A plan for a new economy?

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The Institute of Public Policy Research (IPPR) claims it is *"the UK's pre-eminent progressive think tank".* It is backed and funded by many 'progressives', trade unions, universities and also corporations. And it is now seen as a think tank that influences the current left Labour Party leadership. Now, just before the annual Labour conference at the end of September, the IPPR has published a new report called *Prosperity and Justice for all – A plan for a new economy*. The report is result of the work of special commission of several great and good experts in the 'progressive' left on the state of UK economy and what to do about it.

In its interim report last year, the IPPR report provided a scathing account of the state of the UK economy: its weak growth, low investment, stagnant average incomes; low productivity growth and high inequality in incomes and wealth. It highlighted the overdependence on the financial sector in the UK economy to the detriment of manufacturing and other productive sectors. It condemned the UK's highly regressive tax system, along with all the loopholes to avoid paying tax for the rich and corporations.

This final IPPR report concludes that there is a need for fundamental reform of the UK economy. The question what reforms are proposed and would they work?

The IPPR is clear on the problems. *"The UK economy is not working. It is no longer delivering rising living standards for a majority of the population. Average earnings have stagnated for more than a decade – even while economic growth has occurred. Too many people are in insecure jobs; young people are set to be poorer than their parents; the nations and regions of the UK are diverging further."*

The causes are structural and endemic: *"Many of the causes of the UK's poor economic performance – particularly its weaknesses in productivity, investment and trade – go back 30 years or more."* Radical action is needed: *"They will not be addressed by incremental change or trying to 'muddle through'. "*

More than a fifth of the British population live on incomes below the poverty line after housing costs are taken into account, even though most of these households are in work. Nearly one in three children live in poverty and the use of food banks is rising. There is a sixfold difference between the income of the top 20% of households and those of the bottom 20%. Wealth inequality is much worse, with 44% of the UK's wealth owned by just 10% of the population, five times the total wealth held by the poorest half.

The IPPR says, *"It is not sufficient to seek to redress injustices and inequalities simply by redistribution through the tax and benefit system. They need to be tackled at source, in the structures of the economy in which they arise. These include the labour market and wage*

bargaining, the ownership of capital and wealth, the governance of firms, the operation of the financial system and the rules that govern markets. Economic justice cannot be an afterthought; it must be built in to the economy."

All this sounds to the point. But what does the IPPR Commission propose? Well, it has a ten point plan: to promote 'investment-led growth' by raising public investment, holding down house price inflation and reducing the incentives that currently favour short-term shareholder returns over long-term productive investment; to rebalance the economy through 'new industrialisation', away from an over-dependence on the finance sector towards a more diverse array of manufacturing and other innovative, export-oriented industries, located right across the country; to give workers greater bargaining power, making it easier for trade unions to negotiate on their behalf to achieve higher productivity and to share its rewards fairly through better wages and conditions and reduced working time; to pursue 'managed automation', accelerating the adoption of new technologies across the economy and ensuring that workers share in the productivity gains and are helping to retrain; to promote open markets which reduce the near-monopoly power of dominant companies, particularly in the digital economy, and make data available to promote innovation for social good; and to spread wealth more widely in society, both by widening ownership of capital and through fairer forms of wealth and corporate taxation.

Let me concentrate on what I think are the key measures the IPPR offers to achieve radical improvements in the UK economy as well as making it 'fairer'. Just as many on the left including the Labour leaders have advocated, it proposed to overcome the failure of the British banking system to lend to productive companies and the failure of many companies to invest in jobs and technology to boost productivity by establishing a National Investment Bank (NIB) to invest in infrastructure, innovation and business growth in England.

There are several things here. First, note the clear omission of any proposal to take over the big five banking groups in the UK that triggered the financial crash in 2008; that continue to speculate rather than lend; and that have been exposed in all sorts of scams, frauds, tax avoidance and cash laundering and most of whose executives have remained in place even when partially nationalised (as in the case of RBD and Lloyds).

Back in 2012, the UK firefighters union (FBU) commissioned a report on the banks, that I wrote jointly with Mick Brooks. We found that less than 5% of lending by UK banks went towards productive investment by companies. The rest went on real estate (mortgages) or lending to other financial institutions for speculation.

Instead bank loans have poured into real estate. The productive sectors of manufacturing, professional scientific & technical activities, information & communication and administrative & support services account for 28.7% of real GDP. But loans outstanding to these four sectors total just £108.82bn, or 5.5% of GDP. This is less than the total of loans outstanding to companies engaged in the buying, selling & renting of real estate (£135.97bn or 6.9% of GDP). Indeed, 33% of all bank loans go to other financial institutions to speculate.

