Changing the world of work for good

From the doom loop to an economy for work not wealth

Acknowledgements

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Summary

In spite of suffering the longest pay decline in modern history, the government and Bank of England are issuing calls for pay restraint, and workers are being told once more that they must be poorer still. Yet since austerity policies began wealth has expanded relentlessly. The economy and pay are in an unending doom loop of decline.

- TUC analysis published today shows that in 2023 the economy has lost around £400 billion of GDP compared with a projection of the forecast made by the OBR in 2010.
- Comparing with a projection from ahead of the global financial crisis, the loss forecast for 2027 approaches £900 billion or one third.

But austerity policies are only symptomatic of a model that has for more than 40 years put the interests of wealth ahead of work. On this longer view, comparing with pre-1979 trends:

- GDP has fallen short by £2 trillion or nearly half, but
- wealth (household net worth, adjusted for inflation) has gained £7 trillion and nearly trebled.

This paper outlines an alternative model to reset the balance in favour of work and away from wealth. These policies have a substantial international dimension, given inequalities and failures of work are no less apparent between countries as well as within them.

- North American and Europe account for only 10 per cent of the world population but 57 per cent of global wealth.

Kristalina Georgieva, IMF managing director, recognised in 2020 'A New Bretton Woods Moment', and recalled the end of the Second World War and "the foundations for a more peaceful and prosperous post-war world".[1] These foundations were well laid:

- Ahead of 1979 (from 1948) more vigorous gains in UK GDP of 3.1 per cent a year were set against greatly more moderate gains in wealth of 1.8 per cent a year.

But over recent decades these foundations have been badly undermined. With too much emphasis on wealth, the performance of the economy has progressively deteriorated. Workers have lost out badly, and there is a sense of permanent financial instability.

This paper draws on the recent 'New macroeconomics' literature, that in turn recalls the historic contributions of J. A. Hobson (1858-1940) and J. M. Keynes (1883-1946). These emphasise the relation between a too high return to wealth and too low return to work, and theories of over-production and underconsumption. Rather than deficient supply the underlying problem of the world economy is excessive supply in the context of

[1] https://www.imf.org/en/News/Articles/2020/10/15/sp101520-a-new-bretton-woods-moment

deficient demand. This situation translates in practice to a balance sheet inflation, with the counterpart to high household net worth likely excessive private debt. As the IMF and others recognise, this is vital context for the actions of central banks – but is ignored in practice.

But crisis should not be inevitable. Clement Attlee's government effected the necessary rebalancing, and built a social infrastructure that endured to 2010. The call is to restore the global foundations for a labour internationalism, and in the UK to repair the infrastructure of the past and build a new green infrastructure for the future.

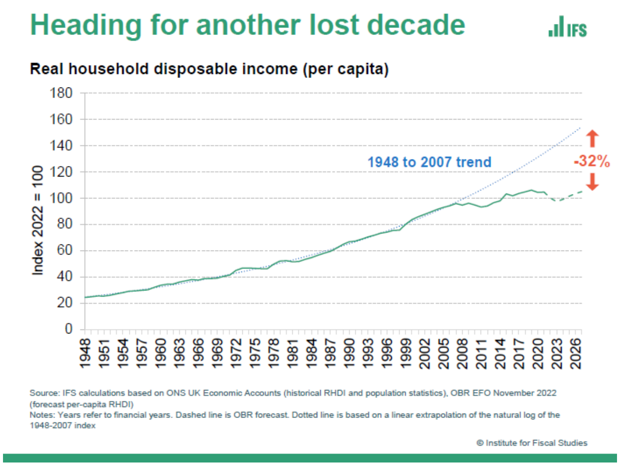
1. Introduction

> "But if we are going to sustain our public services and avoid a doom loop of ever higher taxes and ever lower dynamism, we need economic growth", Jeremy Hunt, Autumn Statement speech, 17 Nov. 2022

> "This government has forced our economy into a doom loop – where low growth leads to higher taxes, lower investment, squeezed wages, and the running down of public services. All of which hit growth again", Rachel Reeves, response to Autumn Statement, 17 Nov. 2022

After the Autumn Statement the Institute for Fiscal Studies (IFS) reported that in 2027 real incomes per head of the population will be a third smaller than had they followed the post-war trajectory.[2]

Figure 1: IFS analysis



In their commentary they commend the government for confronting "harsh fiscal realities", but still warn of "reaping the costs of a long-term failure to grow the economy, the effects of population ageing, and high levels of past borrowing".

According to the 'doom loop' argument, the vast erosion of around a third of the UK economy and the arrested standard of life for workers is a consequence of austerity policies in place since 2010. Inherent to these policies are critical and wrongheaded assumptions that are common across the institutional infrastructure of macroeconomic policy, both on a national and international level (though the international institutions have sometimes moderated their stance). These assumptions concern multipliers and the effects on capacity / the output-gap.

With these mechanisms identified, the lost prosperity can be restored. However to move forward decisively, outcomes need to be understood on a longer horizon, and on a broader view of policy beyond fiscal policy.

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[2] Xiaowei Xu's slides, #3: https://ifs.org.uk/collections/autumn-statement-2022

IFS-type metrics can be used to set present outcomes in a longer-run context, and confront dislocations in the economy that are fundamentally distributional in substance. Just as over the austerity period dire outcomes for GDP and work have been set against immense gains to wealth, the same divergence can be traced further back to 1979. Over the past 40 years economic activity has fallen short by almost half compared to pre-1979 trajectories, but wealth has expanded by almost three times. On this view the austerity decade is an episode in an arrangement of the economy that for decades has supported wealth not work.

The sections two to six therefore examine the doom loop and consequences for the economy and public finances since the global financial crisis in 2007-08. Sections seven to eleven address the failure on the longer view, and rehearse theoretical arguments and the associated policy infrastructure that might explain how the economy ahead of 1979 operated better for work and since 1979 has operated better for wealth.

Much of the broader argument turns on how the returns to work and wealth translates (to the good) to spending power and production, and (to the bad) to debt and speculative activity. Immediately the imperative is for increased spending power, when instead incomes are undermined on several fronts by high inflation, sharply higher interest rates and inadequate support from government. Moreover there must be concerns about the sustainability of the now extreme dislocation between asset values and the size of the economy. Signs of stress in markets with an element of speculation like technology companies and residential and commercial property may indicate a 'correction' is now underway that could mean a greatly more severe recession than presently admitted by policymakers. In a candid moment the IMF conceded "the level of risk we are flagging at the moment is the highest outside acute crisis".[3]

Crisis or not there is a desperate need to reset the economy to give priority to production and work, and to heed calls heard in the wake of the pandemic for a return to the Bretton Woods mindset at the end of the Second World War.[4]

This imperative operates on both the domestic and international domains. For the dislocations evident at country level are potentially more extreme between countries. The ideal behind the Bretton Woods Agreement was to permit all countries the ability to set full employment polices, as well as to provide development aid to enable low-income countries better to catch up. With these inequalities now in front place in climate discourse, the whole approach of the post-war world merits re-examination.

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[3] Press briefing for the *Global Financial Stability Review*, October 2022: https://www.youtube.com/watch?v=vSqSsMNv4Z8

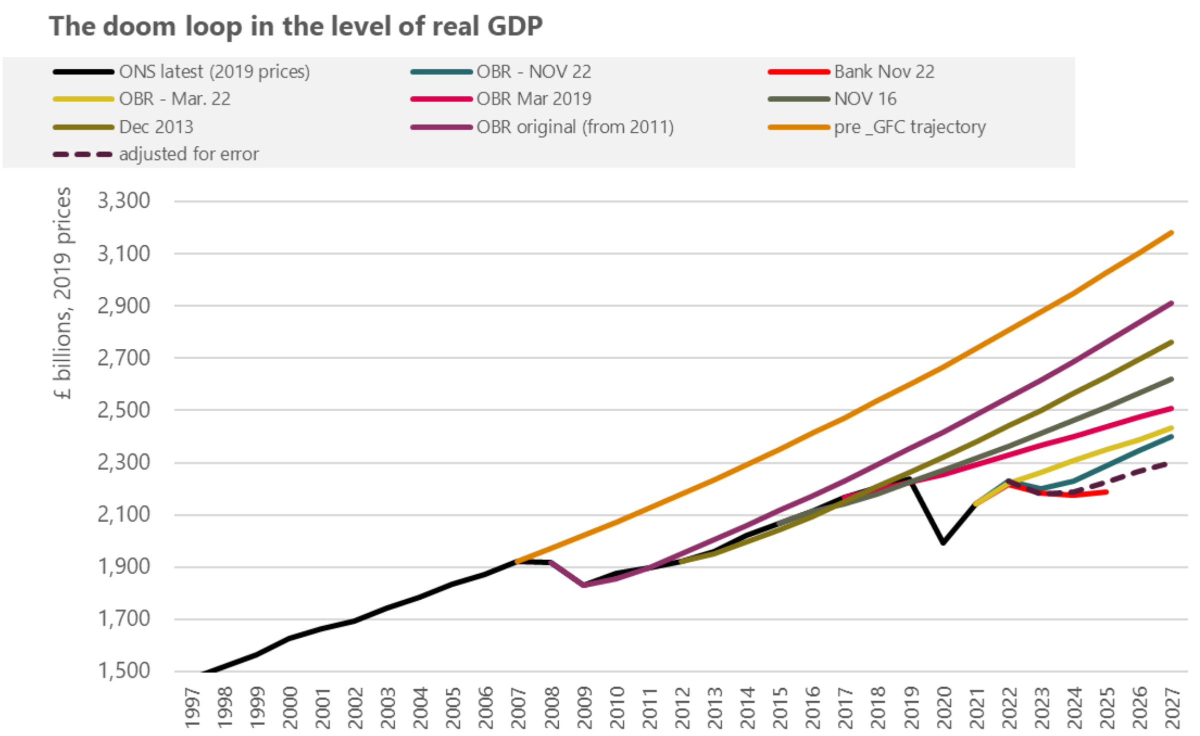
[4] In October 2020 Kristalina Georgieva, the managing director of the IMF, urged "… inspiration from a previous generation**.** William Beveridge, a former LSE Director, issued his famous report in 1942, which led to the creation of the UK's National Health Service. And in 1944, John Maynard Keynes and Harry Dexter White led the establishment of the Bretton Woods system—including the IMF and the World Bank": 'The Long Ascent: confronting the crisis and building a more resilient economy', 6 Oct. 2020 at the London School of Economics and Political Science: https://www.lse.ac.uk/lse-player?id=f40f2957-251e-4272-9b63-634a83f40ce5

2. The doom loop in real GDP, wages and public services

The starting point to better understand the IFS projection of real incomes should be similar projections of real GDP. Figure 2 shows various iterations over time of the Office for Budget Responsibility (OBR) forecast (and the Nov. 22 forecast by the Bank of England). The IFS real household disposable income per capita projection is broadly in line with the latest OBR projection for real GDP that shows the economy in 2027 expected to be nearly one third smaller than the pre-global financial crisis trajectory.[5] The size of the UK economy is expected to be £2.3 trillion rather than £3.2 trillion, in real terms and 2019 prices.

