself out of the 1991-2000 recession (the "Lost Decade") with a strong manufacturing and technology sector – is a top-to-bottom reorganisation of the UK economy away from finance, services, debt-fuelled consumption and London and towards "productive" sectors like manufacturing and technology outside London in an economy with a much more restricted flow of capital and therefore much smaller financial sector. He says in the report that:

> *Unproductive lending – for example, to fund increased consumption or to finance the purchase of an asset that already exists – does not raise the potential growth path of the economy. It diverts resources away from productive sectors. This can push up asset prices in the short run spurring further speculative inflows into real estate. Eventually, this "virtuous" cycle will unravel. By contrast, if credit is allocated to productive use – for example, investment in plant and equipment, research & development, or the implementation of innovative technologies and processes – then this will tend to drive faster economic growth. Productive investment generates the future income from which debts can be repaid.*[244]

Narrowing the UK's current account deficit (imports outstripping exports) is also mentioned as part of switching focus away from services and reducing reliance on debt: "A focus on long-term, productive investment will be needed to increase the competitiveness of the UK economy and eradicate persistent current account deficits. A detailed analysis of lending across sectors is a prerequisite to stemming the flow of money into speculative real estate."[245]

a. Graham Turner's industrial strategy

The plan for how to get there has at its heart the Bank of England as a key agent of change: "An additional target will be introduced: productivity growth of 3 per cent per annum. The Bank of England will be required to explain how its policies are impacting upon productivity and, therefore,

243. http://www.renewal.org.uk/articles/causes-of-the-credit-crunch
244. GFC, 87
245. GFC, 5

the potential growth path of the economy. The Bank of England will have three explicit policies at its disposal – credit guidance, macroprudential supervision and interest rates."[246]

The Bank would be placed in a wider framework of institutions: it "will be expected to work with the Strategic Investment Board to increase private sector investment into critical areas of technology. It will be expected to collaborate with the National Investment Bank, UK Research & Innovation and the National Transformation Fund."[247] This institutional arrangement is illustrated in the report by Chart 5.1, copied below.

Credit guidance as a macroprudential policy tool essentially aims to influence how much credit is available in different parts of the economy, and here, the explicit goal is to redirect it from real estate to productive sectors of the economy: "The banks have not done enough to support companies in sectors that are critical to raising the productive potential of the UK economy. Credit guidance is a new policy tool for the Bank of England designed to correct this flaw with monetary policy."[248] The report suggests that there is enough flexibility in the Basel III framework – an internationally-mandated set of standards for financial stability – to adjust risk weightings in the calculation of bank's regulatory capital to disincentivise taking on too much exposure to real estate, and incentivise exposure to "productive" sectors of the economy:

> *Nevertheless, there is scope under Pillar 2 rules for the Prudential Regulation Authority (PRA) to influence lending by banks. It can review and amend its Pillar 2A methodologies for the assessment of risks (credit, market, operational, counterparty credit, credit concentration and interest rate risks in the non-trading book). The PRA can set a bank's Pillar 2A capital requirement. It can also use stress-testing to push changes in Pillar 2.48 to support a bank's capital adequacy, specific risk weightings can be introduced for different sectors of the economy. For example, these can be used to reflect the risks banks run if they are too heavily weighted to consumer finance and mortgage lending.*[249]

Commenting on this aspect at the report launch, he said:

> *Well, as we set out in the report, it would be forcing the Bank of England to look at what the banks are doing. You know, there's been this incredible benign neglect thing in recent years, allowing them to increase lending on credit cards, auto loans – consumer credit borrowing has soared. Why is that a good thing? Why is it allowed to happen? It's destabilising. The banks are not lending to our manufacturers, they're not lending to our more productive companies. They're penalising SMEs. That's what the Bank of England's got to be looking at more closely.*[250]

The underlying thesis on which the report is based is that availability of credit for investment is *the* key consideration affecting productivity growth, and that it has the ability to make or break a regional economy. We can see clear connections between this and almost all other aspects of McDonnell's agenda, such as his wide-ranging ambitions regarding the National Investment Bank and the National Transformation Fund, centrepieces of

246.GFC, 5
247.GFC, 5
248.GFC, 17
249.GFC, 15
250.http://nickjourno.co.uk/blog/brexit-is-a-big-headwind-for-the-economy-labour-economist-graham-turner-launching-policy-recommendation-jazz-fm-business-breakfast/

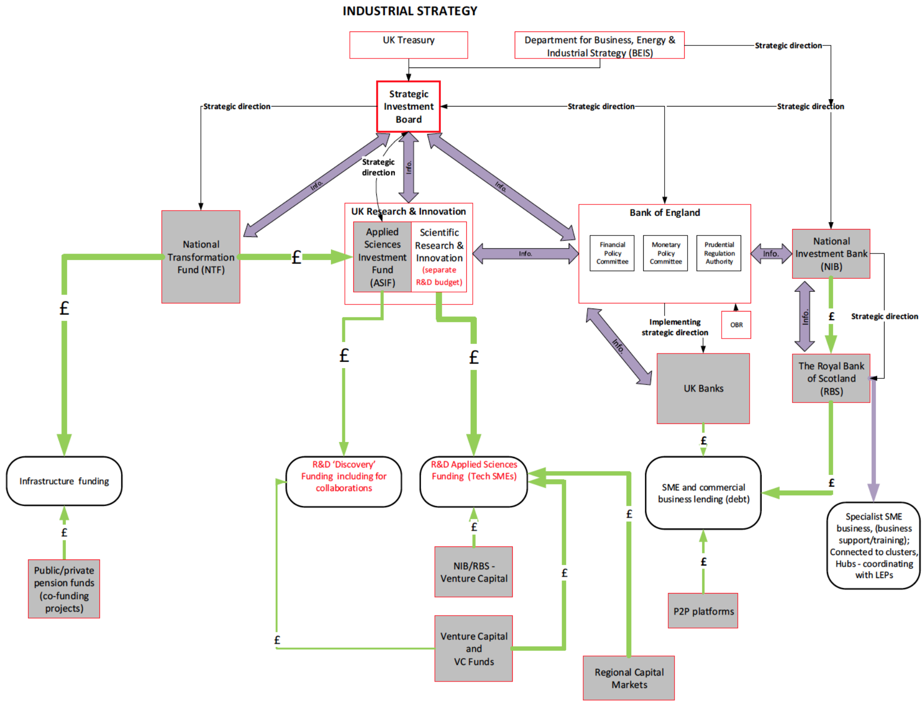
his industrial strategy.

