

The Corbyn – McDonnell economic programme, difficulties in understanding it, and its presentation to the public

A research note

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1. Labour’s economic, social and ecological programme

After Corbyn was elected as leader in 2015, the Labour leadership developed a radical economic programme to break with austerity and address the climate emergency. This was set out in the manifesto for the 2019 election (Labour Party, 2019). The spending commitments and proposed new and increased taxes were costed in detail in the accompanying Grey Book. The major policies were:—

- * labour market: restored trade union rights; increased minimum wage; worker representation on company boards; prevention of zero hours contracts and false self-employment; greatly increased policing of wages and working conditions; all government contractors to pay the living wage and have access for trade unions.
- * corporate governance: workers to be represented on supervisory boards of large firms. This would reduce dividend payouts and remuneration of executives, and channel profits into productive investment. It would also make asset stripping and financial fraud less likely.
- * nationalisation of rail, water, energy, paid for by issuing bonds whose costs would be more than covered by industry revenues. Increased investment in these industries.
- * National and regional state-owned investment banks to increase productive investment in private sector and infrastructures, and lend to cooperative and community enterprises. Funded by borrowing. The low interest on loans more than covered by revenue.
- * Through these means, to increase exports, particularly of manufactures, and thus reduce Britain’s chronic trade deficit. Two consequences would be a higher value of the pound, and a reduced purchase of British assets by overseas entities.
- * Green New Deal fund for investment in housing insulation, public transport and renewable energy, creating a million skilled jobs. Funded by borrowing.
- * Basic fiscal policy: Labour made a fundamental distinction between government’s *revenue spending* and *investment spending*. The latter is spending on assets which reap a return over decades, a return which is often monetary but can also be social or of benefit to the wider economy. This investment spending is funded by long term government borrowing, at presently very low rates of interest, and need not be constrained by any prior target. Examples are the state investment banks and the Green New Deal fund just mentioned. The manifesto proposed to borrow £55bn per year for investment. ‘Revenue spending’ is the rest of government spending, comprised of wages of public sector employees, goods and services bought from the private sector, running costs of public buildings and infrastructures, and interest on the revenue part of the government debt. In 2016 John McDonnell introduced his ‘fiscal credibility rule’, that revenue spending and tax revenue should equate over a business cycle (or 10 years), and thus that over the cycle revenue spending

commitments should not be covered by borrowing. The manifesto proposed that revenue spending and additional taxation would both rise from 2018/9 to 2023/4 by £83bn per year.

* increase in government revenue spending: increased by around 10% by 2023/4. Reversal of some of the cuts carried out by the Tories since 2010. No more privatisations, and taking back PFIs and outsourced contracts.

* increase in taxation to exactly cover this increase in spending: increased taxation of capital totalling £66.5 bn per year (increased corporation tax, increased tax on capital gains and dividends, reduction of corporate tax reliefs, financial transactions (Tobin) tax, reduction of tax avoidance and evasion) plus increased taxation of citizens' incomes totalling £10.6 bn per year (increased income tax on incomes over £80,000, inheritance tax, second homes tax, etc). These figures make allowance for changes in behaviour in reaction to increased tax rates; they seem to be conservative estimates and perhaps unduly pessimistic. For example, clamping down on tax avoidance and evasion is predicted to yield just £6.2 bn per year, an order of magnitude less than estimated by the Tax Justice Network.

* Large scale construction of council housing, funded by borrowing, creating hundreds of thousands of new skilled jobs. Increased quotas of affordable homes and other social gains from property development. Re-regulation of private rental housing for lower rents, repairs, and security of tenure.

* Stronger regulation of capitalist-produced goods and services, particularly for health and ecological reasons.

This programme was the new selling card for the party, marking it off sharply from the Conservatives. It offered very substantial material benefits to all sections of the population, some fairly immediate, some long term, through a feasible programme for government; it also promised a cultural shift from private to public good.

