RACHEL REEVES: STRIPPING AWAY THE JARGON

The Shadow Chancellor's Mais speech de-coded

By Bob Lyddon

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- Reynolds, Barney, Lyddon, Bob and Blake, Professor David, *Managing Euro Risk – saving investors from systemic risk* (London: Politeia, 2020)

About the publishers…

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An analysis of the Mais Lecture 2024, given on 19th March 2024 by Rachel Reeves MP, Shadow Chancellor of the Exchequer and an economist at the Bank of England up to the time she was elected to Parliament in 2010

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Part 1 - Analysis

Introduction

The Mais Lecture 2024 was a lightweight contribution from the UK's aspiring Chancellor of the Exchequer. The speaker vainly attempted gravitas by:

- Quoting many obscure sources;
- Constantly paying tribute to her alma mater – the Bank of England – and other elements in the authority-financial complex such as the Office for Budget Responsibility;
- Repeatedly using words like 'stability', 'investment', 'growth', and 'security' as if by her saying them they will automatically result from the enactment of her policies.

The lecture was reactionary in its drawing of inspiration from the supposed successes of New Labour and – without naming it - Private Finance Initiative. The speaker repeatedly referred to the successes of a 'decade', except that Labour was in power for 13 years. The decade of supposed success was from May 1997 until August 2007, when the Global Financial Crisis suddenly struck out of nowhere and Labour were blameless.

This is a flawed narrative: Labour presided over a boom and massive bust.

Labour will create many more quangos, naming them 'institutions' in order to lend them unmerited weight. Control over economic life will be vested in them (or rather into the person that pulls their strings – the speaker), and take control away from MPs, the general public and most of all from the marketplace.

This extension of 'institutions' and quangos will provide many more seats for the centre-Left nomenklatura, who already dominate national life, to occupy and to enjoy power without accountability to the public.

Labour will cosy up to the EU, and would like to rejoin it. In the meantime they will merely ape it.

The national budget will be in balance on day-to-day costs (by Labour's command) even though there is a deficit at present and Labour will immediately boost resources for the NHS. These contradictions can only be resolved by substantial tax rises.

Public 'investments' will be separated from public day-to-day costs into a separate budget, and there will be more borrowing in that budget but, by Labour's command, public credit rating agencies and markets will only consider the debts in the day-to-day part of the budget when rating and investing in UK government bonds.

Net Zero will be a major money earner at Labour's command, and the environment will be protected, but planning laws will be relaxed to permit the building of many more homes. Square that circle.

Private pension money – if there is any - will be mobilised to pay for Net Zero, in a replica of the EU scheme called InvestEU, that is also a re-heated version of Private Finance Initiative.

The Mais Lecture has at least delivered clarity in one sense about Labour's plan for the economy: it is a stream of incoherent nonsense that promises yet more borrowing – with borrowing for 'investment' once again wrapped up into a scheme like Private Finance Initiative.

Taxes can only go up, to keep the day-to-day costs budget in balance as Labour spends more on the NHS and on the process of government, with its expansion of intervention and quangos. The costs of various services will also go up where they are delivered through 'public investments'.

The Mais Lecture promises more government, more intervention, stronger trades unions and a form of economic stability that the speaker calls 'Securonomics' – let's call it stagnation, and if people want to know what it looks like, they should study the period 1964-79 when, with a brief centrist interregnum under Edwards Heath from 1970-74 (much interrupted by strike action), Labour was 'the natural party of government'.

Indeed, if you want permanent stagnation and irreversible decline, vote Labour. It is a safe and secure choice because it contains no risk whatsoever given that the outcome is certain: it's disaster.

Coded, obscure, and unsupported communication, Politburo-style

The communication style of the lecture is emollient to the point of yawn-inducement, enabling little to be explained in full. The style is opaque, euphemistic and confusing. The listener may be superficially comforted by the generalizations, clichés, half-truths and cloudy nostalgia, but on closer examination the content falls apart, as is demonstrated below.

The speaker intersperses promises to be clear and candid, and then is anything but. The impression left is of a communiqué from the Soviet Politburo, or an article in either of the Soviet daily newspapers: 'Pravda' (The Truth) or 'Izvestia' (The News). This led to the Russian joke – 'V Pravde nyet izvestiy, v Izvestiyakh nyet pravdy', meaning 'There's no news in the truth and no truth in the news'. The Mais Lecture leaves one with the same impression, of much volume of misleading communication, with nothing new or informative garnered from it.

Critique of detailed phrases used by the speaker

- Delphic utterances which remain unexplained
- Conjecture or oxymoron disguised as an established, irrefutable concept
- Random clasping at disparate and obscure commentators
- Unsupported assertions
- Using language implying solidity to mask insubstantiality

Delphic utterances which remain unexplained

p. 1 'stimulating investment through partnership with business' – what does this mean?

p. 1 'old certainties about economic management have been found wanting' – have they? What 'certainties'? In what way have they 'been found wanting'?

p.1 'unlock the contribution of working people and the untapped potential' – what does this mean? Is it the same as Harold Wilson's 'reserve army of labour'?

p. 2 'a slowdown in total factor productivity' – what does this mean? In what way does it differ from 'productivity'? The insertion of 'total factor' creates a piece of jargon inferring the speaker has a higher degree of insight and sophistication, serving to exclude the listener and permit the speaker to hide behind obfuscation.

p. 5 'modern supply side economics' - which differs in what way from 'supply-side economics' and 'supply-side reforms' as would be commonly understood by most economists and business people? In a very major way as is discussed in the section on a centrally-planned economy.

p. 6 'There are those who warn that to embrace the active state is to return to the big state: to the top-down, Whitehall-knows-best government of the past. So again – let me be precise about what I mean.' – and then no meaningful clarification follows, although there are many inferences that top-down, centralized government is what awaits, all the worse because the state becomes so 'active' i.e. interventionist and directive.

p. 6 'a modern industrial strategy' - which differs in what way from an 'industrial strategy'? Note the continued usage of the word 'modern' so as to infer that those who disagree are not modern but archaic, meaning their views can be discounted. 'Modern' is also code for having been inducted into an exclusive circle of right-thinking people who do not need to justify their actions and beliefs to those left behind, simply because the insiders have self-identified as 'modern'.

p. 6 'let me explain' - what follows is not an explanation if the meaning of what word is to make clear.

p. 6 ‘working in genuine partnership with business’ - which differs in what way from the ‘partnership with business’ referred to on p. 1, and what does this mean anyway? Does it mean PFI Mark 2?

p. 7 ‘investment – fostered through partnership, between dynamic business and strategic government’ – now it is ‘dynamic’ business and ‘strategic’ government. Then, on p. 12, we have a further variant: ‘strategic government and enterprising business’.

p. 8 ‘So let me be clear about the rules which will bind the next Labour government. That the current budget must move into balance, so that day-to-day costs are met by revenues’ – which obfuscates that there must be a ‘non-current budget’ dealing with costs that are not ‘day-to-day costs’. What will that portion of the budget look like?

p. 8 ‘debt must be falling as a share of the economy by the fifth year of the forecast’ – this sounds fine until one understands the budget process and how often the 5-year budget is renewed. If the forecast is done annually (and the regularity of the refreshment of the forecast is not made clear), debt can rise in Years 1-4 of every forecast, and only start falling in Year 5. Debt only ever rises, because Year 5 never arrives: in the next forecast the Year that was year 5 in last year’s forecast is Year 4 in this one’s, and debt is permitted to rise in Year 4.

p. 8 ‘I will also ask the OBR to report on the long-term impact of capital spending decisions’ – this sounds like the OBR having control but actually it means low or no control, and that ‘capital spending decisions’ will be excluded from the OBR’s forecasts. The OBR will only be asked to ‘comment’ on their ‘long-term impact’, not on their short-term impact (e.g. on the increase in public liabilities) nor on the advisability of the decision itself. The real message is that ‘capital spending decisions’ will fall outside the OBR’s remit, whatever ‘capital spending decisions’ are, upon which the speaker does not enlighten us.

p. 8 ‘wider measures of public sector assets and liabilities at fiscal events, showing how the health of the public balance sheet is bolstered by good investment decisions’ - what are these ‘wider measures of public sector assets and liabilities’? What are these ‘good investment decisions’ that will bolster the ‘public balance sheet’? It implies that the ‘public balance sheet’ will be expanded, via ‘investments’ which, by definition must be ‘good’, even better if they help the transition to Net Zero. What happens if the ‘investment decisions’ are bad? How will the consequential damage be reflected as a deterioration of the health of the public balance sheet?

p. 8 ‘Let me be candid. We cannot continue with the short-termist approach that disregards the importance of public investment.’ – what does ‘public investment’ mean? Why are ‘public investment’ and a ‘short-termist approach’ mutually exclusive? Can a ‘public investment’ never pay off in the short- or medium-term? Does one always have to wait for the ‘long-term’ to see anything back (and possibly nothing), and who determines what the time horizon is for short-, medium- and long-term? Or is ‘long-term’ always in Year 5 from now, whenever now is? ‘Jam yesterday, and jam tomorrow, but never jam today’.

p. 8 (also part of the ‘Let me be candid’): ‘Their [the Conservatives’] borrowing rule, which targets the overall deficit rather than the current deficit, creates a clear incentive to cut investment that will have long-run benefits for short-term gains. I reject that approach, and that is why our borrowing rule targets day-to-day spending. We will prioritise investment within a framework that would get debt falling as a share of GDP over the medium term.’ – this is further evidence, but by implication, that Labour’s borrowing rule will be limited in scope to ‘day-to-day spending’.

p. 8 ‘Business needs stability too in the tax system…capping corporation tax at its present rate of 25 percent – the lowest in the G7 – throughout the next parliament…ensure that businesses can plan investment projects today, with the confidence of knowing how their returns will be taxed for the rest of this decade.’ – this means that Hunt’s increases in corporation tax will not be reversed by Labour. The rate will stay at 6% higher than it was, and businesses cannot expect any improvement. Damage is projected as a benefit. What if the tax rate destroys the case for investment and the investment is not made? That possibility does not appear to occur to the speaker. Why would businesses be ‘confident’ if they know that their success will be heavily taxed? It is more likely to deter business. The certainty conferred by assured high taxation is like denying a condemned man an appeal for clemency – the outcome becomes certain, it’s the Last Drop.

p. 10 'For infrastructure, the next Labour government will deliver a once-in-a-generation overhaul of the nationally significant infrastructure regime' – this sounds impressive, but does it go any further than 'updating all National Policy Statements within 6 months of coming into office' and 'modernising the regime to reflect the types of infrastructure crucial in our changing economy' and 'cutting red tape by embedding principles of proportionality and standardisation'? What does any of that mean? Is it anything more than doing new documentation and at different times? Why does it improve the nation's infrastructure, as one is meant to be led to believe?

p. 10 'in clusters, bringing together the skills, the infrastructure and Britain's natural geography to build strong, regionally-based industries' – meaning exactly what? Like the mill towns on the slopes of the Pennines thanks to hills, heavy rainfall and fast-running streams? Or steel and shipbuilding developing near to coal fields and iron ore deposits? What are the equivalent 'clusters' in the 21st century, or are we simply talking about throwing money, again, at the Labour rust belt in the North and Scotland?

p. 10 'a new Growth and Skills Levy' – i.e. a new tax on business, to add to the certainty of corporation tax not falling.

p. 10 'the next Labour government will combine and devolve adult education budgets' – what difference will that make, although it sounds impressive, to the quality of adult education? It sounds like a bureaucratic reorganization, probably involving cost, delay and, ultimately, failure.

p. 10 'That understanding lies behind Labour's commitment to a genuine living wage, and to a New Deal for Working People' – is this as opposed to a false living wage? What is this 'New Deal'? Is it anything more than a trite phrase attempting to appropriate the very real achievements of Franklin D. Roosevelt, whilst overlooking that the UK is not in a Great Depression, or at least not yet?

p. 12 'a new economic settlement, drawing on evolutions in economic thought' – this repeats the issue of the term 'modern' which is discussed elsewhere. What are these 'evolutions' anyway? The speaker fails to enlighten us. Is it Modern Monetary Theory, the intellectual backing – if we can permit the usage of the term in this context – for Quantitative Easing? Or is it shadow borrowing as practised by the EU through its many schemes and dissected in the writer's book *The shadow liabilities of EU Member States, and the threat they pose to global financial stability* (London: Bruges Group, 2023)?

Conjecture or oxymoron disguised as an established, irrefutable concept

p. 4 'Labour's Green Prosperity Plan' - noting how 'Green' and 'Prosperity' are put together as if their connection was an established fact, instead of a conjecture, or even an oxymoron. The phrase echoes the 'Greater East Asia Co-Prosperity Sphere' namely the Japanese empire after its invasions of other countries in 1942.[1]

p. 7 'the Treasury's Enterprise and Growth Unit, squarely focused on driving economic growth', as if it is irrefutable that a government department can be the source of economic growth just because it has 'Growth' in its name, and that HM Treasury can have any idea what 'Enterprise' is when it is staffed by civil servants on gold-plated pension deals who run no personal risk in their careers whatsoever.

p. 8 'A modern industrial policy must be strategic, and it must be selective' – what is a 'modern' industrial policy? It differs in what way from an industrial policy being made at any other point in time, which counted as the 'present day' i.e. did the Gladstome government of 1893 deliberately and knowingly formulate policies which were not 'strategic' and which it determined should not be 'modern'?

p. 11 'As the Resolution Foundation have argued, 'the missing ingredient is empowered workers, willing and able to take risks'' – why would workers (presumably meaning employees) take risks? What kind of risks?

[1] https://www.britannica.com/topic/Greater-East-Asia-Co-prosperity-Sphere accessed on 28 March 2024

What about Health & Safety? Is it not the owners, shareholders, and entrepreneurs that take risks? The fact of the Resolution Foundation's arguing a point does not make their argument a fact.

p. 11 'We will guarantee basic rights from day one – protection from unfair dismissal, sick pay, and parental leave' – this reduces workers' risks, and increases those of owners, shareholders, and entrepreneurs.

p. 11 'And on trade union legislation, we will reverse changes since 2010 …We will work with business as we deliver and implement these policies' – this means more risk for owners, shareholders and entrepreneurs..

p. 11 'We need strong public services to support economic growth' – this formulation infers a direct causal relationship between public services and economic growth, which can only be true if the government buys everything and keeps buying more, as the EU has done through its 'institutions' in order to reflate the Eurozone economy after the 2011 Eurozone sovereign debt crisis. Normally public services cost money, and economic growth is needed to keep paying those costs: in the speaker's world it somehow comes to be the other way round.

p. 11 'We will swiftly implement the plans we have already set out for an urgent resource injection into our public services: to cut NHS waiting lists, tackle the crisis in dentistry, transform mental health services, recruit and retain teachers, and provide breakfast clubs in every school' – 'resource injection' must mean money, but the speaker dare not say it. These are classic increases in expenditure on public services, and indeed on the day-to-day costs of public services. Elsewhere the speaker says that a Labour government would run a balanced budget for the day-to-day costs of public services, so taxes must go up to fund these spending increases if borrowing cannot. In the meantime Britain's poor schoolchildren are to ripped from the comforts of their own kitchens and condemned to an obligatory, daily intake of stale toast, margarine, weak tea, and cold porridge. That is not a 'club' any of them would volunteer to join. Call it what it is: the Workhouse.

p. 12 'Growth achieved through stability, built on the strength of our institutions' – growth does not come about through stability: growth normally results from disruption and change - drivers of opportunity – not from stability. Institutions tend be inert, to react slowly to change and indeed to hinder or slow it, thereby hindering growth and standing in the way. Institutions may not always be strong – they can be weak as well, but the phraseology infers this is impossible. The phraseology is reminiscent of 'Strength through Joy', a similar non-sequitur.

p. 12 'Investment, through partnership between strategic government and enterprising business' – why is 'strategic' paired with 'government'? Is that not a tautology, as government should always be strategic? Similarly 'business' is by nature 'enterprising', so the speaker twice states the obvious but infers an imbuing with meaning, which is actually absent. In reality an interfering government, with extra labour laws and costs, and attempting to direct investment, is likely to deter enterprise and business and cause stagnation, as resources are directed towards government policy priorities and away from areas that make money – i.e. the UK's business environment becomes like the EU.

Random clasping at disparate and obscure commentators

The speaker randomly quotes disparate and obscure commentators, aspiring to give the impression of a PhD literature review and a high degree of erudition and background reading, whereas it reads more like blind-folded dart-throwing at a bookshelf in an economics library. The obscurity of many of the sources is all the more convenient because no-one has ever heard of the people, let alone enjoys such familiarity with their work as to be able to dispute how the speaker represents their views:

p. 1 'historian Adam Tooze..'

p. 2 'As Joan Robinson understood when she wrote sixty years ago..'

p. 2 'The political economist Karl Polanyi..'

p. 2 ‘Jonathan Haskel has demonstrated..’ – ‘argued’, or ‘alleged’ or actually proved?

p. 5 ‘The Harvard political economist Dani Rodrik speaks of..’

p. 5 ‘The US Treasury Secretary Janet Yellen..’

p. 7 ‘as the Institute for Government noted last month’ – who? Just because they said it does not make it right.

p. 7 ‘The European Central Bank’s Isabel Schnabel has set out the implications for monetary policy of climate change’ – which does not automatically make her correct.

p. 8 ‘as the Barro-Gordon model showed’ – what model? Who? Is that one person or two?

p. 10 ‘As Raj Chetty, John Van Reenen and their colleagues show…’ – who?

p. 10 ‘One hundred and fifty years ago, the economist Mary Paley Marshall observed…’ – who?

p. 10 ‘economists like Ed Glaeser’ – who, and which other economists like him?

p. 11 ‘Numerous economists, including Peter Klenow and Oriana Bandiera…’ – who, and which other economists?

p. 11 ‘Claudia Goldin, the first woman to win a Nobel Prize for Economics solo, has shown…’ – who?

p. 11 ‘the Rose review of female entrepreneurship’, that is Alison Rose, CEO of Natwest who spoke about a customer’s business with a journalist at a dinner and had to resign. The speaker, uniquely in her references, fails to give the person’s first name, hoping no doubt thereby to obfuscate that the source is discredited.

Unsupported assertions

p. 1 ‘we are in a moment of deconvergence, trailing and falling further behind our counterparts’ – what does ‘deconvergence’ mean? What is the proof that we are ‘in a moment’ of it? By what measures? Who are our ‘counterparts’? In what ways are we ‘trailing’ them? Based on what metrics? Where is the proof we are ‘falling further behind’ them? How have the metrics deteriorated, over what period, and what is the quality of the collateral proof?

p. 1 ‘Today, the average British family is ten percent worse off than their French counterparts and a full twenty percent worse off than their German counterparts’ – ten/twenty percent worse off in what way? Gross earnings? Net earnings after tax? Disposable income after food, housing, and clothing? The statistics quoted by the speaker are meaningless without the context and proof.

p. 2 ‘when vast swathes of Britain are written out of our national story’ – have they been? Where is this ‘national story’? What is its ISBN number? Was there an earlier version that these ‘vast swathes’ appeared in? In which edition were they eliminated? How big is a single ‘vast swathe’? How many would fit within the British Isles? It is quite hard to take nonsense like this seriously.

p. 2 ‘Britain alone among the G7 in having investment levels below 20 percent of GDP’ - How does the speaker define ‘investment’? Industrial investment cannot be anywhere near these levels in any G7 economy.

p. 2 ‘comparatively poor management capability’ – compared to what? Based on what metrics?

p. 2 ‘It is not enough simply to point to these failings’ Why not start by listing the failings? At least we will then know what the speaker thinks they are, failing which the impression is left that the speaker does not have that level of grip.

p. 3 ‘structural vulnerabilities, and that political instability’ – such as? What is the proof of the causal link between the two?

p. 4 'We have already seen shortages on our supermarket shelves as a result of droughts, storms and rising temperatures. More will follow.' Have we? And was it for those reasons? When was there a drought in the UK? What shortages were thereby created? Or was the drought somewhere else, like Costa Rica, and causing a shortage of guava halves? Can you 'see a shortage' on a supermarket shelf anyway? Don't you see a gap? The gap could be attributable to a traffic jam between the depot and the supermarket, or shelf-stackers being off sick.

p. 7 'losses that *could* translate onto the balance sheets of financial institutions and reduce the flow of credit; in impacts on labour productivity and health-related inactivity, which *could* lower the equilibrium real rate of interest' – our italics; all conjecture.

p. 9 'vicious cycle in which inequality widens while growth stutters' – the speaker provides no collateral evidence that this statement is true. Labour made the opposite point regularly over the last fourteen years - that inequality widened during a period during which growth was not stuttering.

p. 10 'And there are strong statistical relationships between job satisfaction and workplace performance.' – are there? Whose statistics are they? Do they unequivocally prove this assertion?

p. 11 'And on trade union legislation, we will reverse changes since 2010 that have done nothing to prevent the worst period of disruption since the 1980s, but instead have contributed to a conflictual, scorched-earth approach that has stood in the way of productive negotiation.' - has it been the 'worst period of disruption since the 1980s'? Has this been empirically proven? Has it also been empirically proven that the legislative changes referred to by the speaker were designed to stop what has happened, or were the changes designed to achieve something else (and they may have been successful)? Have we had 'a conflictual, scorched-earth approach' from the government and/or from business? What is the definition of that and where is the proof that it has happened? Is it a fact that what has happened 'has stood in the way of productive negotiation'? Did unions offer 'productive negotiation' and in a way that would definitely have stopped them calling their members out?

p. 12 'Debt at its highest rate in 60 years' – this is a very rich accusation from a Labour politician given both the increase in visible national debt under New Labour, and the build-up by New Labour of shadow debt via PFI contracts. A criticism of a supposedly very high amount of debt is incoherent with the speaker's criticism on p. 3 that the failure to borrow even more was an act of 'historic negligence'.

p. 12 'with net debt interest payments of over £80 billion this year alone' – with no possible blame attaching to the Bank of England, or the aggravating meltdown of the Liability-Driven Investments market that caused pension funds to sell off gilts at the same time as interest rates were rising, causing them to rise even further. The figure of 'over £80 billion' is not even a fact: it is an OBR forecast, as p. 4 makes clear.

p. 12 'Schools and hospitals crumbling' – are all of them crumbling, even the ones constructed under New Labour under PFI contracts? Yes, apparently, a series of schools in Merseyside built under New Labour and financed via PFI being a good example.[2] Let us not forget Scotland, where the SNP has been a major user of PFI – The Guardian reported in January 2020 that the 'The Scottish government failed to properly monitor and evaluate billions of pounds' worth of privately financed contracts to build roads, schools and hospitals, two public spending watchdogs have said. In a damning report issued on Tuesday, Audit Scotland and the Accounts Commission found that the Scottish government had signed off on £9bn worth of privately built and financed construction projects without fully understanding how they worked.'[3]

p. 12 'The first Parliament in history over which living standards have fallen' – did living standards not fall during the Great Depression, or during the First or Second World Wars, or just after the First World War?