The key recommendations of the *Financing Investment* report are:

- **3 per cent annual productivity target –** The Bank of England to target productivity growth of 3 per cent per year.
- **Powers to influence access to finance -** Give the Bank of England an additional policy lever of credit guidance so that it is able to take an active role in shaping the distribution of credit in the economy, in addition to powers such as prioritisation of business lending when awarding banking licences or adjusting risk weighting in the Basel framework:
- **Embedding the Bank of England within an industrial strategy framework –** Create a Strategic Investment Board and have the Bank of England work closely with it as well as the National Investment Bank, National Transformation Fund and UK Trade and Investment in pursuit of the 3 per cent productivity growth target, mainly through strategic investment in, and lending to, sectors of the economy deemed productive.
- **Relocating the Bank of England to Birmingham -** Relocate the Bank of England to Birmingham and have it open regional offices in order to coordinate local industrial strategies.
- **Strengthen data analytics capabilities of the Bank of England –** in order for credit guidance to be accurate, it must effectively analyse productive capacities of firms and sectors: "Reliable economic data is critical to the implementation of a successful monetary and macroprudential policy. The Bank of England will need to work closely with relevant agencies to understand the potential errors and pitfalls with different sources of economic data, to reduce the risks of a policy mistake."[251]

251.GFC, 19

Chart 5.1



Source: *Financing Investment*

b. Strategic Investment Board

The role of the "Strategic Investment Board" is of particular interest here as it is unique to Turner's report and appears to be the single most important body within the new proposed institutional framework (shown in Figure 5.1) as it is charged with setting the strategic direction of all the other bodies – the National Transformation Fund, UK Research & Innovation, the Bank of England and National Investment Bank. It is to be an "analytical and strategic "hub" […] instrumental in outlining the sectors that should be targeted."[252] Accordingly, it will also "provide direction for the Bank of England in respect of credit guidance."[253] In other words, in the economy envisaged by Turner, the Strategic Investment Board is the body charged with deciding – in place of the financial markets – which sectors should be deemed productive and therefore should be prioritised. This could mean a mix of, for instance, direct R&D funding through UK Research & Innovation, and access to finance either through the National Investment Bank's partner private sector institutions (as per the "on-lending" process) or private sector institutions under incentives through the Bank of England's credit guidance policy lever.

As a corollary, it will also have the power to try to supress certain sectors – through the use of credit guidance – by discouraging access to finance for

252. GFC, 23

253. GFC, 14

sectors deemed "unproductive" and otherwise undesirable. Throughout the report and from Turner"s other writing it is clear that the real estate sector and mortgage lending would almost certainly be classified in that category, and indeed there are already signs that McDonnell is open to the idea of having the Bank of England ration mortgages as a way to cool down the housing market by giving it a house price inflation target.[254]

This is reminiscent of McDonnell's 2015 call for a "National Prosperity Council" which did not make it into the manifesto and has not been brought up since.[255] That in turn drew on the old National Economic Development Council (supported by the National Economic Development Office, and collectively known as "Neddy") which brought together government, trade unions and the private sector and was charged with "indicative planning" of the British economy – but as historian Stewart Wood points out, its successes were limited because businesses it was supposed to engage with did not trust it, while within Government it was sidelined because other institutions like the Treasury guarded against it encroaching on their powers.[256]

Given that the Strategic Investment Board would share many of the functions of Neddy, the latter's failures are surely relevant. They illustrate the institutional dangers of too much government intervention in the economy: namely, that the net effect of different institutions with different powers and mandates fighting it out between each other for influence is a recipe for at best hubris without results, at worst, active economic damage arising from misallocation of resources. It is not hard to imagine the power struggle between, say, the newly created Strategic Investment Board, the Bank of England and the Treasury: both would theoretically have the same objectives, yet different cultural and institutional realities mean that there is a risk of them pulling in opposite direction.

The Treasury will tend to put adherence to fiscal rules and deficit targets first, while the Strategic Investment Board will always be incentivsed to consider more investment as a good thing, with less regard to where it is going, since hitting the 3 per cent productivity target will be a priority, which will inevitably lead to a tension between the two. The Board might also put pressure on the Bank of England to keep relaxing regulatory standards which impair the ability of SMEs to access investment, yet the Bank will be concerned with stability first. The point is not that the sheer existence of these tensions is a problem – clearly, working together with different powers to the same objective is how every large umbrella organisation functions. Yet it's a question of the attainability of the goal together with powers available: as we already stated, a productivity target of 3 per cent annual productivity growth is impossibly high. In its pursuit, the organisations might relax macroprudential standards to ease access to finance too much, or push for too much investment, leading to misallocation of resources.

254.https://www.theguardian.com/business/2019/apr/10/labour-considers-house-price-inflation-target-for-bank-of-england

255.https://www.independent.co.uk/news/uk/politics/john-mcdonnell-calls-for-economic-development-councils-to-return-to-the-uk-a6743561.html

256.https://academic.oup.com/tcbh/article-abstract/11/4/431/1690239?redirectedFrom=fulltext

c. Financing Investment Report: An Assessment

The main thrust of the Turner report is that a future Labour government would aim to dramatically accelerate productivity growth by a variety of state interventions including setting up new institutions, altering the remit of the Bank of England and attempting to shift the culture of the financial sector, corporations and investors. A key claim is that there is a dearth of finance for "productive" activities which these interventions will aim to bridge.

Much of the analysis in the report is thin; key claims are poorly substantiated. Among the most contentious areas are:

1. **The productivity target:** the report calls for a target for labour productivity growth of 3 per cent per annum. This is justified on the basis that the pace of technological change means we should be looking for a higher pace of productivity growth than recent averages and that 3 per cent is not much of an increase from the average pace of 2.4 per cent per year since 1950. These claims are dubious. Firstly, the inference that the "pace of technological change" is somehow higher now than in previous decades is clichéd and unsubstantiated. Secondly, an annual rise in productivity growth from 2.4 per cent pa to 3 per cent is not small, but actually rather large and over the long term would have a massive impact on productivity levels. Thirdly, the proposed target of 3 per cent is wholly unrealistic. Productivity growth has been way lower than this for a long time: output per hour has risen by 1.6 per cent per year since 1972, and 1.2 per cent per year since 1995. So, what is really being asked for here is more than a doubling of trend productivity growth, to levels only being achieved now in the fastest growing emerging countries where productivity is boosted by huge sectoral reallocations of labour, e.g. from very low productivity agriculture to manufacturing. Even raising productivity growth to 2 per cent per year would be very ambitious.
2. **Shortages of finance:** another key argument is that banks and other investors are failing to support "productive" sectors of the economy – that there are "finance gaps". The report makes little effort to show that firms themselves see shortages of finance as problem. This may be because such evidence is scarce. The CBI's long-running industrial trends survey reports only about 5 per cent of firms mentioning access to finance or credit as a limiting factor on output – a share that has been very stable since 1980, with the exception of the global financial crisis in 2008-2010. In a 2014 paper, Riley, Rosazza-Bondibene and Young "do not find strong evidence that a lack of reallocation of resources across businesses has been a substantial drag on productivity growth."[257] And how true is it that SMEs are crying out for more funding? The latest edition of the SME Finance Monitor shows that 48 per cent

257.https://journals.sagepub.com/doi/full/10.1177/002795011422800103 of SMEs are "permanent non-borrowers with no apparent appetite for external finance", a group which is "as likely as other SMEs to be profitable and hold £10,000 or more in credit balances." More importantly, 83 per cent were "happy non-seekers of finance", which means they could have in the past applied for external funding, but have not done so in the last 12 months. Just 2 per cent met the definition of a "would-be seeker of finance" – an SME that had wanted to apply for finance, but has been prevented from doing so.[258] This does not appear to support the thesis that a sudden increase in the availability of finance would be responding to unsatisfied demand.