2. The economic and political context

The programme was substantially a return to social democratic government of the period 1945 – 1976. But it was a massive break from 45 years of neoliberalism. Moreover, whereas postwar social democracy operated in a period of high rates of profit, investment and productivity growth, Corbyn's programme was posed in the long period of stagnation since the 1970s and of very weak recovery from the 2008 financial crisis. It was accordingly rejected by most sections of capital, even though it would stimulate capital accumulation within Britain. In terms of working class support, decades of neoliberalism had undermined belief that stronger state intervention may produce better outcomes, that increased taxation of capital and the rich may be desirable, that state intervention into the private sector can increase investment, productivity and wages, and that state-owned industry can be more efficient and deliver a better service to customers. The Labour Party therefore needed, from 2015-6 onwards, to campaign to convince the population that this paradigm shift in economic strategy was both needed and feasible. But this campaign never happened. McDonnell organised some regional meetings of Labour members to discuss the strategy. But the material available on the party website was hard to find and thin; there was no systematic education on economic policy in the branches; and so there was no local campaigning on the economic programme. At the national scale, Labour did project its slogan of 'an end to austerity' and 'for the many, not the few'; and this was the main reason for the astonishing rise in Labour's support during the 2017 election campaign. But the majority of the population was not convinced of the feasibility of Labour's economic programme. This failure was due, in a large part, to the necessary

preoccupation of the Labour leadership after June 2016 with Brexit: the referendum could not have been better designed to derail Labour's challenge to neoliberalism.

3. Popular understanding and misunderstanding of Labour's programme

We should acknowledge that convincing people of Labour's economic programme is extremely difficult; the failure to do so was not simply due to lack of attention from the leadership. For example, to overcome people's neoliberal prejudices requires explaining:-

- * Labour's labour market reforms would not generally result in firms reducing jobs or going bust (as the Tories have claimed) because the great majority of low-end jobs are in consumer services which are not internationally traded: competition is internal to Britain (or its localities), and higher wage costs can therefore be passed on in higher prices or (in the case of large capital) absorbed in reduced oligopolistic profits.
- * The policies to increase productive investment by the private sector – changes in corporate governance, state investment banks, nationalisations, Green New Deal – are premised on the unproductive, shareholder-value priority of the major corporations in Britain over many decades, which intensified under the Tories. This behaviour is known and understood by hardly anyone. It requires a conceptual understanding of how profits of and borrowing by corporations may be directed to either boosting share value, to financial speculation, or to productive investment.
- * Labour's important aim of reducing the negative trade balance, and thus increasing the value of sterling and reducing foreign purchase of assets, can only be understood by people with a knowledge of these concepts and their interconnections. This is limited to professional economists.
- * The motivation for nationalisation of utilities is that state owned enterprises need not pay dividends (thus reducing final prices), are more likely than corporations to make large investments with long payback periods, and can coordinate what are otherwise fragmented private investments by corporations with consequent gain in efficiency. Private utility providers are also liable to collapse into administration (e.g. railway operators). The extensive coverage of the utilities in the mass media, due to their daily importance to most of the population, means that some people have some knowledge, or at least intuition, of these processes. On the other hand, many older people still have the neoliberal message from the 1970s and 1980s, that state-owned industries are cumbersome and inefficient because not exposed to the rigours of the market.
- * The central motivation for the Green New Deal fund, reducing carbon emissions, is more widely understood and supported in the last year or two. The economic logic of the fund, in which costs fall initially on the state but much larger financial benefits accrue to individuals, is less well understood.
- * British governments have never previously made the distinction between revenue and investment spending. Very few people are acquainted with this distinction. It is therefore necessary to explain its logic. Borrowing to invest in assets which give a long term return is highly beneficial socially and economically, and indeed that it is self-defeating parsimony *not* to make these investments. In contrast, revenue spending should (over a cycle) be covered by tax revenue to avoid a chronic growth of government debt on which interest has to be paid.
- * The justification for borrowing for investment rests on the fact that interest rates worldwide are extremely low (in some countries actually negative), that governments of high-income countries can borrow at the very lowest rates. An objection is that interest rates may rise very substantially; but given the stagnant state of the world economy, likely to worsen in the next few years, this is very

unlikely. Another objection sometimes made is that the banking system will refuse to lend to a 'socialist' (i.e. social democratic) government on political grounds; but individual banks and financial institutions are concerned only with finding outlets for their funds which are low risk; as individual capitals they do not care about the politics of who they lend to. So government borrowing for investment is an easy sell.