[2] https://www.liverpoolecho.co.uk/news/liverpool-news/merseyside-boroughs-pfi-schools-still-17748039 accessed on 28 March 2024

[3] https://www.theguardian.com/politics/2020/jan/28/watchdogs-say-scottish-pfi-schemes-werent-properly-scrutinised accessed on 28 March 2024

Using language implying solidity to mask insubstantiality

p. 2 'the pillars of that approach' – the word 'pillars' sounds substantial and impressive, like the pillars in the Bank for International Settlements agreements about bank capitalization, which have turned out to be a chocolate fireguard.

p. 3 'the OBR finding that long-run GDP is expected to be 4 percent lower as a result of the government's Brexit deal' – the word 'finding' implies a fact, but this is contradicted by the 'finding' being something that is 'expected' i.e. which is conjecture.

p. 4 'We know too – as the Office for Budget Responsibility has argued – that the future costs of failure to address the climate crisis will far outweigh the cost of action today.' – we do not 'know' something just because the OBR has 'argued' it. This point is also conjecture: we cannot know now that 'the future costs of failure to address the climate crisis' (always assuming one accepts that there is a 'crisis', and not just a problem) will outweigh 'the cost of action today', let alone 'far outweigh' it. In fact we can never know, because we cannot undertake those actions today and incur those costs, whilst in parallel running a control experiment of doing nothing. There can never be a comparison leading to the certain knowledge that the speaker lays claim to.

p. 5 'to modernise a sclerotic economy' – without the speaker having proved that the economy is not modern or that it is sclerotic.

p. 5 'Governments and policymakers are recognising that it is no longer enough, if it ever was, for the state to simply get out of the way, to leave markets to their own devices' - are they recognising it? In fact have they ever got out of the way? If they had got out of the way, why do we have so many laws and regulations affecting economic life, and so many 'institutions' and regulators to police them? We do not have a 'markets left to their own devices' economy – the EU certainly is not one, and we retain many EU laws and regulations. We have a highly-regulated economy, in which government constantly intervenes. Against that background, how credible is the statement the speaker makes? Does it apply to all governments and all policymakers? Are there absolutely none who disagree? If they are stating that, rather than 'recognising' it as if it were empirically observable, it could just as easily be because it puts even more power into their hands, especially these 'policymakers' who, because they are separate from 'Governments', do not need to be elected and are not answerable to the public.

p. 6 'Queues at our ports, empty shelves, soaring prices, and red tape holding our exporters back.' – are these things happening in reality?

p. 6 'As other countries build up their own homegrown industries and forge new strategic partnerships' – who is doing this, apart from China? Are China's 'partnerships' not rather part of their attempt to gain a colonial-style grip on other countries and their raw materials? Why does the Comprehensive and Progressive Agreement for Trans-Pacific Partnership not count as a 'strategic partnership' and why does it not merit a mention?

p. 9 'Planning dysfunction means that land is costly and inefficiently utilised, making the cost of building infrastructure in the UK significantly higher than in most developed economies, meaning higher energy prices, poorer transport, and inadequate digital connectivity. And it prevents housing from being built where it is most needed – contributing to ever-higher prices and falling rates of home ownership, and constricting the growth of our most productive places.' – decisive language masking an absence of proof behind conjectures about the size and nature of problems, without which the speaker's policy programme would not be justified. It is the policy programme that has come first, with the supposed 'problem statement' following, only this 'problem statement' is composed of empty rhetoric. Planning applications are often blocked due to environmental concerns, such that the speaker's enthusiasm for Net Zero is incoherent with her desire to liquidate 'planning dysfunction'.

Sycophantic orthodoxy meets economic dreamworld

The speaker in one breath states that 'old certainties about economic management have been found wanting', and then in the next (and the next after that) praises the capabilities and independence of 'institutions' such as the Bank of England and the Office for Budget Responsibility that have been at the helm of economic management, arguably more so than the government. Woe betide a government that takes issue with these 'institutions': they are quickly disposed of.

Praising the institutions that represent current economic orthodoxy and then stating that this orthodoxy has failed is incoherent. The speaker envisages a landscape with still more of these 'institutions', which would reduce intervention by government in economic matters if these institutions were independent. Yet the speaker promises more government intervention, not less, enacted through independent quangos but dancing to the government's tune. That is incoherent.

The speaker's economic programme appears to be best described as 'modern supply-side economics', which is the opposite of 'supply-side economics' as most economists would define it. This is similar to the difference between 'monetary theory' and 'modern monetary theory'. Those who self-identify as progressive – as opposed to reactionary – tag terms with 'modern' in front of them in a manoeuvre designed both to gull uninformed readers or listeners that they are building on traditional theories, whilst at the same time inferring solely via nomenclature that their views are more advanced and superior, as if they were standing on the shoulders of giants.

In fact 'modern monetary theory' builds from the ground up – or rather down. The Bank of England's Quantitative Easing programme is an example of 'modern monetary theory' in action and it could cost the UK as much as £150 billion. 'Modern monetary theory' sees no problem at all in interest rates being zero or even negative. In fact 'modern monetary theory' castigates – as the speaker does explicitly – any government that does not borrow as much as it can at low rates of interest in order to spend that money immediately for the public good (however that is defined).

'Monetary theory', the traditional version, would hold that interest rates should always be above inflation, that a risk-free investment (which would be in government bonds – gilts in the UK) should yield a small premium above inflation, and that interest rates on investments carrying higher risks should be built off the rates on a risk-free investment in line with the amount of risk. Traditional monetary theory would hold that public spending ought not to exceed 40% of national income, that the size of the public sector of the economy should be smaller than the private sector and by at least 20%, that public debt should be held at between 30% and 60% of the size of the total economy, and that the public budget should predominantly be produced by taxes, not borrowing.

'Supply-side economics' is aligned with traditional 'monetary theory' in proposing that economic growth and wealth creation are best fostered by lowering taxes, lowering barriers of entry for new and substitute products and services, reducing regulation and allowing free trade, whilst keeping interest rates high enough to control inflation and not permit demand to outstrip supply. Consumers will then benefit from greater supplies of goods and services, wider choice, lower prices, and stability of prices (money keeps its value). Employment will increase. There is a dynamism in terms of new competitors and substitute products and services coming to market. Weak competitors fail and are weeded out.

'Stability' would mean the reduction of opportunities, the entrenchment of market ownership by a small number of incumbent suppliers, and suppliers who are not adding value to buyers continuing to operate: these are indicators of what has been served up to the UK since the Global Financial Crisis by the application of orthodoxies deriving from 'modern monetary theory', the same source as 'modern supply-side economics'. In fact these 'modern' versions – meaning the previous version turned on its head – have been creeping into Western world economic management.

'Supply-side economics' have been the basis for the Western world's breakout from the period of stagnation and stagflation of the 1960s and 1970s and, in the UK have delivered the level of prosperity we enjoy today.

Those who did not live through the 1960s and 1970s will not have the benefit of remembering what things were like when different orthodoxies prevailed, although we have had a glimpse of it from UK 'institutions' applying 'modern monetary theory'.

'Modern supply-side economics' is a creation of the Left, and according to them is a cross-Atlantic consensus. This term is used frequently, as if the fact of there being some people in the USA and some people in the UK who subscribe to it is enough to represent that it has been widely agreed. It has not. It is subscribed to by a small number of people, albeit that they are highly placed and self-style themselves as progressive.

A tour d'horizon of 'modern supply-side economics' can be found in a publication from the Institute for Public Policy Research, dated January 2024 and entitled 'Modern supply-side economics – a new consensus'.[4] The Institute for Public Policy Research itself is a socialist think tank and its 'work drives…progress', in its own estimation, of course: [5]

'Our work drives social, democratic, environmental, and economic progress by securing:
- well-funded and reformed public services (health, care, housing, education) and social security that ensures everyone has access to the basics they need to flourish
- a renewed democracy which gives everyone a voice in society and passes power down to people, places, and communities, alongside a fair and compassionate immigration system which supports social integration
- a modern, green economy that delivers prosperity and justice to all people and places through actively shaping markets for social good and tackling concentrations of wealth and power.'

In other words they stand for:
- a big public sector
- 'democracy' through mechanisms that bypass the UK parliamentary system
- immigration
- Net Zero

'Modern supply-side economics – a new consensus' betokens not so much a coherent programme, still less one for which any proof exists, but a jumble of wish lists and nostalgia, grouped around Net Zero, the imperative of attaining which is the driver for the remainder. Here are extracts from the summaries of the different contributions:

Source	Wording	Meaning
US Treasury secretary Janet Yellen	Modern supply-side economics 'prioritises labour supply, human capital, public infrastructure, R&D, and investments in a sustainable environment'	• Buzzwords
Harvard economist Dani Rodrik	Productivist policies 'emphasise the dissemination of productive economic opportunities throughout all regions and all segments of the labour force'	• 'Productivist' theory may state this, but where is the proof that the policies will deliver?
The Biden administration, under 'Bidenomics'	Three core legislative pillars – the Infrastructure Investment and Jobs Act (IIJA), CHIPS and Science Act and Inflation Reduction Act (IRA) – are set to direct more than a trillion dollars of public and private investment into transport, healthcare, clean energy, and infrastructure	• 'Pillars' sounds good, but is this any more than countercyclical Keynsian public spending - except it is not counter-cyclical, as there is no recession, and as it will become a permanent policy
Rachel Reeves MP, shadow chancellor of the Exchequer	Outlines how 'securonomics' can address the profound challenges that face the British economy. Through an assessment of the challenges posed by a new age of insecurity, she makes the case for giving the state a strategic role in the economy and putting 'security' at the heart of economic policy.	• 'Profound' sounds profound, as if greater truths have been found than the obvious ones (public sector too large; public sector productivity too low) • 'Strategic state' and 'security' will become familiar buzzwords

[4] https://www.ippr.org/articles/modern-supply-side-economics-a-new-consensus accessed on 10 April 2024
[5] https://www.ippr.org/who-we-are accessed on 10 April 2024

Source	Wording	Meaning
Greg Clarke MP, chair of the Commons Science, Innovation & Technology Select Committee and former secretary of state for business, energy and industrial strategy	Makes the urgent case for cross-party consensus on industrial strategy to ensure it is stable and dependable, and therefore effective	• As if MPs are the all-seeing eye over the industrial and business worlds • 'stable', 'dependable' – good solid-sounding words
Dani Rodrik, Ford Foundation professor of international political economy at the Harvard Kennedy School, and Huw Spencer, research assistant with the Reimagining the Economy project	Sets out a vision for 'productivism' in the UK economy with a focus on good jobs. They argue that this has the potential to put the UK on a path to a more inclusive, prosperous future	• 'Good jobs put the UK on a path to a prosperous future' – 0 out of 100 for originality • 'Good jobs' meaning you go into it at 18 and come out at 65 and are always home by 5:30 – nostalgic and harking back to an era that never was
Rose Khattar, director of economic analysis for inclusive economy at the Center for American Progress	Explores how the Biden administration is putting modern supply-side economics into practice. Through an analysis of its core legislative pillars she argues that Biden's approach has the potential to make the American economy stronger, more equitable and more resilient	• 'Pillars' again, along with 'resilient', all good and solid • We have 'inclusive' and 'equitable', all solid liberal-Left buzzwords, unlike nasty concepts such as 'hard work', 'enterprise', and 'risk-taking'
Anna Valero, distinguished policy fellow at the Centre for Economic Performance (CEP) and Jon van Reenen, Ronald Coase chair in economics and school professor at the London School of Economics and Political Science	Sets out to define what specific green industrial policy should look like and how it can meet the threefold challenge of productivity growth, boosting resilience, and meeting net zero targets. They set out how investments into clean technologies are justified on their own economic grounds, such as delivering greater 'knowledge spillovers'	• Net Zero • A 'green industrial policy' must 'meet net zero targets' or it is an irrelevance, that being its main aim • Why will Net Zero boost productivity growth? • Is it certain – or is it conjecture – that 'investments into clean technologies are justified on their own economic grounds'? • How big are these benefits compared to the investments? • Could those benefits be garnered more quickly, cheaply and easily in another way?
Melanie Brusseler, senior researcher at Common Wealth, and Mathew Lawrence, founder and director of Common Wealth	Outlines why policy tools like public ownership and coordination are crucial to achieving progressive political goals, from growth to decarbonisation and resilience. Using the example of Labour's proposal for Great British Energy, they argue that successful supply-side reform depends on building the 'mixed green economy' with public ownership and coordination at its heart	• Net Zero…and public ownership • These are required to achieve progressive political goals – it is the goals that are the real objective, and Net Zero and public ownership are the tools needed to achieve them • A 'mixed green economy': is that a type of salad?
Graeme Cooke, director of insight and policy at the Joseph Rowntree Foundation	Outlines the need for modern supply side economics to speak to the sense of insecurity felt by individual households. He argues this is not just the right policy approach but has political benefits too, framing progressive economics in terms of tangible benefits: a secure job, reliable income, a place to call home, care for loved ones, something put aside for a rainy day and security in retirement	• Regressive vision • Harks back to a time that never was, when households felt secure – when was that exactly? • When was life secure? What are detriments that have to be endured to make life universally secure, aside from boredom?
David Edgerton, Hans Rausing professor of the history of science and technology and professor of modern British history at King's College London	Compares an industrial strategy approach to meeting the challenges of improving the lives of people and decarbonisation to a foundational economy approach	• Net Zero is at the back of everything: the universal (supposed) imperative and ubiquitous justification for increased state intervention, direction and control

Source	Wording	Meaning
Craig Berry, editor of Renewal Journal	To stimulate demand, he advocates for public expenditure which addresses regional and income inequality and in doing so creates stable investment conditions for businesses, as well as an end to monetary policy solely focused on curbing inflation by controlling demand	• Is demand lacking at the moment? For what products and services? • In what way can public expenditure address inequality apart from via benefits? • Why are 'stable conditions for business' a good thing?
Sarah Longlands, chief executive of the Centre for Local Economic Strategies	Emphasises the role of local places in creating wealth that stays within communities and supporting people to live better quality lives. She argues that any government serious about bringing about economic change and greater security for people needs to move on from an austerity mindset and invest in local councils, public services, and communities	• Very 'Little Britain' – local businesses for local people • More bus shelters, more quiet coaches on InterCity trains.. • It would be funny if it was not frightening in its looking into a rearview mirror at an era that never existed

Net Zero is the cornerstone of 'modern supply-side economics', and Mahomed Moutii of the Institute for Research in Economic and Fiscal Issues has analysed the content of the Biden administration's Inflation Reduction Act (the 'IRA') in this regard.[6] It has been found to be protectionist of the US economy and therefore against free trade. It is way of onshoring jobs and activity into the USA and out of China – and out of any intermediary China surrogates. This may be geopolitically defensible and for the USA, but the usage of Net Zero as a flag-of-convenience to fly this under is cynical.

It is theoretically possible for the USA to become self-sufficient and to eliminate its dependence on China for rare earth metals: maybe they can develop alternative technologies, as well as feed themselves from their vast swathes of agricultural land. The latter is certainly not an option for a UK with 70 million inhabitants, and it has not been since pre-Roman times: the UK has always required international trade and preferably free trade.

The 'emerging Washington consensus', if this is its underlying content, should be a consensus not having any UK subscribers to it. Perhaps the Mais lecturer, so much bounded by her own euphemisms and half-truths, is unable to discern when others are using the same techniques. 'Modern supply-side economics' is a comfortable wrapper in which to enclose US protectionism, with both being made to fly under the flag of Net Zero. US protectionism must be diametrically opposed to the UK national interest and it is frightening that the Mais lecturer cannot see through this.

Critique of detailed phrases used by the speaker

p. 1 'old certainties about economic management have been found wanting' – have they? In what way? And what were those 'certainties' anyway? Presumably the actions of 'institutions' would be built on these 'certainties', and the 'economic management' implemented by them would be consistent with the 'certainties'. Otherwise the 'institutions' would not be 'institutions' of relevance to economic management.[7]

p. 2 The speaker with one breath argues that the economic orthodoxy is wrong, but then demonstrates sycophancy to the 'institutions' that represent that orthodoxy.

p. 2 'outline the contours of an alternative approach – an approach that builds growth on strong and secure foundations' – does the speaker 'outline the contours' in a manner that makes the approach discernible, or

[6] https://en.irefeurope.org/publications/online-articles/article/green-protectionism-in-disguise-the-hidden-facets-of-the-inflation-reduction-act/ accessed on 29 March 2024

[7] https://dictionary.cambridge.org/us/dictionary/english/institution accessed on 29 March 2024

does it remain cloaked in doublespeak? The 'builds on strong and secure foundations' sounds impressive, almost biblical ('Christ is made the sure foundation';[8] 'The church's one foundation is Jesus Christ our Lord'.[9]).

p. 4 'the 'mini budget' – with its programme of unfunded tax cuts, amidst a concerted attempt to undermine our independent economic institutions' – what about the alternative argument that these 'independent economic institutions' were confronted in Liz Truss with someone in whose opinion the orthodoxies of these institutions had been found wanting, in fact with someone who shared the speaker's supposed opinions? Faced with that threat to their status, independence and views, they acted together with others in such a way that Liz Truss was ousted and replaced with people who would sing the institutions' tune. Calling them 'our' institutions makes it sounds as if Liz Truss launched a personal attack on the country. The mini-budget was certainly an attack on the independent conduct of the Bank of England, and its buying up £800+ billion of fixed-rate bonds in its Quantitative Easing programme, which is now resolving itself into a £130+ billion loss to the taxpayer.[10] The 'mini-budget' was an attempt to restore growth, the same objective as the speaker's, albeit that the speaker's path to growth appears to be unfunded 'investment' commitments and increases in day-to-day costs, alongside sycophancy towards these 'institutions'.

p. 4 'In October 2021, the OBR forecast that net debt interest would cost £29 billion this year. They now expect that cost to be £82 billion' – this is an 'OBR forecast', and it is not written on tablets of stone. The OBR, like the Bank of England, was blinkered in not seeing incipient inflation and factoring in that interest rates would have to rise in consequence. These facts are airbrushed away in a travesty of the truth: interest rates had already risen in the open market if not in the BoE Base Rate, inflation was rising and the BoE was continually behind the curve, not least in its failure to match on 21st September 2022 the Federal Reserve's rise of 0.75% in the same week as the 'mini-budget', which was delivered on 23rd September 2022.[11] [12]

p. 4 'We know too – as the Office for Budget Responsibility has argued – that the future costs of failure to address the climate crisis will far outweigh the cost of action today.' – as explained earlier the OBR has 'argued' this, which does not make it a fact that we can 'know'. It is impossible to know, as that would mean both investing and not investing today, and checking the results of both strategies against one another: only one can be selected. The OBR has shown itself to be as fallible in its forecasting as the Bank of England.[13] [14]

p. 5 'Without the promise of stability, how can business invest with confidence?' – because the lack of stability may open up market spaces: whoever made a lot of money in a totally stable economy? This sclerotic and illusory 'stability' risks killing innovation and entrepreneurial spirit.

p. 5 'Without security, how can we ask an entrepreneur to take the plunge and start a new business?' – entrepreneurs do not want security, they want opportunity and adventure, which involves risk.