The notion of a finance gap is an old one, going back to the 1930s. There probably are areas where gaps exist, such as in providing second stage (expansion) financing for smaller firms, but overall it seems just as likely that the problem is with the demand side, not the supply side: that many firms are not seeking credit. The associated problem of low investment is more likely to be about changes in corporate culture than finance gaps, e.g. an emphasis on boosting shareholder returns/executive share-linked compensation via squeezing down capital spending and engaging in financial engineering such as share buybacks. The report to some extent acknowledges this later, shifting the blame on to firms for "not supporting the economy". Strangely, the report also engages in finger-wagging about leveraged loans and alternative sources of finance as "risky", despite the fact these kinds of lending are generally aimed at weaker borrowers who might otherwise miss out on finance. There may be an issue with how such loans are used, but the authors don't tackle this.

3. **Industrial strategy/planning:** all the familiar concerns are raised by the sections on how the UK's economic performance will be boosted by a raft of new planning institutions based in the apparently significant location of Birmingham. It is very hard to believe that a group of central bankers, civil servants and assorted others will be capable of making consistently well-informed decisions about which technologies will succeed and which sectors will contribute most to productivity growth in the future. It is harder still to imagine why such choices would be consistently better than those made by the market. (The South Korean development economist Ha-Joon Chang used to argue that policymakers had access to all the same sources of information as the market: that might or might not be true but even if it is, it demonstrates only that policymakers might be capable of making choices that were as well-informed – not better than – market choices.) Not only that, but the report also suggests this group of policymakers can alter the culture of the corporate sector and even private investors as well.

258.11, http://www.bva-bdrc.com/wp-content/uploads/2019/03/BVABDRC_SME_Finance_Monitor_Q4_2018_FINAL.pdf

Indicative Planning: Britain in the 1960s and 1970s

In the 1969s and 1970s the UK experimented with different versions of economic planning and industrial strategy and nationalisation. These involved experiments with national planning and audacious micro-economic intervention in firms, investment and labour markets.

The Conservative Government of Harold Macmillan experimented with indicative planning - borrowing from the French dirigiste model – to establish the National Economic Development Council in 1962. Harold Wilson's Labour Government took this a stage further in the context of broader institutional changes to the formation of economic policy. A Department of Economic Affairs was established in addition to the Treasury. It was to undertake long-term planning of the economy and industry, while the Treasury would determine short-term revenue raising and financial management. An ambitious National Economic Plan was published in 1965 that called for a growth rate of over 3.8 per cent annum to increase output by 25 per cent between 1965 and 1970. It was predicated on the judgement that the constraints on economic growth arising from the balance of payments could be overcome by an expansion of the domestic market. It involved 39 identified actions to achieve its target. It was regarded as the basis for an incomes policy that would work by offering trade unions a higher-pay norm for wage settlements.

The approach was supported by a commitment to manufacturing employment through Select Employment Tax (SET) introduced in the 1966 Budget. This was to encourage manufacturing employment and discriminate against employment in the service sectors. It evolved to include a Regional Employment Premium (REP) to give greater support to manufacturing in development areas. These devices yielded disappointing results. They involved bureaucracy on a scale that the British administrative machine was unable to cope with. It resulted in an administrative nightmare and egregious anomalies. The measures illustrated that one advantage of using the market and conventional price signals was the avoidance of bureaucracy itself.

Before Labour ministers had the opportunity to write their memoirs the disappointment with these policies caused Labour ministers to abandon ambitious intervention and public enterprise. Tony Benn's successor as Secretary of State for Industry, Eric Varley, published a further white paper on An Approach to Industrial Strategy in 1975 that called for a flexible and realistic approach and cooperation between employers and unions. It retained references to planning agreements but it was not clear what substance they would take and the Secretary of State referred to them as "planning discussions". The new approach placed an emphasis on economic realism, the role of private enterprise and need for sufficient profits to finance future investment. The government called for a voluntary framework based on an analysis of each industrial sector to improve economic performance.

4. **Suggestions that the Bank of England can direct credit to more "productive" uses are not very convincing**: how the Bank would develop the capacity to do this is not clear, and the potential tools for doing so are also not well defined. Suggestions that big changes can be made within the confines of the Basel III banking rules are questionable and not spelled out; the suggestion that improved data would allow capital requirements to be cut for lending to SMEs in key sectors similarly. Where will this data come from that will so greatly change perceptions of risk?

   The section describing how lending will be allowed to rise at a certain pace (e.g. in line with nominal GDP) for some sectors, but slower for sectors deemed less critical for productivity and faster for those deemed more critical is very problematic. Aside from the obvious question of how such sectors would be defined (at one point "administrative and support services" are claimed as critical, which is perhaps surprising), there is no description of a policy framework that could enforce such lending targets. Indeed, it is highly questionable whether such a framework could practically exist in an economy with a complex financial sector and free capital movements.

5. **Fiscal framework:** the transformative investment envisaged by the report will apparently occur in a rather conservative fiscal framework that includes the elimination of the current budget deficit and a declining net debt/GDP ratio (both of which are in fact already happening). Borrowing will only be incurred for investment. How investment on a scale to double or triple productivity growth will be compatible with a decline in the debt/GDP ratio is far from clear. (Off-balance sheet activities of public sector lending institutions, perhaps?)
6. **The tech sector:** the section on the tech industry is curious. Much admiration is expressed for US tech giants that have engaged in patient, long-term investment while the UK sector is derided. But the US investment culture has occurred despite the US eschewing the kind of state-directed policies the authors favour for the UK: it is a private sector phenomenon. The UK and US financial sectors are in many ways quite similar, and the US is often attacked for a corporate culture favouring short-term shareholder returns. But the authors do not tease out why finance for US tech is apparently so much better. The authors also do the UK tech sector a disservice – it is on most measures the most dynamic in Europe and (while lagging behind the US), performs well in international comparisons. The authors themselves concede "London has attracted more [tech] investment over the past five years than Paris, Berlin and Amsterdam combined." UK tech start-ups raised **$7.9bn** in 2018, almost twice the level in Germany and France and the UK has more $1bn plus firms than any other in Europe. The sector is worth around **£184 billion** and is growing at about 2.5 times the pace of the economy as a whole. The UK is lagging the US, but the claim the authors make that the UK's "most productive companies" are now holding back the economy" is a stretch – and again we have here the inconsistency of first blaming the financial sector and then the firms themselves.
7. **The economics of the report are contestable**: Blaming the UK's structural current account deficit on "competitiveness" problems, rather than savings/investment behaviour, is questionable. There is an attempt at one point to show a link between lack of domestic production capacity and price rises after sterling's depreciation after 2016 based on a tiny sample of industries, far too small to

yield meaningful statistical results. The suggestion that quantitative easing is based only on the goal of reducing risk-free rates is simply wrong; QE was specifically deployed in the US, UK and Eurozone to try to compress risk spreads as well. The authors condemn banks for lending too much on mortgages and "speculative" property loans but later on acknowledge that UK banks have slashed their loans to commercial real estate.

