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## Economic Bulletin

# CORBYNAMONICS: A PATH TO PENURY



- Corbynomics is based on the false premise that Britain is a free market nirvana.
- Britain needs much deeper pro-market reforms not a return to nationalisation.
- Extravagant spending plans are based on fantasy tax revenues.
- Proposals on housing, energy and QE will exacerbate existing problems.

### 1. INTRODUCTION

The expansion of capitalism and free markets in recent decades has led to incredible economic and social progress; the fastest fall in extreme poverty in human history, rising life expectancy and plummeting levels of global hunger. Jeremy Corbyn's anti-capitalist economic programme seems simply to ignore that history of success. The premise of Corbynomics is therefore that free market capitalism has failed in the UK with sectors ranging from energy to housing showing that markets cannot function to the benefit of society. This is deeply misguided.

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As John Maynard Keynes once said, this is “an extraordinary example of how, starting with a mistake, a remorseless logician can end up in bedlam.” Of course many markets are not functioning as we would like them too. More often than not the fault rests with poorly targeted and excessive state intervention, and anti-competitive corporatism. Many markets need to be reformed but increasing state power, control and ownership is the antithesis of the reforms that are needed. In areas from tax policy to monetary policy, Corbynomics can only lead to chaos and calamity.

## **2. NATIONALISATION**

One of the key elements of Corbynomics is a massive programme of nationalisation in the pursuit of greater “public ownership.” It almost goes without saying that Corbyn wants to nationalise the railways. In addition, energy and banking can be added to the list, along with a number of other industries, probably including water. It is not quite Hugo Chavez walking down a street on live TV and yelling “Expropriate!” at various high street shops but it is clear that Corbyn envisions a significant extension of direct state ownership of British businesses. Undoubtedly many markets are not working well for consumers; prices are too high and choice is restricted and there is clear public dissatisfaction. For example, recent disturbing YouGov polling showed that 58% of people supported renationalising the railways, water companies and other utilities compared with 17% opposed.

However, the reality is the state is already heavily intervening in these markets. Network Rail which controls rail infrastructure is already in government hands and as Tony Lodge argued so effectively in Rail’s Second Chance, enabling much greater competition to flourish across the UK rail network is the real way to cut prices and raise passenger satisfaction. Energy has effectively become a public private partnership and as Rupert Darwall explained in Central Planning with Market Features, we are now getting the worst of both worlds; state control of investment funded by the high cost of private sector capital. The water market has functioned almost entirely devoid of competition through an assortment of what have effectively been regional monopolies. The water market needs to be unleashed through an array of policies including extending retail sector competition, increasing water trading, and abstraction reform.

Assuming that Corbyn doesn’t simply intend to steal these assets, nationalisation of swathes of industry would cost an infeasible amount and in the case of energy it could amount to £185 billion. Even if this money can be conjured from thin air, the long history of failure when it comes to nationalisation should ward off any sensible politician. Chronic underinvestment, slowing innovation, higher prices and less choice will follow.

## **3. TAX RISES**

The next stage of Corbynomics is the set of proposals for big tax rises on income and capital. Higher corporation tax rates would be seriously damaging to investment, employment and productivity. Corporation taxes are either passed on in higher prices or lower wages, employment or profits (and lower profits, of course, mean less investment

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and slower growth in the future). Corbyn has proposed setting the top income tax rate at 60% or more. Higher income tax rates almost certainly wouldn't raise any more revenue but would carry the risk of damaging entrepreneurship and deterring foreign investors.

Yet Corbynomics assumes that increasing taxes is just a simple matter of redistribution from the rich to the poor. The dynamic effects on incentives and efficiency are of paramount importance but seemed to have been ignored. Perhaps the most egregious element of his tax plan is when it comes to tax avoidance and evasion. He claims he will be able to raise £120 billion from cracking down on dubious tax practices but as Jolyon Maugham has pointed out, he could never hope to raise anywhere near that figure. Ultimately, Corbynomics proposes fantasy spending based on fantasy tax revenues. As David Martin has shown, the best way to reduce tax avoidance is to substantially simplify the tax code to remove inefficient discounts, reliefs and exemptions. Effective tax reform can increase productivity but destroying work incentives through absurdly high marginal tax rates will not.