p. 5 'Without a safety net to fall back on, how can we expect an ordinary person to retrain, take a new job or change career?' – because they want to, because they see opportunity… Written and spoken like an armchair occupant who has been employed at the Bank of England and the Labour Party (are these different organizations?). The speaker's vision is not how a free market economy works, but then the speaker is in favour of a form of social market economy, with low risk and high 'stability' (which probably means high regulation, high barriers to entry for new competitors and substitute products – the EU model), and yet the speaker expects this to result in economic growth. The speaker's vision scarcely ranks as a 'social market

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[8] https://hymnary.org/text/christ_is_made_the_sure_foundation accessed on 29 March 2024
[9] https://hymnary.org/text/the_churchs_one_foundation accessed on 29 March 2024
[10] https://www.thetimes.co.uk/article/bank-of-englands-qe-losses-to-cost-the-treasury-150billion accessed on 14 April 2024
[11] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/september-2022 accessed on 29 March 2024
[12] https://www.federalreserve.gov/newsevents/pressreleases/monetary20220921a1.htm accessed on 29 March 2024
[13] https://www.capitaleconomics.com/clients/publications/uk-economics/uk-economics-weekly/why-did-the-obr-get-its-fiscal-forecasts-so-wrong accessed on 14 April 2024
[14] https://www.theguardian.com/business/2024/apr/12/do-better-bernanke-gets-strict-with-bank-of-england-over-handling-of-inflation-crisis accessed on 14 April 2024

economy', because markets appear to play almost no role. The wording of the vision needs to be amended to a 'social economy'.

p. 5 'embracing the insights of an emergent economic consensus' – what consensus is that, who participates and who has declared that it is a consensus? 'Insights' sounds impressive, suggesting superior knowledge based on high intellect and access to information of a higher quality than is publicly available. The terminology puts the speaker onto a higher plane than mortals. It is supremely elitist, sounding like some closed order, when it is probably just the Bilderberg Group or the World Economic Forum.

p. 5 'The US Treasury Secretary Janet Yellen has branded the Biden administration's agenda 'modern supply side economics'..' – so it is Biden's economic policies, those which have seen the USA's national debt rise to from US$22 trillion to US$33 trillion, or from 102% to 120% of its GDP.[15]

p. 6 'A new Washington consensus is taking shape. I believe it is in our interest to embrace that consensus.': is it taking shape? What is it? The speaker 'believes' it is in the UK's interest to 'embrace' it, but the speaker does not take the trouble to give any detail about what that consensus is, who is involved and so on, or to prove what its collateral evidence is.

p. 6 'shaping the institutional architecture of the British economy in the direction of mission-led government' – 'Shaping the institutional architecture of the British economy' implies putting 'institutions' – even if they were only set up yesterday – at the controls of the economy, a sure route to stagnation and elimination of free markets. 'Mission-led government' sounds very 1984. If the 'institutions' are shaped so as to enable 'mission-led government', it means that the government directly runs the economy, which goes far further than government passing laws with an influence over the economy, or passing regulations directly applicable to all or parts of the economy, or implementing policies – like high or low taxes – that have economic effects. It means the government runs the economy.

p. 7 'getting the institutional framework right, and enshrining that core growth mission within our economic architecture' – same as the previous point.

p. 7 'it is institutions which can provide the stability of direction, coordination, and appropriate incentives for sustained economic success' - is it? In what way will 'institutions..provide..appropriate incentives for sustained economic success'? Do they dictate the profits that an enterprise can make, and the dividends that owners may take out?

p. 7 'the strength of our institutions has bestowed credibility in international markets and underpinned our economic success. Politicians who undermine those strengths are playing a dangerous game. So let me begin with the Bank of England.' – is it only the 'strength of our institutions' that has 'bestowed credibility'? What about the OBR's constantly incorrect forecasts, or the Bank of England's losing £130+ billion on Quantitative Easing? Where is the mention of the personal work ethic, the importance of common law, the low level of corruption, and willingness to meet tax obligations as examples of factors that have 'underpinned our economic success' (although according to the speaker we are not successful and have fallen behind our counterparts)?

p.7 'The Bank's Monetary Policy Committee must continue to have complete independence' – of course it is Bank of England that is the prime object of the speaker's sycophancy, its being her erstwhile employer.

p. 8 'So let me be clear about the rules which will bind the next Labour government. That the current budget must move into balance, so that day-to-day costs are met by revenues' – which obfuscates that there must be a 'non-current budget' dealing with costs that are not 'day-to-day costs'. What will that portion of the budget look like? It infers that there will be a separate, 'shadow' portion of the budget that is to do with 'investment' (i.e. not to do with day-to-day costs). Little or no light is shed on how big the amount in this budget will be, and how it will be kept separate from the day-to-day costs budget, or, more importantly, how it will be funded, at

[15] https://www.investopedia.com/us-national-debt-by-year-7499291 accessed on 9 April 2024

what cost, how the cost will be paid, how the debt will be isolated from the national debt so as to ensure no impact on the UK's public credit rating and the cost of the national debt. Put another way, how will the UK spend more but avoid an even higher debt interest burden than the £80+ billion which the speaker so royally castigates on p. 12?

p. 8 'wider measures of public sector assets and liabilities at fiscal events, showing how the health of the public balance sheet is bolstered by good investment decisions' - what are these 'wider measures of public sector assets and liabilities'? What are these 'good investment decisions' that will bolster the 'public balance sheet'? It implies that the 'public balance sheet' will be expanded, via 'investments' which, by definition must be 'good', even better if they help the transition to Net Zero. What happens if the 'investment decisions' are bad? How will the consequential damage be reflected as a deterioration in the health of the public balance sheet? It is as if, because the 'investment decisions' are made by 'active government', there is no possibility of their being wrong (no more disasters like DeLorean[16], the Meriden motorcycle cooperative,[17] or British Steel[18]). Is the idea to create a balance sheet, no doubt inflated, of all 'public assets', so that they can be projected towards capital markets as an asset to borrow against, or actually hypothecated to investors so that they cease to be 'public assets' in a meaningful sense? The advantage is that any debt can always be shown to be lower than the supposed value of the assets, and therefore deemed affordable, even if it was new debt, or rather even if debt raised at the time the 'public asset' was created had subsequently been paid off. Raising new debt on an aged assets is re-mortgaging, like households constantly remortgaged during New Labour's tenure as house prices rose, another way in which debt replaced equity in the economy.

p. 8 'Let me be candid. We cannot continue with the short-termist approach that disregards the importance of public investment.' – what does 'public investment' mean? Why are 'public investment' and a 'short-termist approach' mutually exclusive? Can a 'public investment' never pay off in the short- or medium-term? Does one always have to wait for the 'long-term' to see anything back (and possibly nothing), and who determines what the time horizon is for short-, medium- and long-term? Or is 'long-term' always in Year 5 from now, whenever now is?

p. 8 (also part of the 'Let me be candid'): 'Their [the Conservatives'] borrowing rule, which targets the overall deficit rather than the current deficit, creates a clear incentive to cut investment that will have long-run benefits for short-term gains. I reject that approach, and that is why our borrowing rule targets day-to-day spending. We will prioritise investment within a framework that would get debt falling as a share of GDP over the medium term.' – this is further evidence that Labour's borrowing rule will be limited in scope to 'day-to-day spending'. Prioritising 'investment' means spending more now, but 'within a framework' – i.e. an Excel spreadsheet – that shows these 'investments' paying off in the future, and the investment returns (presumably) being used to pay debt down – if the investment returns materialize of course. If they don't, the UK just ends up with more debt. There will presumably be a National Debt figure and a Debt-to-GDP ratio issued with the 'debt for investment' stripped out (because the returns on the investment will repay the borrowing), and an all-in National Debt figure and Debt-to-GDP ratio. There will need to be a campaign to convince public credit rating agencies and investors to look at only the National Debt figure and at a Debt-to-GDP Ratio with the 'debt for investment' stripped out.

p. 8 'we will strengthen the Office for Budget Responsibility, with a new fiscal lock, guaranteeing in law that any government making significant and permanent tax and spending changes will be subject to an independent forecast from the OBR' – the always-wrong OBR is the second-place object of the speaker's sycophancy.

p. 8 'an escape clause that would only suspend the rules if the OBR declared the UK was in an economic crisis' – it is ludicrous to cede to the OBR – and presumably this would be enshrined in law – the right to declare that 'the UK was in an economic crisis'. What does that even mean? It smacks of the right that the World Health Organization wishes to have allocated to itself to declare a pandemic and a lockdown. Quangos – national and

[16] https://www.britannica.com/technology/DeLorean-DMC-12 accessed on 9 April 2024
[17] https://www.coventrytelegraph.net/news/history-nv-triumph-meriden-15662643 accessed on 9 April 2024
[18] https://en.wikipedia.org/wiki/British_Steel_(1967%E2%80%931999) accessed on 9 April 2024

global - are granted wide powers, and ones not subject to control by citizens. Of course, in the OBR's case and with a Labour government in power, the predicament might not be so difficult as the OBR can be packed with reliable cronies drawn from the centre-left nomenklatura, the Bank of England and HM Treasury.

p. 9 'So Labour will end the practice of one-to-three year funding cycles for key R&D institutions, giving them instead ten-year budgets to allow for meaningful partnerships with industry to keep the UK at the forefront of global innovation' – Labour will extend the patronage of universities that know-tow to their agenda, and co-opt them, at the same time as packing their governing bodies with reliable members of the nomenklatura.

p. 11 'We need strong public services to support economic growth' – this formulation infers a direct causal relationship between public services and economic growth, which can only be completely true if the government buys everything and keeps buying more, as the EU has done through its 'institutions' in order to reflate the Eurozone economy after the 2011 Eurozone sovereign debt crisis. The formulation obscures the basic situation that public services usually cost money, which must be created in the private economy – unless the public sector goes into business itself. Normally public services require taxes to pay for them, or borrowing. Borrowing translates into taxes later on to bring forth the debt service for the debt – unless one imagines that 'public investments' will bring forth their own debt service. Robin Hood Energy is an important recent example of a public body trying to invest in a strong public service to support economic growth – and Nottingham City Council duly lost its shirt (or rather the shirts of its council tax payers).[19]

p. 11 'We will swiftly implement the plans we have already set out for an urgent resource injection into our public services: to cut NHS waiting lists, tackle the crisis in dentistry, transform mental health services, recruit and retain teachers, and provide breakfast clubs in every school' – 'resource injection' must mean money, but the speaker dare not say it. These are classic increases in expenditure on public services, and indeed on the day-to-day costs of public services. Elsewhere the speaker says that a Labour government would run a balanced budget for the day-to-day costs of public services, so taxes must go up to fund these spending increases if borrowing cannot.

p. 12 'Growth achieved through stability, built on the strength of our institutions' – a repeat of empty phraseology. Weak and compromised 'institutions' will not be strong, as the OBR and the Bank of England are not strong. Growth is not built on stability, and an economic house built on 'institutions' like the OBR and Bank of England will be one built on sand. Disruption and change are more often the drivers of opportunity than stability. Institutions tend be inert, to react slowly to change and indeed to hinder or slow it, thereby hindering growth and standing in the way. Institutions may not always be strong – they can be weak as well, but the phraseology infers this is impossible. The phraseology is reminiscent of 'Strength through Joy', a similar non-sequitur.

p. 12 'Investment, through partnership between strategic government and enterprising business' – why is 'strategic' paired with 'government'? Is that not a tautology, as government should always be strategic? Similarly 'business' is by nature 'enterprising', so the speaker twice states the obvious but infers an imbuing with meaning, which is actually absent. In reality an interfering government, with extra labour laws and costs, and attempting to direct investment, is likely to deter enterprise and business and cause stagnation, as resources are directed towards government policy priorities and away from areas that make money – i.e. the UK's business environment becomes like the EU.

[19] https://en.wikipedia.org/wiki/Robin_Hood_Energy accessed on 2 April 2024

New Labour – it was the Garden of Eden (for those who weren't there)

The lecture contains considerable whitewashing of Labour's term-in-office between 1997 and 2010.

Labour came to power in 1997 and presided over the UK for a decade before the financial crisis struck. Gordon Brown, as Chancellor of the Exchequer, claimed to have 'abolished the cycle of boom and bust', but that was hubris: instead he presided over a long period of weakly-based expansion followed by a very big bust. The expansion was based on the housing market.

Newly-demutualized building societies – with Northern Rock in the vanguard – expanded rapidly under the patronage of New Labour.

These institutions firstly converted themselves from being funded almost exclusively with customer deposits, to taking on more and more funding from banks and from capital markets. The next move was to remove loans from their balance sheets – because they might otherwise have exceeded the lending volume permitted by their capital – by selling them to special purpose companies. This 'securitization' involved the special purpose company borrowing from capital markets itself. Northern Rock's 'Granite' subsidiary in the Channel Islands was a prime example of this.

In moving away from being deposit-funded these institutions became 'bought money banks', vulnerable to a downturn in investor confidence. Such an institution is structurally unstable. The prime recent example of the collapse of a 'bought-money bank' was the Chicago-based Continental Bank of Illinois in 1984, an example that seems to have been lost on New Labour, the Bank of England and the Financial Services Authority.

New Labour presided over a period in which 'institutions' that had once been stable were transformed into unstable ones.

The following characteristics of the financial expansion are also relevant to the crash in the UK, because they contextualize the UK's 'Rust Belt' lenders in the boom and the bust:

- Light (or rather soft) touch regulation of financial institutions as a whole and particularly of the dynamically-expanding former building societies, who were headquartered outside London – which was regarded as more democratic and inclusive;
- These institutions prioritized 'heartland' lending, into the parts of the UK around their headquarters, and focused, as they did prior to demutualization, on real estate lending;
- It so happened that these areas contained predominantly Labour-held constituencies, and ones that had suffered de-industrialization over the preceding 20 years: they were the UK Rust Belt;
- It was greatly appreciated by the government that new buildings sprang up in Labour areas thanks to the lending of these dynamic institutions, showing the stick-in-the-mud major (Tory) banks in the (Tory) City of London how to do business in modern Britain and soon expanding beyond their original 'heartland';
- It was greatly appreciated that these institutions indulged heartily in remortgaging, enabling householders to extract equity from their homes. The equity arose from rising house prices, which arose from low interest rates. As private wealth creation was reduced thanks to stealth taxes and low genuine economic growth, lifestyles (and the consequent high levels of consumer spending) were underpinned with withdrawals of home equity – another example of the replacement of equity with debt, a theme of New Labour's decade of economic success and stability!

There was particular rejoicing at the expansion of the two Scottish banks, RBS and HBOS (Halifax Bank of Scotland):

- The latter's expansion was in UK real estate: commercial real estate, within the Bank of Scotland Commercial Lending division, and residential real estate within Halifax Building Society;
- RBS's attempt to become a global bank to rival HSBC, seeing off Barclays' attempt in the process, Barclays having offered a merger to ABN-Amro as opposed to RBS' takeover and split.

RBS had expanded from being a Tier 2 UK player firstly via the acquisition of NatWest, a much larger Tier 1 bank. It made a foray into China with a 10% stake in Bank of China, into trailer-park lending in the USA via Charter One, into more traditional banking in the USA through Citizens Bank, and finally via its disastrous acquisition of parts of the ABN-Amro Group.

This expansion was not financed primarily through profits or issuance of new capital, but by debt, including a build-up of interest-bearing instruments which, because of the holder's subordinated status as a creditor should RBS go into liquidation, the bank was able to count as part of its capital. Regulations were tightened after the Global Financial Crisis to narrow the calculation of genuine equity (now called Common Equity Tier 1), and to ensure most of a bank's capital qualifies as Common Equity Tier 1. Other types of capital – Tier 1 Capital and Tier 2 Capital – are permitted but as a much smaller proportion of the whole.

This came too late for RBS – and the UK taxpayer.

RBS over-leveraged its own balance sheet, and became an unstable institution. This instability duly manifested itself in the take-over of ABN-Amro.

The consortium RBS created with Santander and Fortis would split ABN-Amro into three separate packages, and RBS would have ended up with a global network of branches and small subsidiaries, focussing on institutional, corporate and trading business.

In the process, the pieces of ABN-Amro with a stable deposit base were lost to it:

- LaSalle Bank in the USA had already been sold to Bank of America to try and dissuade ABN's suitors;
- Banco Antonveneto in Italy and ABN's Brazilian bank went to Santander;
- the Dutch and Belgian retail operations were to go to Fortis Bank, but this was never completed as Fortis collapsed – Fortis was nationalised in the Netherlands and re-launched as ABN-Amro, and its Belgian operations were sold on to BNP Paribas.

The part of ABN-Amro which RBS was left with was itself a 'bought money bank' like Continental Bank of Illinois, and it was to be added to a bank that was already highly leveraged with debt, with some of that debt being counted as a capital.

It beggars belief that Downing Street and Gordon Brown in particular were not fully aware and briefed about this extremely high-profile and risky transaction, and were not fully supportive, because RBS would jump well ahead of Barclay and Lloyds as global players, and would rival HSBC. An Edinburgh-based global bank – what was not to like?

It does not hold water that New Labour then – and the speaker now by implication – should disavow all knowledge and thereby whitewash their stance at the time. The part of ABN-Amro which RBS was left with did not constitute a good acquisition, and certainly not for the price RBS was paying:

- ABN-Amro held a large portfolio of Residential Mortgage-Backed Securities, as RBS did itself – through its subsidiary Greenwich Capital;
- This type of financial instrument was already showing signs of distress;
- ABN-Amro's global network of branches and small subsidiaries was known in the industry to be unprofitable;
- Its supposed jewel-in-the-crown – Global Transaction Banking – was one in which ABN-Ameo had invested heavily without garnering commensurate returns.

In fact ABN-Amro was known for a severe disconnect between the value of the business that its Global Transaction Banking salesforce claimed to have sold (recorded in the sales management system) and the value of the business once it had been onboarded. There was a further disconnect between the Global Transaction Banking 'Line of Business' Profit and Loss Account, and the 'whole bank' Profit and Loss Account. It now appears to be common knowledge in the Global Transaction Banking industry that RBS' acquisition team paid too much attention to the 'sales pipeline' and the 'Line of Business' Profit and Loss Account, and too little attention to the 'whole bank' Profit and Loss Account.

The Global Transaction Banking sales team routinely over-valued the business it thought it had won, thereby inflating their sales commissions.

The Global Transaction Banking 'Line of Business' Profit and Loss Account contained considerable income 'shared' or 'shadowed' from other 'Line of Business' Profit and Loss Accounts, meaning they were being double- or triple-counted within ABN-Amro Group. There was no certainty that the income would be acquired by RBS, for example if it was foreign exchange revenues booked into Banco Antonveneto: the revenues would go to Santander and would consequently disappear from the Global Transaction Banking 'Line of Business' Profit and Loss Account within RBS.

The acquisition value of ABN-Amro's Global Transaction Banking 'Line of Business' was calculated, as is normal, as this year's Net Asset Value plus the profits projected for the next five years discounted to a Net Present Value.

With this year's profits and therefore the current Net Asset value swollen by double- or triple-counting, and with future revenues swollen by the optimistic values recorded by the sales team, the acquisition value came out as being four or five times as high as the 'Line of Business' yielded once RBS had taken it over.

Two or three years after the acquisition, the 2008 'sales pipeline' should have resolved itself into the promised volume and value of business but it had not, and RBS were left with a global network of branches and subsidiaries which was unprofitable.

RBS had failed to understand the accounting and 'sales pipeline' practices of ABN-Amro and vastly overpaid.

The scale of this disaster at RBS and the size of the government bailout came to overshadow what happened just in the UK market, and that was convenient in shielding many a reputation.

Northern Rock's (NR's) 'heartland' – the North East of England – was a severe case of Rust Belt, having been strong in coal, steel and shipbuilding which had all virtually disappeared since 1979, when Margaret Thatcher came to power. Tony Blair's constituency of Sedgefield was located in this 'heartland'. NR could rely on national-level 'top cover' from the most senior levels, should any oik from the Bank of England or the Financial Services Authority start asking difficult questions – so they didn't, and neither did the government, because NR was doing exactly what the government wanted them to do.

NR was also a trailblazer in two other ways:

1. Sportswashing – blazoning its reputation by becoming associated with the region's leading sport brand, Newcastle United FC; and
2. Charitywashing – establishing its own charity organization to donate to regional good causes.

This all helped to deepen the defensive moat around NR and to build the NR 'brand': go-ahead, a poster boy for 'breaking the cycle of boom and bust', and leaving the traditional (Tory, City of London) financial institutions sucking wind.

Of course when it all went wrong the Labour government and Gordon Brown in particular feigned ignorance, over events at NR and at RBS, at Halifax Bank of Scotland (which took Lloyds Bank down with it), at Alliance&Leicester, at Bradford&Bingley, and at Britannia (based just outside Stoke-on-Trent). The clue was in the names: all up the North and Midlands, or in Scotland.