Indicative Planning: Britain in the 1960s and 1970s

It is striking how much of McDonnell's agenda is about lifting productivity growth, especially the policies aimed at directing and redirecting capital, and at reforming corporate governance so that it shifts incentives. The paper has already made some criticisms of the proposals, but speaking more broadly: what *does* drive productivity growth?

The established view on the "productivity puzzle", i.e. the view which has driven Government policy since the 1990s, is that productivity growth cannot be boiled down to a single factor, and is instead affected by the following five priorities:

- macroeconomic stability
- a skilled workforce
- good infrastructure
- a supportive innovation regime
- a tax system which rewards enterprise.

Given Britain's lacklustre productivity performance, it is more than legitimate to criticise that consensus, though it is more likely that insufficient progress has been made on one or more of these factors – a good argument can be made that it is infrastructure, *and particularly housing.*

Judged against these five propositions, the McDonnellite agenda on productivity – with its unrelenting focus on directing finance and ownership – would undermine macroeconomic stability, does not prioritise a skilled workforce and may put at risk progress with existing infrastructure projects through novel nationalization models (though presumably these would be replaced by new ones mandated by the National Transformation Fund). It would also damage innovation incentives, especially in "democratised" businesses and by businesses sheltered by the new publically-supproted financing environment, but above all it would damage the creation of a tax system which rewards enterprise. Such a tax system has to be able to incentivize work at all levels of pay distribution and not overly penalise returns to capital, yet Labour plans to tax capital more heavily, while introducing higher marginal income tax on higher earners.

The biggest question here is undoubtedly to what extent this diagnosis of problems facing the UK economy is correct. Take the unwavering conviction that the economy is being held back due to insufficient investment by the productive sectors of the economy, in turn caused by a broken financial market and skewed incentives of the executives. It is true that the level of investment as measured by gross fixed capital formation has been low compared to the OECD peers. In 2016, it was 16.5 per cent of GDP compared to an OECD average of 20.1 per cent, and it has been lower every year all the way back to 1989.[259] It is right to say that there is generally a link between investment and growth. But it does not follow that this link is perfect, of constant volume, and applicable at all time. Throughout the literature, there appears a certain lack of willingness to

259.https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS?locations=GB-OE interrogate this relationship beyond acknowledging that there is a link, while what is being proposed is a policy framework geared entirely to that relationship.

Another example is the centrality of the real estate market to Turner's thesis. The report states that loans made to manufacturing, professional scientific and technical activities, information and communication and administrative and support services sectors (deemed by Turner to be the productive ones) amount to £106.1 billion, or 5.2 per cent of GDP, while loans outstanding to the real estate sector amount to £135.83 billion, or 6.7 per cent of GDP.[260] This is taken by Turner to mean that UK banks are strangling the productive sectors of the economy, choosing instead to "speculate" on property prices. But the reason why the total value of loans outstanding to companies in the four sectors deemed by Turner to be the productive ones is much lower than the value of loans outstanding to the real estate sector is because the real estate sector is much more capital intensive. In a services-heavy economy such as the UK's, lower overall rate of investment as measured by Gross Fixed Capital Formation (GFCF) is generally normal – services such professional services (lawyers, accountants, consultants, etc.) hospitality, entertainment, catering and others are labour-intensive rather than capital-intensive, while investment in intangibles may not be measured as well as other investment.

There is also an interesting tension between these plans for the UK's macroeconomic framework and the previously discussed objective of democratisation, especially given that McDonnell has endorsed the Turner report. One of the key reasons why the independent Bank of England has such a narrow remit is because it is unelected. Traditionally, central banks provide stability; elected governments set economic policy. The former are run by civil servants, whose job it is to keep the ship steady no matter where the elected politicians choose to sail it. Turner's vision necessarily involves blurring the division because productivity growth is impacted by things like education and skills, how flexible the labour market is, how easy it is for a worker to move to an area where productive jobs are, how easy it is for one company to take over another, and a plethora of other factors which are matters for an elected legislature.[261] As is made clear in the report, the 3 per cent productivity target is supposed to be pursued while working within the broader network of organisations which includes the Treasury and Parliament, but it seems bizarre to give a target to a group of institutions which do not have direct control over a significant group of factors influencing the targeted measure.

A related point is that if Turner is serious about giving the scientists and innovators a more direct role in administering industrial strategy, since they are the ones with the best information about the relative chances of success of different projects which would minimise risk, then he must realise that there will be times when their priorities clash with political priorities of a Labour government. For example, Turner is critical of science funding being concentrated in the "Golden Triangle" of London, Oxford and Cambridge.[262] But given that this is where the UK's scientific strength

260.GFC, 84

261.https://www.bloomberg.com/opinion/articles/2018-06-25/jeremy-corbyn-has-a-terrible-economics-idea

262.GFC, 150

is "clustered", and is therefore likely to be the most efficient place to invest in if the number one priority is acquiring as much potential productivity-enhancing research for as little as possible, and that this point is likely to be supported by the scientists and experts, how does this interact with the explicit commitment to use industrial strategy as a tool for rebalancing the economy away from London and the South East? What happens when a decision needs to be made between a trade-off of greater chances of success, or spreading the funding more evenly?

There are also questions about the side effects of manipulating risk weights. This could lead to the build up of risk in the banking sector, making it less sound and less profitable, which will in turn discourage investment and lending. Graham Turner assumes that a system based on politically-steered investment will be more sound and inherently more stable, but this is far from certain – the real estate sector is not the only one capable of generating bubbles.

In the 1960s, the concept of X efficiency was developed to explain why managers in private firms did not always manage assets as efficiently as they might be expected to. This led to the concept of loss of X efficiency. In the public sector where incentive structures are weaker than in a firm operating in a conventional market place with opportunities of profit and the discipline of competition, challenge, takeover and bankruptcy, the issue of the potential loss of X efficiency is ever greater. Private investors allocate capital more efficiency because it is their money. Rates of return on public investment are notoriously low because the public sector is bad at investing other people's money.

