

Red Scare

“We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists, and in so far as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step.”

- Jim Callaghan, speech to Labour conference, 1976.

“The UK economy needs reform. For too long it has prioritised consumption over investment, short-term financial returns over long-term innovation, rising asset values over rising wages, and deficit reduction over the quality of public services.

“The results are now plain. We have had 10 years of near zero productivity growth. Corporate investment has stagnated. Average earnings are still lower than in 2008. A gulf has arisen between London and the South East and the rest of the country. And public services are under intolerable strain — which the economic costs of a hard Brexit would only make worse. We now moreover face the urgent imperative of acting on the climate and environmental crisis.

“Given private sector reluctance, what the UK economy needs is a serious injection of public investment, which can in turn leverage private finance attracted by the expectation of higher demand. Such investment needs to be directed into the large-scale and rapid decarbonisation of energy, transport, housing, industry and farming; the support of innovation- and export-oriented businesses; and public services. It is clear that this will require an active and green industrial strategy, aimed at improving productivity and spreading investment across the country.

“Experience elsewhere (not least in Germany) suggests a National Investment Bank would greatly help. With long-term real interest rates now negative, it makes basic economic sense for the government to borrow for this, spreading the cost over the generations who will benefit from the assets. As the IMF has acknowledged, when interest payments are low and investment raises economic growth, public debt is sustainable.

“At the same time, we need a serious attempt to raise wages and productivity. A higher minimum wage can help do this, alongside tighter regulation of the worst practices in the gig economy. Bringing workers on to company boards and giving them a stake in their companies, as most European countries do in some form, will also help. The UK’s outlier rate of corporation tax can clearly be raised, not least for the highly profitable digital companies.

“As economists, and people who work in various fields of economic policy, we have looked closely at the economic prospectuses of the political parties. It seems clear to us that the Labour party has not only understood the deep problems we face, but has devised serious proposals for dealing with them. We believe it deserves to form the next government.”

- (Emphasis ours.) Letter to the *Financial Times* from the following 163 academics, 26 November 2019:

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“I notice that of the 163 academics who call for Labour to form the next government (Letters, November 26) not one is from a history faculty. Surely the lesson of the 1970s is that highly excessive borrowing, which must ultimately be repaid, leads to higher taxation and lower profits, dividends, pensions and wages. The latter causes civil unrest resulting in strikes and further economic disruption.

“There is undoubtedly a need for greater investment and it was surprising that the Conservative manifesto did not include more of it, but any increase has to be measured with a target on increasing productivity and living standards. Labour’s proposals are so far off the scale that it is doubtful the UK economy could absorb such excess. Professor David Blanchflower et al do not address this point. Indeed their argument is as ill thought out as it is shallow.

“Moreover, in extolling the virtues of Germany one wonders if they are even aware of the heated debate concerning the lack of German spend on infrastructure?

“The fact also that Jeremy Corbyn so readily jumped on the Women Against State Pension Inequality issue (for which admittedly one must have sympathy) after issuing its own manifesto by offering another £58bn on top of an annual spend of £83bn is surely testament enough as to why the Labour party is totally unfit for office.

“The fact is that a measured approach to greater targeted spending and the Waspi pension dilemma (such as a means test) would be a far better way than the irresponsible election bribe offered by Labour. Hopefully the UK electorate will have the sense to see through such hubris.”

- John Turner of Foxrock, Dublin, Ireland in a letter to the *Financial Times*, 27 November 2019.

What do you call 163 Marxist economists at the bottom of the sea ?

Not a bad start.

Tim Price is co-manager of the [VT Price Value Portfolio](#) and author of ‘Investing through the Looking Glass: a rational guide to irrational financial markets’. You can access a full archive of these weekly investment commentaries [here](#). You can access the archive of our regular ‘State of the Markets’ podcasts, with Paul Rodriguez of ThinkTrading.com, [here](#).

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