However, this was not the lesson drawn from the Global Financial Crisis. It was convenient that RBS was the highest-profile UK casualty, and that RBS' demise was followed swiftly by those of Bear Stearns and Lehman Brothers. The blame could be laid at the door of the City of London, and of supposedly excessive risk-taking in shares, bonds and derivatives, ignoring (i) that RBS' headquarters were in Edinburgh, and (ii) that the biggest UK disaster was in safe, stable, secure domestic mortgage lending.

How convenient that the massive injection of liquidity by central banks into financial markets to weather the Global Financial Crisis had the effect of stabilising real estate prices, and that the Bank of England's lending

criteria were expanded beyond ‘central bank money’: they began to accept Residential Mortgage-Backed Securities as collateral to lend against.

These measures enabled failed institutions – including NR – to be restructured and gotten off the books without a major loss for the UK government.

RBS, on the other hand, was moribund, kept breathing by the revenues from the dull, diversified, City of London, Tory, English bank – NatWest. At least it was able to refinance, at the Bank of England, the large portfolio of Dutch Residential Mortgage-Backed Securities that it acquired with the investment banking arm of ABN-Amro. It still can: the relevant wording appears in the documentation for what the Bank of England terms its ‘Level B Collateral Set’: ‘The most senior tranches of UK and Dutch prime RMBS, of the highest credit quality (broadly equivalent to AAA). The underlying assets must be homogenous pools of prime conforming first charge residential mortgages.’[20]

The Bank of England stepped in to replace the ‘missing investor’: the commercial banks who were unwilling to lend to RBS in as large a size as they had before, and the investors who had previously been willing to subscribe to the interest-bearing instruments that RBS counted in with their capital.

The basic model of borrowing remained in place and in fact has been strengthened ever since: this is the alternative model to making profits, paying dividends and attracting new capital for expansion because of dividends and capital growth,.

The replacement extends from replacement of capital/profits with debt, into substituting one type of borrowing for another:

- Money market borrowing by building societies instead of attracting customer deposits;
- Securitised borrowing from money markets instead of direct borrowing;
- Issuing interest-bearing instruments instead of equity;
- Off-balance-sheet or shadow borrowing instead of direct borrowing.

All of these changes reduce the stability of the borrower and of the marketplace. It makes a market-wide bust more likely. This problem seems to be lost on the Mais lecturer, which is not surprising, given that New Labour could do no wrong in her lexicon and laid down the principles for the rise in debt.

In the UK the wrong lessons were learned from the Global Financial Crisis, but it could not be otherwise when so many political reputations would have been ruined if the focus had fallen on the wider array of institutions who went under, rather than just on RBS.

Instead we got ‘ringfencing’, a turning-away from international and investment banking, de-banking of client sets with international connections – and a whitewash of the reputations of those who were at the helm in the run-up to the crisis. The Mais Lecture’s protestations demonstrate how effective this whitewash has been: it is possible that the speaker believes in it herself.

Critique of detailed phrases used by the speaker

p. 2 ‘the products of political and policy choices made over the last fourteen years, and of the instability that has accompanied them’ - and what of the choices made under New Labour, during whose tenure the Global Financial Crisis occurred, and in a way that enabled the obscuring of the nature of the UK financial crisis and the crash of the UK ‘rust belt’ lenders?

p. 3 ‘The decline or disappearance of whole industries, leaving enduring social and economic costs and hollowing out our industrial strength [as a result of Nigel Lawson’s policies]’ – these industries were already in decline and were surviving on subsidies from the rest of the country, under The Social Contract , a deal

[20] Bank of England Sterling Monetary Framework Level B Collateral Set, 19th May 2022, p. 2 accessed on 31 March 2024

between the Labour government and the trade unions made round a table at which those made to pay for it were not represented at the table. Such a contract would have been null and void in Germany (‘Kontrakt zulasten Dritter’ – contract to the detriment of third-parties).

p. 3 ‘For a decade, the last Labour government offered stable politics alongside a stable economic environment’ – yes, in the sense that one could measure as a ‘decade’ the time between New Labour’s election on 1st May 1997 and the date of 14th September 2007 when Northern Rock received liquidity support from the Bank of England.[21] After this supposed, and actually false, period of stability, it all went to pot with the crash of the UK’s rust-belt lenders.

p.3 ‘In New Labour’s analysis, growth required on the one hand macroeconomic stability, and on the other supply side policies to enhance human capital and spur innovation’ - this is a whitewash of what occurred. There was no macroeconomic stability in the UK, or globally. Trying to make out that macroeconomic instability at a global level cut the party short is a technique that, in analysing the financial crisis of 2007-2012 (including the eurozone one) allows a narrow focus on Royal Bank of Scotland and Lehman’s, on US$ Residential Mortgage-Backed Securities and on Northern Rock’s Granite securitization structure. It deflects attention from on-balance-sheet property lending as practiced by the UK’s rust-belt lenders, by Irish banks (which led to the bailout of the Republic of Ireland in 2010), and to the Eurozone sovereign debt crisis of 2011-2, in which bad property lending in Greece, Cyprus and Italy featured prominently. In all those cases, artificially low interest rates stimulated a false boom and an illusion of stability and prosperity. The rapid growth of the UK’s rust-belt lenders was central to New Labour’s economic approach, and it ended with a crash – belying Gordon Brown’s empty boast that New Labour had ended the cycle of boom-and-bust: all they did was save up the fallout from regular economic corrections into one massive bust.

p. 3 ‘What followed was a decade of sustained economic growth, stability, and rising household incomes’ – again, a ‘decade’, from 1997-2007, forgetting the final three years of the great bust.

p. 3 ‘Austerity: the decision, in the context of historically low interest rates and slack in the economy, to sharply tighten fiscal policy. Not only did it do severe damage to our social fabric and to our public services, but at a time when government could borrow and invest more cheaply than at almost any previous point, the failure to do so was an act of historic negligence. Not just wrong in the short-term, macroeconomic sense, but also a failure to grasp a unique opportunity to undertake much-needed investment in our productive capacity’ - so no spending reduction was needed after New Labour? And what has been the result of the ‘austerity’ we have supposedly had? Debt-to-GDP of 100%. Whilst New Labour was in power, the UK’s Debt-to-GDP ratio rose from 38% to 63%.[22] [23] The amount of debt rose from £357 billion to £1.07 trillion, a rise of 200%.[24] This does not include debts under the expansion of Private Finance Initiative, which count as private sector debts even though the debt service depends upon the debt service capacity of the public sector. Has the further increase in debt to 100% of GDP not been adequate? To what level should it have been raised?

p. 4 ‘Gordon Brown called the 2008 financial crisis ‘the first crisis of globalisation’ – this is a more palatable explanation for Gordon Brown to give than that it was ‘part and parcel of my own litany of mistakes’.

p. 11 ‘And on trade union legislation, we will reverse changes since 2010 that have done nothing to prevent the worst period of disruption since the 1980s…These policies didn’t exist under Blair and Brown when there were fewer strikes and less disruption.’ – already commented upon earlier: a declaration full of non-sequiturs.

[21] https://en.wikipedia.org/wiki/Nationalisation_of_Northern_Rock accessed on 31 March 2024
[22] https://www.economicshelp.org/blog/7568/debt/government-debt-under-labour-1997-2010/ accessed on 31 March 2024
[23] https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=GB accessed on 31 March 2024
[24] 1997: US$1.56 trillion x 38% /1.66; 2010: US$2.49 trillion x 63% / 1.46; FX rates taken from https://www.macrotrends.net/2549/pound-dollar-exchange-rate-historical-chart accessed on 31 March 2024

Centrally-planned economy – we're back in the USSR

The speaker protests (too much) that her administration of the economy will not be interventionist, top-down, directive, Whitehall-centred and bureaucratic, but, given what little the speaker tells us of how the economy will be run, it is hard to imagine any other outcome. If the economy is forced into the shape of a duck, if only duckspeak is used, if the role of business is reduced to quacking approvingly at whatever the authorities propose, and if business' freedom of movement on land is limited by the shape of the feet it is compelled to adopt, then the economy will end up as a duck, and a lame one.

Will we see return to the era of actual nationalisation, with its inefficiency, its lack of penalties for poor financial performance (because the taxpayer would always step in), and its commercial failure?[25] A reason could always be found for more public money to be injected into British Leyland, British Steel, British Shipbuilders and many, many more – that the industry was 'strategic', that it was vital to 'communities', that the UK would have to import the equivalent goods (an anathema, even if the imported alternative would have been 40% cheaper). The arguments the speaker makes for the 'active state' fall into the same bucket.

At any rate we are in for a lot more state direction, which means regulations, red tape and bureaucracy. It is interesting that the head of the International Monetary Fund has warned of the weak growth prospects for global growth over the coming years.[26] The IMF's medicine includes reductions in borrowing and less red tape, as well as rebuilding 'rainy day funds', which would surely mean reserves, rather than spending everything as it comes in. The IMF's statement includes utterances that are more Delphic (a habit that is catching on amongst the global elite) such as 'foundational reforms' and 'strengthening governance', the latter sounding like an endorsement of more government in order to do more governance. However, on the whole the rallying cry was for classic supply-side remedies: less debt and less bureaucracy/regulation. The appeal for 'better access to capital' could also be read as a reversal of the trend of replacing capital (i.e. equity) with debt, although the term 'capital' may be being used in a more generalized sense, to refer to either or both of equity capital and debt capital – meaning money that is available to its taker for a long time.

Perhaps the strongest indication of a fundamental disagreement with the Mais lecturer is in the IMF CEO's citation of Winston Churchill: 'This is no time for ease and comfort. It is time to dare and endure'. Instead the Mais lecturer seems to want to establish a stable, safe and secure environment, normally one that only occurs behind castle walls.

Indeed there is a definite aura of protectionism around the vision the speaker paints. 'Security', 'stability', onshore manufacturing, meeting domestic demand from domestic supply, 'good jobs' fit in a picture where international trade plays little role. This may well fit with the need for a strategic reorientation of the USA – from offshoring manufacturing into China in particular – but it is not a model so easily transportable to a country that has always engaged in international trade on a large scale for its size.

The speaker's words give no detail at all about how this transformation of the UK economy will occur. Nevertheless there is an impression purveyed that the UK will be transformed back into something it was before 14 years of Conservative government, 2007 being the likely model. The speaker is reactionary in wanting to regress, but without admitting that the UK economy as it inherited it in 1997 was based on the traditional 'supply-side' principles that the speaker now rejects, and that this enabled New Labour to have a lengthy honeymoon period as Gordon Brown retained that architecture in the name of stability or some such, notwithstanding that New Labour had constantly trashed the Tories' record in the run-up to the 1997 election.

The truth is that Gordon Brown at some level recognised that the Tories had dealt New Labour a very good hand of cards, bequeathing an economy that proved the validity of traditional 'supply-side' principles. It provided a solid and stable base for the application in due course of the New Labour policies which proceeded to trash the Tories' legacy. 1997-2007 was not a success of any Labour economic principles, but rather an

[25] https://www.economicsonline.co.uk/business_economics/nationalisation.html/ accessed on 2 April 2024
[26] https://www.telegraph.co.uk/business/2024/04/18/ftse-100-markets-latest-news-oil-interest-rates-inflation/ accessed on 18 April 2024

experiment in how long it takes for the application of anti-supply-side policies – raising taxes, increasing regulation, increasing borrowing both directly and in the shadows – before the roof falls in.

The answer to that question is about six years. Gordon Brown persisted with the Tories' policies for New Labour's first term, in which they unmeritedly gained a reputation for economic prudence. Having achieved an unchallengeable majority in the 2001 election, New Labour proceeded to enact its genuine programme – 'modern supply-side' - but flying under the flags of fairness and the modernisation agenda rather than Net Zero - and the roof fell in in 2007. The outgoing First Secretary to the Treasury left a note for his successor that there was no money.

'Modern supply-side' principles are pretty much exactly what Labour served up between 1964 and 1970, and then between 1974 and 1979, albeit again flying it under different flags. In 1964 Labour came into power on the back of boom that had run out of steam in 1964 (the 'you have never had it so good' MacMillan era) promising the application of the 'white heat of technology', and, in 1974, a Wilson administration came in on the back of high inflation and low growth, with repeated interruptions thanks to industrial action.

At both times Labour applied similar cures to what the speaker is now proposing to the UK's ills (however it assessed them at the time), and neither ended well economically, and nor did the New Labour era.

Now the supposed imperative that UK society must achieve Net Zero can be used as a coercion tool to force UK society to endure many detriments (although the speaker does not admit to them). The speaker generalizes the transition to Net Zero without bringing it down to the impact on individual people and businesses.

One of Margaret Thatcher's least understood phrases – 'there is no such thing as society' – was made in relation to the subsidisation of loss-making nationalised industries by the UK state. It was a rejoinder to the common claim that 'society should be willing to pay for…', except there was no such thing as society paying, it was other people through higher taxes, lower earnings, lower pensions and so on. 'There is no such thing as society' meant that there was no body – 'society' – that had an endless supply of money to distribute, without there being a penalizing effect on all individual citizens.

Conservatives used to hold to this, that there was no 'Magic Money Tree', but in recent years it proved the opposite through its own hand-outs during the Pandemic, and it has permitted the Bank of England to engage in a 'Magic Money Tree' experiment that has now blown up in its (or rather the tax payer's) face.

This experiment in distributing an endless supply of money – Quantitative Easing – has been pursued as if it could have no penalizing effect on individual citizens. The intellectual backing for this experiment is called 'Modern Monetary Theory'. In fact the penalizing effect is the £130+ billion of losses now that interest rates have increased. Even the OBR, silent while the bubble was growing, is having to admit that this cost has an impact on taxation and spending decisions.[27] The losses are cash losses: the Bank of England makes a loss of £5 million if it sells for £95 million a bond that it bought for £100 million. This loss is passed back to HM Treasury, and becomes part of the annual fiscal deficit (the UK has not run a fiscal surplus for some years).

The fiscal structure of the UK's budget is quite simple at the highest level. Last year's national debt plus this year's fiscal deficit results in this year's, higher, national debt. The new amount of debt that needs to be issued this year is this year's fiscal deficit plus the maturities of existing national debt.

The Bank of England's losses either directly increase the new amount of debt that needs to be issued, or else, if it is unacceptable to increase debt by more than a given amount, the fiscal deficit needs to be reduced, either by increasing taxation or cutting spending. That is the result of the 'Magic Money Tree, or of 'Modern Monetary Theory'.

A future Labour government might, like New Labour, attempt to split the creation of new liabilities for the taxpayer between new national debt and shadow debt. Shadow debt, taken on through PFI structures, creates

[27] https://obr.uk/box/the-fiscal-impact-of-quantitative-easing-and-quantitative-tightening/ on 2 April 2024

a financial liability for the taxpayer without its increasing the national debt. This is 'creative accounting' and masks the true amount of debt, by hiding some of it off the public balance sheet.

There is a limit to the amount that can be raised as new visible national debt without substantial growth, as the UK's Debt-to-GDP Ratio is already near to 100%. That might have been sustainable when interest rates were 1%, but not at 3-4%, or even higher. Visible national debt is defined as 'General government gross debt', a measure generally agreed upon at a global level.

More likely the new consensus is that debt markets can be bamboozled by the new debt being structured as 'shadow debt', where the public can be made to take the same risks but without the government being the direct borrower, or indeed without any public sector entity being the direct borrower. This is what is frequently meant by public/private partnership, and its examples are PFI and InvestEU. The debt contracted within such structures falls outside the definition of 'General government gross debt', even if the debt service is dependent upon the same actors – individuals and businesses.

These structures are useful as they allow the direction of resources by the government, as an alternative to the allocation being decided by markets. The direction is enacted through the eligibility criteria for the scheme, but it is nonetheless state-directed. The reward for getting involved is the creation of a partial monopoly over the respective right to supply, or price subsidies. In effect the government supplants the market as the arbiter of whether projects get funded and go ahead or not,and the lever it pulls to do this is usurped from the user: the right to buy supply from whoever they like and at the best value, value being Price plus Performance. Instead the user is locked in to having to buy from the government's appointed supplier.

It is distressing that, even while the Conservatives have formed the national government, local and devolved administrations of the Left have enjoyed the freedom to engage in direct business and to lose their (or rather the general public's) shirt:

- Robin Hood Energy, the disastrous foray of the Labour local authority in Nottingham to become an energy supplier;
- The Ferguson Marine shipyard in Scotland that has been contracted to build new ferries for Caledonia MacBrayne, with delivery running years late and tens of millions of pounds over budget.

We can expect much more of that, directed by the speaker.

Critique of detailed phrases used by the speaker

p.1 'active government' – which is means interventionist and directive.

p. 2 'Because a model based on the pursuit of narrow-based, narrowly-shared growth – with ever-diminishing returns – cannot produce adequate returns in growth and living standards, and nor can it command democratic consent.' – this formulation is based on an unsupported critique. Where is the proof that the UK has had 'narrow-based..growth', and what does that even mean? Similarly, where is the proof that the UK has had 'narrowly-shared..growth', and what does that mean? Has the UK had 'ever-diminishing returns'? Where is the proof of that? Might the diminishing of returns, if it has occurred, be attributable to high rates of taxation, multiple lines of taxation, and inadequate returns on a risk-free investment (thanks to the Bank of England's interest rate policy)? Anyway, how can inequality be widening, as the speaker claims elsewhere, if returns are diminishing? If they are, inequality should be narrowing. What does 'adequate returns in growth' mean? Growth should produce returns, if the growth carries a profit margin; the formulation 'narrowly-shared growth..cannot produce adequate returns in growth' is senseless if one eliminates the phrase ' – with ever-diminishing returns –'. Likewise the formulation 'the pursuit of narrow-based, narrowly-shared growth.. cannot..command democratic consent' is a phrase that appears to carry meaning, but what is its use?

p. 3 'an inadequate view of the appropriate policy levers, assuming that the state had little role in shaping a market economy' – what is 'an inadequate view of the appropriate policy levers'? Is it the same as not using available policy levers? Or is it, as it says, looking at the 'appropriate policy levers' in a correct way? If so, what

are these levers, what is the incorrect way of looking at them, and what is the correct way? Once again, the speaker's phraseology makes it sound as if there is an important point lurking in there, but one has to guess at what it is – except that, in this case, a future Labour government will look at many 'policy levers' and operate most or all of them: it will be highly interventionist and directive.

p. 4 'Investment was suffocated' - is that the role of government, to lead investment, and (mis)allocate resources? Was investment 'suffocated'? What investments exactly, and how were they suffocated?

p. 4 'Labour's Green Prosperity Plan' – this has the ring of a Stalin Five Year Plan, and more so a Mao Great Leap Forward. The phrase implies a definite correlation of 'Green' with 'Prosperity', just like Mao's 'Leap' was correlated with the direction of 'Forward', as opposed to what it really did – to put back the Chinese economy by a decade.

p. 5 'Securonomics is about providing the platform from which to take risks' – this is an oxymoron, and an example of a deception. There is no security in taking risks – that is why it is called a risk. Securonomics must therefore be a fallacy.

p. 6 ' Our ability to embrace that consensus ['the emerging Washington consensus'] will depend on an active state.' – the phrase has two false premises, firstly that there is a consensus in the first place, and secondly that it must be good, as is inferred by the usage of the word 'embrace': one would rejects a bad consensus and one only 'embraces' a good one. The speaker supplies no proof that the consensus exists or is good, yet it is used as the reason for there to be an 'active state'. The legitimisation for there to be an 'active state' is therefore based on fresh air.

p. 6 'There are those who warn that to embrace the active state is to return to the big state: to the top-down, Whitehall-knows-best government of the past.' – and where is the proof that it won't be? The evidence in this lecture strongly implies that it will be.

p. 6 'Securonomics advances not the big state but the smart and strategic state.' Oh really? And what does this 'smart and strategic state' look like? Does the average UK citizen experience the state as 'smart and strategic' at the moment, rather than as a lumbering, blundering colossus, expending £77 billion a month and hiding behind its complex of digital technology and 'working from home'?

p. 6 'Working together to form an assessment of the industries which will be critical in determining our future – across our broad based services strengths and our manufacturing specialisms, and being strategic about our real choices and our limits.' - how is that to be achieved and who will be at the table making the decisions? Who will nominate those people? Who will be 'working together'? The actual operative word is 'determining': whoever is involved will dictate the UK's future. It will not be left to the people of the UK.

p. 6 'Accepting that a country the size of Britain cannot excel at everything. Acknowledging those sectors in which we enjoy – or have the potential to enjoy – comparative advantage and can compete in a global marketplace; those sectors where strategic concerns might shape our approach; and those sectors where we must rely on others.' - will the government inhibit the sectors where it does not think the UK can have an advantage, so as to dissuade those who want to have a go and take a risk of failing?

p. 6 'shaping the institutional architecture of the British economy in the direction of mission-led government' – putting an 'institutional architecture' – i.e. government control – at the controls of the economy. 'Mission-led government' sounds very 1984: it is a centrally-directed economy and a centrally-planned one.

p. 7 'the Treasury's Enterprise and Growth Unit, squarely focused on driving economic growth' – 'squarely focused' sounds impressive, but probably will not be the day-to-day experience of those interacting with it. The speaker proposes a central economic planning unit in the Treasury, and the speaker expects to be in charge of the Treasury. In other words the speaker will determine the UK's economic future.

p. 7 ‘investment – fostered through partnership, between dynamic business and strategic government’ – lots of adjectives but essentially empty phraseology, and no detail.

p. 7 ‘it is institutions which can provide the stability of direction, coordination, and appropriate incentives for sustained economic success’ – this is a very one-sided and sycophantic rendition of the role of ‘institutions’ in an economy. An equally likely outcome is that the impact of ‘institutions’ is in limiting both risk and reward, determining what counts as ‘sustained economic success’, and limiting rewards for business until the ‘institutions’ deem that this success has been achieved. That means a centrally-planned and -adjudicated economy, with little role for markets. It means big government, ‘institutions’ meaning central or local government, quangos, other NGOs, and thousands of powerful bureaucrats on the public payroll who receive rewards without taking any risk whatsoever.

p. 8 ‘A modern industrial policy must be strategic, and it must be selective. Selective, because we cannot do everything and nor should we pretend otherwise.’ - so where is the proof that HM Treasury and/or its quangos have the ability to be strategic and to select successfully? For the track record of Whitehall in the world of business we need look no further than the emerging disaster at the ‘Future Fund’ of the British Business Bank.[28]

p. 9 ‘we will work with our universities to make sure spinouts can attract private capital as they seek to grow’ – having made universities Labour’s clients, Labour will intervene in the spin-out process, no doubt requiring a new quango to oversee that, predicated on the assumption that Labour can add value to the process and that the ‘investments’ turn out to have value. Bureaucrats + Labour clients + money has a habit of leading to disaster.

p. 9 ‘growth and competitiveness in the 2020s and beyond will rest on contribution: mobilising all our resources – the human potential found in every town and city’ – the usage again of ‘mobilising’ echoes EU nomenclature, as well, uncannily, as Goebbels’ valediction about mobilising all the Reich’s human and physical resources for ‘Total War’.

p. 10 ‘mandatary local housing targets;…and bring forward the next generation of New Towns’ – this sounds like a re-run of 1997-2007, with huge quantities of money being spent on new real estate, and a consequential concreting-over of further large areas of the UK. How does that square with achieving Net Zero? ‘Mandatory local housing targets’ means that someone must set the targets, a bureaucrat, and they will be imposed, i.e. through some form of coercion. This reduces the control of the individual on the environment in which they will and eliminates their remedies for opposing developments they do not like. In other words it impinges on the freedom of the individual.

p. 12 ‘Investment, through partnership between strategic government and enterprising business’ – meaningless strings of words on the surface, but interpretable for those familiar with New Labour: it means a new version of Private Finance Initiative. If major resources are to be devoted towards Net Zero, it means schemes like those ‘mobilised’ under the EU’s InvestEU progarmme.

