



Speech

Comments on the government's new economic direction and a job guarantee

Lord Skidelsky

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The following is a transcript of PEF Council member Lord Skidelsky's speech in the House of Lords on 9th January 2020 commenting on the economic direction of the United Kingdom's Conservative government and the case for introducing a public sector job guarantee as an automatic stabiliser.

The views expressed here are those of the author, and not necessarily those of the Progressive Economy Forum.

My Lords, I think I am the only macroeconomist contributing to this debate, which is perhaps rather odd as it is a debate on economic affairs. As instructive and important as the other contributions have been, I want to talk about economic policy, because unless the economy works a lot better than it has in the last 10 years, none of the spending pledges, to be quite honest, will be worth the paper that they are written on, and how well it works will largely depend on economic policy.

The good news is that fiscal policy is back. The gracious Speech said: “My Government will invest in the country’s public services ... My Government will prioritise investment in infrastructure and world-leading science research and skills”.

That is good. Governments everywhere have started to inch back to fiscal policy. Retiring ECB chairman, Mario Draghi, admitted that monetary policy “needs help from fiscal policy.”

Evidently the Chancellor agrees. That agreement is indicated by the figures of extra spending that he promises over the next five years. Austerity is over.

Why the turnabout? First is the realisation that monetary policy cannot deliver the required boost to spending. We are told that central banks have run out of ammunition. The truth is that they never had enough ammunition to bring a sick economy back to health. The reason was the liquidity trap: most of the extra money pumped out by central banks simply was not spent on the real economy, it got locked up in financial assets.

Second is the realisation that fiscal policy was pointing the wrong way. There is a lot of myth-making going on here. It is claimed that, thanks to years of austerity, the Chancellor now has the “fiscal space” to boost investment, but the logic of that is all wrong. Trying to balance the budget when the economy was depleted did enormous damage to millions of people; making the economy smaller made the budget more difficult to balance. The result of that has been missed targets, less investment and rising national debt. To say that the nation had to sacrifice itself for 10 years in order to enable the Government to spend more on the health service or infrastructure now is simply terrible fraud. There has been no mea culpa from the perpetrator of that fraud: George Osborne.

The Government promise to increase spending while maintaining the sustainability of the public finances. It is just possible that the Chancellor will meet his much-revised fiscal targets; it really depends what happens to the economy, and most people are expecting a recession. If or when that happens, the Chancellor will have to talk about “headwinds” rather than “headroom”.

Now that fiscal policy is back in fashion, can we do better than the current hit-and-miss strategy? Former Fed chairmen Bernard Bernanke and Janet Yellen have called for more powerful automatic stabilisers. It is a slightly technical phrase but, in this connection, I urge the Government to seriously consider a public sector job

guarantee. Its purpose would be to balance fluctuations in private sector employment in a non-discretionary way. The reservoir of public sector jobs would deplete or fill up automatically as the economy waxed or waned. Not only would this be a much more powerful automatic stabiliser than trying to balance the economy by paying out more on unemployment benefits, but it would remove the discretionary element from tax and spending policies that did so much to discredit fiscal policy in the past.

Finally, I am encouraged by the promise in the gracious Speech to give communities more control over how investment is spent, so that they can decide what is best for themselves. John Maynard Keynes long ago emphasised the importance of rightly distributed demand—that is, investment channelled to underheating, not overheating regions. The Government’s pledge to prioritise investment in poorer regions will give communities more control over how money is spent. It would also dovetail neatly into a job guarantee programme.

It would be tragic if the second coming of fiscal policy were to be wrecked on the same inattention to the need for a fiscal constitution as the last one. As Paul Johnson, director of the IFS, recently said: “The trouble is that setting supposedly binding fiscal rules, missing them, abandoning them and replacing them with something new” is not a fiscal constitution, it is back to the bad old days of the political business cycle: we must do better than that this time.

Delivered in the House of Lords on 9th January 2020