This dysfunction has been progressively intensifying since Chancellor Osborne began austerity policies in 2010. With only a handful of exceptions, each OBR forecast for the level of real GDP is worse than the previous one. The chart therefore captures the consequences of the 'doom loop' (though for only a subset of forecasts to keep it readable).

Figure 2: The doom loop in the level of real GDP



Source: ONS, OBR, BoE and TUC calculations

The OBR recognise uncertainty in their forecasts (as emphasised in discussion around 'black holes'– sections 8 and 10), but there is very little uncertainty here: *over time*

[5] In this instance pre-financial crisis trajectory is 1981-2007 rather than 1948 to 2007.

forecasts are revised down. According to the 'doom loop hypothesis', this is because the mechanisms at play – inadvertently perhaps – contain the expansion of the economy.

Very roughly (and conservatively) these downgrades (since 2010) amount to around £20bn a year (measured on the five-year horizon, and in 2019 prices); so likely by 2027 outcomes may have fallen shorter still by £100bn.[6] So rather than hit £3.2tn as on the pre-crisis trajectory, GDP will be £900bn lower at £2.3tn.

Beyond the abstraction of GDP the consequences are the worst pay squeeze for two hundred years,[7] a vast increase in insecure and low-quality work,[8] and public services in crisis. Of a devastating 15 million people in poverty, more than half are in work.[9] The Resolution Foundation show unprotected departmental current spending per head reduced by 20 per cent from the position under the Labour government.[10] Conversely, as TUC analysis ahead of Congress 2022 showed, since the global financial crisis, 'financial wealth' was up by more than £800 billion to £1.9 trillion, and annual growth in dividend payments has been three times the annual growth in nominal pay (up from double ahead of the crisis).[11] Total wealth for the top decile was up 70 per cent, from £3.9 trillion to £6.6 trillion.[12]

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[6] The downgrade is assessed at the end of each actual OBR forecast (so eg. at 2015 for the June 2010 forecast) rather than the implied position in 2027.

[7] https://www.tuc.org.uk/blogs/17-year-wage-squeeze-worst-two-hundred-years

[8] https://www.tuc.org.uk/research-analysis/reports/insecure-work-why-employment-rights-need-overhaul

[9] https://www.tuc.org.uk/blogs/only-good-well-paid-work-route-out-poverty

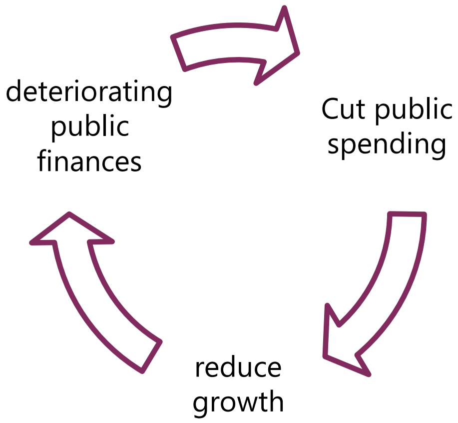
[10] 'Help today, squeeze tomorrow: Putting the 2022 Autumn Statement in context', 18 November 2022, Figure 30.

[11] https://www.tuc.org.uk/news/ministers-should-boost-wages-not-slash-taxes-emergency-budget; and https://www.tuc.org.uk/news/shareholder-pay-outs-growing-three-times-faster-wages-under-tories-tuc-analysis;

[12] Source: ONS wealth and assets survey.

3. The ‘scientific error’ behind the doom loop

The economics commentator Ambrose Evans-Pritchard justly reckons the “self-fulfilling doom loop” arises from “scientific error”. [13] Paul Mason captures the process in three steps:[14]



The fuller economics of the process involves four steps, which underpin the action of the Treasury and analsyis of the Office for Budget Responsibility:

❶ First in the face of deteriorating public finances the government acts on calls for cuts in public expenditure.

❷ Too-low ‘multipliers’ – that capture the relation between government policy and the economy – understate the effects of this contractionary policy on the economy.

So cuts to government spending reduce significantly aggregate demand and lead to significantly lower GDP growth.

❸ This consequent failure of outcomes is wrongly (but almost automatically) attributed to supply deficiency rather than demand deficiency.

The economics behind steps ❷ and ❸ are unquestionably contentious, even extreme. OBR multiplers and the associated notion that cutting public spending ‘crowds in’ private spending are monetarist in substance, the doctrine of Milton Friedman and Margaret Thatcher. In their October 2012 World Economic Outlook the IMF vigorously challenged the low multipliers deployed by many countries (reckoning forecasts were based on 0.5 and judging that outcomes were consistent with multipliers in the range

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[13] *Daily Telegraph*, 20 Nov. 2020: https://www.telegraph.co.uk/business/2022/10/20/obr-now-master-britains-fate-had-better-get-act-together/
[14] h/t Paul Mason: https://twitter.com/paulmasonnews/status/1593297262721081347

0.9 to 1.7); the OBR reported the analayis but made no change in its approach.[15] And in parallel related academic infrastructure has proved flawed in quite basic ways.[16] Likewise any retrospective account by the OBR of why the supply-side of the economy has failed so disastrously are little beyond pure conjecture, with no international evidence brought to bear. Strikingly the preferred initial explanation was that "financial crises are typically associated with large output losses that persist for many years after the event" (Economic and Fiscal Outlook, Nov. 2011, p. 51), and then progressively worse outcomes were explained by these effects proving larger than first thought.[17] 'Supply deficiency' is supported by a one-sided reading of productivity outcomes. On a demand view low productivity outcomes are simply the residual of the labour market adjusting to weak GDP growth through price (wages) rather than quantity (jobs). It is a fallacy to presume productivity statistics must indicate a supply failure, as outlined in the Royal Economic Society Newsletter and a fuller TUC account of the international landscape.[18] To stress: supply is deficient, but the the immediate cause of this deficiency is aggregate demand.

On this view productivity statistics are not measuring in any meaningful sense what might be analagous from a business view. Assessed on the basis of macreconomic statistics, productivity is simply one part of an accounting relationship alongside output, pay and employment (and other factors from the income measure of GDP). And accounting relations do not indicate causality.

On the demand view the disastrous and without precedent failures of wages and the quality of work are a consequence of wrong policy. The relation between cuts in government spending and reductions in GDP growth is unambiguous on an international view (TUC, 2019). TUC (2019) shows GDP growth reduced in all 32 out of 32 advanced economies that cut government expenditures.

❹ Critically the failure of the economy means a failure of the public finances. George Osborne's weakest recovery (GDP) for at least a century translates into the worst public

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[15] https://obr.uk/box/some-recent-analysis-of-fiscal-multipliersa/

[16] Thomas Herndon, Michael Ash and Robert Pollin, Does high public debt consistently stifle economic growth? A critique of Reinhart and Rogoff', Cambridge Journal of Economics, Volume 38, Issue 2, pp. 257-279; Jayadev, Arjun and Mike Konczal (2010) 'The Boom Not The Slump: The Right Time For Austerity', The Roosevelt Institute, Last Updated: August 23, 2010. http://www.rooseveltinstitute.org/sites/all/files/not_the_time_for_austerity.pdf

[17] Other later explanations included: low investment undermining productivity, low interest rates permitting 'zombie' firms to survive, and Brexit undermining investment (from various *Economic and Fiscal Outlooks*).

[18] 'The productivity supply fallacy', Royal Economics Society Newsletter, July 2016; TUC (2019) 'lessons from a decade of failed austerity': https://www.tuc.org.uk/research-analysis/reports/lessons-decade-failed-austerity.

finances (public debt as a share of GDP) outcome for a century – as shown in the TUC pre-Autumn Statement commentary (and charts 3a and 3b below).[19]

Figure 3a: Speed of recovery from recessions

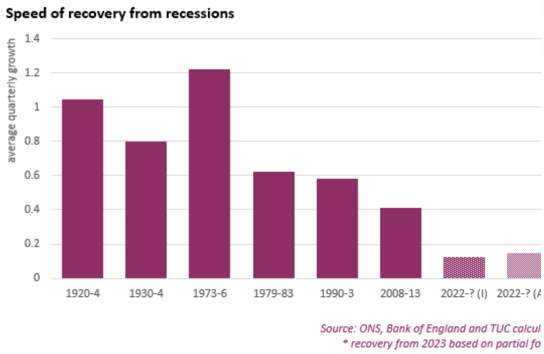
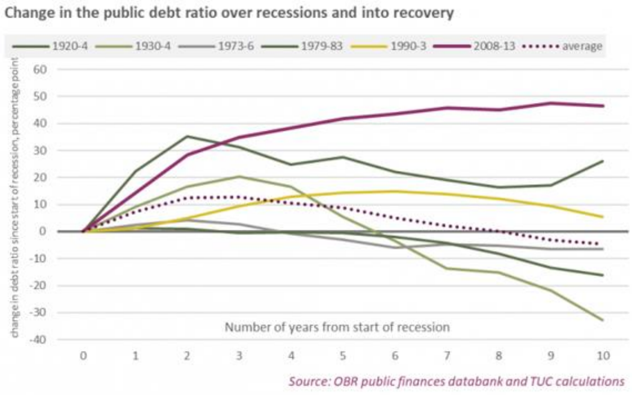


Figure 3b: Changes in the public debt ratio over recession and into recovery



❶ The government acts on calls for cuts in public expenditure.

4. ‘Fictional black holes’ *versus* self-fulfilling doom loops

The failure of the economy and public finances keep in place the imperative for more austerity, and the doom loop keeps turning.

Dr Jo Michell and Dr Rob Calvert Jump and other economists are right to contest the idea of ‘black holes’ as a ‘dangerous fiction’.[20] But according to doom loop analysis above, the danger goes beyond uncertainties around the size of black holes, to the conclusion that policy and the associated assumptions hardwire in repeated downgrading of the trajectory for the economy and so for the public debt ratio.

The chart below shows forecasts for the public debt ratio progressively undermined; the main exception was improvement into 2019, though this was already beginning to reverse in the March Budget just ahead of the pandemic.[21] The step change into 2020-21 follows from the pandemic.