* Justification for Labour's increased government revenue-spending was, at base, fairly easily understood: cuts in spending on at least the most high-profile services (NHS, schools) are widely known and widely deplored. Much less well-known are the extra costs to the exchequer of PFIs and contracting out of services. In both of these, the corporations require a 15-20% rate of return on their capital which would not apply if the investments or services were kept in house. Both forms of privatisation have costs further inflated by pervasive fraud or loosely written contracts. As innumerable examples show, both suffer from disastrously, sometimes farcically, bad facility or service delivery, due to the complete absence of knowledge and experience of the service, and cost cutting. Government agencies were explicitly forbidden from considering corporations' records of service delivery in allocating contracts. Private providers are also liable to collapse into bankruptcy, terminating vital services and costing the government heavily (Carillion, social care providers). Mass media reports of these failures tend to cover only the most spectacular and farcical, usually reported as if they were anomalies. Even less well understood is the way that increased spending on one service can reduce costs of another service (e.g. social care/ hospitals; youth services/ police).

* Increased taxation. Understanding of this is the single most important issue in the economic programme. Since the beginning of neoliberal dominance in the 1970s, Labour has been accused of extravagant spending, financed either by borrowing which 'racks up debt for our children' and 'squeezes out private investment', or financed by increased taxes 'on hard working families' or on 'wealth creators'. In every survey of public opinion people are asked 'which party do you trust most with the economy?', and the response is that the Tories are trusted more than Labour by a big margin. Other questioning shows that people often support Labour's economic and social policies more than the Tories'. So what people understand by 'trusting with the economy' is actually *fiscal rectitude* as defined by neoliberalism: not increasing taxation or borrowing, and therefore not increasing spending. Cameron successfully labelled New Labour as extravagant for increasing the government debt to bail out the banks. During the 2019 election campaign, the most common comment on Labour's economic programme was 'how will it all be paid for?'. A key task is therefore to explain Labour's answer to this question. This involves explaining –

* Increased revenue spending will be wholly covered by increased taxation, with no extra borrowing (as described above).

* Increased taxation of citizens will fall entirely on the richest (those on over £80,000 p.a.). This is a pretty easy sell.

* The great majority of increased tax revenue (85%) will come from business and income from business.

* The increased taxation of business falls into three types, each of which involves different justification:-

(a) increase in direct taxation of corporations (£44.5bn per year);

(b) financial transactions tax (£8.8bn per year);

(c) increased tax on income from wealth: capital gains and dividends (£14bn per year).

(a) Justification for this could be that corporations minimise their tax through avoidance and evasion (tax havens; transfer payments between jurisdictions) – a fairly easy argument; and that much of these profits is not productively invested – a more difficult argument. The classic objection is that corporations will react by relocating their operations overseas. This is certainly the pattern of the last 50 years. But governments have the option of taxing the profits made by production or sales within their national territory; this option has previously eschewed, not because of its technical impossibility (a myth, as the Tax Justice Network shows), but through political choice to kowtow to capital; this can therefore be reversed. This is, however, a very hard point to convey.

(b) Justification for a financial transactions tax is that speculators makes millions from simply shuffling ownership of assets; they play no role in productive investment. This shuffling of assets proceeds a dizzying rate; for example, foreign exchange markets globally turn over annually around 350 times the value of annual world trade, in other words, 349 times what is needs to enable world trade to proceed; it is thus overwhelmingly speculative and unproductive. The only macro effect of this speculation is to make the financial system unstable, contributing to crashes like that in 2007-8. This kind of speculation is not popular with the public, and is therefore easy to win support for.

(c) Both capital gains and dividends are unearned: they accrue simply from passive ownership of capital. They can therefore be portrayed as at best unearned (i.e. not the result of work) and at worst as parasitic. They are therefore fairly easy to justify. The same applies to rises in land value consequent on planning permission for development ('development gain'). The measures by the Labour governments of 1945-51, 1964-70 and 1974-9 to tax these gains (all subsequently cancelled by the Tories) were easy to justify.