Part 7 – Conclusions

As McDonnell outlined in a speech to the LSE in February 2016, Labour's economic policy does indeed appear to "rest on two watchwords: democracy and decentralisation."[263] He then went on to launch the "New Economics" tour, a series of conferences and events on topics such as housing, the workplace, role of finance and industrial strategy.[264] A series of policy papers were commissioned and published outlining the foundations of key economic priorities, most notably *Alternative Models of Ownership* and the two publications on industrial strategy: *A National Investment Bank for Britain* and *Labour's Industrial Strategy*. A major report from Graham Turner's economic consultancy has furnished the Labour team with a ready-made view of where the economy is, how it got there, why it is bad, where it should be and how to get there. The Economic Advisory Committee set up by John McDonnell may have unravelled quickly, but the sheer fact that he was able to convene it with such high-profile names at the height of Corbyn-scepticism in 2016 is itself emblematic.

Summary of analysis

The assumption that the supply of credit is the sole or even primary factor governing the shape of the economy is questionable. The post-2008 credit crunch has indeed suppressed the availability of business finance, and new regulations – requiring higher capital requirements to be held against loans to businesses compared to loans for real estate, making the latter more profitable – have definitely had a constraining effect on credit markets. Yet the slow productivity growth problem is a longstanding issue in the UK. It was present before the financial crisis of 2007 and could also be identified in most other Western economies, preceding the credit crunch. It has continued to persist since 2008, when the credit crunched eased.

The balance of industrial relations law would be revisited with proposed trade union and labour relations legislation and sector collective bargaining and an increase in the number and coverage of collective agreements. This has implications for wage growth, labour flexibility, employment and inflation. In the context of a non-accommodating monetary policy it would imply a structural change in the labour market that would raise unemployment and lower employment. Or, with an accommodating monetary stance, there would be the potential for wage-cost pressures that could dislodge inflationary expectations that are currently anchored at around 2 per cent.

Higher taxation of corporations along with the progressive transfer of 10 per cent of the share capital of publicly quoted firms, the nationalisation

263. https://www.independent.co.uk/news/business/news/labours-economic-policy-will-rest-on-two-watchwords-democracy-and-decentralisation-john-mcdonnell-a6878576.html

264. https://labourlist.org/2016/01/john-mcdonnell-launches-new-economics-public-debate-tour/

of firms with potentially contentious valuations decided by Parliament at below a fair assessment of their market value, workers and trade union representatives on company boards and the capacity of a national shareholding body to intervene in firms' management decisions and changes to the policy guidance that banks receive on lending priorities, along with the establishment of national and regional development and investment banks, would have several consequences. The cost of private capital would be likely to rise as property rights were eroded and taxation increased. There would be an incentive to delist firms from the London Stock Exchange to avoid involuntary changes in their capital structures. The relative costs of using public equity markets to raise capital would increase and firms have an incentive to turn to bank-funded sources of business and investment finance, which would increase.

Higher corporation tax, potential complexities for London-listed equities, the erosion of property rights, measures directed at foreign owners of property, higher marginal tax rates and a financial transactions tax would combine to make London a more expensive, awkward and less attractive place to undertake financial transactions. There would be labour market consequences. High taxes and eroded property rights would make it more difficult to recruit and retain skills in London. An interesting question would be the extent to which Labour's programme of de-financialisation would be applied discretely to the domestic financial and banking system or applied to all transactions including wholly international transactions undertaken in non-sterling currencies, in assets and derivatives issued outside the UK by non-resident parties.

What are the most worthwhile proposals?

The way that the Treasury functions and makes policy decisions is certainly not immune from criticism. Lord Kerslake's review – which labelled the department "overbearing" and "overstretched" – is simply the latest instalment. Stian Westlake – then of Nesta – called in 2015 for the department to be broken up, with responsibilities for balancing budgets and managing the economy separated, citing amongst others too much influence of short-term budgetary factors in economic policy making, which is a key part of the McDonnell critique. It is true that Whitehall is unique in that a single department has responsibility for budgeting, economic management and looking after the financial sector, with the Department for Business, Energy and Industrial Strategy effectively powerless without Treasury approval. Reconsidering that balance in the context of sluggish productivity growth could be worthwhile.

But many of those problems stem from the fact that in order to stay accountable, the Treasury needs targets and a way to assess its performance. The problem with setting very long term growth targets is that accountability mechanism are weakened, since those mechanisms rely on constantly comparing targets to results, which is not possible if a result might not materialise very far into the future. That is not to say that there is no room whatsoever for high-risk, high-reward, very uncertain projects. In the USA, DARPA (The Defense Advanced Research Projects Agency, formerly The Advanced Research Projects Agency) is perhaps the best available example of how to strategically allocate high amounts of public money for very uncertain rewards, acknowledging in advance a lot of them will fail. But it is a question of scale – in 2019, DARPA's budget was $3.4bn, and it is due to rise to $3.5bn in 2020. It also has a very narrow and particular set of objectives. Once we take that principle into wider economic policy making, we are running the risk of approving very risky and very expensive policies too easily.

There is a good argument to be made that the macroeconomic framework and the orthodoxies governing it do need review. Persistently low inflation in an environment of very low interest rates and persistently sluggish productivity growth in particular pose hard questions for the current system of 2 per cent inflation targeting. There is a legitimate case to be made for, to take one example, a Federal Reserve-type mandate which takes into account a broader set of factors, or even considering targets other than the level of inflation such as nominal GDP. It is therefore right that fundamental questions should be asked of their future role in modern economies.

But it is important to recognise that independent central bank cannot – and should not – drive the economy from the back seat. Cannot, because they do not have the tools: control over interest rates and macroprudential stability can stabilise the ship, it cannot steer it; liquidity can be injected into the system, but where it goes once it begins changing hands is another matter. Should not, because tools which can steer economies: industrial strategy financing, education budgets, taxation or FDI belongs in the hands of elected politicians, not technocrat central bankers.

As Policy Exchange itself has recommended, social care should be free at the point of use and funded through general taxation – which the Labour proposal broadly satisifies, with the difference being that Policy Exchange also recommended including accommodation hotels. Labour is therefore right to take the same approach.

Industrial strategy inevitably does involve picking priorities, and it could be argued that Labour's priorities are simply different from those of the current Government, but the overall approach is essentially the same. Indeed, even looking more closely at the respective priorities of the Government and Labour proposals on industrial strategy, there are a lot of similarities: both are betting heavily on technology to lift the UK's productivity growth.

Some of the (as yet unendorsed) proposals in the area of land taxation do touch on reform proposals which have been long been advocated by voices from all sides of the pollical spectrum. For example, replacing business rates with a Land Value Tax would incentivise the most efficient use of land, but Labour is wrong to base it on the rentable value of the property. It should be based on the undeveloped land as in the original Henry George proposal, since only land itself has a truly fixed supply.

Economics of nostalgia?