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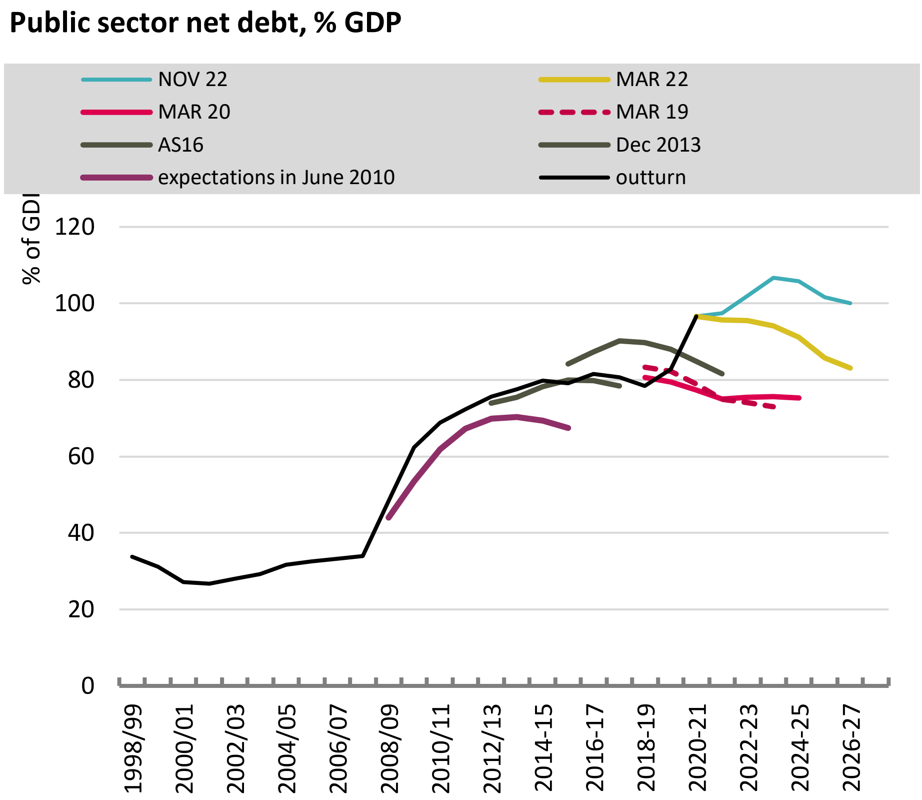
[19] ‘A growth plan that puts work before wealth’, 11 Nov. 2022: https://www.tuc.org.uk/research-analysis/reports/growth-plan-puts-work-wealth

[20] ‘The dangerous fiction of the “fiscal black hole”’, Rob Calvert Jump and Jo Michell, 10 Nov. 2022, https://progressiveeconomyforum.com/publications/the-dangerous-fiction-of-the-fiscal-black-hole

[21] Some improvements in the public debt ratio follow from changes in the definition of public debt; for example housing associations were removed from the figures in 2017 and then later brought back in in

Figure 4: Public sector net debt, % GDP



Source: ONS, OBR and TUC

At each fiscal event the arithmetic of policy interventions and economic forecasts are such that the public debt is set on an improving trajectory after a certain number of years into the future. This permits the government to claim a meaningless success against variously recalibrated fiscal rules,[22] in spite of presiding over a sitiutation that is generally deteriorating.

The *vital negative conclusion is* that these assumptions (❷❸) must be rejected or the UK economy is condemned to endless failure. The *vital positive conclusion* is that this *underutilised potential continues to exist and can be recaptured*.

2019
https://www.ons.gov.uk/news/statementsandletters/statementonclassificationofenglishhousingassociationsnovember2017;
https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/adhocs/010280impactofthereclassificationofhousingassociationsintothepublicsector

[22] 'Manana targets' as the head of the OBR put it – BBC 2 Newsnight 17 Nov. 2022.

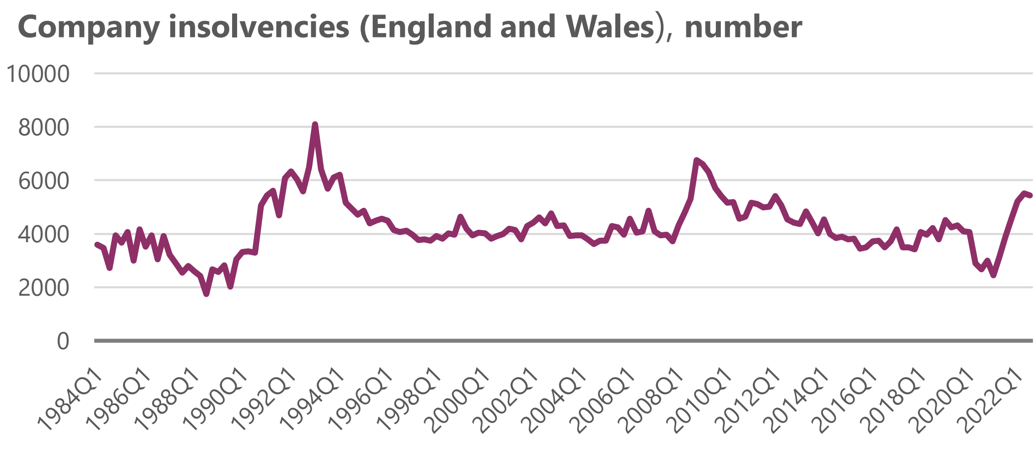
5. Inflation and doom loops, before and after the pandemic

Until the pandemic the existence of underutilised potential was indicated by permamently low inflation outcomes. Moreover proceeding on the basis of the usual assumptions around natural rates of unemployment setting limits to expansion, policymakers tried and failed on several ocassions to tighten monetary policy.23 The processes operating were wholly at odds with any such assumptions. Rather than low unemployment causing higher wage inflation, lower unemployment was caused by lower wage inflation. There was debate and confusion about how worse than expected output was at odds with better than expected unemployment.

Policymakers (and commentators who urged them on) ended up with egg on their faces more than once. On each occasion retreat was forced as financial markets nosedived and inflation never materialised. This was in fact the situation at the start of 2020, confirming the economy entered the pandemic with significant underutilised potential.

Plainly the pandemic and lockdown measures across the globe meant a violent disruption. But this does not allow policymakers to reset any misreadings of the economy. There is not much evidence that the pandemic meant the writing off of significant amounts of underutilised capacity. In the UK corporate banktrupcies fell to a 30 year low, having risen modestly ahead of the pandemic.

Figure 5: Company insolvencies (England and Wales), number



Source: Insolvency Service[24]

[23] Phillip Turner (2021) warns "Central banks have seen successive plans (in 2009, in 2013 and in 2018) to 'normalise' monetary policy frustrated by weak growth and low inflation".
[24] https://www.gov.uk/government/statistics/company-insolvency-statistics-july-to-september-2022

In parallel, deficient demand was greatly exacerbated as furlough and some extension of social security payments did not support fully support wages and incomes.

This means that policymakers over 2022 and into 2023 are intensifying contractionary policy in the face of deficient aggregate demand, let alone widespread and severe hardship. Above all Bank of England interest rates hikes will be crushing already hard-pressed households and businesses.

Acting against their own initial advice that little could be done against a global cost inflation, central banks have made an extreme change of course to impose the most severe tightening of policy since the Volcker shock forty years ago.[25] The consequent recession now forecast by central banks themselves is the price workers are paying for their treating a cost inflation as a demand inflation.

There are of course appeals to labour supply shortages. But this is still a pressure on the cost side, and will soon come up against the buffers of intensified collapsing demand. Moreover too many firms may have previously been over-reliant on a low wage model, in part because of the progressive undermining of trade unions but also (and relatedly) because of the wider deficiency of aggregate demand. Nonetheless while nominal pay growth has picked up to around 6 per cent real pay is still collapsing at a near unprecedented pace – there is only limited of firms using higher pay to overcome shortages.[26] Again any labour shortage is hardly aided by higher borrowing costs and even further reduced consumer spending in the economy.

Certainly many companies are making excessive profits,[27] but some are going backrupt at a pace not seen since the great recession of 2008-9 (Figure 5 again) as collapsing demand meets rising interest rate payments. Likely power is also at play within the corporate sector.

In parallel there are reverberations through financial markets, most obviously in the UK pensions' disruption, asset price declines, dysfunction and job losses in tech and platform companies, and the (surely inevitable) collapse of cryptocurrencies. Central

[25] As discussed by Martin Wolf in the *Financial Times*: https://www.ft.com/content/889fec5a-cb62-463f-af8c-22c841bddb65

[26] In particular (i) there is not a strong relation across industries between vacancies and pay growth, as TUC first reported here: https://www.tuc.org.uk/research-analysis/reports/jobs-and-recovery-monitor-pay-and-recovery; (ii) across countries there is almost no relation between measures of tightness and real pay growth: [TUC forthcoming]

[27] Unite the Union, 'Corporate profiteering and the cost of living crisis', 17 Jun. 2022: https://www.unitetheunion.org/news-events/news/2022/june/new-unite-investigation-exposes-how-corporate-profiteering-is-driving-inflation-not-workers-wages/; Institute for Public Policy Research, 'Prices and profits after the pandemic', Chris Hayes and Carsten Jung, Jun. 2022: https://www.ippr.org/files/2022-06/prices-and-profits-after-the-pandemic-june-22.pdf

banks have been warned by their own side that higher interest rates pose a particular problem in conditions of high leverage and an increasingly opaque financial landscape (section 9).

The point remains that the economy needs more not less aggregate demand, otherwise the doom loop is in danger of giving way to a death spiral.

6. Moving forward on the immediate horizon

Policymakers will only be able to deal with this dysfunction when the failed logic of the doom loop Is confronted. Recession may only be inevitable in the absence of preventative action. As above there is little uncertainty: outcomes are clear on what will happen if the past is ignored.

The necessity is expansionary fiscal policy. The Treasury not making additional cuts on the immediate horizon at Autumn Statement 2022 was not enough. A correct judgement of potential means not only capital spending but also currrent spending will support the economy, above all higher pay for public sector workers. The TUC calls are outlined in a submission for the Budget on 15 March.[28]

There is here a difference with other left opinion that challenges austerity but concedes supply constraint.[29] In the view here economists should be very sure before potential previously reckoned to exist is written off. At the very least those who get multipliers wrong should not have a monopoly over judging what happens next; not least because the orthodox/monetarist theory cannot by definition confront this question.

Those on the left who accept supply constraint are led to advocate wealth taxes in the context of public finances. But wealth is more usefully approached in the wider context of economic failure and the doom loop. For – as hinted above (p. 9) – the flip side of the GDP failure is an immense gain to wealth or asset values. The fuller story emerges looking at outcomes on a longer view.

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[28] TUC submission to Spring Budget 2023: https://www.tuc.org.uk/sites/default/files/2023-02/Spring%20Budget%202023%20-%20TUC%20submission.pdf

[29] e.g. 'net zero sum games', James Meadway, Mar. 2022 https://jamesmeadway.substack.com/p/net-zero-sum-games

7. On a longer view: doom loops in GDP and boom loops in assets

Figures 6 (over the page, the second on a log scale) traces further back to the end of the Second World War the doom loop in GDP, and a parallel 'boom loop' in wealth. As might be exected the obvious dislocation comes around 1979: from this point forwards GDP outcomes were set on a progressively lower trajectory and asset values on a progressively higher trajectory.[30] The latter are measured using the ONS aggregate 'net worth' (which includes financial and non-financial assets - i.e. the housing stock), with OBR projections (to 2026)[31] and Bank of England data for historic outcomes.