* Housing policy

The gross failure of housing markets in Britain is so well known that justification for radical intervention of some kind is easy to make. More specifically:-

- Government borrowing to build council housing, for letting on secure tenancies at low rents, is easy to justify. Somewhat more tricky is ending the right to buy; but this can be justified by pointing out that this 'right' is nothing but an extravagant waste of public money, a corrupt bribe, an arbitrary unearned handout.

- Regulation of the private sector rentals, with their huge rents, complete lack of security, and often atrocious conditions, is also easy to justify. Few people are going to sympathise with the landlords whose property values decrease. A more substantial objection is that the private sector will stop buying or building properties to let, as indeed happened in the 1960s following regulation. This might happen. But a reduction in landlord purchases of freeholds (the majority of private rentals) will tend to reduce freehold prices, which is beneficial for buyers. And the total number of rented properties will increase rather than decline because of the council house building programme.

- Reduction in rents in the private sector, and expansion of low rent council housing, would enable a large reduction in the huge Housing Benefit bill, currently around £25bn a year. This is another case of wasteful and unnecessary government transfer to private interests.

- The ending of subsidies for purchase of freeholds (owner occupation), currently around £10bn p.a., might raise the objection that 'Labour doesn't want people to own their own homes' (Daily Mail, *passim*). This can be countered by explaining that these subsidies are almost completely eaten up in increased prices of freeholds, which boost profits of the volume house builders; in other words, the subsidies do not make owner occupation cheaper, but merely create a subsidy from the

government to the profits of the house builders (Persimmon being a notorious example). To appreciate this point, however, requires an understanding of the effect of subsidies on oligopolistic markets and land price, which is hard to convey.

On the whole, then, Labour's housing policy is pretty easy to justify, and is in fact very popular.

* Regulation of capitalist-produced commodities. The popularity of these measures depend on the particular commodity and public knowledge of it. No-one challenges the tax on tobacco. But restrictions on the sale or use of diesel cars on the grounds of the lethal air pollution they cause can still be opposed by existing owners who bought their cars in good faith. Campaigns are often needed around particular harmful products.

4. How can Labour and the left campaign for a social democratic government programme?

What conclusion can we draw from this canter through understandings and justifications of Labour's policies? A first point to note is that many of the justifications for policy rest on *an understanding of the failure of Conservative policies*. As we have seen, during the coalition government (2010-5), Labour failed to offer any systematic critique of government policy. Criticism was left to trade unions and to movements such as Occupy (against the finance system) and Uncut (against corporate tax evasion). Under Corbyn's leadership, Labour did offer an overall critique, that the Conservatives were pursuing unnecessary 'austerity'; and Labour criticised particular aspects of policy such as degradation of particular public services, public sector wage policy, failure to regulate labour markets, and failures of corporate governance. Public sector unions criticised government policies and took some actions against the government, while the People's Assembly organised numerous local and national demonstrations against the government's programme. However, these criticisms could not achieve a radical shift in public opinion without *convincing people that an alternative economic programme was possible*. People can see that government policies are against their immediate, perceived interests, but can accept them because they are seen as an outcome of 'markets' and therefore inevitable. Indeed, the notion of 'interest' is meaningless outside of understandings of feasible action: people will accept any deprivations unless they can see feasible collective paths of action which can plausibly lead to different outcomes (Gough, 2010). The crucial task for Labour under Corbyn was therefore to explain, justify and popularise its economic programme.

We have seen that some of Labour's policies are fairly easy to explain and justify, and some of these are already widely accepted as feasible. Justification of others, however, depends on an understanding deeper processes of capitalist society which are not apparent on the surface (empirical facts). The proposed policies may also cut directly against widely accepted neoliberal ideas. These latter policies are much more difficult to explain, justify and win popular support for. And here we encounter a strategic failure of the Labour Party. To explain and win support for the programme in the face of neoliberal prejudices would require years of sustained, planned campaigning. This would coordination between the party in parliament, campaigns by the party in every locality, and education by affiliated trade unions. (This point has been made by Rebecca Long-Bailey in her bid for the party leadership.) In the event, education on the programme after 2016 was limited to regional consultation of Labour Party members on the emerging programme. There does not appear to have been any attempt to educate members in ward and constituency branches, let alone the public.