#### **4. HOUSING**

On housing, Corbyn rather bizarrely wants to eliminate the existing Right to Buy scheme for tenants of social housing but extend it to private sector tenants. The significant economic benefits of home ownership are well known and Right-To-Buy helps to achieve those gains by directly capitalising poorer households. It is, in effect, a huge transfer of wealth from the state to low income families. Corbyn's proposal would mean that nobody could ever have certainty over their ownership of a private asset. Excessively complex and restrictive planning regulations have severely constrained the supply of new houses for little discernible benefit. The effective nationalisation of planning under the Town and Country Planning Act 1947 and the subsequent failure to adequately reform the system means that construction is more expensive than it needs to be.

In the year to March 2015, annual house building starts in England reached 140,500 and completions reached 125,110; growth of 5% and 11% respectively on the year before. Even so, this is still about half the number of houses a year that it is generally accepted we need. Cutting red tape (Persimmon Homes estimates that extra red tape in Wales adds £3,000 to the cost of building a home relative to numerous parts of England) by consolidating and simplifying the planning system across the UK will help considerably to allow supply to match demand. Keith Boyfield and Daniel Greenberg outline a strategy to achieve this growth in housebuilding in Pink Planning with a proposal to bring together local residents, councils and developers to accelerate the development process, increase competition and improve design standards. The Government should also create an Enterprise Right to Buy to allow commercial tenants to buy public sector properties at a discount.



## 5. MONETARY POLICY

When it comes to monetary policy, Corbyn proposes a “People’s Quantitative Easing”. This would essentially entail the Government ordering the Bank of England to create new money to buy bonds from a newly set up state-owned bank. This state-owned bank would in turn use the funds to increase infrastructure spending. It might actually have made sense if the Bank of England had bought more corporate bonds and commercial paper as part its £375 billion asset purchase scheme. However, Corbyn’s proposal would casually abolish the independence of the Bank of England to set monetary policy. By turning the Bank of England into an infrastructure piggy bank, a Corbyn Government would in one fell swoop irreparably damage the credibility of policy making in the UK. The negative consequences for price stability and the broader economic losses would be inevitable.

## 6. ENERGY

However, it is on energy where Corbynomics is not only woefully inadequate in resolving the challenges we face but also demonstrates a shameless hypocrisy at the heart of the Hard-Left coalition. Corbyn promises to reopen old coal mines and in the same breath appeases the Green Left who think that fossil fuels are evil incarnate by promising to ban fracking. Replacing gas, a relatively cleaner fossil fuel for more expensive (and dirtier) domestically produced coal makes little sense.

The clear judgement from the Royal Society and the Royal Academy of Engineering that the health, safety and environmental risks associated with fracking can be effectively managed are apparently insufficient for Corbyn. Of course, over time renewables will form an ever larger share of the UK energy mix. The choice right now is if the UK should produce gas domestically or import more from countries such as Russia. The distinctly underwhelming performance of the energy sector over the last decade is blamed not on restrictive targets, subsidies and a misguided extension of state power but on market economics.

The same argument applies to a variety of other markets where there is a call for further state intervention. In childcare, the statutory framework governing the sector is one of the most restrictive in Europe covering everything from floor space requirements to child staff ratios. Whilst the regulatory framework is by no means the only factor which has increased costs, it has clearly had an impact on some providers. The banking sector needs not to be nationalised but to be subject to a fresh wave of competition with faster account switching times and easier capital requirements for smaller banks.

## 7. CONCLUSION

Corbynomics seems to believe in a World in which there is no scarcity, where no difficult decisions or trade-offs ever need to be made, and for which every single penny spent by the state is sacred (apart from on defence). Ultimately, this programme boils down to a huge expansion of the reach and power of government; a strategy which has been tried and tested to destruction. Britain is far from a free market paradise. High taxes, heavy

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regulation and weak competition still plague many parts of the economy and in the process damage growth and living standards. When Jeremy Corbyn and others condemn “neoliberalism” and the failure of many markets to deliver value for consumers, they may have identified some of the symptoms but not the cure or the cause. The answer to these problems is not in a return to nationalisation but in embracing pro-market reforms

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