Labour's economic agenda can be seen as aiming to break the practical economic policy-making consensus that has framed economic decision-making in the UK since the 1980s. It is based on a root-and-branch critique of New Labour and its purpose is to break and replace the Blatcherite consensus in the same way that Margaret Thatcher broke the post-war Buttskelite consensus forged in the 1940s and the early 1950s. It is an ambitious policy agenda in terms of discretionary increases in public spending and taxation, nationalisation, modifications to property rights and employment and industrial relations law.

Labour's policy agenda is often expressed in rhetoric of nostalgia. It looks back to the 1940s and 1970s and places an emphasis on manufacturing and previous economic and industrial structures. Despite this rhetorical nostalgia there is no suggestion that this agenda would involve a planned and controlled economy of the sort associated with the command socialist economies of post-war Eastern Europe and or the planned and fully regulated path that India followed after the 1950s. In many respects it would offer a return to the policy initiatives and economic structures of the UK in 1960s and 1970s. Much of Labour's detailed agenda is in many respects novel. It draws on the wider contemporary heterodox economic policy debate that the shadow chancellor has stimulated since 2015 and from the environmental and green economic policy ideas that emphasise community initiative and experiments in local democratic control of economic decision-making and of the democratic management of enterprises. Labour's approach to utility nationalisation is an explicit rejection of previous models of nationalisation and emphasises democratic control.

The practical economic consensus that has guided the approach of Labour and Conservative Governments since the 1980s was forged out of the breakdown of the post-war consensus in the 1970s and a recognition that nationalisation and the mixed economy were a disappointment. An economic crisis was created by the confluence of several awkward trends. They included a combination of high and unstable levels of inflation, a vulnerable balance of payments current account deficit; and a tax burden that simultaneously exposed households to both means-tested social security benefits and high rates of marginal income tax at low multiples of average earnings and a public sector borrowing requirement of almost ten per cent of national income. High public spending crowded out private sector economic activity and contributed to relatively poor economic growth compared to other comparable advanced economies and amplified the UK's long standing. Long-term relative economic decline threatened to become permanent. These policies had provoked a domestic UK economic crisis, resulting in the Labour Government taking decisive measures in response to the scale of the economic challenge it faced. These included the 1976 Public Expenditure white paper that introduced cash-spending limits, cut public expenditure and public borrowing in the context of rising unemployment, and the introduction of what became a protracted period of monetary disinflation associated with targets to limit domestic credit expansion. These policies directed at containing spending, borrowing and monetary growth were later further developed and set out in the Conservative Government's Medium Term Financial Strategy published in 1980.

This consensus that could be called 'Blatcherism' can be summarised thus: a practical consensus about what has to be done that has broadly guided governments since the mid-1970s. It has several dimensions. They include a commitment to low inflation and stable prices; an attempt to stabilise the budget balance over the economic cycle with some scope for borrowing to finance investment and temporary non-recurrent expenditure; and the acceptance that incentives play an important role in a market economy and that taxation and regulation should do as little as possible to hinder the operation of product and labour markets. It is probably best understood as an appreciation of the constraints that governments encounter when they pursue policies of active economic intervention.

The consensus that Labour now wants to break is rooted in pragmatic conclusions drawn from the UK's post-war economic history. Its central proposition is that modern economies function best when they strike a realistic balance between the efficiency of private markets and collective provision through the public sector. That realism is grounded in recognition that in a market economy, price information is critical and that high and unstable inflation confuses the information that prices yield, increasing transactions costs. Governments should be cautious about blunting incentives and distorting the allocation of resources within the economy between sectors or by function and purpose. Policy should aim to promote private markets that are competitive and open and should be framed as neutrally as possible between the priorities given to consumption, saving and investment. Along with neutrality, economic agents benefit from consistency and simplicity.

As well as shaping the macro-economic performance of the economy, Labour has an agenda that will have profound implications for the micro-economic performance of the economy and for its supply performance. Changes to marginal tax rates, corporation tax, capital taxes, property taxation and transaction taxes will have malign implications for incentives to work, save and invest. The introduction of comprehensive sectoral pay bargaining, returning the balance of industrial relations law to the position in the early 1980s, along with compulsory employee representation on company boards, will have implications for the functioning of labour markets. The extent that pay reflects the personal productivity of an individual employee and the financial and competitive circumstances of an individual employer will diminish.

Price signals in the UK's most important market, its labour market, will be blunted. For most of the 20th century the labour market was the Achilles' heel of the UK economy. This agenda risks returning the UK to a structural position where insiders flourish and outsiders encounter difficulties. A labour market structured in this way protects incumbent workers and excludes from employment new entrants to the labour market, particularly people with limited experience and few skills. It creates particular challenges to people who have been detached from participation in the labour market for protracted periods such as the long-term unemployed, people returning to work following family responsibilities and people who have been out of the civilian labour market, such as former members of the armed services and ex-offenders.

Property rights will be modified through the acquisition of shares in public companies and the programme of nationalisation. Uncertainty over property rights and the taxation of capital is likely to have two consequences. Private capital formation will be lower than it would otherwise be and the relative cost of capital in the UK will rise. Higher marginal income, corporation and capital taxes will further bias the tax system against saving, investment in general and equity investment in particular. This will have long-term implications both for taxation and capital formation. Increased state involvement in allocating investment, its location and quantity, is likely to lower the rate of return on investment in the UK.

The agenda around public capital has many unanswered questions. What criteria will be used to assess investment decisions made by the investment banks and funds? The scale of bank financed investment directed by central bank guidance and publicly funded investment banks raises important questions about the selection criteria, the manner in which projects will be managed, the framework of public accountability and the expected rate of return on capital. How will failure be managed? Which part of the public sector will take responsibility for any losses that may be incurred? Will normal bankruptcy and insolvency practice rules be applied to the orderly winding up of failed enterprises? What protection will there be to prevent enterprises trading while they are insolvent? Will a normal budget constraint be applied or will co-operative and other novel forms of community enterprise enjoy accommodating lines of credit from commercial banks, public funded investment banks, and the central bank and government departments?

Delayed response?

The micro-economic consequences of Labour's programme would potentially be significant but not immediately apparent. The full implication of these polices would probably not be fully clear until the economy had experienced an adverse shock to demand. The changes to macro-economic policy would be more swiftly apparent in terms of higher public spending, borrowing and taxation. In an international environment where inflationary expectations appear to be firmly anchored and previous structural relationships around wages, employment and process and the demand for money had broken down, the effects on the price level and the rate of inflation would be likely to be muted. The effects of higher borrowing would also be likely to be limited in the context of integrated international money and capital markets where liquidity remained plentiful and interest historically low and appeared to be anchored in nominal terms. Overall, the UK price level might be relatively higher but the effects muted. A higher relative price level, additional borrowing and changes to the structure of property rights and financial markets would probably generate a higher risk premium for UK financial assets on international markets, but the overall effects would be likely to be modest.