This was doubtless partly due to the leadership's focus on Brexit. But conveying the party's economic programme would anyway have been extremely difficult. How this could have been (and can now) be done is a question to which I personally have few answers. In the early twentieth century, and to some extent later, the Workers Educational Association had this function (paralleling

the numerous socialist education clubs linked to the Social Democratic Party in Germany); but, partly as a result of neoliberal funding cuts, the WEA has not made a major contribution in the last few decades. Party public meetings have declined for, amongst other reasons, changes in neighbourhood life and patterns of leisure. Among national newspapers, since *The Sun* became a far rightwing paper in the 1970s, only *The Mirror* presents Labour's policies in an undistorted way. There are no syndicated leftwing news and current affairs TV programmes in Britain (unlike, e.g. in the US), and no community radio with a de facto leftwing bias (as in e.g. Australia). Which brings us to the social media. Although these are dominated by the right, there are numerous left wing bloggers who put out some very compelling and imaginative stuff. The Labour Party urgently needs to learn from these, and set up a social media unit aimed principally at long term education rather than replying to the latest rightwing attack.

5. Failures in Labour's 2019 election campaign

The failure to campaign for its programme in the previous four years meant that the Labour Party was in a weak position to argue for its economic programme in the 2019 election campaign. This was partly, again, because the Tories ensured that the debate was dominated by Brexit and vilification of Corbyn. But where Labour did get to present its economic programme it made this weakness worse.

Firstly, Labour had no snappy slogan to encapsulate its approach: the manifesto's title 'It's Time for Real Change' is vacuous. The slogan adopted by Corbyn in 2015, 'For the many not the few' would have been better; or perhaps some variant of 'Jobs, housing, public services – a new deal'.

Second, apparently at Corbyn's insistence, Labour refrained from attacking the Tories' nine years of economic failure and savagery, which should have been Labour's strongest card. At the beginning of the campaign the party should have issued a balance sheet of the Tories' economic and social policies, and used social media to disseminate it. Labour's attack on the Tories' economics centred on the secret talks that the government had been having with the US concerning the NHS; but attacking a hypothetical future based on bits of paper of unclear origin and accuracy was a very weak strategy compared with attacking the palpable accomplished facts of the Tories' record.

Thirdly, the presentation of Labour's spending and taxation plans was a disaster. Labour said very little about its plans to increase tax revenue. In the manifesto, tax policy is sprinkled through the text and set out systematically only in the separate Grey Book; very few people read the manifesto, and even fewer presumably read the Grey Book. Labour could have given these plans much more prominence in the TV debates and in locally-delivered leaflets. As a result, many people, especially poorer and older people, were apprehensive that increased taxes would somehow fall on them. This omission was compounded by the presentation of spending commitments. Labour spaced out over weeks different aspects of increased spending, rather than presenting them as a single package with tax funding to match; this made the commitments appear to be wilder and larger than they actually were. Towards the end of the campaign, Labour produced out of the hat two additional policies which were not in the manifesto. The first was to pay £56bn to women over 60 whose state pensions had been truncated by the government; since no new source of funding was mentioned, this drove a cart and horses through the careful balancing of spending and funding that McDonnell had crafted. The second commitment was to partially nationalise BT and use this enterprise to provide good broadband equally across the country, and provide it free. The nationalisation could be achieved by borrowing, but the free service would require revenue funding, which it was said would come from taxation of the US internet monopolies; it was unclear why the latter was not included in the Grey Book's list of increased corporate taxation. These two new commitments smacked of (and presumably were born of) desperation. They had the effect of presenting Labour

as a wild and extravagant spender, just as the Tories had portrayed them. This was a terrible unforced error.

References

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