[28] https://www.accountingweb.co.uk/business/finance-strategy/future-fund-doubts-simmer-as-start-ups-collapse accessed on 2 April 2024

More quangos – and quangocrats to populate them

The new system of government promises an extension of the system of quangos – quasi-autonomous national government organizations. The accountability of these bodies to Parliament – and to voters - varies from reasonably direct to effectively non-existent. They have proven to be a field through which an extensive supporters club can be put on the public payroll or, put another way, an opportunity for patronage.

Patronage has already expanded the army of right-thinking, centre-left people who populate, inter alia:

- Non-executive director positions in private companies;
- Trustee bodies in the National Health Service;
- Charities;
- Arts and culture bodies;
- Quangos;
- Public projects such as Access to Cash and Open Banking;
- The boards of organizations like, in banking, the Financial Conduct Authority, the Payment Systems Regulator, the Financial Ombudsman Service, the Pensions Regulator, the Financial Reporting Council, Reclaim and many, many more.

Quangos become dangerous if they have both a meaningful degree of autonomy as well as of power, even worse if they have no expertise specific to the domain they are meant to be overseeing. That is where DEI and ESG come in – Diversity, Equity and Inclusion, and Environmental, Social and Governance – constituting alternative 'skill sets'. Possessors of these skill sets can be parachuted into senior positions at any organization as they are by nature not specific to any particular domain and are arguably (by their supporters) a requirement of all organizations.

DEI and ESG are useful passports for the appointment of nomenklatura with no track record other than of sitting on boards, panels, advisory groups, trustee bodies and talking about DEI and ESG. In function of the degree of importance accorded to DEI and ESG by the nomenklatura themselves (and it will perforce be high), the number and seniority of positions for which DEI and ESG become the prime qualifications proliferates, to the extent that these become the dominant skill sets amongst the organs of authority.

Critique of detailed phrases used by the speaker

p. 4 quangos will be required for the management and supervision of 'Labour's Green Prosperity Plan'.

p. 5 'Governments and policymakers are recognising that it is no longer enough, if it ever was, for the state to simply get out of the way, to leave markets to their own devices' - blandishments that justify more quangos filled with 'policymakers' who, because they are separate from 'Governments', do not need to be elected and are not answerable to the public. International quangos are no doubt the prime movers in 'the new Washington consensus' (p. 6), whatever that is and through whatever 'institutions', to quote the speaker's favourite noun, it will be focussed: the World Bank? The International Monetary Fund? The World Economic Forum?

p. 7 'getting the institutional framework right, and enshrining that core growth mission within our economic architecture' – the economy will therefore be structured around a series of quangos, who will be declared to be 'institutions', to lend their existence a solidity and their processes/outputs a respectability that neither will merit. There will also be the need for detailed and time-consuming processes whereby these 'institutions' interact with one another to achieve a consensus on any particular issue, with the necessary wasting of attention, money and resources, and the squandering of opportunity, ensuring that their ultimate remedies to whatever problem they thought they were being presented with will be out-of-date when they are applied.

p. 7 'push ahead with a UK Green Taxonomy.' – supervised by another quango, and packed with quangocrats to carry out its role, whatever a 'Green Taxonomy' is.

p. 8 'Partnership for investment will be embodied in a new British Infrastructure Council, which I have established in shadow form with representatives from some of the biggest UK and global investment funds – and in a revived and strengthened Industrial Strategy Council, placed on a statutory footing' – two more quangos, packed with reliable bottoms to keep the many seats warm. If the 'Industrial Strategy Council' requires reviving, it is because it is now moribund and probably for good reason: a lack of added value.

p. 9 'Public investment will be delivered through Labour's Green Prosperity Plan, driven by new institutions: a National Wealth Fund and Great British Energy' – two further quangos, packed with reliable bottoms to keep the many seats warm.

p. 9 'we will work with our universities to make sure spinouts can attract private capital as they seek to grow' – there is a potential here for another new quango to oversee the spin-out process and to intermediate between universities and the sources of private capital, as well as to make sure that universities remain on-message, Labour's message, that is, or they won't get their added money.

p. 10 'recruit hundreds of new planners to tackle backlogs' – extending the public payroll, increasing the public sector's day-to-day costs which are supposed to be in balance with revenues and not funded by borrowing. That means higher taxes, higher future public sector pension rights and so on.

p. 10 'our skills effort overseen by a new national institution, Skills England' – another quango, except that our nation is the United Kingdom, not just England. Or can we look forward to three new equivalent quangos in Wales, Scotland and Northern Ireland?

Net Zero – the big revenue earner, oh yes

Labour has its 'Green Prosperity Plan', in which 'Green' and 'Prosperity' are put together as if their connection was an established fact, instead of a conjecture, or even an oxymoron.

The concepts are alien (i) that decarbonising the economy can at best be financially neutral – because it is about building replacement, not new, capacity – and (ii) that it could represent a major cost with no return, other than supposed risk reduction: the outcome of the supposed risk of doing nothing about Net Zero will not be tested, so there will be no way of comparing that outcome with the one resulting from this 'Green Prosperity Plan'.

Net Zero is a cornerstone of 'modern supply-side economics' so it must be a gold mine or the whole set of theories falls to bits. Net Zero cannot be seen as a cost, imposed on the basis of theoretical computer models. Net Zero must be seen as an imperative along the lines of 'Do you want to achieve Net Zero or do you wish for the certain destruction of all life on earth?'

This is a false choice, of course, and it bears comparison with Pascal's Wager about the existence of God. Pascal's Wager rests on the contention that a person who believes in God will live a good life, like someone who is environmentally-aware now. There are four possible outcomes under Pascal's Wager:

Belief	Lifestyle	God or no God	Outcome
Believe in God	Live a good life	God exists	Eternal life
Believe in God	Live a good life	God does not exist	You did good
Don't believe in God	Live a bad life	God does not exist	It didn't matter
Don't believe in God	Live a bad life	God does exist	Eternal hell

The outcomes from belief in God are both good. Non-belief delivers one neutral outcome and one disaster. That means it is a 2-1 shot to believe in God. A betting person should always put their money (and belief) on God's existence. That is why it is a Wager.

The Net Zero equivalent is:

Belief	Lifestyle	Net Zero?	Outcome
Believe in Net Zero	Live an eco-life	Climate change is man-made	You did the right thing
Believe in Net Zero	Live an eco-life	It isn't	You did something
Don't believe in Net Zero	Live a high-fossil life	It isn't	It didn't matter
Don't believe in Net Zero	Live a high-fossil life	Climate change is man-made	You wrecked Earth

This is not a 2-1 outcome like Pascal's Wager. There is one disastrous outcome – the final one – and a neutral one – the third one. The difference is in the second combination whereby you believed in Net Zero and acted accordingly, but then climate change turned out not to be man-made: your course of action was irrelevant at best. You took active steps to pursue a low-fossil lifestyle which, given that climate change was not man-made after all, was at best of the same level of irrelevance as if you had lived a high-fossil lifestyle. When one states 'at best', it is possible that you supported and endorsed costly adaptation measures that had negative impacts on others, as part of a Net Zero effort that moved focus away from other real issues, misallocated resources, and may have taken mankind backwards for no reason.

The outcome is a 1-1 and not meriting the level of moral blackmail currently prevalent in wider society, and implicit in the Mais Lecture.

The technique of coercion towards Net Zero is more like how certain self-proclaimed Christians use the tool of Blasphemy against the Holy Spirit to silence opposition. According to Matthew 12:31, Christ said 'Therefore I say to you, any sin and blasphemy shall be forgiven people, but blasphemy against the Spirit shall not be forgiven.' Building on that level of threat – which means being cast into Hell eternally - a self-proclaimed Christian may attest that they have been inspired by the Holy Spirit to take one or other action, or to make one

or other claim. In the face of any opposition they can then have recourse to Matthew 12:31 and denounce that opposition as Blasphemy against the Holy Spirit. The claim rests on their self-attestation of inspiration by the Holy Spirit: casting doubt on that ranks as blasphemy, a convenient self-contained argument and a bogus one.

In the case of Net Zero the equivalent words of excommunication (the 'anathema') are 'you want to destroy the planet'. In the case of the Mais Lecture this is turned around to mean 'If you are concerned about the planet, you must agree to huge shadow borrowing and government-dictated schemes, and to paying more taxes and higher prices for goods and services'.

The line of argumentation is a series of bogus non-sequiturs, resting on a form of blackmail.

In reality Net Zero will be a cost, not an opportunity.[29] The Resolution Foundation – one of the speaker's favourite think tanks – has inconveniently noted that the cost of borrowing for Net Zero 'in renewable energy project has climbed from around 5% in 2019 to 9%'. That is about 4% over the current Bank of England Base Rate of 5.25% and, currently, about 5% over the yield on longer-term government bonds. It is estimated that households will have to bear an additional cost of £29 billion per annum up until 2050 as a result, or £400 per household per annum.

Where the Resolution Foundation refer to a 'renewable energy project', the financing structure is exactly as it is under Private Finance Initiative and InvestEU, with low risk for the lenders, but the complexity still commands a 5% per annum premium over the structure whereby the government borrows and builds the project. That will be the cost to the British public of the speaker's borrowing binge in a budget separated from the budget for day-to-day costs.

That's the trouble with making yourself a hostage to Leftist think tanks: they can go off-message.

Critique of detailed phrases used by the speaker

p. 2-3 'the stop-go cycle of capital investment – the new 'British disease' – in which short-term instability inhibits investment and drives up infrastructure costs, resulting in fewer, and smaller, new capital projects' – this is conjecture. It is not a proven fact that it is 'short-term instability' that 'inhibits investment and drives up infrastructure costs'. It can equally be attributed to environmentalism, for example in the resistance to the extension of the Norwich Relief Road.[30] A single environmental quango – Natural England – has been permitted to block the project and thereby drive up its costs, based on its sole and unchallengeable opinion, unchallengeable because it is both autonomous and invested with significant power.

p. 3 'the challenges of climate change and the net zero transition' – as if the need to transition were an indisputable fact.

p. 4 'Labour's Green Prosperity Plan', noting how 'Green' and 'Prosperity' are put together as if their connection was an established fact, instead of a conjecture, or even an oxymoron.

p. 4 'the climate crisis. The energy transition presents great opportunities – improved resilience, lower energy costs, jobs and growth from new technologies – for those swift to grasp them' – it has to be a 'crisis' or else the urgency for action does not exist. The speaker claims there are 'great opportunities', without proof that (i) they will definitely come about at all; (ii) they will be 'great'; (iii) there are not other ways of achieving the same thing. It is as if there were an imperative to pursue Net Zero aggressively for any of these things to come about.

p. 4 'We have already seen shortages on our supermarket shelves as a result of droughts, storms and rising temperatures. More will follow.' – this is an absurd set of claims. Have there been 'shortages on our

[29] https://www.telegraph.co.uk/business/2024/04/22/households-face-400-pound-hit-net-zero-switch/ accessed on 22 April 2024

[30] https://www.telegraph.co.uk/news/2024/04/04/liz-truss-fights-save-274m-norfolk-road-project-blocked-bat/ on 4 April 2024

supermarket shelves' attributable to these factors? How bad? How long-lasting? How often? What exactly was missing and for how long? Can we do without it? Was it even widely observed? Does Extinction Rebellion blocking motorways fit under the definition of 'rising temperatures' as one of the reasons why supermarket shelves became empty?

p. 4 'We know too – as the Office for Budget Responsibility has argued – that the future costs of failure to address the climate crisis will far outweigh the cost of action today.' – we have analyzed this statement elsewhere. The speaker appears unsure whether Net Zero is a revenue opportunity in its own right as is claimed elsewhere, or the incurring of major costs today in order to avoid even greater costs in the future.

p. 5 'in recent years, we have paid the price for neglecting our energy security' - so, to counteract that, we shut down the North Sea and/or impose taxes at a level that dissuade investment, as Labour proposes.

p. 7 'But monetary policy and financial regulation cannot stand still, in the face of new risks, not least those posed by climate change. The European Central Bank's Isabel Schnabel has set out the implications for monetary policy of climate change' – the interconnection of climate change with monetary policy and financial regulation is a contention, not a fact, but one that has allowed central bankers to virtue-signal. The fact that Ms Schnabel has 'set out implications' does not make them true: they are a list of contentions, for debate and challenge, although the forum for such debate and challenge is absent within the network of autonomous quangos (of which the ECB is an example).

p. 7 'the onus to mobilise investment to achieve our energy transition' – 'investment' meaning borrowing and spending, with the world 'mobilise' being a favoured one in EU financial circles. It is particularly used in the InvestEU programme, the scheme of the European Investment Bank Group (the self-dubbed EU Climate Change Bank) to generate off-balance-sheet financing for green projects.

p. 7 'Labour has already set out plans to require financial institutions and FTSE 100 Companies to publish their carbon footprints and adopt credible 1.5-degrees-aligned net zero plans' – further regulation of the private sector, imposing more costs on it that diminish productive investment and economic growth, by limiting available rewards. A quango will be needed to adjudicate whether plans are 'credible', and whether they are 'aligned' to a rise in global temperatures of 1.5C above pre-industrial levels by 2100, with the alignment pathway either leading to no excess over the 1.5C level at any time or to a fall back to 1.5C after an overshoot in the meantime.[31] It will be interesting to see how eMoney companies, a type of financial institution which, however small, will have to publish their carbon footprint and plan, will be able to put together any plan for how their activity impacts on the issue, let alone a credible one. More interesting will be the submissions of enterprises that use blockchain or Distributed Ledger technology, which have very high energy usage.[32] The speaker, like the current City Minister, has been much courted by the Fintech industry, within which crypto asset enterprises reside, and has expressed support of this industry as strategic and forward-looking: Labour's 'Financing Growth – Labour's Plan for Financial Services' paper, signed by the speaker, has as point 5 of the Executive Summary on p. 7 the following language:
'Embrace innovation and fintech as the future of financial services by becoming a global standard-setter for the use of AI in FS, delivering the next phase of Open Banking, defining a roadmap for Open Finance, embracing securities tokenisation and a central bank digital currency, and establishing a regulatory sandbox for financial products to reach underserved communities.'

p. 8 'Because there can be no durable plan for economic stability and no sustainable plan for economic growth, that is not also a serious plan for net zero' – the confidence of this statement belies its non-sequiturs: a 'serious plan for economic stability' cannot also be a 'serious plan for net zero' as the latter requires a revolution that cannot fail to be disruptive. A 'sustainable plan for economic growth' is only coherent with a 'serious plan for net zero' if one believes that Net Zero is a money earner and not a money pit. The jury, or anyway twelve impartial and reasonable observers, should be out on that.

[31] https://www.ipcc.ch/sr15/chapter/chapter-1/ on 4 April 2024
[32] https://rmi.org/cryptocurrencys-energy-consumption-problem/ on 4 April 2024

Pillage private pensions to pay for Net Zero, if there is anything to pillage

Labour intends to pillage private pensions – Defined Contribution Schemes – to pay for Net Zero. The speaker's paragraph on p. 9 is a clear indicator of this:

'But unlocking private investment will also require institutional reform. Take our pension funds. Although Defined Benefit pension funds necessarily have portfolios that are increasingly geared towards less risky investments, Defined Contribution funds are expected to grow to more than £1 trillion by the end of this decade. But, partly as a result of our fragmented DC landscape, these funds are less invested in productive assets than in many other countries. This means lower returns for British savers, who do not benefit from diversification into private markets, and less patient capital available for growing British firms and our infrastructure. Labour will actively drive forwards DC fund consolidation and will, in government, launch a review of the pension system, to ensure it is serving British savers and UK PLC.'

The intention is to 'offer' owners of the funds in these schemes the opportunity to part-fund the transition to Net Zero. That this is an 'opportunity' is predicated on the belief that Net Zero is a money earner, not a money pit.

We need to go phrase-by-phrase through the paragraph to recognise what could be planned. At a high level it is simply that private pension schemes contain a lot of money and that Labour's plans need a lot of money. At the next level these private pension schemes are a softer target than Defined Benefit schemes for four reasons:

1. Defined Contribution schemes are owned by individual people, who have little market power;
2. The funds in those schemes are usually managed by large investment companies who are happy to buy and sell individual holdings as this creates income on the 'churn', levy their management fees whether the value of the fund increases or goes down, and are biddable as part of the extended system of patronage referred to above;
3. Defined Benefit schemes are normally run by large companies and 'institutions', of the type to which the speaker is so sycophantic;
4. The investment values of Defined Benefit schemes have been reduced sharply by their participation in Liability-Driven Investments.

Critique of detailed phrases used by the speaker

Phrase	Commentary
unlocking private investment	Which differs in what way from taxation, or from coercion? It is unlikely to be an offer of a superior mix of risk and reward, and certainly not of unlimited profit potential as exists with shares
institutional reform	A Delphic formulation when applied to private pension schemes owned by their beneficiary
our pension funds	They are not 'our pension funds': they are not collectively owned, they are individually owned
Defined Benefit pension funds necessarily have portfolios that are increasingly geared towards less risky investments	This statement is false. Has the speaker recently looked at the balance sheets of any DB pension funds, like that of The John Lewis Partnership, for instance? This one went heavily into Liability-Driven Investments and ended up with a residual block of these 'investments', some cash, and other 'alternative assets' as at 31/1/23. There were no quoted assets at all, beyond whatever was tied up behind the Liability-Driven Investments, which was not disclosed. This DB fund had only high-risk investments, and its assets only matched its liabilities because it permitted itself to discount the future value of its liabilities at a discount rate that had risen because gilts yields had risen.