Had the economy followed the real GDP trajectory over the 30 years from 1948 to 1978, real GDP for 2027 (in 2019 prices) would be £4.4 trillion rather than the present forecast for £2.4tn (and £2.3tn adjusted for past forecast error).

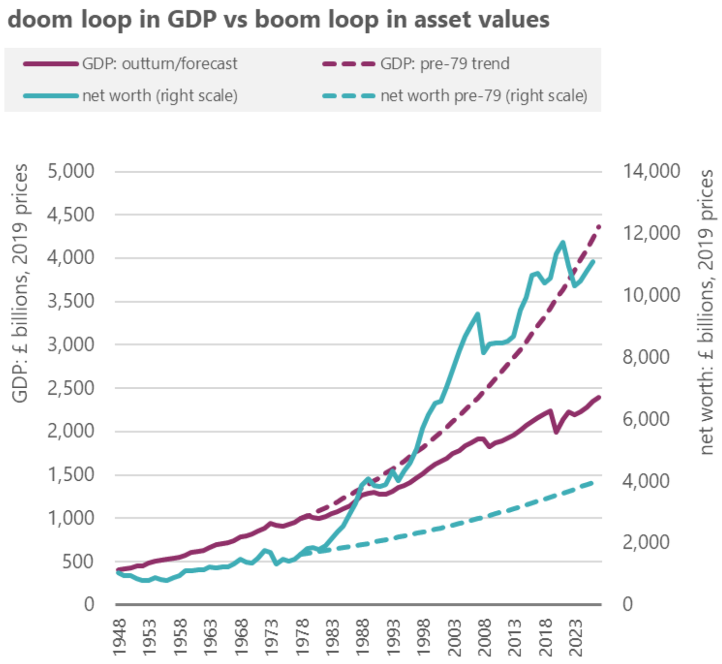
On the other hand if net worth had followed the trajectory over the pre-1979 period, houshold net worth would be only £4tn rather than the present projection to a colossal £11tn.

So GDP lost £2tn but asset values gained £7tn – very crudely GDP has halved relative to pre-1979 trends but wealth has trebled (roughly evenly shared between non financial and financial wealth, see next section). So while the perpetual doom loop has greatly disadvantaged GDP it has vastly advantaged asset values. Switching perspective, ahead of 1979 a more sustained expansion in GDP was associated with a more modest expansion in asset values - real incomes expanded by 3.1 per cent a year (from £0.4tn to £1.0tn) but asset values by only 1.8 per cent a year (from £1tn to £1.6tn).

[30] Margaret Thatcher was not the first to build a platform on inherited and alleged growth failures but then herself to fail to deliver: "…the root of Britain's industrial problem was low productivity" (*The Downing Street Years*, p. 93).

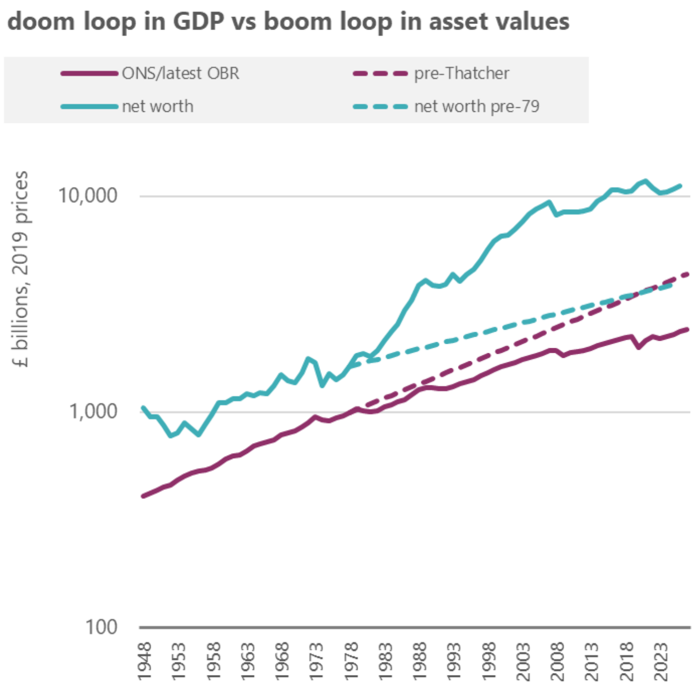
[31] Because of repeated changes of government leadership, the OBR had too little time to produce their full analytical dataset for Autumn Statement 2022 and the net worth figures were not updated to 2027.

Figure 6a: Doom loop in GDP v boom loop in asset values



Source: ONS, OBR, BoE and TUC calculations

Figure 6b: Doom loop in GDP v boom loop in asset values (log scale)



Source: ONS, OBR, BoE and TUC calculations

8. An economy for work not wealth: relearning the lessons of the past

The imperative to tax wealth should instead be set as part of a wider diagnosis and remedy for these dislocations on a long view. Matthew Klein and Michael Pettis (2020) are among a handful of economists identifying opposed interests:[32] "conflict mainly between bankers and owners of financial wealth on one side and ordinary households on the other – between the very rich and everyone else" (p. 221). Their 'New Macroeconomics' appeals to underconsumption/over production (UCOP) analysis attributed to the British Liberal economist J. A. Hobson (1858-1940), though the thinking overlaps closely with J. M. Keynes's *General Theory*.

On this view, excessive imbalance towards wealth from labour distorts economic activity through a dislocation between aggregate production and aggregate purchasing power. On the one hand too low wages put goods and services out of the reach of workers. On the other hand the massive resources of the wealthy do not compensate because they are relatively less interested in goods and services ("you can only throw so many million-dollar birthday parties", as Matthew Klein put it).[33] Consumption therefore falls short and overproduction is the result. Moreover excess wealth is translated into assets, as high returns and capital gains are sought. Speculative in nature, these activities distort the economic landscape and potentially further aggravate excess production.

The logic also leads to the vital conclusion that underconsumption and overproduction are *relative* conceptions: production is only excessive relative to deficient purchasing power and pay. It therefore follows that a better balance between labour and capital will permit higher production in an *absolute* sense.[34] The analysis has always appealed to the left, above all motivating the 1945 Labour Manifesto:

> Over-production is not the cause of depression and unemployment; it is under-consumption that is responsible. It is doubtful whether we have ever, except in war, used the whole of our productive capacity.

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[32] Others include Robert Reich (e.g. 'The problem isn't 'inflation'. It's that most Americans aren't paid enough', *Guardian*, 13 Aug. 2021: https://www.theguardian.com/commentisfree/2021/aug/13/joe-biden-spending-plans-inflation-debt-fears-misplaced) and J. W. Mason (e.g. 'A New Macroeconomics', Brave New Europe, 7 Jul. 2021: https://braveneweurope.com/j-w-mason-a-new-macroeconomics). Above all President Elect Biden called 'Time to Reward Work, Not Wealth', 16 November 2020.

[33] At a presentation of his work on 6 April 2021 to the TUC conference on labour internationalism: https://www.youtube.com/watch?v=0JZQvReBg7Y

[34] The labour party complained in their 1945 manifesto "Over-production is not the cause of depression and unemployment; it is under-consumption that is responsible".

Immediately certain implications follow that invert the conclusions of present debate:

- To the extent that taxation is part of the reorientation to labour from wealth, rather than set in the context of the public finances as a zero-sum game, set in a macro context the outcome will be greater than the sum of the parts.
- The global financial crisis and subsequent conditions have been wrongly judged as the public living beyond the means of the economy, instead the economy has operated beyond the means of the public. Supply is excessive given deficient demand, not the other way round.
- The theory reenforces the empirical judgement that there is vast underutilised potential that can be deployed through current as well as capital expenditures.

On a longer view redistributive taxation and public expenditure are only elements of a wider system change, which follow in part from Keynes's theoretical analysis and his related practical contributions, and likewise the policy action of left and progressive governments in the wake of the great depression and into the peace after the Second World War.

The *General Theory* allows a clearer sight of the differences between the episodes on either side of 1979. For, rather than simply resolving crisis, Keynes was concerned to devise policies to prevent crisis and ensure economic resources were fully utilised. The focal point of his analysis and much of his practical work was securing a permanent reduction in the long term rate of interest.[35] On the broadest view, the implications can be stated as follows:

- First, his analysis shows the returns to wealth/capital and labour are set according to social factors and so power relations.[36]

In contrast, orthodox economics claims these returns are set according to natural forces unrelated to power, and that follow a predetermined (largely by technological advance) trajectory for the economy. Impervious to change, society must simply endure the

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[35] While Keynes is normally associated only with fiscal policy, this is not how he saw it (Tily, 2010). In the House of Lords defending the Bretton Woods Agreement he appealed basically to his life's work as follows: "My Lords, the experience of the years before the war has led most of us, though some of us late in the day, to certain firm conclusions … We are determined that, in future, the external value of sterling shall conform to its internal value as set by our own domestic policies, and not the other way round. Secondly, we intend to retain control of our domestic rate of interest, so that we can keep it as low as suits our own purposes, without interference from the ebb and flow of international capital movements or flights of hot money. Thirdly, whilst we intend to prevent inflation at home, we will not accept deflation at the dictate of influences from outside. In other words, we abjure the instruments of Bank rate and credit contraction operating through the increase of unemployment as a means of forcing our domestic economy into line with external factors … I hope your Lordships will trust me not to have turned my back on all I have fought for. *To establish those three principles which I have just stated has been my main task for the last twenty years*" (23 May 1944, CW XXVI, p.16, *my emphasis*).

[36] Tily (forthcoming) – available on request.

consequent conditions. Writing after the Autumn Statement, Paul Johnson of the Institute for Fiscal Studies offered only: "We are in for a long, hard, unpleasant journey". Keynes famously discussed the factors behind such defeatism, for example observing: "That [orthodox] teaching, translated into practice, was austere and often unpalatable, lent it virtue".[37]

- Second, setting the balance towards labour rather than wealth/capital would permit economies to unlock unused potential – not least previously unemployed workers – and permit much greater prosperity and stability.

His account resonated with Keir Hardie's judgement, and provided the means for its resolution: "a system which robs the nation of its wealth, acts as a drag on industry, and cheats labour of its own" (2015 [1907], p. 43). Viewed on these broad terms the *General Theory* leads to a (basically binary) reset of the economic system and a level shift in economic outcomes. In very concise terms the theory suggests a low return to wealth coupled with a high return to labour would set in motion a virtuous cycle of consumption and investment (see Annex 1 for diagramatic version).

Later accounts of his theory emphasised in particular fiscal policy to resolve crisis, and more generally demand management to support the economy – these not only set his account on too narrow terrain but also undermine the substance of his work. The 'unpleasant journey' could be just as easily avoided, though the powerful and wealthy would lose out.

- Third, the means to rebalancing power relations was to reset the economic relations between countries.