This radical reshaping of economic policy will have a profound and malign effect on the UK's economic performance. Micro-economic damage to the supply performance of the economy tends to be compounded over time. Product, labour and investment markets would be less flexible. Money and capital markets will price risk less accurately and precisely and the price signals that modern economies need to allocate resources efficiently will be blunted. The economy would be less flexible and less capable of adjusting to economic shocks. The full economic consequences of these structural changes and the creation of a less flexible economy where market incentives emasculated would probably not be fully exposed until the economy experiences a significant adverse shock.

Who is John McDonnell?

However, everything will depend on what McDonnell is actually intending to do in office. Since his "tea offensive" in 2018, and assurances that he "has no ace up his sleeve", he went on to associate himself with a series of radical policies such as possibly allowing private tenants to forcibly buy the properties they rent at a discount. The sense is that we are no clearer about who John McDonnell is today than we were at the time of the 2018 Labour conference, when he unveiled the Inclusive Ownership Funds, which remain his most radical explicit policy commitment.

We simply do not know what "democratic socialism" might mean in practice. Depending on how "representatives" are elected, the situation is likely to vary from community to community, with some perhaps lucky enough to have sufficiently large number of sensible, engaged individuals with enough time to hold the new localised, democracy to account, but given Hilary Wainwright's explanation of how a tight-knit group of commited left-wing ideologues works to capture an institution, it is possible that it would be a case of trying to get "true believers" to as many position of power as possible. This returns to the question of whether democratisation will treat all world views equally. The really interesting question in all this is: can democratic socialism tolerate non socialist pockets within its structure?

With regards to his plans for the financial system and role of capital in economy and society, the gap between rhetoric and plans – both explicitly committed to and mooted – appears smaller. It is crucial to remember that not long ago John McDonnell wanted to nationalise the entire banking system, because he believes it is inherently parasitic on what he believes to be the "real" economy, into which they should be forced to invest. It is in that light his reforms should be viewed.

The National Investment Bank and the National Transformation Fund – though bearing some similarities to existing institutions in the UK, such as the British Investment Bank or the plethora of biddable regional development funds announced in the past few years – would be likely to pursue a lot more political mandates, and be subject to fewer financial constraints from the Treasury.

A peculiar thing about McDonnell is his tendency to talk about extremely radical – and at times logically questionable – ideas in a disarmingly common-sense manner: "I don't think it's that complicated", he quipped when challenged on a suggestion that Labour might introduce "right to buy" for private tenants at below-market rates, a policy which would amount to expropriation if the price was not decided by the market.

What is mos important to understand about John McDonnell is the logic of the political tradition he comes from – Bennite socialism – what achieving the ultimate goals of that tradition might entail in an ideal world, and what it might look like in the real world. For example, it is difficult to escape the conclusion that McDonnell's ownership agenda as spelled out by the 2017 manifesto to date is not the end of the story. Ultimately, if one believes that the democratic economy as defined by businesses being run and owned by workers and not managers is a good thing, why should it not be rolled out wider? There is no escaping the fact that in order to "transform" the economy as John McDonnell wants to do; to truly disperse power at every level and – as per the "In and Against the State" – "open up national government at every level", these ideas have to be taken all the way. That is the position in theory – in practice, it remains to be seen.

Appendix 1 – Map of publications, speeches and other sources

2017 Manifesto and associated documents

For the Many, not the Few – The Labour Party Manifesto 2017 - https://labour.org.uk/wp-content/uploads/2017/10/labour-manifesto-2017.pdf

Funding Britain's Future – referred to in the paper as the "costings document", it outlines the detail of cost estimates used in the 2017 manifesto, as well as projections for revenue raising measures - http://labour.org.uk/wp-content/uploads/2017/10/Funding-Britains-Future.pdf

Labour's Fiscal Credibility Rule – a short, one-page outline of the detail behind the functioning of Labour's fiscal credibility rule - http://labour.org.uk/wp-content/uploads/2017/10/Fiscal-Credibility-Rule.pdf

Tax Transparency Programme – outline of Labour's proposed package of reforms aimed at tackling tax avoidance, including *inter alia* sanctions such as a "withholding tax" on any income generated by an asset based in an "abusive tax heaven", making public the tax returns of people earning more than £1m, and an overhaul of the "General Anti Abuse Rule" into a "General Anti Avoidance Rule", which presumably aims to give the tax authorities more discretion and give specific mandate to consider "sham transactions" void - http://labour.org.uk/wp-content/uploads/2017/10/Tax-transparency-programme.pdf

Alternative Models of Ownership – a "report to the Shadow Cabinet" not forming part of official Labour Party policy and prepared by external experts, a wide-ranging outline and discussion of the need for greater focus on alternative models of ownership and control of businesses - http://labour.org.uk/wp-content/uploads/2017/10/Alternative-Models-of-Ownership.pdf

Richer Britain, Richer Lives: Labour's Industrial Strategy – a 20-page elaboration on the details of Labour's industrial strategy, which is broken down into two missions: a suite of "horizontal" policies aimed at changing the business environment, most notably through establishment of the National Investment Bank and National Transformation Fund, as well as policies aimed at strengthening individual sectors, notably creating a Minister for Manufacturing - http://labour.org.uk/wp-content/uploads/2017/10/Richer-Britain-Richer-Lives-Labours-Industrial-Strategy.pdf

A National Investment Bank for Britain – a detailed outline of the functioning of the proposed National Investment Bank - http://labour.org.uk/wp-content/uploads/2017/10/National-Investment-Bank-Plans-Report.pdf

Speeches trailing explicit commitments

2018 Labour Party Conference speech

Inclusive Ownership Fund (IOF) – announced at the 2018 Labour Party Conference

Environmental finance measures – speech to UK Finance, 24 June 2019, https://labour.org.uk/press/john-mcdonnell-speech-economy-labours-plans-sustainable-investment/

Eliminating in-work poverty within 5 years – McDonnell speech to the Resolution Foundation, July 2019, https://labour.org.uk/press/john-mcdonnells-speech-resolution-foundation/

Ministry for Employment, compulsory collective bargaining, Worker Protection Agency, etc. - Jeremy Corbyn's speech to TUC congress, September 2019, https://labour.org.uk/press/jeremy-corbyn-speech-tuc-congress/

Labour White Papers

Bringing Energy Home (2019) – a detailed blueprint for the functioning of a nationalised energy distribution and transmission network, including an outline of the federated structure of regional energy agencies and a confirmation of a commitment to Parliament deciding how much compensation will be made available to investors - https://www.labour.org.uk/wp-content/uploads/2019/03/Bringing-Energy-Home-2019.pdf

Labour Green Papers (consultations)

Housing for the Many (2018) - https://labour.org.uk/wp-content/uploads/2018/04/Housing-for-the-Many-final.pdf

Labour Party Consultation Paper: Democratic Public Ownership (2018) - https://labour.org.uk/wp-content/uploads/2018/09/Democratic-public-ownership-consulation.pdf

Policy papers commissioned by Labour (not official positions)