Phrase	Commentary
Defined Contribution funds are expected to grow to more than £1 trillion by the end of this decade	They may grow, but will not grow that much once Labour's new economic model has been implemented, and the speaker does not trouble to distinguish between the sources of that growth: new contributions, returns on new contributions, and returns on existing investments. As it is, £1 trillion is a nice fat target for a prospective Chancellor with such large day-to-day spending and 'investment' plans.
our fragmented DC landscape	What is the proof that it is fragmented. Even if it is, is this not unsurprising when the funds belong to people individually? Why would those people have an incentive to make the 'landscape' unfragmented? Is it not rather the case that the benefits of consolidation will accrue to the government, when larger blocks of money are controlled by fewer intermediaries? The boards of these intermediaries can be packed with quangocrats, that is even if these intermediaries remain in the private sector. The intermediaries could be converted into 'public/private partnerships' or even quangos, over which the government could exercise direct control.
these funds are less invested in productive assets than in many other countries	This is a meaningless statement for which the speaker offers no proof. What other countries? What type of assets and with what risk/reward profile are bought in other countries, and why do they deliver better returns? Do they really deliver better returns? Or does 'productive' have a different meaning than delivering a better risk/return outcome? Does it mean that people in the UK are free to choose to invest where they like, rather than where the government likes? The next labour government wants funds to go into Net Zero and into these 'strategic', 'industrial' clusters – meaning Labour areas.
lower returns for British savers	There is no proof of this.
do not benefit from diversification into private markets	These are the same 'private markets' that created Liability-Driven Investments and all manner of other unquoted, illiquid, highly-leveraged, and hard-to-value assets. On 8th April 2024 the International Monetary Fund (an 'institution' and therefore beloved of the speaker) issued a blog entitled 'Fast-Growing $2 Trillion Private Credit Market Warrants Closer Watch'. The main problem is high risk: 'private credit borrowers are smaller than the typical leveraged loan or bond issuer, and they carry more debt relative to earnings'. This does not seem to be the kind of investment into which British savers should be committing their money. 'Diversification' is a loaded word inferring an advantage from spreading investments: this can easily be achieved through the kind of diversified investment portfolio that is the standard offering of the manager of a Self-Invested Pension Plan. DC scheme investors can enjoy this already: they do not need a Labour government to do it for them. What the speaker wants is not 'diversification' but 'redirection' and not necessarily a beneficial one: DC money should be directed into Net Zero and into these 'strategic', 'industrial' clusters – meaning Labour areas.

Phrase	Commentary
less patient capital available for growing British firms and our infrastructure	‘Less patient capital’ = investors who do not wish to see returns within a reasonable timeframe, in other words investors of pension monies who in effect willing to make interest-free loans or share investments that do not deliver either dividends or capital growth ‘growing British firms’ – like the ones who have received money out of the British Business Bank’s ‘Future Fund’ and are now going bankrupt? This has become a set phrase, as if it was not possible that British firms could stagnate, go nowhere or go under, contrary to regular experience. ‘our infrastructure’ – why should DC fund owners be inferred to be disloyal and unpatriotic because they are not prepared to fund infrastructure that produces no returns? These DC fund owners are also taxpayers.
actively drive forwards DC fund consolidation	‘Actively drive’ smacks of coercion, and of measures after this consolidation to get the managers of these consolidated funds onto the Labour payroll in one way or another, so that the funds are effectively government-controlled.
review of the pension system, to ensure it is serving British savers and UK PLC	Since when did UK PLC have a valid claim on the pension money of individuals? ‘Ensure it is serving British savers’ might be palatable on its own, but the interests of savers – for high capital growth as well as interest and dividend income – are not necessarily the same as the interests of UK PLC: if UK PLC refers to British industry, they try to minimize their cost-of-capital, and if UK PLC refers to the entire country acting through a Labour government, then the interests are opposed – a Labour government will want to get its sticky fingers on as much of the money as possible and offer as little as possible in return.

Since when has UK Plc had a valid claim on people’s pension money? What tools will be used to press this claim (denial of tax allowances, taxation of returns within schemes, higher tax rates on withdrawals…)? One can compare this with the Reclaim scheme, for attaching dormant assets for public purposes.[33] ‘Reclaim’ is wrongly named given the substance of the scheme: Reclaim raises a ‘claim’, not a ‘reclaim’, because the asset upon which the claim is being raised was a private asset over which the state had no original claim.

However, the mood music behind the name is in tune with modern thinking: the government is permitted to lay claim to anything that is in private ownership. Private ownership is not absolute, but a form of temporary trust. The trust can be liquidated if the government does not believe that the private trustee is acting in the interests of the greater good (which the government defines), in which case the asset can be sequestered – or rather reclaimed: that sounds better.

Having sounded one warning note – to owners of private pension pots – it is right, in the interests of balance – to sound a warning note in the direction of Labour: are you sure the money will be there?

The Daily Telegraph published a piece on 16th April 2024 entitled ‘Half a million pension pots emptied early’, based on figures from the Financial Conduct Authority for the tax year 2022-3, so not for the tax year just ended.

420,727 people accessed their pot for the first time and emptied it completely in one go. That amounted to £5.3 billion being taken out and to cover mortgage bills and the higher cost of living. The average amount taken out was only £12,500, in other words a pittance.

Even worse the most common age of the takers was between 55 and 64, namely below pensionable age. 294,694 people in that age range who had a private pension plan to add to the state pension and whatever occupational plans they have rights in now have no private pension pot at all. 114,601 people in the age range 65-74 are in the same position.

[33] https://www.reclaimfund.co.uk/ accessed on 16 April 2024

The article quoted Paul Leandro, a pensions consultant with Barnett Waddingham: ‘The current pension landscape looks dire. Not enough contributions going in, coupled with too much cash being withdrawn too early, makes for a very bleak future indeed’.

Perhaps the Mais lecturer might care to consider that version of events alongside her conviction that there could be £1 trillion to be pillaged from private pension schemes to fund Net Zero. The true figure, net, could be zero.

To add a further element of balance, it could be that investment into these Net Zero structures might be a good deal for the investor – if the Resolution Foundation is correct that loans into such schemes will currently cost 9% per annum.[34] That 9% is 5% higher than the yield on UK government bonds and for a quite similar risk. The loser, of course, is the UK householder, who will pay £400 per annum in higher energy bills up until 2050 as a result of the usage of such schemes.

Given that the owner of a Defined Contribution pension plan is also a UK householder, there would be an element of round-tripping if they invested as well, or of a hedge against price escalation: they have to pay the £400 per annum out of their post-tax income but receive that type of income into their plan, income that is not taxed as it rolls up but which is taxable when they take it out.

If the model of the UK economy is to be a series of White Elephant renewable energy schemes under which all UK householders are obliged to pay higher energy charges, then it would make sense to take a position on the investor side, receiving that money, rather than just being the payer, which you will be forced to be anyway.

It may make even more sense when corporation tax on company profits is high, deterring share ownership, and in a stagnant economy where activity is directed by the state: there will be limited opportunities to make money and money will be heavily taxed if any is made.

Once again, the Mais lecturer’s idea of using private pension money to fund Net Zero appears plausible on the surface, but falls apart upon closer examination of the premises and assumptions upon which it is based.

[34] https://www.telegraph.co.uk/business/2024/04/22/households-face-400-pound-hit-net-zero-switch/ accessed on 22 April 2024

…and Rejoin the EU, or at least copy its methods

There are many indicators in the speech that the speaker sees close alignment with the EU as the UK's future, if possible by rejoining the Customs Union and Single Market if not by fully rejoining the EU itself. Once in government Labour intends to ape the EU wherever possible, and the language around its proposed transition to Net Zero mirrors that used around the EU's Net Zero financing scheme. This is InvestEU, and it works very like Private Finance Initiative. A similar scheme can be expected in the UK and on the grand scale. InvestEU's was previously called the European Fund for Strategic Investments, a title containing two of the Mais lecturer's favourite buzzwords.

Under New Labour, hospitals and schools popped up thanks to Private Finance Initiative, and at high cost. Under the speaker's administration, we can expect this high cost to be repeated and widened:

- More hospitals and schools, where a government department pays a fee that covers the schemes running costs, its debt costs and its profit for investors. These count as day-to-day costs of public services. The extra costs of a scheme done under the new Private Finance Initiative will push the public budget for day-to-day services even further into deficit;
- Power generation and toll roads built under the new Private Finance Initiative, where the service is billed directly to the user, rather than the money flowing through the government budget – the user pays more than they would otherwise have done, had the scheme been built through the main mechanisms of public infrastructure. The speaker regards these as too slow and restrictive, and claims that these factors lead to an increase in the cost. The opposite is true: the mechanisms exist to control the bill that the public have to pick up.

Where more of the UK's economic output is being controlled by and built under the direction of the 'smart state', the loser will be the consumer:

- Even higher taxes to keep the public budget for day-to-day costs in balance:
    - It is currently in deficit;
    - Labour wish to bring in into balance;
    - Labour wish to increase the direct spending within the budget;
    - Labour also intend a once-in-a-generation 'investment' into 'public assets' which will be used in part to support and deliver day-to-day public services;
    - The initial investment will not be made by the government directly but through a PFI-style scheme, which is more expensive but which hides the debt;
    - The ongoing usage of these 'public assets', as they are employed to deliver day-to-day services, is paid for with money debited to the public budget for day-to-day costs;
    - Labour do not wish to increase borrowing to finance the public budget for day-to-day costs;
    - The only way in which the public budget for day-to-day costs can be brought into balance, in the face of these significant headwinds, is higher taxes;
- High direct charges for using services enabled by the investment in 'public assets', where the money flow bypasses HM Revenue & Customs and the consumer pays direct to the operating company of the 'public asset' i.e. the company set up for each new Private Finance Initiative project (such as renewable energy projects as identified by the Resolution Foundation).

InvestEU has certainly resulted in economic growth in the EU, in a purely statistical sense. InvestEU schemes borrow a lot of money – there is hardly any equity cushion in them – and then that money is used to buy goods and services over a 2-3 year construction period. This expenditure boosts GDP in those years. Then the project's 'offtake' (whatever it produces) is billed to consumers and that stream of money is part of GDP as well.

The debt taken on to enable construction is hidden outside of EU member states' 'General government gross debt'.

InvestEU is a direct and explicit result of the decision taken in 2012 by Angela Merkel and Francois Hollande to fully mobilize the potential of the European Investment Bank for engaging in counter-cyclical public spending, also known as Keynsian economics: 'German Chancellor Angela Merkel added her voice on Saturday to calls to bolster the European Investment Bank (EIB) and to use EU infrastructure funds more flexibly to help spur economic growth in Europe. Her comments are part of a new German emphasis on growth-boosting measures to complement painful tax hikes and spending cuts that have triggered a political and popular backlash against austerity across the Eurozone.'[35]

The European Investment Fund – a majority-owned subsidiary of the European Investment Bank – is the fulcrum of InvestEU.

The only problems arises when the higher-level impacts of InvestEU come to be felt, and this may still be some way in the future:

- The debt costs have risen as interest rates have risen;
- The cost-of-debt is much higher than if the government had borrowed the money directly and constructed the project itself, possibly by as much as 5% if the Resolution Foundation is correct;
- The amount of debt has risen as the scheme has expanded;
- The debt service costs cannot fail to be deflationary in the medium term – these costs feed directly through to the consumer whose wealth is diminished in exact proportion to the degree that the cost of supply exceeds a 'free market' cost;
- Costs-to-the-buyer are higher under the InvestEU model than under a 'free market' model and that has its long-term impact on wealth creation;
- The scheme offers commercial companies an almost risk-free method of employing their resources: entrepreneurs do not have to take entrepreneurial risk when there are guaranteed returns to be garnered from public projects that have no financial business case behind them, but which meet public policy priorities.

A typical such scheme was analysed on pp. 188-9 of *The shadow liabilities of EU Member States, and the threat they pose to global financial stability* - the Medway Cargo Rolling Stock project in Spain and Portugal. A Swiss rolling stock company called Medlog S.A. was induced to start up freight services in remote parts of Spain and Portugal. The aim of the project was to create economic development, not to service existing demand or to capitalize upon an opportunity created by visible or anticipated economic growth. Entrepreneurs either create demand for goods and services, or anticipate there being a demand for goods and services. They take a risk with their own money, and either make a profit, or lose their money.

This is not what is happening in this case: Medlog will not be taking meaningful entrepreneurial risk. The impetus for the project is coming from public authorities, to improve transportation links in the hope that this will lay the groundwork for economic development in areas that are lagging behind. The project does not stand up on its own as a commercial proposition for an entrepreneur.

The respective public authorities do not want to, or are precluded from acting to, furnish the train operator that will service these transportation links themselves, so a commercial scheme and a financial scheme behind it are devised to induce a private-sector company to act in loco.

The relevant question is how Medlog was induced to step up to play this role. The availability of long-term, fixed rate loans from the EIB will have been part of the package of public support. The remainder of the package of public support is undisclosed, but it might include a reduced tariff for the usage of the rail network, and/or a fallback guarantee for the volume of space that is rented on the wagons and the price paid by actual businesses.

[35] http://uk.reuters.com/article/uk-germany-merkel-idUKBRE83R02120120428 accessed in August 2014

Even if Medlog has to put up some capital, the deal will have looked very attractive: a small cash investment in exchange for a guaranteed minimum level of return and the possibility of a very high return if the project did actually result in economic growth, and ample possibilities within the commercial structure to take revenues along the way, thereby reducing their need for returns on their shares.

Medlog will still get money if the scheme is unsuccessful, in effect a public subsidy that increases taxes. If Medlog had not had this scheme, it might have had to seek out projects involving genuine risks. If public authorities dream up enough of these schemes and on sufficient scale, they drown out risk-taking by engaging the private economy in schemes like this: heads I win, tails you lose.

That is very damaging for an economy in the long term, as entrepreneurialism and risk-taking are drowned out, and the state accounts for an increasing portion of economic activity. This is state-driven capitalism and is the EU model. Under the speaker it will be Labour's model for the UK as well.

Critique of detailed phrases used by the speaker

p. 3 'the Resolution Foundation estimating that new trade barriers are equivalent to a 13 and 21 percent increase in tariffs for our manufacturing and service sectors respectively' – the speaker trots out the usual 'Rejoin' tropes based on estimates, which have been disproved time and again;

p. 3 'the OBR finding that long-run GDP is expected to be 4 percent lower as a result of the government's Brexit deal' – spot the Rejoiner oxymoron: a 'finding' (a solid) which is actually an 'estimate' (a gas).

p.5 'we must be clear-eyed about where trade-offs exist, and strategic about the directions in which we choose to deepen our economic relationships' – this is code for rejoining at least the Single Market.

p. 5 'build for growth on strong foundations – broad-based, inclusive, resilient, and anchored in the realities of a fast-changing world' – this is code for rejoining the Customs Union as well as the Single Market.

p. 5 'how to mobilise investment, develop skills and tackle inefficiencies to modernise a sclerotic economy; and of energy security' – this is code for the launch of a UK version of the InvestEU programme, for Net Zero, as arranged in the EU through the European Investment Bank Group (the self-designated EU Climate Bank). The structure of InvestEU (or the European Fund for Strategic Investments as it was known at the time in late 2019) is laid out in Annex 3 to the Technical Analysis pp. 111-6 of *Managing Euro Risk – saving investors from systemic risk*, written by the author along with Barney Reynolds and Professor David Blake. The status at the end of 2021 is laid out in Chapter 4.2. on pp. 65-76 of *The shadow liabilities of EU Member States, and the threat they pose to global financial stability*. The amount at risk is quantified in Chapter 10 pp. 186-94 of the same book, under the heading 'Quantification of liabilities: public liabilities under financing templates like InvestEU', since the EU has several such templates in operation. The word 'mobilise' figures prominently in the European Investment Fund's documents about InvestEU, and it is notable that InvestEU's previous name contained two words that figure frequently in the speech: 'strategic' and 'investment'. InvestEU resembles PFI and is a major channel for the build-up of the EU's shadow debts.

p. 6 'Queues at our ports, empty shelves, soaring prices, and red tape holding our exporters back.' – these are all tropes put round by Rejoiners and with very little collateral behind them, and the speaker's using them is code for rejoining all of the Single Market, Customs Union and EU.

p. 6 'indeed, success will rest on forming new bilateral and multilateral partnerships, and forging a closer relationship with our neighbours in the European Union' – less guarded code for rejoining all of the Single Market, Customs Union and EU.

p. 6 'working in genuine partnership with business' – this is code for PFI Mark 2, meaning a UK version of InvestEU.

p. 7 ‘mobilise all of Britain’s resources in pursuit of shared prosperity’ – the EU keyword of ‘mobilise’ again, along with the echo of the Greater East Asia Co-Prosperity Sphere (the Japanese empire).

p. 7 ‘The Bank’s Monetary Policy Committee must continue to have complete independence in the pursuit of its primary objective of price stability. And, just so there is no doubt about this: a Labour government will retain the 2 percent inflation target’ – this is the exact same phrase as used in defining the ECB’s mandate – ‘price stability’ – and the exact same metric – 2%.

p. 7 ‘the onus to mobilise investment to achieve our energy transition’ – once again ‘mobilise’ and ‘investment’, meaning InvestEU.

p. 9 ‘market failures or other barriers that hold back investment’ – this phrase echoes the concept the ‘missing investor’, a main justification for InvestEU: see p. 66 of *The shadow liabilities of EU Member States, and the threat they pose to global financial stability*. The concept if ‘strategic investments’ being held up – by implication against the public interest – is the justification for the public to take on the highest-risk position in the financing of the scheme via (in the case of InvestEU) the European Investment Fund issuing guarantees and commitments to subscribe to equity, and the EU itself issuing a partial guarantee towards the European Investment Bank Group (meaning the European Investment Bank itself and the European Investment Fund). It is notable that, in these schemes, ‘investment’ is code for ‘long-term’ and by extension for ‘no income in the short-term’.

p. 9 ‘Public investment is one important lever available to governments, with the potential to crowd in private investment’ – ‘crowd in’ sounds like ‘crowdfund’, but what it means is to incentivize providers of money (banks, investment funds) to inject them into schemes under the InvestEU model because they are offered good returns on their money with reduced risk. The risk is reduced because public entities take the major part of the losses. This is explained on pp. 65-66 of *The shadow liabilities of EU Member States, and the threat they pose to global financial stability*. The scheme has a very small equity cushion, which takes the very first loss, and then there is a much thicker layer of ‘capital-like instruments’, which either carry the guarantee of the European Investment Fund or which the European Investment Fund undertakes to buy if things get difficult (i.e to buy the existing instrument or to buy a new issue of the instrument). The European Investment Fund takes the second loss. Then there is a layer of junior debt, which the European Investment Bank may lend part of, and finally a layer of senior debt in which the European Investment Bank Group has no role. The holders of the junior and senior debt sit in a preferential position vis a vis the European Investment Fund, whose commitments act as a ‘credit enhancement’. Put another way, the European Investment Fund will be at the back of the queue for repayment if the scheme fails.

p. 12 ‘Investment, through partnership between strategic government and enterprising business’ – an interfering government, with extra labour laws and costs, and attempting to direct investment, is likely to deter enterprise and business and cause stagnation, as resources are directed towards policy priorities and away from areas that make money – i.e. a business environment like the EU.

Summary and conclusions

– all good, then, as the German Democratic Republic comes to Broadstairs

The Mais Lecture is a pastiche of borrowed ideas, borrowed from obscure economists, Leftist think tanks, and an emerging Washington consensus whose UK members could all be accommodated on a Number 1 London bus to Hampstead Heath, where they no doubt customarily repose in their armchairs.

The overall vision is not even a social market economy, but a social economy, with a 'mission' to achieve 'good', meaning carbon-neutral and as otherwise defined by the government and by members of an archipelago of new quangos. These will be staffed with reliable members of the new nomenklatura – people selected for their ideological reliability rather than their expertise in the subject matter concerned.

A central tenet of required belief is that Net Zero is a huge revenue opportunity on the back of which the UK can garner technological leadership, economic growth and prosperity, by achieving these itself initially and then by sharing, for money, the brilliance of our inventions with the rest of the world. This 'mission' will no doubt require as many missionaries as went forth to bring our religion and values to the wider world.

If, on the other hand, Net Zero turns out to be a cost – as might be perceived if one viewed its output as a replacement source of energy for sources that are already in production – then the rationale for the speaker's economic programme falls apart.

What one is left with is a dismal vision of economic stagnation, directed by distant people and organisations, forming a dense and impenetrable complex outside democratic control and accountability.

In order to gain a picture of how bad that could get in the medium and long term, one should consider the example of the German Democratic Republic (the 'GDR'), a centrally-planned economy with little room for free markets. The GDR is the subject of a recent book – Katja Hoyer *'Beyond the Wall: East Germany, 1949-1990'* (Allen lane, London, 2023) – that picks out many positive qualities in that country for those that lived there and who were prepared to go along with how the country was run by the SED, the Socialist Unity Party or Sozialistische Einheitspartei, meaning in effect the Communist party (KPD) into which the social democratic party (SPD) had permitted itself to be subsumed and then subsequently eliminated.

The regime, initially headed by Walter Ulbricht, instituted a 'programme of 'building socialism'..[and]..brought back renewed collectivization and nationalization efforts'. [36] This greatly reduced the size of the private sector and left a large proportion of economic activities within 'VEBs', meaning 'Volkseigner Betrieb' or 'public-owned enterprise. These, as per the standard Communist model, worked to production goals, as opposed to meeting market demand and adapting products and services to increase satisfaction and demand.