Keynes's steer in the final chapter of his book remains fundamental:

> … if nations can learn to provide themselves with full employment by their domestic policy … there need be no important economic forces calculated to set the interest of one country against that of its neighbours … International trade would cease to be what it is, namely, a desperate expedient to maintain employment at home by forcing sales on foreign markets and restricting purchases, which, if successful, will merely shift the problem of unemployment to the neighbour which is worsted in the struggle, but a willing and unimpeded exchange of goods and services in conditions of mutual advantage. (*CW* VII, p. 382)[38]

His policies on international and domestic levels were complementary. He aimed at a international monetary architecture that would permit countries the autonomy to secure high domestic demand and full employment. This meant institutional change

[37] *General Theory*, Chapter 3 section 3.
[38] In 1977 Richard Kahn observed "The world still has to accept this simple lesson taught by Keynes".

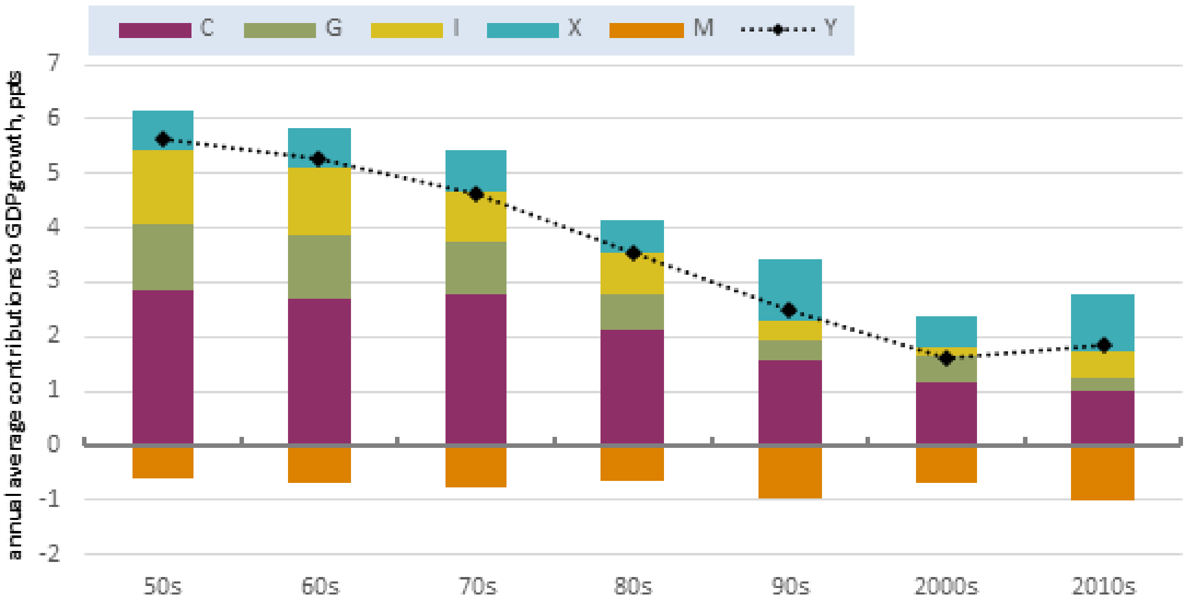
was critical on both domains, broadly meaning a good deal of public rather than private authority over monetary and financial mechanisms (e.g. clearing union for international exchange, capital control, nationalised central banks and finance ministry lead on debt management). The relevance of any such mechanisms today is not a matter of fact, but should be a matter for debate. He gave too little emphasis to parallel considerations on labour, but the Labour Party were clear sighted on the role of the I.L.O.: "It must become a powerful and vital instrument, not only for international understanding among the workers of all lands, but for raising standards of life throughout the world ..." (NEC, 1945, p. 6).[39]

While still greatly compromised, for 30 years after the Second World War the global economy was operated more in line with this thinking and so more according to the interest of labour than ever before. From 1979 the lessons were wholly disregarded, and the economy has been operated in the interests of wealth – perhaps to an extreme extent.

The contrasting performance is most obviously evident on the GDP expenditure measure decomposition of aggregate demand, which also allows outcomes to be set against the relavant policies. Figure 6 is a composite measure across G7 countries of annual average GDP growth by decade, showing the contributions of household consumption (C), investment (I) and government demand (G) – and then overseas demand through exports (X) offset by imports (M).

[39] Today the ILO describes its role as follows: "bringing together governments, employers and workers of 187 member States, to set labour standards, develop policies and devise programmes promoting decent work for all women and men". https://www.ilo.org/global/about-the-ilo/lang--en/index.htm

Figure 7: G7 average GDP decade growth



Source: OECD and author calculations

Above all outcomes are dictated by first the presence of strong domestic demand and then by its absence. And likewise the contrast between the two episodes is evident on *each* component of domestic demand. Over the 30 years after the Second World War, known as the golden age in the UK and 'les trente glorieuses' in France:

- lower interest rates (and capital control) permitted higher fixed capital investment;[40]
- higher government expenditure was in part supported by lower interest rates, but more generally by the wider philosophical shift that permitted public as well as private activity to be productive;
- the consequent higher output and also greater protections for unions and workers twice advantaged real pay and so consumer demand.

After 1979 the above doctrine was rejected across the board, and the consequence was severe negative repercussions across investment, government and consumer demand alike. External impetus became greatly more important, though not materially to the advantage of individual economies with exports broadly offset by imports. Moreover

[40] Hugh Dalton summarised the aim of his cheap money policy: "to save public expenditure on interest, to improve the distribution of income, to encourage investment and to make sure of full employment" (Dalton, 1954 [1922], p. 235).

ahead of 1979 the growth in export volumes was still higher than after 1979, just less important in relative terms.[41]

Setting theory and outcomes on this broader view serves too as a reminder that Keynes's theory was not exclusively about government spending in opposition to the market. Despite his theory meaning a different approach to the state, his fundamental concern was to show how the market could be made to work better and that collapse wasn't endemic to market systems. The contemporaneous tendency to autocracy was likely uppermost in his mind. Crisis was instead endemic when the system is oriented at the interest of the wealthy, i.e. endemic to a rentier economy (Standing, 2016 & Stratford, 2020). [42]

9. The potential for financial collapse

Winston Churchill vividly captured the underlying nature of the great depression:

> "The whole wealth so swiftly gathered in the paper values of previous years vanished. The prosperity of millions of American homes had grown upon a gigantic superstructure of inflated credit, now suddenly proved phantom" (1948, p. 34).

The post-Second World War policies outlined above were the culmination of efforts to find a way forwards. In the background was progressive initiative beginning in the UK (as in 1931 the first country to come off the gold standard) and the US under Roosevelt, but also the violent reaction of nationalism, Nazism and ultimately war. It is possible that no consensus on cause of the depression has survived into the literature. At the time there was no doubt;[43,44] Robert Reich cites Marriner Eccles, President Roosevelt's appointee to the Federal Reserve:[45]

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[41] 'Globalisation's strength is through domestic demand that's why it's in crisis', Geoff Tily, 13 Jan. 2017: https://touchstoneblog.org.uk/2017/01/globalisations-strength-is-through-domestic-demand-thats-why-its-in-crisis/

[42] The Labour Party of the 1940s went as far as "blame for unemployment lies much more with finance than with industry. Mass unemployment is never the fault of workers; often it is not the fault of the employers" (NEC, 1945).

[43] Keynes saw matters through the rate of interest: "The leading characteristic was an extraordinary willingness to borrow money for the purposes of new real investment at very high rates of interest" (*CW* XIII, p. 345); ultimately high rates are not a deterrent to borrowing, but make repayment greatly more difficult and so lead to increased indebtedness.

[44] George Orwell is helpful – while not following at all closely any contemporaneous economic debate, he concluded: "However, most observers are satisfied that the cause of our present ills lies in an outworn economic system which makes it impossible to consume all the goods that are produced and leads inevitably to struggles for markets and hence to Imperialist wars", George Orwell, *Complete Works*, Volume XVII, p. 27.

[45] See n. 30.

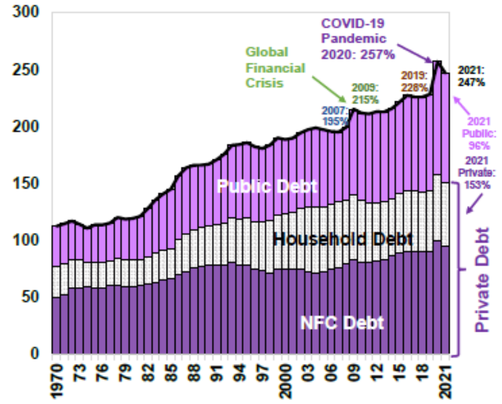
> A giant suction pump had by 1929-1930 drawn into a few hands an increasing portion of currently produced wealth. As in a poker game where the chips were concentrated in fewer and fewer hands, the other fellows could stay in the game only by borrowing. When their credit ran out, the game stopped.

The relevance of this line of thinking today seems undeniable. The flip side of the bad performance of real GDP, wages and work has been the vast expansion of asset prices (Figures 6). With the latter now so far ahead of the former, the question of unsustainability is surely unavoidable.

As Eccles indicates the counterpart to asset gains is a parallel expansion in private and public debts, likely best viewed at global terms. The charts below are from the IMF, with a steep increase from the pandemic, but before that debt still greatly elevalted relative to the global financial crisis (left chart – Annex 2 looks at the position by country) and history on a longer view (better shown on the right chart). On the global view, assets are highly concentrated: North America and Europe account for around 10 per cent of the world population but 57 per cent of household assets.[46] Note also the benign trajectory for global indebtedness mirroring the UK asset trajectory ahead of 1979.

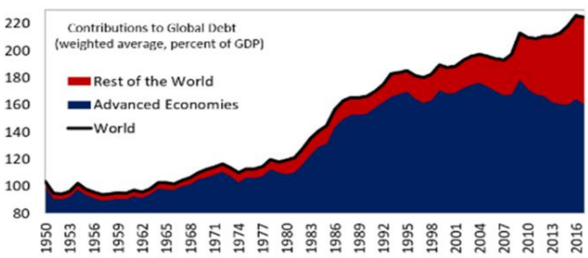
Figures 8: IMF on global debt

Figure 1. Global Public and Private Debt, 1970–2021 *(Percent of GDP, weighted averages)*



Source: IMF Global Debt Database, 2022

A history of debt
While global debt has risen dramatically since 1950, the global debt ratio came down in 2017.



Sources: Global Debt Database and authors' calculations.

Unlike the orthodox theory, inflation of assets and liabilities – or balance sheet inflation – is a critical feature of underconsumption/overproduction and related theories, like

[46] Global Wealth Report 2022, Credit Suisse: Table 1.

Hyman Minsky's financial instability hypothesis.[47] The intuition and logic are very straightforward:

- Overproducing firms are unable to meet desired sales, and have increasingly to rely on borrowing to repay costs of investment and stay afloat; and
- Under-compensated households are unable to afford a basic standard of living, and have to borrow to do so.