The IPPR report too is clear on this. *"The UK's financial sector is one of the largest and most successful in the world…, but there has been insufficient provision of 'patient capital' for long-term investment. So the "UK has had a long-term problem of asset price inflation, particularly in land and property."* As the IPPR points out: *"the Bank of England has experimented with ultra-loose monetary policy, with record low interest rates and a £445 billion injection of 'quantitative easing' (QE). But these policies have not generated the sustained growth".*

But what is the answer of the IPPR? It is to leave the big five banks to carry on as before, with the proposed NIB to do all the work in funding industry and investment. The NIB would be 'seeded' to lend £50-200bn for investment over a period of time. The IPPR is right that, instead of 'encouraging' British big business to invest through 'tax incentives', such subsidies should be *"channelled into direct funding for innovation through Innovate UK and the National Investment Bank."*

But the amount of funding for investment involved would be no more than about 2% of GDP a year. Currently, government investment is under 2% of GDP. The IPPR proposes that the government should increase its investment programme by £15bn a year by 2022 to take the government investment ratio to 3.5% of GDP, the current G7 average.

The IPPR wants *"as an alternative to QE, to enable macroeconomic policy to stimulate the economy in recessionary conditions that the Bank of England should be given the power to ask the National Investment Bank to expand lending in the real economy, and to buy its bonds to ensure this can be financed."*

However, business investment in the UK is closer to 15% of GDP. So the planned NIB and government investment boost, even if fully implemented after five years, would still be less than one-third of the investment coming from the capitalist sector of the economy. That sector would still be decisive for growth, incomes and investment. And much of the NIB funds would anyway go to big companies to invest. There would not be much direct investment by state-owned operations.

So is the NIB, more government investment and BoE funding enough to be considered a radical change? The FBU report showed clearly that it would be 'business as usual' for the big banks unless they were brought into public ownership. Surely, we cannot allow the big five banks to continue to dominate funding for investment, which will be the case even with the NIB in place?

The IPPR wants to raise productivity levels through a 'social partnership body'; it wants to 'modernise the labour market' by raising the living wage to a proper level (its £8.75 an hour outside London is still pretty modest, however). It does not propose to outlaw 'zero hours contracts' where people are on call from their employers and receive no job security or a weekly pay packet, but merely to raise the minimum payment. And to democratise corporations, it proposes to revive the idea of workers reps on company boards. This is the German corporate model which sounds good but has signally failed to control corporate decision-making on wages, gender pay gaps or conditions.

The IPPR rightly exposes the regressive nature of the UK's income tax system. *"Our present system of taxing incomes is complex, lacks transparency and is insufficiently*

progressive. On average the poorest fifth of households pay 35 per cent of their gross income in tax, which is more than the richest fifth." There needs to be a return to the post-war *"'formula-based' system, abolishing bands and applying instead a gradually rising marginal rate of tax as incomes rise."* The IPPR would also want to increase in the rate of corporation tax and "*tackle tax avoidance by multinational corporations" with a 'backstop tax' levied "on company's UK sales at a rate derived from its global profits relative to global sales."*

All these measures are surely to be supported, but will they do the trick? On the tax measure, even Keynesian reformers have expressed doubts. Simon Wren-Lewis is unsure that *"the stakeholder measures talked about, or greater union influence may not be enough to reverse runaway corporate pay….The report involves reversing many aspects of neoliberalism, but an interesting question is whether that is enough to achieve a decline in the 1% share, or whether other measures like higher top taxes are an essential part of doing that?"*

The IPPR wants to establish *"a National Economic Council (NEC) as a forum for economic policy consultation and coordination. This would have responsibility for drawing up and agreeing a 10-year plan for the UK economy, to provide a coordinated framework for the management of economic policy."* But how can there be any coordinated plan that works if the 'commanding heights' of the economy remain in the hands of the big five banks and top corporations, entities that will continue to control the bulk of investment, employment and wages?

FT columnist and Keynesian Martin Wolf commented recently that the reason the UK economy has not changed in any fundamental way since the disaster of the Great recession was *"the power of vested interests. Today's rent-extracting economy, masquerading as a free market, is, after all, hugely rewarding to politically influential insiders."*

The finance sector stumped up over half the cash for Cameron's party when it gained power in 2010. One in four Tory MPs elected in 2015 came from finance backgrounds – more than all who worked in schools, universities, health, the armed forces and agriculture put together. All the government reports on banking after the crash are dominated by bankers, and the Bank of England's Mark Carney celebrated the prospect of a finance industry becoming 20 times the size of our GDP.

And yet the IPPR proposes no change in the power of these "vested interests". Can the bulk of the finance sector in the UK be allowed to carry on with 'business as usual'? In his piece, Wolf concludes that *"A better version of the pre-2008 world will just not do. People do not want a better past; they want a better future".* This is also the aim of the IPPR report. But, in my view, its proposals fall short of achieving that.