Production goals were dictated centrally as part of the classic series of five-years plans, and with the customary results:

- The first five-year plan 1951 – 'by 1952 the GDP authorities were fighting an uphill battle trying to get the economy going', 'enormous economic burden', 'production targets in agriculture had already taken a huge hit';[37]
- The 'New Economic System' of 1963 included more 'responsibility and freedom over development and production methods was handed back to individual VEBs': ideologically unacceptable and brought to an end by hardliners;
- Honecker's five-year plan of 1971 'Unity of Economic and Social Policy' – 'planned miracles would be the order of the day', but were not forthcoming.[38]

[36] 'Beyond the Wall', p. 153
[37] 'Beyond the Wall', p. 123
[38] 'Beyond the Wall', p. 253

After 35 years of the application of these socialist medicines, in the early 1980s, 'workers retained their wages as before and had enough money left in their pockets after paying for the subsidized essentials of rent and food, [but] there was less and less on the shelves for them to buy'.[39] In other words, there were empty shelves, but not because of 'droughts, storms and rising temperatures' (Mais Lecture p. 4), but due to the failure of the economic system of central planning.

This system, which could not meet its inhabitants' requirements for even a modest standard and supply of consumer goods, was supported on environmental damage from the mining of brown coal, and by a guaranteed supply of oil imports at a fixed, low price from the USSR.

Brown coal mining methods left 'unsightly craters that would turn entire East German regions into desolate moonscapes'.[40]

The USSR had its own difficulties and repeatedly pulled the rug from under the GDR regime. Firstly in 1975: 'The price of a tonne of crude oil more than doubled from 14 to 35 roubles..Honecker's steady economic progress was killed by this decision in Moscow'[41] In 1981, Brezhnev was unable to confirm that the USSR would continue to supply 'the annual delivery of 19 million tonnes of oil contractually agreed with the Soviet Union'.[42]

So much for the energy security policy of the GDR and the environmental damage done by it. Is it beyond the realms of possibility that the speaker's energy security plan might both fail to achieve its objective, result in new and dangerous dependencies, and cause environmental damage?

We should not consider these outcomes impossible, as large White Elephant projects featured prominently in the policy levers of the Communist world e.g. the White Sea canal project,[43] and the Volga/Ural river reservoirs and hydroelectric dams that have contributed to the drying-up of the Caspian Sea.[44]

Emigration, to escape the strictures of this society, was illegal and nigh impossible, thanks to the Berlin Wall and the security precautions around the GDR's borders with West Germany and into the Baltic Sea. Dissidence was controlled via a form of negative social credit: blocking of access to higher education, blocking of employment, of travel. It could also result in torture and imprisonment.

The Mais lecturer attempts to present her ideas as new, but they are pastiche of old, failed ideas, disinterred to fly under the flag of Net Zero. The Mais lecturer, like a Chinese historian, misrepresents the record of New Labour to gloss over its mistakes, even trying to erase the final three years of its tenure, after the Global Financial Crisis struck. This technique equates to the progressive erasure of Politburo members from group photographs, as Stalin purged each one as a counter-revolutionary, a spy, a wrecker or a Trotskyite during the Great Terror of the late 1930s.

In a sense, though, the Conservative administration has acted as a John the Baptist towards this Messiah:

- Proving during the pandemic that there was a Magic Money Tree;
- Allowing government borrowing to reach 100% of GDP;
- Allowing the welfare bill to skyrocket;
- Raising tax revenues, and cutting or freezing allowances;
- Attack on second home ownership and on rental accommodation;
- Permitting Council Tax specifically for those who do not use council services in the respective locality to go to a multiple of what is paid by those who are resident in the locality and do use them, making a

[39] 'Beyond the Wall', p. 339
[40] 'Beyond the Wall', p. 114
[41] 'Beyond the Wall', p. 281
[42] 'Beyond the Wall', p. 329-30
[43] https://www.britannica.com/topic/White-Sea-Baltic-Canal accessed on 22 April 2024
[44] https://www.theguardian.com/environment/2023/nov/20/the-shrinking-sea-why-the-caspian-is-under-threat-a-photo-essay accessed on 22 April 2024

mockery of the contention that Council Tax pays for local services rather than its being a lever of social engineering and/or over the housing market;

- Putting Net Zero targets into law;
- Establishing the principle of pension plan money being exploited for government policy objectives, in the form of an agreement that a given portion of funds should be made available to 'high-growth UK companies' unless the owner made a positive choice that they should not be (a little like the proposal for an opt-out for organ donation as opposed to the current opt-in).

These are all measures one might have expected from a Labour government but not from a supposedly Conservative one – and none appeared in any General Election manifesto.

We have a had a drift to the Left, an increase in measures not supported in a General Election manifesto, an intensifying attack on the ability to form private capital, and a degrading of the concept that any asset is truly yours, rather than being lent to you in trust and withdrawable at the whim of authority.

These measures, and others, have pointed the way to the future and it is collectivist and cooperative, not private and entrepreneurial. In this process of reorientation the wheels did not fall off the economy so far. The inference therefore is that they won't, even if the measures are intensified.

The Conservative administration has prepared the ideological way for Labour to come into power – a John the Baptist role.

Now the economic Messiah is poised to arrive – the Mais Lecturer. A greet utopia beckons, designed by quangocrats, financed with borrowed money, translating into (if we are lucky) higher bills for energy, water and so on, and into supply interruptions and empty shelves if we are unlucky and Labour's nomenklatura prove themselves incompetent. The Mais lecturer counts the Bank of England and the Office for Budget Responsibility as reliable members of that nomenklatura so UK voters cannot say that they have not seen a glimpse of the future – forecasts that are never correct, reacting way after reality has intervened, losing tens of billions of pounds and so on.

We will shortly be asked to vote on whether we wish this 'Securonomics' to be our future, and the nomenclature of safety, security, and stability will appear comforting. But a regime with no risk-taking, no rewards for enterprise, no leeway for a substantial private sector cannot possibly deliver proper economic growth – by which is meant growth that is self-creating through free markets. Of course the UK could ape the EU model of magicking up statistical economic growth, brought about by shadow borrowing with the loans being spent straight away on goods and services. That raises GDP without increasing 'General government gross debt', as the loans are structured so as to fall definitionally outside 'General government gross debt'. The country's GDP rises and its Debt-to-GDP Ratio falls, but only due to bogus accounting trickery. The substantive result is higher overall debt and higher debt service payments in the medium term. These will prove deflationary and eat into living standards.

The UK has a choice and the Mais lecturer has put her option on the table. Choosing that option is safe, secure and genuinely risk-free, because there is no chance at all of its outcome being avoided: it's disaster.

Part 2 - Rachel Reeves' Mais Lecture 2024

March 19th 2024

Thank you. It is a privilege to be here at Bayes Business School this evening.

To look back over past Mais Lectures is not just to survey the thoughts of the key figures in British economic policymaking over four and a half decades. It is to trace the shifting contours of conventional economic thought. To grasp how crises have forced its re-evaluation. To appreciate how the challenges confronting policymakers have changed over time – and how, in important respects, they have stayed the same.

When the governor of the Bank of England, Gordon Richardson, delivered the very first Mais Lecture in February 1978 describing a 'historical juncture when the conventional methods of economic policy are being tested' he spoke in the context of a Britain plagued by high inflation, rising unemployment, dysfunctional industrial relations, and recurrent balance of payments crises. A Britain wracked by a sense of perpetual crisis and decline.

What I want to argue today is that, as in the 1970s, we are in a moment of flux; in which old certainties about economic management have been found wanting, the economic mainstream is adapting, but a new political consensus has yet to cohere. Once again, we have found ourselves in a moment of political turbulence and recurrent crises with the burden falling on the shoulders of working people – with at its root, a failure to deliver the supply side reform needed to equip Britain to compete in a fast changing world.

I suggest that the answer today is an economic approach which recognises how our world has changed. Building growth on strong and secure foundations, with active government guided by three imperatives:

First, guaranteeing stability.

Second, stimulating investment through partnership with business;

And third, reform to unlock the contribution of working people and the untapped potential throughout our economy.

The challenges we face now are perhaps even more acute than those which Richardson described half a century ago. The central challenge is our growth performance. Last month, the Office for National Statistics confirmed that the UK entered recession at the end of last year.

But this is just the latest chapter in a longer story of economic decline. Since 2010, Britain's GDP performance has hovered in the bottom third among the 38 OECD countries. To put into perspective, if the UK economy had grown at the OECD average over the past decade, it would be £140bn larger today, equivalent to £5,000 per household, an additional £50 billion in tax revenues.

What we are facing today is decline of a materially different sort to that which preoccupied British policymakers in the past. In the 1960s and 1970s, governments grappled with questions of productivity, investment and how to pay Britain's way in the world, in a context of economic convergence, in which British decline was relative – a result not of British failure but the catch-up success of other Western European economies. Today, as the historian Adam Tooze suggests, we are in a moment of deconvergence, trailing and falling further behind our counterparts.

This has had serious consequences for living standards, with real household disposable income set to be lower at the end of this Parliament than it was at its beginning. Today, the average British family is ten percent worse off than their French counterparts and a full twenty percent worse off than their German counterparts.

At root, productivity remains the key medium term determinant of wages. It is the collapse in our productivity growth which explains our wage stagnation.

What is demanded is a fundamental course correction. The stakes have rarely been higher. Not only for the living standards of working people; not only for Britain's competitiveness in a fast-changing world – though both are at stake. But also for the health of our democracy.

As Joan Robinson understood when she wrote sixty years ago, economics is not just about quantitative models and abstract theory – it is about values, rooted in political, philosophical and moral questions, about human nature and the good society. Robinson's thinking finds powerful echoes today, in Mark Carney's warning that economic policymaking has become detached from values broader than those of competition and efficiency – even while competitiveness and efficiency deteriorate, and in the Australian Treasurer Jim Chalmers' call for a values-based capitalism.

The political economist Karl Polanyi who came to Britain from Austria as fascism rose in the 1930s wrote of the tendency of market economies that become disembedded from their societies to undermine the conditions for growth and provoke powerful political counter-movements of both left and right. Polanyi's insights remain prescient.

Because when mainstream politics cannot offer the answers to our predicament; when vast swathes of Britain are written out of our national story; when hope for the future is allowed to wither, and decline becomes a self-fulfilling prophecy; then we know the result. We see it all across the world: the rise of populists who offer not answers but recriminations.

My argument today is this: a new model of economic management is needed. Because a model based on the pursuit of narrow-based, narrowly-shared growth – with ever-diminishing returns – cannot produce adequate returns in growth and living standards, and nor can it command democratic consent.

I want to make this argument in three parts.

First, to place our economic challenges in context.

Second, to outline the contours of an alternative approach – an approach that builds growth on strong and secure foundations;

The only viable strategy for growth in today's world.

And third, to set out the pillars of that approach.

There is no single cause for our present plight.

Jonathan Haskel has demonstrated how our productivity slowdown in the 2010s was driven by a slowdown in total factor productivity. And when we compare ourselves to our faster-growing competitors, it is clear that we have been underperforming across all the factors of growth.

Weak investment, with Britain alone among the G7 in having investment levels below 20 percent of GDP. Low levels of basic skills, gaps in technical and vocational education, and comparatively poor management capability. Vast regional disparities, with all of England's biggest cities outside London having productivity levels below the national average. And, particularly since the pandemic, a significant weakness in labour supply, with 700,000 more people economically inactive.

We have an accumulation of problems.

First, there are long-standing weaknesses, which generations of politicians have struggled to address. It is not enough simply to point to these failings. We must confront their underlying institutional, cultural and political causes.

Second, there are the products of political and policy choices made over the last fourteen years, and of the instability that has accompanied them. Like the stop-go cycle of capital investment – the new 'British disease' – in which short-term instability inhibits investment and drives up infrastructure costs, resulting in fewer, and smaller, new capital projects. And a rushed and ill-conceived Brexit deal that has brought further disruption, with the Resolution Foundation estimating that new trade barriers are equivalent to a 13 and 21 percent increase in tariffs for our manufacturing and service sectors respectively, and the OBR finding that long-run GDP is expected to be 4 percent lower as a result of the government's Brexit deal.

And third, those structural vulnerabilities, and that political instability, have been exposed and exacerbated by our move from the great moderation into an age of insecurity, marked first by stalling growth, stagnant living standards and political turbulence and increasingly by global shocks, escalating geopolitical tensions, and the challenges of climate change and the net zero transition.

Let me put this in some perspective. In 1984, Nigel Lawson's Mais Lecture offered one of the clearest expositions of the economic thought which underlay what he called 'the British experiment'. His central contention was that the proper roles of macro and microeconomic policy were the exact reverse of the post-war accepted wisdom. That the primary role of macroeconomic policy was not, as it had once been, the maintenance of full employment but the control of inflation. Responsibility for growth and employment then, in Lawson's formulation, was the responsibility of microeconomic policy.

The reality is: Lawson failed to follow the logic of his own analysis, stoking an inflationary boom at the end of that decade, which was followed by a deep recession in the early 1990s.

But today it is evident that Lawson was wrong not only in application but in theory. First, because his microeconomic reforms were hitched to an inadequate view of the appropriate policy levers, assuming that the state had little role in shaping a market economy and that the people and places that matter to a country's success are few in number.

The outcome was an unprecedented surge in inequality between places and people which endures today. The decline or disappearance of whole industries, leaving enduring social and economic costs and hollowing out our industrial strength. And – crucially – diminishing returns for growth and productivity.

But today, we can see the shortcomings in Lawson's analysis on the other side of the equation too. Because in a world that has been repeatedly shaken by supply-side shocks, it is inadequate to see the fight against inflation as a matter for macroeconomic policy alone. Our resilience in the face of shocks brings microeconomic policy – in questions of energy security, our domestic productive capacity and the strength of our supply chains – to the fore in the fight against inflation.

For a decade, the last Labour government offered stable politics alongside a stable economic environment. In New Labour's analysis, growth required on the one hand macroeconomic stability, a on the other supply side policies to enhance human capital and spur innovation. What followed was a decade of sustained economic growth, stability, and rising household incomes. Average household disposable income rose by 40 percent. Two million children and three million pensioners were lifted from poverty. Public services were revitalised.

But the analysis on which it built was too narrow. Stability was a necessary, but not a sufficient condition to generate private sector investment. An underregulated financial sector could generate immense wealth but posed profound structural risks too. And globalisation and new technologies could widen as well as diminish inequality, disempower people as much as liberate them, displace as well as create good work.

Economic security was extended through a new minimum wage and tax credits, but our labour market remained characterised by too much insecurity. Despite sustained efforts to address our key weaknesses on

productivity and regional inequality, they persisted, and so too did the festering gap between large parts of the country and Westminster politics. Most of all, the 'great moderation' could not last. And as the global financial crisis unfolded, these weaknesses were exposed.

Since 2010, economic policymaking has been characterised by two major failings. First, austerity, then instability. Austerity: the decision, in the context of historically low interest rates and slack in the economy, to sharply tighten fiscal policy. Not only did it do severe damage to our social fabric and to our public services, but at a time when government could borrow and invest more cheaply than at almost any previous point, the failure to do so was an act of historic negligence. Not just wrong in the short-term, macroeconomic sense, but also a failure to grasp a unique opportunity to undertake much-needed investment in our productive capacity. Investment was suffocated. Our supply-side weaknesses – in terms of both human and physical capital – were exacerbated.

The so-called 'mini budget' – with its programme of unfunded tax cuts, amidst a concerted attempt to undermine our independent economic institutions – dramatically changed the fiscal circumstances in which we must operate. In October 2021, the Bank of England base rate was 0.1 percent. In little over two years, that has risen to 5.25 percent. In October 2021, the OBR forecast that net debt interest would cost £29 billion this year. They now expect that cost to be £82 billion.

These changed circumstances explain the decision that Keir Starmer, the Shadow Cabinet and myself recently reached over the scale of government spending attached to Labour's Green Prosperity Plan, to strike the necessary balance between the imperatives of the energy transition and the real economic constraints we face.

Honestly, I don't want to make this a party political speech any more than you want me to, but nor would it be right or honest to downplay the impact of the upheavals of recent years. Five Prime Ministers. Seven Chancellors. Twelve plans for growth. Institutions undermined. Decisions ducked and deferred. That political instability has fuelled economic instability and deterred investment.

That brings us to our own historical juncture: On top of a decade of weak growth and stagnant living standards, the coexistence of stagnation and inflation; significant pressure on government borrowing; caused by, and exacerbating the urgent need for, overdue supply-side reform. An economy lacking resilience in the face of shocks, with public services at breaking point, and one in three working-age families having less than £1,000 in savings to fall back on.

It is not only the failings of the past however, but the uncertainties of the future, which necessitate a new approach. Let me explain.

In 2000, I graduated from university and began my career at the Bank of England. The Cold War had ended a decade earlier. The 'great moderation' was underway. We appeared to be entering a moment of unprecedented economic expansion and geopolitical stability, underpinned by the promise of ever-closer global economic integration.

Today, the world looks very different. Gordon Brown called the 2008 financial crisis 'the first crisis of globalisation'. We can now see that the financial crisis marked a more fundamental shift: the onset of a new age of insecurity.

There are myriad causes and symptoms of this age of insecurity but let me stress three in particular.

First, shifting geopolitical dynamics, as we move from a post-Cold War, unipolar world, to one of unbalanced multipolarity, where China looms large on the world stage and Russia is asserting itself more than it has in three decades. War in Ukraine and the Middle East threatens to spill across borders. The impact of Houthi missile attacks in the Red Sea shows how, inescapably, questions of defence and security are entangled with economic ones.

Second, rapid technological change. Generative AI has the potential to bring about revolutionary improvements in the way we live, but also the threat of profound disruption to labour markets and the distribution of income, wealth and opportunity between people and countries.

And third, the climate crisis. The energy transition presents great opportunities – improved resilience, lower energy costs, jobs and growth from new technologies – for those swift to grasp them. But even in the best-case scenario, we know the world will face dramatically intensified competition for food, energy and water, affecting trade patterns and displacing populations. We have already seen shortages on our supermarket shelves as a result of droughts, storms and rising temperatures. More will follow. We know too – as the Office for Budget Responsibility has argued – that the future costs of failure to address the climate crisis will far outweigh the cost of action today.

As disruptions have multiplied, and governments around the world have taken steps to strengthen their own self-sufficiency it has become evident that globalisation, as we once knew it, is dead. That is not to say we live in a less interconnected world, as each crisis sends tremors along supply chains that span continents. Nor to pretend that the laws of economics have gone into reverse; or to deny the role of free trade in lifting billions of people from abject poverty. But it is to say that, in a more dangerous world, we must be clear-eyed about where trade-offs exist, and strategic about the directions in which we choose to deepen our economic relationships.

We can no longer indulge complacency. A growth model reliant on geopolitical stability is a growth model resting on increasingly shallow foundations.

The task then is to build for growth on strong foundations – broad-based, inclusive, resilient, and anchored in the realities of a fast-changing world.

Let me be unambiguous: there is no viable growth strategy today which does not rest upon resilience for our national economy and security for working people. No trade-off between a more secure and resilient Britain, and a more dynamic Britain.

The onset of this age of insecurity has returned to the fore issues commonly ignored in a world of floating exchange rates, but which would be very familiar to politicians of earlier generations. Questions of how Britain can pay its way in the world; of our productive capacity; of how to drive innovation and diffusion throughout our economy; of the regional distribution of work and opportunity; of how to mobilise investment, develop skills and tackle inefficiencies to modernise a sclerotic economy; and of energy security.

Indeed, in recent years, we have paid the price for neglecting our energy security – with households and businesses left acutely exposed to a terms of trade shock, and its inflationary consequences.

In a changing world, Britain has been behind the curve.

We have seen the cost of neglecting the delicate balance between flexibility and security; between the allure of just-in-time production and the demand for resilience; and of turning a blind eye to where things are made and who they are owned by.

The philosopher Bernard Williams wrote of the 'first political question' – 'the securing of order, protection, safety, trust, and the conditions of cooperation.' The 'first' political question, 'because solving it is the condition of solving, indeed posing, any others.' That question pertains not just to the size of our military or the strengths of our borders, but to economics too.

Now, you might ask: doesn't 'economic security' imply a denial of 'risk', the motor of innovation and entrepreneurship? So let me say this. Without the promise of stability, how can business invest with confidence? Without security, how can we ask an entrepreneur to take the plunge and start a new business? Without a safety net to fall back on, how can we expect an ordinary person to retrain, take a new job or change career?

When change increasingly appears disruptive and the future darkly uncertain, there is a natural urge to recoil from change and seek shelter from the future altogether. Securonomics is about providing the platform from which to take risks; not to retreat from an uncertain future, but to embrace change and the opportunities it brings with clarity of purpose and stability of direction. To know that people can stand and fall on their own merits, not on the basis of events far beyond their control.

But what does it mean to translate that idea into political and economic reality?

It means embracing the insights of an emergent economic consensus. The Harvard political economist Dani Rodrik speaks of a new 'productivist paradigm'. The US Treasury Secretary Janet Yellen has branded the Biden administration's agenda 'modern supply side economics'. Across the world, related ideas appear under different banners. I use the term 'securonomics'.