Eventually the system caves in as a debt deflation, so labelled by Irving Fisher (1933) (tellingly) at the depths of the great depression. At this point excessive debts cannot be rolled over, and balance sheet repair is necessary. Companies must therefore seek cost savings (investment, intermediate consumption, pay and job cuts) and/or go bust; households must cut back on spending and maybe also face bankruptcy.

Caught unaware of the dangers from balance sheet inflation in the face of the global financial crisis, policymakers are now at least alive to the dangers of tightening policy under these conditions. "Higher policy interest rates could also slow growth by more than projected, with policy decisions difficult to calibrate given high debt levels and strong cross-border trade and investment links that raise the spillovers from weaker demand in other countries" (OECD, 2022, p. 13).

And moreover wider dislocations related to high debt are recognised: "Increased stress on households and companies, and the possibility of loan defaults, also raises risks of large potential losses at bank and non-bank financial institutions" (*ibid.*, p. 38). The OECD (and IMF before them) point in particular to the scale of crisis outside advanced economies: "We are particularly concerned about low-income countries, over half of which are already in (or at high risk of) debt distress and now face tightening financial conditions" (*Economic Outlook*, p. 10).

For advanced economies the housing market is a particular focal point, not only in the immediate context of rising rates, but more widely as a dominant factor in the inflation of assets. On the latter view, Figure 9 shows over the past 100 years the evolution of UK financial and non-financial assets as a share of GDP. Net worth as a share of GDP in 2020 matches the peak in the 1930s, though today non-financial assets make up a far greater part. Wealth and asset survey data shows how wealth is greatly more unequally distributed than income (Figure 10).

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[47] Minsky, Hyman P. (1985) 'The Financial Instability Hypothesis, A Restatement', in Philip Arestis (Ed.), *Essays in Post Keynesian Economics*, Aldershot: Edward Elgar.

Figure 9: household net worth, % GDP

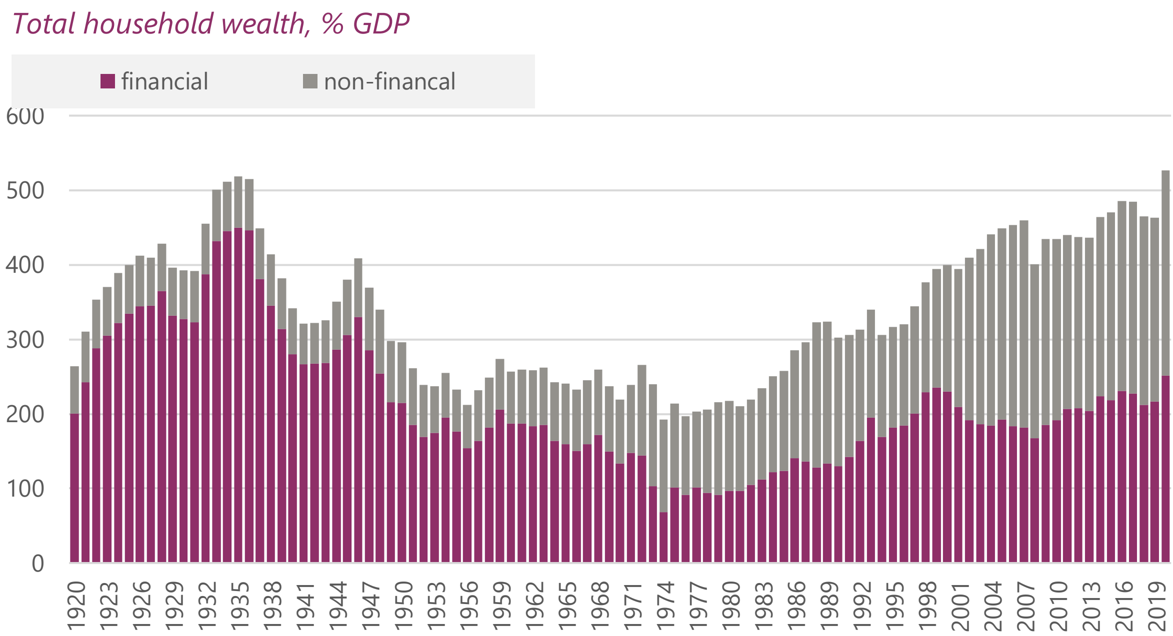
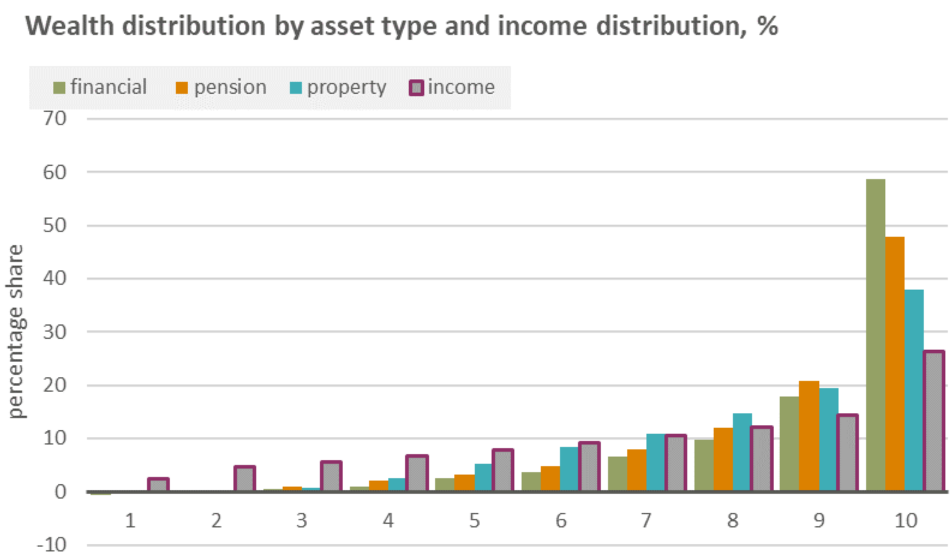


Figure 10: Wealth and income distribution, per cent by decile



On a longer view, while real GDP and so wage gains have disappointed, for some housing wealth is plainly an important compensation. In the immediate context, the OECD give particular emphasis to countries where variable mortgage rates are most common – four of the top eight are Nordic countries (and likewise they are amongst the highest indebted countries overall – see Annex 2).

Nonetheless, having raised these considerations, policy recommendations are unchanged. As noted above, on a global view central bank tightening is the most forceful since the 'Volcker shock' of 40 years ago, and government fiscal policy is marshalled within the same context.[48]

In his 'financial instability hypothesis: a restatement' (n. 45), Hyman Minsky was concerned with exactly this situation: when rate rises to deal with inflation triggered a financial collapse because of high indebtedness.

Most striking, in terms of the overall stability of the system, is that the balance sheet inflation has proceeded largely uninterrupted even in spite of the the global financial crisis (as on figures 6 and 8). There is a sense that monetary policies in the wake of that crisis may have intensified not resolved the underlying dislocation. The emerging financial distress must be symptomatic of a serious risk to the global outlook.

Finally a distinction should be made between Keynes's low interest rate polices and the manner of monetary policy over the past decade. Keynes sought low interest rates above all to strengthen fixed capital investment, and he envisaged domestic action in the context of capital control on the international domain.[49] Low interest rate policies today are in the context of an utterly deregulated global regime. Rather than foster domestic production, low rates have been recycled to earn high reward on more speculative terrain. To follow the above, the obvious example is housing, with buy-to-let recycling low mortgage interest rates for high rents. Churchill and Bonizzi (2017) give particular emphasis to the interplay between pension funds' liability driven investment strategies to earn high yields and investment in emerging market economies. Other activities that have a strongly speculative sense include sub-prime auto loans, private equity, commercial property, tech and platform companies.

The specific mechanics of these processes are beyond the scope of this commentary, but likely involve shadow banking, central bank QE policies, and pension and other wealth funds. Though any such analysis must be speculative in its own right, given central banks and regulators are under challenge from their own side for inadequate

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[48] "Monetary policy should stay the course to restore price stability, and fiscal policy should aim to alleviate the cost-of-living pressures while maintaining a sufficiently tight stance aligned with monetary policy", IMF, World Economic Outlook, Dec. 2022: https://www.imf.org/en/Publications/WEO

[49] "In my view the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world. Capital control is a corollary to this. Both for this reason and for the political reasons given above, my own belief is that the Americans will be wise in their own interest to accept this conception, even though its immediate applicability in their case is not so clear" (Keynes to R. F. Harrod, 19 April 1942, CW XXV, p. 149, my emphasis)
As he suspected, his proposals were too Utopian

understanding and insufficient action.[50] One substantive point can however be made. These activities appear symptomatic of a rentier economy seeking to sidestep production and earn vast rewards for speculators, with a consequent increase in leverage and greatly higher risk. There is evidence that some associated ventures are beginning to unravel, e.g. job losses at tech companies, the failure of crypto currencies, threats to sub-prime car loans, and the outflow of money from emerging market countries and associated and severe crises. And from the asset side, there are large falls in fund values and evidence of some distress in the pension industry. The sum of the parts was captured by the IMF, warning "the level of risk we are flagging at the moment is the highest outside acute crisis".[51]

10. The global climate crisis

Any appeal to higher growth naturally runs up against the urgent need to meet climate targets. But the wider perspective here might have a bearing on climate discourse on both negative and positive grounds. To begin with the former:

- increasingly wealth inequality is regarded as a factor in carbon emissions,[52] which could suggest the present arrangement is more dangerous than that before 1979.
- speculative excess seems particularly problematic, with resources shifted into potentially unsustainable and energy intensive ventures of questionable social worth (e.g. commercial property, auto loans and tech infrastructure).

On positive grounds:

it should be helpful to disengage climate policy specifically as well as economic policy generally from the doom loop. Most obviously, significant underutilised potential means the necessary infrastructure can be more easily delivered. Likewise more public authority over the monetary system would simplify financial arrangements.

initiatives around public ownership are reenforced: financing will be easier (like the nationalisations in the 1940s), activity more disengaged from global markets and the profit imperative, and as well as compatible with the broader goal of reducing the return to wealth.