Christine Berry, Laurie Macfarlane, *A New Public Banking Ecosystem* (2019) – a report to the Labour Party commissioned by the Communications Workers Union and the Democracy Collaborative - http://labour.org.uk/wp-content/uploads/2019/03/Building-a-new-public-banking-ecosystem.pdf

Lord Kerslake, *Rethinking the Treasury: Kerslake Review of the Treasury* (2017) – commissioned by John McDonnell - http://www.industry-forum.org/wp-content/uploads/2017/03/9076_17-Kerslake-Review-of-the-Treasury-_-final_v2.pdf

Prem Sikka et al, *Reforming the Auditing Industry* (2018) – a review by Warwick University academic Prem Sikka into the auditing market, recommending *inter alia* a breakup of the Big 4 accounting firms, separating audit from consulting arms - http://visar.csustan.edu/aaba/LabourPolicymaking-AuditingReformsDec2018.pdf

George Monbiot et al, *Land for the Many* (2019) – a wide-ranging policy paper proposing a host of reforms relating to ownership, control and taxation of land - http://labour.org.uk/wp-content/uploads/2019/06/12081_19-Land-for-the-Many.pdf

Other policy papers

Avinash Persaud, *Improving Resilience, Increasing Revenue: The case for modernising the UK's Stamp Duty on Shares*, Intelligence Capital, May 2017, https://www.robinhoodtax.org.uk/sites/default/files/Improvingper cent20resilienceper cent2Cper cent20increasingper cent20revenueper cent20-per cent20Mayper cent202017.pdf

Further reading

Hilary Wainwright, *New Politics from the Left* (2018, Polity Press)
Andrew Cumbers, *Reclaiming Public Ownership: Making Space for Economic Democracy* (2012, ZED)

John McDonnell (ed) *Economics for the Many* (2018, Verso)

Jeanette Mitchell, Donald Mackenzie, John Holloway, Cynthia Cockburn, Kathy Polanshek, Nicola Murray, Neil McInnes and John McDonald, *In and Against the State* (first published 1979, 2nd ed. 1987, Pluto Press)

Appendix 2 – Former Economic Advisory Committee

Intellectual salience and relevance are important to John McDonnell. After taking control of the party, he was the main driving force behind establishing in 2015 a now-defunct Economic Advisory Committee (EAC) – a group of leading left-leaning academics who would inform the process of policy formulation but would not make specific recommendations. The group has been described as something which "helps give defensive cover. "What we would say to people is... which of our Nobel Prize-winning economists do you disagree with?""[265]

The group of seven included:

- **Thomas Piketty,** French economist at the *grand ecole* EHESS and author of *Capital in the 21st Century*, whose central thesis – that in the long-run, returns to capital always outstrip returns to labour, which means that rising wealth inequality is an in-built feature of capitalism – is a key building block of the narrative behind Labour's "democratisation" agenda and focus on ownership of capital rather than social transfers.
- **Mariana Mazzucato,** Italian-American economist, director of UCL's Institute for Innovation & Public Purpose, author of *The Entrepreneurial State*, and quite possibly the most influential figure in innovation policy in the world. Her ideas around "mission-orientated industrial policy" and the central role of the state in actively shaping and directing the process of innovation are a huge influence for McDonnell's plans for the role of public capital in the economy.
- **Joseph Stiglitz,** American economist, professor at Columbia University, former Chief Economist at the World Bank winner of the 2011 economics Nobel Prize for his work on "information economics" – trends in markets with significant asymmetries of information between parties – he has since become arguably the most influential economist on the centre-left best-known for his work on inequality.
- **Ann Pettifor,** longstanding campaigner who rose to prominence as the key driving force behind the Jubilee 2000 campaign, which argued for the cancellation of debt for the poorest countries, and the coordinator of a network of left-wing economists and campaigners, called Prime.

265.https://www.ft.com/content/28a5ce14-c5b1-11e5-b3b1-7b2481276e45#axzz43TvcdSij

- **David "Danny" Blanchflower,** professor at Dartmouth College in New Hampshire, member of the Monetary Policy Committee between 2006 and 2009 and an avid Twitter user who calls himself a "Tory-baiting Ivy League economist". He is best known as the co-author of *The Wage Curve,* which presents extensive empirical evidence that wages are higher in areas with lower unemployment and *vice versa*. He has also written extensively on the economics of happiness.
- **Simon Wren-Lewis,** professor at Oxford University and (with Jonathan Portes) author of Labour's "Fiscal Credibility Rule". He was an outspoken critic of George Osborne's austerity on Keynesian grounds, arguing it was politics trumping economics.
- **Anastasia Nesvetailova**, professor at City University and least well-known of the seven, her work focuses on international finance and is heavily influenced by Hyman Minsky, American economist who argued that instability is inherent in the financial markets. She is the director of the City Political Economy Research Centre, where she focuses on financial fragility and how it affects the global economy.

The Committee was intended to be convened quarterly, with its function advisory only. The first meeting took place in November 2015[266] (Piketty and Stiglitz did not attend) – then, in January 2016, David Blanchflower publicly criticised the Labour leadership team, stating that "opposition to austerity is not enough". He urged them to "accept the realities of capitalism and modern markets, like it or not" and derided an early idea of banning companies from paying dividends if they do not pay the living wage to all employees as "silly."[267]

Blanchflower went on to step down from the committee on 28 June 2016 over Corbyn's behaviour during the EU referendum, criticising his "idiotic games" and calling for him to step down as leader.[268] The next day, the remaining members of the EAC with the exception of Piketty and Stiglitz (with Blanchflower replaced by Diane Elson, Professor Emeritus in sociology at the University of Essex) issued a joint statement criticising Labour"s lacklustre performance in the Remain campaign and suspending the work of the EAC.[269] Later that day, Piketty gave an interview to Sky News also criticising Corbyn for a "very weak campaign", additionally confirming that he had in fact stepped down from the EAC, for reasons unrelated to the EU referendum.[270] The final blow for the Committee came a few days later, when both David Blanchflower and Simon Wren-Lewis backed Owen Smith's leadership challenge.[271]

266.https://labourlist.org/2015/11/whats-happening-at-the-first-meeting-of-labours-star-studded-economic-advisory-committee/

267.https://www.newstatesman.com/politics/economy/2016/01/labour-must-get-real-about-economy-corbyn-s-economic-advisory-board

268.https://labourlist.org/2016/06/exclusive-labours-economic-advisors-criticise-corbyn-over-eu-campaign/

269. Ibid

270.https://www.theguardian.com/politics/2016/jun/29/thomas-piketty-quits-as-adviser-to-jeremy-corbyn

271.https://www.theguardian.com/politics/2016/jul/31/economic-advisers-jeremy-corbyn-cant-win-next-election-owen-smith

Policy Exchange

£10.00
ISBN: 978-1-913459-00-0
Policy Exchange
8 – 10 Great George Street
Westminster
London SW1P 3AE

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