Jeremy Corbyn's necessary agenda

By Maria Mazzucato
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Seven economists (including Joseph Stiglitz, Thomas Piketty, and me) have agreed to become economic advisers to Jeremy Corbyn, the new leader of the British Labour Party. Our goal is to help Labour shape an economic policy that is investment-led, inclusive, and sustainable. We are convinced that such a progressive agenda is what the United Kingdom – and the rest of the world – now needs.

When the Labour Party lost the election last May, it received considerable criticism – even from its own frontbenchers – for failing to embrace the business community as "wealth creators." But while businesses clearly create wealth, so do workers, public institutions, and civil-society organizations, which, through dynamic partnerships, drive long-term growth and productivity. Indeed, a progressive economic agenda must begin with the recognition that wealth creation is a collective process and that market outcomes are the product of how these various "wealth creators" interact.

We must drop the false dichotomy of governments versus markets and begin to think more clearly about the market outcomes we want. There is plenty to learn from public investments that were mission-oriented, instead of focused on "facilitating" or "incentivizing" business. Policy should actively shape and create markets, not just fix them when they go wrong.

Indeed, policies traditionally considered "business friendly," such as tax credits and lower tax rates, can be bad for business in the long run if they limit governments' future ability to invest in areas that increase innovation-led growth. Likewise, it is time to move on from the debate over austerity to a new conversation about how to build smart, mutually beneficial public-private partnerships to fuel decades of growth.

For starters, we must invest in education, human capital, technology, and research. Massive technological and organizational advances have raised productivity in many sectors. Many (if not most) of these breakthroughs have their origins in publicly funded research. Ensuring future advances will require direct policy interventions and investments in innovation across the entire innovation chain: basic research, applied research, and early-stage company financing.

Moreover, we need more patient, long-term finance. Most existing finance is too speculative and too focused on short-term outcomes. Exit-driven venture capital might be appropriate for gadgets; but technological revolutions have historically required patient, committed public financing. In some countries, like Germany and China, public banks take on this role. In others, the job is done by strategic public agencies.

This also means de-financializing the real economy, which has been overly focused on short-term concerns, so that profits are reinvested into production and research and development, rather than hoarded or spent on share buybacks. Over the last decade, Fortune 500 companies in areas like information technology, pharmaceuticals, and energy have spent more than $3 trillion buying back shares in order to boost stock prices, stock options, and executive pay. Meanwhile, in the United States and Europe alone, companies have hoarded nearly $4 trillion. Companies should be rewarded for reinvesting their profits in production, innovation, and human-capital formation.

Next, we must increase wages and welfare. Until the 1980s, productivity increases were accompanied by wage increases and rising living standards. This link was broken by a drop in labor's negotiating power and companies' increased financial orientation. Unions are key to effective corporate governance and hence should be more involved in innovation policy, pressing for investments in education and training – the long-run drivers of wages.

Public institutions must also be strengthened. Bold policy choices require public agencies and institutions that are able to take risks and learn from doing so. Outsourcing government services that lie within the government's own competency hinders this process as it reduces the public sector's "absorptive capacity." Creating a network of well-funded, decentralized agencies and institutions that work in partnership with business would make government both more effective and more strategically focused.

The tax system must be made more progressive as well, with tax credits for businesses designed to encourage inclusive outcomes. We must end the current practice of blindly lowering taxes, creating loopholes that allow legal tax avoidance, and offering tax credits that have little effect on investment and job creation.

When the public sector takes key risks along the innovation chain – such as providing guaranteed loans to companies like Tesla – we should think more creatively about the kinds of contracts that enable the public to share not only the risks, but also some of the rewards.

We must also shape a new narrative on debt. Rather than focus on budget deficits, we should concentrate on the denominator of debt-to-GDP ratios. As long as public investment increases long-term productivity, the ratio will remain in check. In the OECD, many of the countries with the highest debt-to-GDP ratios – including Italy, Portugal, and Spain– ran relatively modest deficits, but failed to invest effectively in education, research, training, or well-designed welfare programs that facilitate economic adjustment.

Fiscal and monetary policy will be important, but only if coupled with the creation of opportunities in the real economy. Money creation, through quantitative easing, will not fuel the real economy if the new money ends up in banks that do not lend. And when businesses do not see opportunities, interest rates stop affecting investment.

Finally, we must not shy away from guiding the direction of development toward a green economy. Beyond "shovel-ready" infrastructure projects, fiscal stimulus should support transformational projects, such as those that led to advances in information and communication technology, biotech, and nanotech that were "chosen" by public policy working alongside businesses. Green development can be about much more than renewable energy; it can become a new direction for the entire economy.

The British Labour Party, along with other progressive parties around the world, has a responsibility to change the discussion on economic policy. By doing so, it has the opportunity to shape the future.

Mariana Mazzucato, Professor of the Economics of Innovation at the Science Policy Research Unit of the University of Sussex, is the author of The Entrepreneurial State: Debunking Public vs. Private Sector Myth*s.*