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[50] 'Bank of England accused of failures on shadow banking', *Financial Times*, Aug. 7 2022: https://www.ft.com/content/284c2817-f888-4e56-9cb3-e74d8e18ec9c

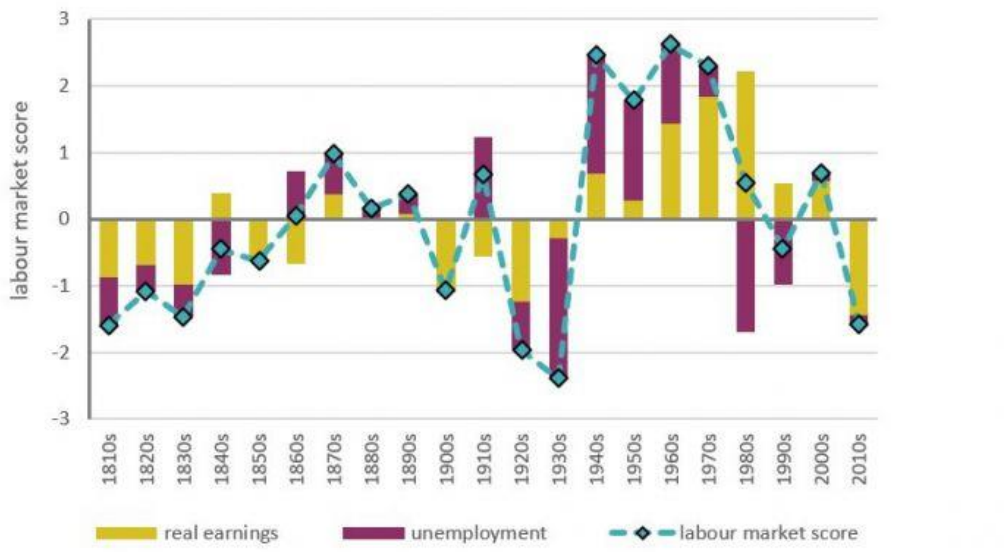
[51] Press conference for the October 2022 global financial stability review: https://www.youtube.com/watch?v=vSqSsMNv4Z8

[52] https://www.frontiersin.org/articles/10.3389/feart.2022.872806/full; https://www.bloomberg.com/graphics/2022-wealth-carbon-emissions-inequality-powers-world-climate/?leadSource=uverify%20wall

On the broadest view aiming policy at domestic full employment rather than external trade is also likely to be more compatible with protecting the climate.

But above all recovering under-consumption/overproduction (UCOP) and Keynes's analysis leads to fundamental questions of the growth paradigm.[53] The concern of left and progressive politicians and economists during and after the inter-war years was resolving the great depression and to secure full employment. The chart below shows for the UK the relative performance of unemployment and real pay, normalised across decades over two centuries; the gains of the post-war decades are unambiguous.

Figure 11: Unemployment and wages



Source: ONS, Bank of England and TUC calculations

In the inter-war years the prospect of such gains was not regarded as contingent on growth; the Harvard historian Charles Maier observed a sleight of hand.

> American blueprints for international monetary order, policy towards trade unions, and the intervention of occupation authorities in West Germany and Japan sought to transform political issues into problems of output, to adjourn class conflict for a consensus on growth. (Maier, 1977, p. 607).

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[53] Matthias Schmelzer (2016) organises his acclaimed *The Hegemony of Growth* around the three OEEC/OECD growth targets. Later labelled 'The European Manifesto', Ministers agreed in August 1951 'that the broad objective of their policies will be to expand total production in Western Europe by 25% over the next five years' (ibid., p. 123). The second (and likely least unfamiliar) came when the OEEC became the OECD on 30 September 1961, and on 17 November issued a fifty per cent growth target for 1960-1970. The third was a 65% target for 1970-80.

Only since the war have *outcomes* become fetishized in terms of productivity and GDP growth, and *policy* in terms of 'demand management' and/or supply-side constraint. The idea of post-growth (Likaj et al, 2022) attempts to cut across the polarisation that action to rescue the climate must operate within growth or reject growth. It might be helpful instead to regard growth as an artificial and abstract construct, that is (at best) irrelevant to securing full employment and the actions needed to contain environmental crisis.

Rather than constrained by the real terms growth of the abstract construct labelled GDP, the economy is the sum of what workers do. This becomes obvious in war and more recently over the past three years of the pandemic, but above all the UCOP/Keynes analysis was vindicated by the Attlee government. The economy was reoriented so that labour's needs were paramount, including the building of substantial social infrastructure. The arrangement proved 'affordable' (as was Roosevelt's New Deal) on the conventional view of the public finances because previously idle workers added to the aggregate amount of activity or production, real incomes rose and so too did government revenues.

But the Attlee government did not operate in isolation from the rest of the world. The Bretton Woods Agreement permitted countries increased scope for these actions. Ultimately the ideal was a global monetary and economic order that advantaged all countries and offered the prospect of genuine advance for poorer countries.[54]

Today the world economy is plainly operating too much in the interests of the North. Great parts of the South are engaged in a race to the bottom on living standards, with large scale informal work and grave poverty. In the wake of the pandemic, important figures in public debate notably Kristalina Gierogieva and Minouche Shafik called for a renewed Bretton Woods mindset (n. 3). Others like Mark Carney and Hélène Rey had specifically emphasied the international monetary and financial system. The same dislocation is increasingly prominent on climate negotiations, and the call from the global South for "loss and damage". As with domestic debate, it should be helpful to shift the emphasis from the affordability of *fiscal* transfers to the need to level the *economic* playing field. A new ideal might be an international monetary and financial system to advantage all countries, alongside large-scale development and climate funds for the South.

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[54] The Attlee government and especially Bevin at the foreign office sought to give a lead in Europe as a bulwark between the US and USSR, their approach to the Western Union included a clearing mechanism (the European payments union), and focused more generally on harmonised social security, strengthening trade unions and single market consideration. See Tily (2021).

11. The economy and the balance of power

Since the global financial crisis the performance of the UK economy has been unprecedentedly bad: stagnant GDP per head, collapsed real pay, greatly increased poverty and public services at breaking point. On the other hand wealth has expansed to a massive extent. Moreover the same broad pattern is apparent on a longer view back to 1979. There is a sense of great precarity, not least in the face of highly risky central bank monetary policies.

Confining debate to the public finances avoids the broader issues confronting society. But even on these terms debate falls short: in spite of all this attention, the public finances have got worse not better.

There should surely be a great deal of scrutiny whether the assumptions behind the policy followed by both central banks and the Treasury might be culpable. Policy is both controversial (even extreme) on theoretical grounds, and the wider evidence base has collapsed. While a number of economists periodically protest,[55] the great part of the profession is silent. Too many commentators and institutions seek only to police the orthodox mechanisms, and so potentially the same wrongheaded restraint. The most vocal support for the present regime appears to come from economists based in the City of London.[56] The parallel trajectory of wealth suggests these are not wholly disinterested parties.

But there is resistance also against expansionary policies from parts of the left. As above, many urge moving forwards instead with wealth taxes.[57] The preceding commentary has made the empirical and theoretical case that not only austerity but also – and more sustantially – the orientation of the economy since 1979 means that economic potential exists but is denied.

Likely there is (and has always been) scepticism on parts of the left towards UCOP/Keynes given the association with Liberal politics.[58] And on theoretical grounds the (supply-side) idea of a falling rate of profit may still be persuasive, and regarded as

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[55] https://www.stopthesqueeze.uk/resources/open-letter-to-jeremy-hunt

[56] Those reported commending the Chancellor's Autumn Statement in the *Financial Times* were the IMF and the chief economist of Citi: https://www.ft.com/content/efeba04f-2f9f-43ca-b2ec-fc25a63217b1

[57] n. 29

[58] And Keynes was on the record making stupid remarks, for example in his (1925) 'A short view of Russia': "How can I adopt a creed which, preferring the mud to the fish, exalts the boorish proletariat above the bourgeois and intelligentsia who, with whatever faults, are the quality in life and surely carry the seeds of all human advancement?" (*CW* IX, p. 258)

vindicated by productivity outcomes on a long horizon. Yet viewed *beyond* the narrow grounds of fiscal policy, the solution outlined here involves a major re-orienation of power towards working people and away from wealth When it was published, key left figures celebrated the *General Theory* as follows:

- "the supreme challenge to the practice of capitalism", G. D. H. Cole (1999 [1936]:102)
- "... at every point, without a single exception ... in full agreement with Labour policy in this country, and, what is even more significant, expresses in proper economic form what has been implicit in the Labour Movement's attitude all along", A. L. Rowse (1999 [1936]:110-11).

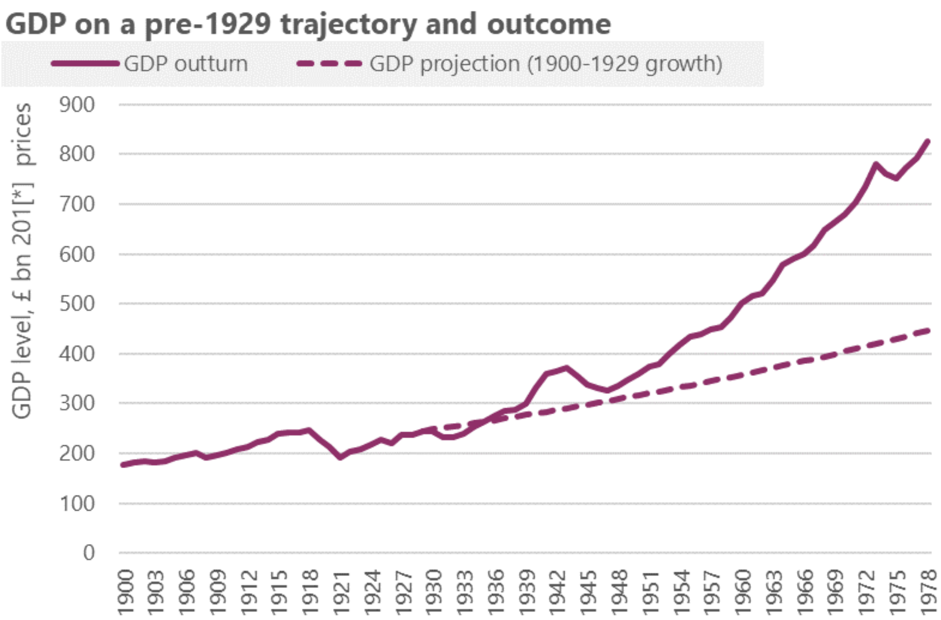
Rowse (1936, p. 119) however dismissed Keynes's faith in the power of his ideas: "It is much more uncommon for people to think of ideas as for the most part being effective in so far as there are interests behind them which make them effective". And he urged that the only possibility of delivering his policy goals was through making common cause with the left.[59]

The Keynes approach does not mean disregarding the considerations emphasised by some left economists. But it means approaching wealth taxes and the climate crisis from a different theoretical standpoint. The positive implication is that there are fewer constraints on necessary action, and so the political case for that action might be more easily made. But above all the approach operates on the international terrain that has been inherent to the labour movement for more than two centuries, but is too much sidelined in debate today.

The evidence of the Attlee government in instructive. As widely understood public debt of 250% of GDP did not stand in the way of the biggest step change in social infrastructure likely in history. And while thinking around growth and supply constraint was emerging in the US, the mechanisms were not in play in the UK. Were these restraints in place, it seems highly unlikely that the expansionary approach would have been permitted, above all after the war but equally over the 1930s. In a striking parallel, proceeding on the basis of the pre-great depression trajectory would have meant GDP in 1978 at roughly £400bn rather than £800bn: half the level secured in practice.

