

Why Jeremy Corbyn and his team would ruin the economy

Everybody bar trade union bosses and a few other left-wing vested interest groups would lose out if Labour took power



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For decades, the **Bank of England** had been at the heart of many a hard-Left conspiracy theory. Even though it was nationalised in 1946, and it embraced Keynesianism during that movement's intellectual heyday, socialists saw it as a capitalist conspiracy dedicated to thwarting the Left. The public, meanwhile, was often desperately worried about entrusting sterling and interest rates to the **Labour party**, especially after the disastrous inflation of the 1970s.

So the decision by Gordon Brown, advised by Ed Balls, to grant the Bank independence over the setting of interest rates immediately after the 1997 general election, albeit within a framework defined by the Chancellor, was a masterstroke. In one fell swoop, the inflation risk premium collapsed and many financial market participants decided that they could live and even happily co-exist with what was then New Labour. They were wrong: Labour also stripped the Bank of its old role as a financial regulator, and the then Chancellor's decision to order it to focus on a narrow inflation indicator helped fuel a house price, credit and asset bubble. But the public didn't realise this at the time, and Brown's decision came to symbolise Tony Blair's embrace of capitalism with a social democratic hue.

Fast-forward 18 years, and **John McDonnell**, a radical socialist, has just been appointed by Jeremy Corbyn as his shadow chancellor. This is an extraordinary, appalling decision and one which will pit Labour against business, mainstream economists and ultimately reality.

It is certainly symbolic that McDonnell wants to remove the Bank's independence: as he wrote three years ago, "in the first week of a Labour government ... [we would end] the Bank's control over interest rates". In his view, independence has "simply meant democratic government decisions being replaced by the influence of shortsighted bankers" – as if, of course, vote-chasing politicians were not the most short-termist of creatures. All of this fits perfectly with **Corbyn's plan for a people's quantitative easing**: he wants to print money to directly finance infrastructure spending, in violation of the most basic tenets of public prudence. The Government's budget constraint would be abolished; people's QE, unlike the real thing, would be irreversible; and Labour would have an incentive to print itself to re-election.



John McDonnell, shadow chancellor

It is hard to see how the Governor and his senior team would be willing to remain in situ: we would suffer a run on the pound, much higher interest rates, wasted expenditure and the destruction of Britain's reputation for economic competence. As ever, the poor, the aspiring classes and those on fixed incomes would be hurt the most. McDonnell set out many of his views in **Another World is Possible** – a manifesto for 21st century socialism, published in 2007 by the Labour Representation Committee. I admit, dear reader, that I was previously unaware of the existence of such a magisterial work. But while depressing, the author's views are far from a joke: he clearly loathes capitalism, and has dedicated his life to fighting for a strange cross of neo-Marxism and anti-consumerist environmentalism.

“Technology, science and resources have the potential to find answers to the most pressing problems confronting humanity if they are made to serve society rather than profit,” as he put it. In reality, without the discipline of profit and loss, markets and the incentives provided by the free market system, these resources and know-how that McDonnell takes for granted wouldn't even exist. Britain faces certain impoverishment and catastrophe if he were ever to control the tax system and public finances.

“While New Labour claims that everyone shares in the benefits of globalisation, the real picture is quite shocking,” he also argued, claiming that the poor were “the victims of New Labour's ghastly social experiment and love affair with corporate power and markets”. Given that capitalism has rescued billions from poverty, and that socialism invariably ruins civilisations, such an approach is remarkable from a man who could, if things go wrong, end up as our next Chancellor. He backs a Tobin-style financial transactions tax, according to a recent article of his for The Guardian. This would be aimed at shrinking the services sector with the aim of “rebalancing” the economy “towards production [in McDonnell's worldview, that means actual things, rather than services] and manufacturing”.

It is a shocking analysis. In an open economy, the City and factories can both do well, just as North and South can both thrive. But destroying the City would actually hurt manufacturers: they would no longer be able to raise financing. Financial transaction taxes are terrible for users of the financial system, including savers and pensioners, who end up picking up the bill.



New Labour party leader Jeremy Corbyn chairs his first shadow cabinet meeting in the House of Commons

It is those the socialists say they want to help who really lose. This is not to say that the better-off wouldn't also be eviscerated – they would be hammered by higher tax, nationalisations, possible confiscations, maybe even a maximum wage that would annihilate incentives and trigger an exodus of talent. Everybody bar trade union bosses and a few other left-wing vested interest groups would lose out. Travellers and business would also be hit by the Corbyn/McDonnell opposition to airport expansion.

McDonnell even believes that private firms are “subsidised” to the tune of £93bn a year, a ridiculous number that entirely redefines the meaning of that term. The fact that airlines don't pay fuel tax is included, as well as the value of procurement contracts and the usual tax reliefs for investment. If you thought that a Corbyn government would be bad for the economy, think again: it would be a complete disaster.

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