Governments and policymakers are recognising that it is no longer enough, if it ever was, for the state to simply get out of the way, to leave markets to their own devices and correct the occasional negative externality. Recognising that the security and prosperity of working people is integral to the strength, dynamism and legitimacy of a market economy. And recognising too the dangers of what Rodrik terms 'hyperglobalisation' – because to pursue ever closer global economic integration as an end in itself, not as a means to domestic prosperity, is economically naive and politically reckless.

I know there will be those – perhaps some of them are even in this room – who worry that this argument is to embrace protectionism and to retreat from the world. So let me be exact. The truth is, in recent years, we have become at once too open – too exposed to global disruption – but also too closed to global trade. Queues at our ports, empty shelves, soaring prices, and red tape holding our exporters back.

Trade increases competition, aids the diffusion of technologies, and it allows for gains from specialisation and comparative advantage. That basic reality hasn't changed. This is not a question of retreating into fortress Britain – indeed, success will rest on forming new bilateral and multilateral partnerships, and forging a closer relationship with our neighbours in the European Union. We want to make it easier to export and import. But we must strike the appropriate balance between openness to global trade and resilience at home, acknowledging the centrality of trade to our prosperity, our competitiveness, and our supply of consumer goods but appreciating that there must be red lines – things for which we should not rely on states whose interests conflict with our own.

This is not only a matter of expanding our domestic productive capacity, but of forging stronger and more diverse supply chains for critical technologies. As other countries build up their own homegrown industries and forge new strategic partnerships, to prevaricate – to cling to old dogmas – is to fall behind.

There is a political reality to this too. With populists and protectionists the world over offering false solutions to vast and complex problems then the only defence of an open society and a trading economy is an approach which tackles the grievances on which they prey at root.

A new Washington consensus is taking shape. I believe it is in our interest to embrace that consensus. But today Britain is little more than a spectator.

Our ability to embrace that consensus will depend on an active state. There are those who warn that to embrace the active state is to return to the big state: to the top-down, Whitehall-knows-best government of the past. So again – let me be precise about what I mean.

The reality is we are already stumbling blindfolded into an era of a bigger state, the unavoidable corollary of sticking plaster politics. The inevitable response when disruption hits an economy with depleted resilience, inadequately prepared for shocks, its public services overstretched, its government unprepared. Securonomics advances not the big state but the smart and strategic state.

And to those who assume that industrial strategy amounts only to the state picking winners and propping up uncompetitive industries, let me explain. This is to misunderstand what a modern industrial strategy looks like. It is not the crude model of the state directing industrial development and correcting externalities as seen from the centre, but instead an approach that recognises the informational and capacity constraints of government, working in genuine partnership with business to identify the barriers and opportunities they face. Working together to form an assessment of the industries which will be critical in determining our future – across our broad based services strengths and our manufacturing specialisms, and being strategic about our real choices and our limits. Accepting that a country the size of Britain cannot excel at everything. Acknowledging those sectors in which we enjoy – or have the potential to enjoy – comparative advantage and can compete in a global marketplace; those sectors where strategic concerns might shape our approach; and those sectors where we must rely on others.

There are no easy answers, no quick fixes, no short cuts here. What is demanded is a decade of national renewal, shaping the institutional architecture of the British economy in the direction of mission-led government. And the most central mission of all: to restore the economic growth essential to meeting all Labour's ambitions in government.

When I hear it questioned whether sustained growth of the sort that characterised our twentieth century history is achievable, even whether it is desirable – when people ask, why do we focus on economic growth? It is because I believe two things.

First, that it is through growth and only through growth that we can sustainably resource strong public services, raise living standards, and compete internationally. Growth, ultimately, is what generates higher living standards for households, raises incomes, lifts people out of poverty, and gives people more choices about how to lead a good life. And second, that the idea of a trade-off between the strong economy and the good society is a mirage that belongs in the 1980s.

I see Britain's potential wherever I go, in our fantastic creative industries, our world-leading professional and financial services, and in pioneering work in general purpose AI and other digital technologies, in life sciences, and renewable energy – happening right here in the UK. There is no one-size fits all approach – different sectors have different needs, and face different barriers. But if we can get the policy right, then the rewards are immense.

That must begin with getting the institutional framework right, and enshrining that core growth mission within our economic architecture.

In 1997, the last Labour government established the Treasury's Enterprise and Growth Unit, squarely focused on driving economic growth. It was a source of important policy ideas, including the reform of competition law and the creation of a longer-term science funding framework. However, as the Institute for Government noted last month, that Unit is underpowered, its influence diminished compared to twenty years ago. And crucially it is not involved in the management of fiscal events.

So we will build on that success, hard-wiring growth into budget and spending review processes, with a reformed and strengthened Enterprise and Growth Unit embedded in the existing fiscal event process.

I want to use the rest of this lecture to set out the three pillars of a strategy for broad-based and resilient growth. Growth that we can achieve. Growth that we must achieve.

First, stability – the most basic condition for economic security and international credibility.

Second, investment – fostered through partnership, between dynamic business and strategic government.

And third, reform – to mobilise all of Britain's resources in pursuit of shared prosperity.

So first, stability. If we want to see businesses invest, if we want to build economic growth on strong foundations, then it will rest on stability.

In a world of unparalleled complexity and uncertainty, it is institutions which can provide the stability of direction, coordination, and appropriate incentives for sustained economic success. For much of our history, the strength of our institutions has bestowed credibility in international markets and underpinned our economic success. Politicians who undermine those strengths are playing a dangerous game.

So let me begin with the Bank of England. The Bank's Monetary Policy Committee must continue to have complete independence in the pursuit of its primary objective of price stability. And, just so there is no doubt about this: a Labour government will retain the 2 percent inflation target, while the Financial Policy Committee will continue with its core objective of financial stability.

But monetary policy and financial regulation cannot stand still, in the face of new risks, not least those posed by climate change. The European Central Bank's Isabel Schnabel has set out the implications for monetary policy of climate change: in losses that could translate onto the balance sheets of financial institutions and reduce the flow of credit; in impacts on labour productivity and health-related inactivity, which could lower the equilibrium real rate of interest and constrain the space for conventional monetary policy; and through the impact of supply side shocks on prices. Given the onus to mobilise investment to achieve our energy transition, these challenges are especially acute.

Macroeconomic policy has an important role to play in our climate transition. Labour has already set out plans to require financial institutions and FTSE 100 Companies to publish their carbon footprints and adopt credible 1.5-degrees-aligned net zero plans, and to push ahead with a UK Green Taxonomy.

Tonight, I can say more. I disagree with the current Chancellor's decision to downgrade the emphasis put on climate change in the remits for both Bank committees. So the next Labour government will reverse these changes, at the first opportunity. Because there can be no durable plan for economic stability and no sustainable plan for economic growth, that is not also a serious plan for net zero.

Bank of England independence reflected an understanding that politics will always present the powerful temptation to pursue macroeconomic policies that may not be in the medium-to-long term national economic interest – and that without the ability to credibly pre-commit future policy choices, this creates an inflationary bias – as the Barro-Gordon model showed. Similar logic applies to the concept of deficit bias. Politicians may be tempted to put off necessary fiscal decisions, or ignore the long-term consequences of policy choices.

It remains true, as Gordon Brown understood, that, in a modern economy, 'the discretion necessary for effective economic policy is possible only within a framework that commands market credibility and public trust.' That is especially true if government is to be able to take urgent, discretionary action when crisis strikes.

So we will strengthen the Office for Budget Responsibility, with a new fiscal lock, guaranteeing in law that any government making significant and permanent tax and spending changes will be subject to an independent forecast from the OBR. And we will not waver from strong fiscal rules.

So let me be clear about the rules which will bind the next Labour government. That the current budget must move into balance, so that day-to-day costs are met by revenues. And that debt must be falling as a share of the economy by the fifth year of the forecast, creating the space to respond to future crises.

I will also ask the OBR to report on the long-term impact of capital spending decisions. And as Chancellor I will report on wider measures of public sector assets and liabilities at fiscal events, showing how the health of the public balance sheet is bolstered by good investment decisions.

The UK has changed its fiscal rules more frequently than any other OECD economy, with the average lifespan of less than four years. That has contributed to instability and uncertainty. So I will end the practice of the

Chancellor being able to scrap the rules at any time, with an escape clause that would only suspend the rules if the OBR declared the UK was in an economic crisis.

Let me be candid. We cannot continue with the short-termist approach that disregards the importance of public investment. But we also cannot ignore the pressing need to rebuild the UK's public finances, to increase our space to respond to future shocks. That is why our fiscal rules differ from the government's. Their borrowing rule, which targets the overall deficit rather than the current deficit, creates a clear incentive to cut investment that will have long-run benefits for short-term gains. I reject that approach, and that is why our borrowing rule targets day-to-day spending. We will prioritise investment within a framework that would get debt falling as a share of GDP over the medium term.

Business needs stability too in the tax system. And for too long our politics has militated against that. So the next Labour government is committed to a single autumn budget every year; to the publication of a roadmap for business taxation, covering the duration of the parliament, within its first six months; and capping corporation tax at its present rate of 25 percent – the lowest in the G7 – throughout the next parliament, to ensure that businesses can plan investment projects today, with the confidence of knowing how their returns will be taxed for the rest of this decade.

First, stability; second, investment. Investment, through partnership.

It is not within government's gift alone to reinvigorate our faltering levels of investment. The lifeblood of growth is business investment. Nevertheless, a strategic state has a crucial role to play.

Partnership for investment will be embodied in a new British Infrastructure Council, which I have established in shadow form with representatives from some of the biggest UK and global investment funds – and in a revived and strengthened Industrial Strategy Council, placed on a statutory footing.

A modern industrial policy must be strategic, and it must be selective. Selective, because we cannot do everything and nor should we pretend otherwise. The object rather is to work with business to identify those areas where Britain enjoys or has the potential to develop comparative advantage, but where there are market failures or other barriers that hold back investment. There is already a great deal of excellent work identifying Britain's potential comparative advantage in crucial sectors, like floating offshore wind and carbon capture and storage, such as that by Anna Valero and her colleagues at the LSE.

And strategic, because it must be founded on assessment of the wider ramifications of the prioritisation involved, and clear-eyed about where opportunity will lie in the global economy of the future.

Public investment is one important lever available to governments, with the potential to crowd in private investment. But it is only one lever, and it must be used judiciously. Contrary to siren voices on left and right alike, commitment to growth is not measured by the size of the deficit you are willing to run.

Public investment will be delivered through Labour's Green Prosperity Plan, driven by new institutions: a National Wealth Fund and Great British Energy. But unlocking private investment will also require institutional reform.

Take our pension funds. Although Defined Benefit pension funds necessarily have portfolios that are increasingly geared towards less risky investments, Defined Contribution funds are expected to grow to more than £1 trillion by the end of this decade. But, partly as a result of our fragmented DC landscape, these funds are less invested in productive assets than in many other countries. This means lower returns for British savers, who do not benefit from diversification into private markets, and less patient capital available for growing British firms and our infrastructure. Labour will actively drive forwards DC fund consolidation and will, in government, launch a review of the pension system, to ensure it is serving British savers and UK PLC.

Investment matters not just for what it can physically build, but for the ideas it can nurture. Innovation is a core part of our history. And still today, we consistently rank in the top five countries in the world on the

Global Innovation Index, thanks in no small part to our universities, which, despite the immense challenges facing the sector, stand among the best in the world. And we are at the forefront of global innovation in sectors ranging from life sciences, to AI and tech, to net zero technologies.

But innovation must be nourished, with reliable sources of funding, and innovators supported, to translate brilliant ideas into commercial reality. So Labour will end the practice of one-to-three year funding cycles for key R&D institutions, giving them instead ten-year budgets to allow for meaningful partnerships with industry to keep the UK at the forefront of global innovation, and we will work with our universities to make sure spinouts can attract private capital as they seek to grow.

Of course, if we want to boost our national productivity – and wages with it – we should focus not only on those frontier firms, but on incremental gains driven by the diffusion of new technologies and best practice across the long tail of firms behind the productivity frontier. Because a strong economy cannot rely only on the contribution of the few firms at the leading edge.

Which brings me to my third and final pillar for growth: reform.

Reform of our planning system, our public services, our labour market, and our system of government, guided by the understanding that growth and competitiveness in the 2020s and beyond will rest on contribution: mobilising all our resources – the human potential found in every town and city – to break free from a vicious cycle in which inequality widens while growth stutters, towards a virtuous circle in which working people play their part in building prosperity and feel its benefits.

Let me start with our planning system – the single greatest obstacle to our economic success. Our planning system is a barrier to opportunity, a barrier to growth – and a barrier to homeownership too. Planning dysfunction means that land is costly and inefficiently utilised, making the cost of building infrastructure in the UK significantly higher than in most developed economies, meaning higher energy prices, poorer transport, and inadequate digital connectivity. And it prevents housing from being built where it is most needed – contributing to ever-higher prices and falling rates of home ownership, and constricting the growth of our most productive places.

We approach this under no illusions. Planning reform has become a byword for political timidity in the face of vested interests and a graveyard of economic ambition. It is time to put an end to prevarication and political short-termism on this question. There is no other choice. This Labour Party will put planning reform at the very centre of our economic and our political argument.

For infrastructure, the next Labour government will deliver a once-in-a-generation overhaul of the nationally significant infrastructure regime, updating all National Policy Statements within 6 months of coming into office, modernising the regime to reflect the types of infrastructure crucial in our changing economy, and cutting red tape by embedding principles of proportionality and standardisation.

And when it comes to housing, Labour will reintroduce mandatary local housing targets; recruit hundreds of new planners to tackle backlogs; and bring forward the next generation of New Towns.

A once-in-a-generation overhaul, to deliver the infrastructure and housing that is fundamental to our ambitions for homeownership, decarbonisation, and growth.

And to grow our economy, we cannot rely on just a few pockets of the country to drive growth and productivity. First, because we have seen the political consequences – and justified anger – when deep regional inequalities are allowed to open up, opportunity allowed to wither across swathes of the country, while Westminster politics looks away. And second because we know our productivity problem is a regional problem.

As Raj Chetty, John Van Reenen and their colleagues show, regional inequality robs us of potential inventors and innovators. The squandered potential of all our lost Einsteins and Marie Curies makes us all poorer.

One hundred and fifty years ago, the economist Mary Paley Marshall observed that the key to Britain's success in the industrial age lay in clusters, bringing together the skills, the infrastructure and Britain's natural geography to build strong, regionally-based industries. And these agglomeration economies, particularly those present in urban areas, have been shown by economists like Ed Glaeser to have hugely significant benefits for services firms too.

As our economy evolves, we need to do far more to unlock the benefits of agglomeration across Britain. That must mean not only investment, not only stability, but also fundamental reform of how we are governed.

Britain today has one of the most centralised political systems in the world – and some of the highest levels of geographic inequality too. That isn't a coincidence. OECD research has consistently shown that decentralisation is strongly correlated with better educational outcomes, higher investment, and stronger growth. As with a modern approach to industrial strategy which recognises the informational limits to government acting alone so too do we know that local and regional government often possesses better information about their local economies, and more developed capacity for working with local businesses and institutions. So the next Labour government will hand key economic powers to the regional and local leaders who know their needs, and their assets, best.

Let me give you one example – skills, one of our most persistent policy failures. As well as replacing the broken Apprenticeship Levy, with a new Growth and Skills Levy, the next Labour government will combine and devolve adult education budgets, with our skills effort overseen by a new national institution, Skills England.

But today, addressing the skills gap is a necessary, not a sufficient, requirement for economic success. There is now a wealth of evidence that greater in-work security, better pay, and more autonomy in the workplace have substantial economic benefits. IMF research has shown how enabling workers to better combine family life and work can broaden labour market participation. And there are strong statistical relationships between job satisfaction and workplace performance.

That is what I mean when I say that this is an economic agenda that is both pro-worker and pro-business; that to see that relationship as zero sum is to leave both the poorer. That understanding lies behind Labour's commitment to a genuine living wage, and to a New Deal for Working People.

The UK labour market is one of the most flexible among advanced economies, with hiring and firing relatively easy and a low floor of basic statutory rights. This can serve to reduce the risk of taking on new staff, the risk of poor matches, and allow firms to respond more easily to economic cycles. But flexibility is too often manifested as insecurity, corrosive of individuals' physical and mental health, their ability to plan ahead, and the time they are able to spend with loved ones.

And the reality is that the one-sided flexibility we have now is not enough on its own to ensure labour markets have the dynamism needed to power growth. What is crucial is that over time workers move to higher productivity firms and higher productivity sectors – this is how workers get higher wages and the economy becomes more productive. Workers who move jobs typically see their pay rise by 4 percentage points more than those who do not. But at present, this is not happening enough – the proportion of workers switching job each quarter fell by 25 per cent between 2000 and 2019.

The status quo serves neither workers nor businesses. As the Resolution Foundation have argued, 'the missing ingredient is empowered workers, willing and able to take risks'. Labour's changes will address this, with flexibility that works both ways – giving workers the security to change jobs.

I want to be clear here about Labour's plans, because I know that many in business will have questions.

We will guarantee basic rights from day one – protection from unfair dismissal, sick pay, and parental leave. But this will not prevent fair dismissal, and we will ensure that businesses can still operate probationary periods with processes for letting go of new hires.

We will ban exploitative zero hours contracts, by giving all workers the right to a contract that reflects the number of hours they regularly work, based on a twelve-week reference period. But these changes will not stop employers from offering overtime or meeting short-term demand, such as in the build-up to Christmas or seasonal work in agriculture or hospitality.

And on trade union legislation, we will reverse changes since 2010 that have done nothing to prevent the worst period of disruption since the 1980s, but instead have contributed to a conflictual, scorched-earth approach that has stood in the way of productive negotiation. These policies didn't exist under Blair and Brown when there were fewer strikes and less disruption. We will work with business as we deliver and implement these policies.

And an economy built on contribution of the many means recognising that we don't just need growth to fund strong public services. We need strong public services to support economic growth, including a serious plan to get the long-term sick – let down by ballooning NHS waiting lists, failing mental health support, an inflexible welfare state, and inadequate employment support – back to work. We will swiftly implement the plans we have already set out for an urgent resource injection into our public services: to cut NHS waiting lists, tackle the crisis in dentistry, transform mental health services, recruit and retain teachers, and provide breakfast clubs in every school.

And if we are to build an economy founded on contribution, we must also think more expansively about the work we value: Recognising that even the most dynamic of industries must rest on foundations provided not only by businesses at the frontier but what I call the 'everyday economy': of retail, care, transport, delivery, utilities, and more. High employment sectors but sectors too often characterised by insecurity and low pay. That means, again, that the concerns of industrial policy, in pursuit of resilience and broad-based growth, should not stop at the high-productivity frontier.

We know too that it is women who disproportionately work in our everyday economy, and women who have borne the brunt of the economic and social disruption of recent years. I want to champion women in our economy not only because it is the right thing to do. But also because if we fail to offer women the same opportunities as men, we fail to make use of their talents.

Numerous economists, including Peter Klenow and Oriana Bandiera, have shown that the misallocation of talent that occurs when women are out of the labour market, under-represented in certain professions or at certain levels, or discriminated against, can have significant implications for growth. Claudia Goldin, the first woman to win a Nobel Prize for Economics solo, has shown, the ways in which the labour market penalises mothers remains a crucial driver of unequal outcomes. And the Rose review of female entrepreneurship showed that if the UK were to achieve the same rates of female entrepreneurship and business ownership as our "best in class" peers, that could add £200bn to our GDP.

So an agenda to harness women's economic potential must mean an agenda for good work in our everyday economy, renewed efforts towards ending the gender pay gap once and for all, ensuring women can access the finance to start a business, and taking crucial steps towards a modern system of childcare.

We must be clear-sighted about the inheritance the next government – whoever may form it – will face. Debt at its highest rate in 60 years, with net debt interest payments of over £80 billion this year alone. NHS waiting lists at seven and a half million. Schools and hospitals crumbling. The first Parliament in history over which living standards have fallen.

No one election will wipe that inheritance away. We must face the world as it is not as we would have it be. I am under no illusions about the scale of the challenge, nor the stakes; the consequences, should we fail to learn the lessons of our recent past, are severe: for our place in the world, our living standards, our climate commitments, and faith in democratic politics.

But I remain an optimist about our ability to rise to the challenges we face, if we can bring together public and private sectors, in a national mission – directed at restoring strong economic growth across Britain. When we speak of a decade of national renewal, that is what we mean.

As we did at the end of the 1970s, we stand at an inflection point. And as in earlier decades, the solution lies in wide-ranging supply-side reform, to drive investment, remove the barriers constraining our productive capacity, and fashion a new economic settlement, drawing on evolutions in economic thought. A new chapter in Britain's economic history. And unlike the 1980s, growth in the years to come must be broad-based, inclusive, and resilient.

Growth achieved through stability, built on the strength of our institutions. Investment, through partnership between strategic government and enterprising business. And reform, of our planning system, our public services, our labour market, and our democracy.

In the face of a more unstable world, the task is not only to recognise the acute risks, but also to identify the huge opportunities. To reject managed decline, renew our common purpose, and rebuild growth on strong and secure foundations.

Thank you.