The UK's failing economic model demands such bold ideas

Letter from David Blanchflower and others, Financial Times, 6 September 2019

Your series of articles exploring the Labour party's economic agenda fails to appreciate the severity of the UK's current economic condition, and reproduces a number of misconceptions.

There is growing political consensus that the UK's economic model is failing. The economy has been performing badly for more than a decade. Household debt has fuelled the meagre recovery from the crash of 2007-08. Earnings have stagnated, with many families borrowing to cover basic expenses; an estimated 8.3m people cannot keep up with debts or bills. The housing market is in crisis, with young people set to be poorer than their parents. Since the 1980s, the wealthiest have disproportionately benefited from growth, driving high levels of political disillusionment. Action to prevent climate and environmental breakdown, and prepare for their effects, is wholly inadequate.

All political parties in the UK are proposing increases in public spending to meet these challenges. Your headline "Cost of Labour's economic overhaul soars" (September 3) implies that Labour's proposals are unaffordable, but the Office for Budget Responsibility analysis cited ignores the impact of public spending on growth, and thus on tax receipts. As senior IMF economists have noted in their critique of austerity, this relationship is critical.

Today the government can borrow at negative real interest rates: many pressing infrastructure, education and environment projects offer returns well above zero and can therefore generate higher future tax receipts, supporting not detracting from fiscal sustainability. Taxation levels in the UK remain lower than in most European countries.

But reform of fiscal policy is not enough. Ownership of capital helps determine in whose interests the economy operates. It is a category error to suggest a mechanism such as an Inclusive Ownership Fund would "cost" companies or that the state will "seize" shares. The proposal neither reduces the book value of corporate entities, nor requires them to pay cash out. By requiring companies to issue new shares and give them to a mutual fund — mirroring the accepted practice of issuing shares for executive compensation — it ensures instead that workers share in the wealth they create.

The UK's economic model has failed before. In both the 1940s and 1980s, major policy changes were made in response. At first seen as overly radical, they were later accepted across the political spectrum.

Since 2008 the UK economy has again been failing, with today's political crisis one of the consequences. This is precisely the time when bold ideas are needed from all political parties.

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On behalf of 82 signatories.