[59] The Trade union view: "The theories of John Maynard Keynes provide the sound intellectual framework for the views which trade unionists had always instinctively held and known to be right" (TUC, 1968, p. 85)

Figure 12: GDP on a pre-1929 trajectory and outcome



Source: ONS, BoE and TUC calculations

This episode above all suggests commentators should be very cautious before writing off or denying prosperity. The scale of the crisis on a global view is too severe to be left only to taxes becoming politically feasible and the hope of unlocking supply-side gains that have eluded the world for more than 40 years.

In various commentaries since 2019 the TUC have called for "a review of policymaking institutions and processes that appear to have given too much priority to the interests of the city, finance and the powerful, and too little to those who work too hard for too little".[60]

At the very least there may be mechanisms operating here that are be undermining the actual performance of the economy, doing serious harm to households and businesses, and standing in the way of action to set things right. Given the widely accepted view that theory and models failed before the global financial crisis, it would seem sensible to question whether they are standing in the way of resolving that crisis.

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[60] https://www.tuc.org.uk/research-analysis/reports/growth-plan-puts-work-wealth

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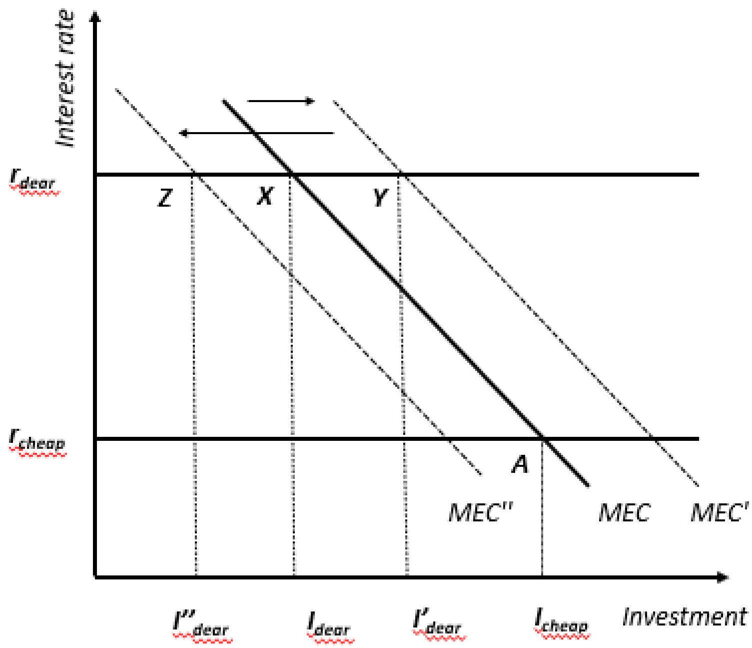
Annex A: The *General Theory* in very brief

Keynes's deconstruction of the classical theory of interest – shown in greatly simplified form below – is both the appropriate point of departure to the *General Theory* and arguably constitutes the substance of his scheme in practice.



Taken as given here is the ability of policymakers to bring the long-term rate of interest (or more broadly the return to wealth) under control (Tily 2010[2006]). So the diagram focuses only on consequent investment outcomes – via the marginal efficiency of capital (MEC) – and is simplified according to two interest scenarios (on the vertical axis).

Warning dear money should be avoided "as we would hell-fire", (*CW* XXI:389), Keynes argued dysfunction was a consequence of the authorities allowing high interest rates to prevail. Specifically, the scheme illustrates why capitalism operates both to restrict activity and to make conditions dangerously volatile. At the basic level, higher interest r_{dear} means lower investment I_{dear} on a given *MEC* that captures the 'animal spirits' of the business community. Activity and then employment follow according to the multiplier and so marginal propensity to consume (MPC; inflation is briefly touched on in section six).

Moreover the system is prone to more optimistic animal spirits: the MEC shifts right to *MEC'* and means higher investment I_{dear}. But it is likely that these conditions can only be temporary. *Dear money may not prevent borrowing, but it reduces the likelihood of repayment*. Keynes saw conditions reversing through a sharp leftwards shift in the MEC from *MEC'* to *MEC''*, leading to collapsed investment I''_{dear} and so recession. Following Fisher (1933) and Minsky (1985), Tily (2010) argues that the collapse in the MEC is better understood as the consequence of associated inflations in private debt (and balance sheet inflation more generally).

In contrast to this (potentially severely) negative trajectory, the positive conclusion follow the consequences of instead setting cheap money. In his chapter on his theory of the trade cycle, Keynes wrote of "enable[ing] the so-called boom to last", (*CW* VII:322). But this was too throwaway – his reading of contemporaneous conditions was that the US boom of the 1920s still fell short of potential (e.g. *CW* XIII:349). So Figure 1 suggests that setting cheap money will permit greater investment outcomes than even at the peak of the 'so-called boom' (position A *vs.* Y).

Annex B: Private indebtedness

The charts over the page, based on the 2021 vintage of the IMF global debt database, show changes in indebtedness by country according to the scale of re-leveraging since the global financial crisis (GFC). Figure 6a ranks countries with the largest *increases* in the private debt ratio over 2008-2020, and Figure 6b ranks countries with the biggest *reductions*. The suggestion, is a debt inflation of a similar intensity to that ahead of the global financial crisis. In general the majority of individual counties with the biggest debt inflations are different to those in the run up to the GFC. Some countries feature on both sides of the GFC – eg Luxembourg, Norway, Sweden, Vietnam, Russia, Georgia, Belgium, Malta, Finland and Mongolia – and the level of debt remains high even for those countries on Figure 6b, given only relatively modest deleveraging.

Figure A1: Countries with the highest increases in private debt over 2008-20

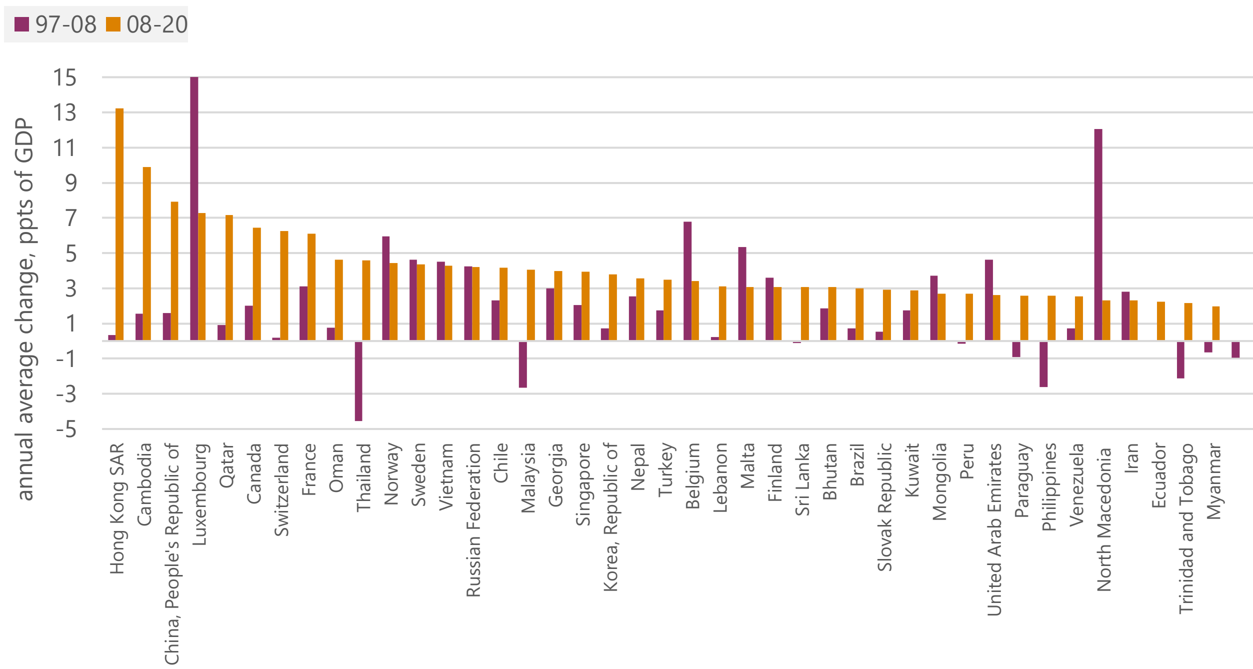
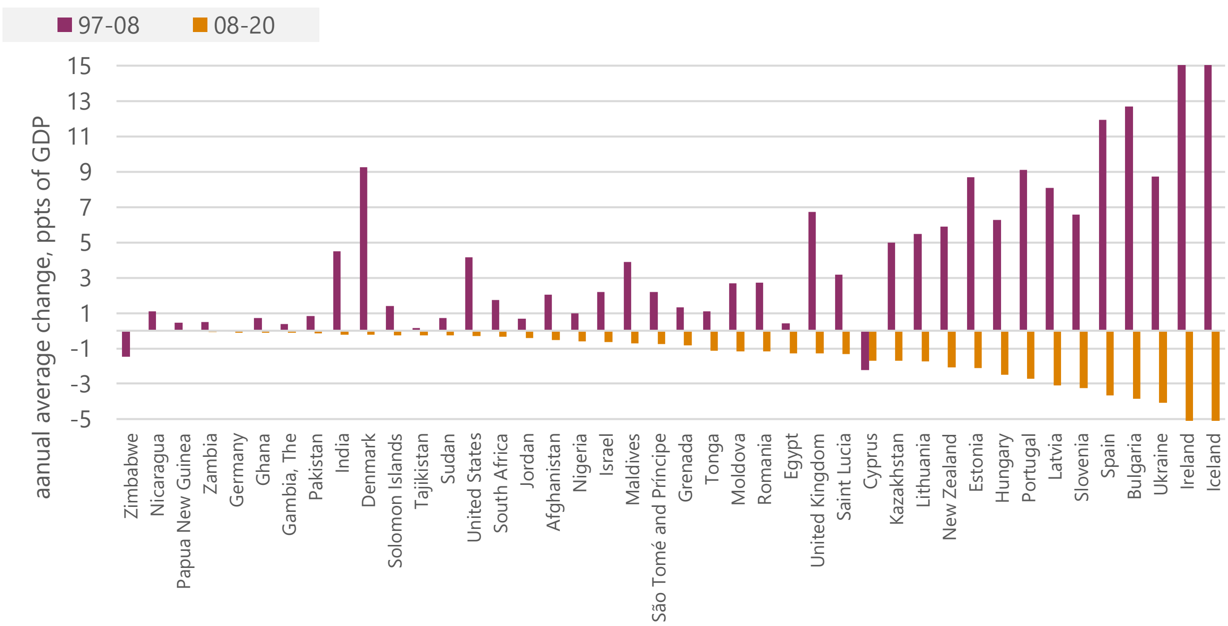


Figure A2: Countries with largest reductions in private debt over 2008-20



Source: IMF; on Figure A2 Iceland are +42, -42 and Ireland +18,-6