

# The crisis

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## The political problem

Sitting in the pub, a friend of mine said he couldn't understand what was going on in the Labour Party at the moment. I said something to the effect that they had a problem: almost everything they believed about economic policy for the past 25 years was wrong; and imagine how difficult this makes things for the current leadership. They cannot say, 'We're terribly sorry: we've been wrong for the last 25 years. We plumped for the City and ignored the manufacturing base.' Politicians don't do this. Political parties *not* seeking election – e.g. the Communist Party of Great Britain – can say such things (and the CPGB did *circa* 1990). But for parties engaged in electoral politics this is impossible. Or is perceived as impossible. They are forced to change their policies while pretending all was well when they were in office. (Or almost well: they may acknowledge little things they did get wrong...)

Not that this problem is unique to Labour. As the coalition government talks about 'rebalancing the economy', away from the City towards manufacturing, they have the same problem. They also chose to bank on the City. The British political class and its attendant media made a huge mistake in the 1980s when, with North Sea oil revenues to spend, they chose to copy America and not Germany or Sweden.

The last glimpse of a mainstream political party *not* assuming that Britain's future lay in 'the service economy' (in general) and the City (in particular) was in 1988 when the Labour Party was doing its policy review after the defeat of 1987. The economic part of that review was done by a committee chaired by Bryan Gould MP. Gould represented a current within the Labour Party and wider labour movement at the time which was hostile to the bankers. It had concluded that the key structural conflict in Britain wasn't between the

classes, the Marxist view, but between the interests of the domestic and overseas sections of the economy; which in shorthand boiled down to the City on the one hand and manufacturing on the other.<sup>1</sup> This group included Neil Kinnock, as his 1986 book, *Making Our Way*, shows, and Bryan Gould, who was appointed by Kinnock to chair the committee on economic policy. Gould's committee duly produced a detailed analysis of why the bankers had too much power and how to reduce it.<sup>2</sup>

But the Gould committee report was rejected by Neil Kinnock as soon as it was finished. Gould tells us that, just before the report was due to be published, a group of Labour MPs came to see him to try to get it stopped or modified. One of them was the then rising star of the back-benches, Tony Blair. This was 1988. Gould went on to stand against John Smith for the leadership of the party in 1992 and lost heavily. New Labour – at its core the capitulation to the financial sector – could be said to have begun there.

We still don't know why the Gould report was dumped. My guess would be that the group around Kinnock wanted to get elected more than they cared about the state of the British economy or the fate of its citizens; and having lost two general elections, decided that the bankers were too powerful to challenge. By this time – 1988/9 – the City had been largely sold off to American banks in the so-called big bang of 1986 and was well on its way to being an extension of Wall Street; and thus to be anti-City of London increasingly meant being perceived as anti-American. But for a while a Labour Party

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1 I was 'captured' by this viewpoint in Frank Longstreth's, 'The City, industry and the state' in *State and Economy in Contemporary Capitalism*, Colin Crouch (ed.) (London: Croom Helm, 1979).

This anti-City tendency reached its high water mark with the Labour Party report of 1982, *The City: A Socialist Report*. Among those who were on the study group which produced it, 'co-opted members', were MPs the late John Smith, the late Robin Cook and Jack Straw. Smith was doing this – if he was doing anything other than having his name used – while a member of the steering group of Bilderberg.

2 I don't have a copy of the report and it is not on the Net. As far as I can tell it was never made public. My account comes from reports of it, such as that in Bryan Gould's memoir *Goodbye to all that* (London 1995).

which was explicitly an anti-City of London party did seem a real prospect.

For whatever reason, the policy review document on the economy was abandoned and Labour began the long process of making itself acceptable to the City of London – even though the City then was only about 2% of the British economy.<sup>3</sup>

## **Pennies dropping**

**I**t is slowly dawning on the political class that the last 30 years, the whole services/knowledge economy thing has been a detour, funded by oil and then debt.<sup>4</sup> With this come some interesting shifts. Here's Charles Moore, former editor of *The Spectator*, the *Sunday Telegraph* and *The Daily Telegraph*.

'It has taken me more than 30 years as a journalist to ask myself this question, but this week I find that I must: is the Left right after all? You see, one of the great arguments of the Left is that what the Right calls "the free market" is actually a set-up.

The rich run a global system that allows them to accumulate capital and pay the lowest possible price for labour. The freedom that results applies only to them. The many simply have to work harder, in conditions that grow ever more insecure, to enrich the few. Democratic politics, which purports to enrich the many, is actually in the pocket of those bankers, media barons and other moguls who run and own everything.'

And so on for a couple of thousand words. But he's simply

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<sup>3</sup> That's a guess on my part. It's now 6-7% of GDP and I'm guessing that it has tripled in size since the late 1980s. Travelling through the City these days all the new build has occurred since then. Accurate figures – better guesses, perhaps – on this are hard to find. If anybody has data on this please send me it.

<sup>4</sup> Not that Labour has entirely given up on it. 'Labour will this week sign up Andrew Lloyd Webber's multimillionaire former accountant to help the party develop tax policy to stimulate growth in media, music, fashion and other creative industries, in an effort to make the country less reliant on the City for economic success.' <[www.guardian.co.uk/politics/2011/sep/05/lloyd-webber-accountant-advises-labour/print](http://www.guardian.co.uk/politics/2011/sep/05/lloyd-webber-accountant-advises-labour/print)>

incapable of following the thought through and finishes with this:

'One must always pray that conservatism will be saved, as has so often been the case in the past, by the stupidity of the Left. *The Left's blind faith in the state makes its remedies worse than useless.* But the first step is to realise how much ground we have lost, and that there may not be much time left to make it up.'  
(emphasis added)

With 'The Left's blind faith in the state makes its remedies worse than useless', Moore's attempt at rationality collapses and his bedrock beliefs reassert themselves. For his entire analysis is of a crisis caused by the withdrawal of the state from the economic life of the country. All the successful economies which he might wish to emulate have a very significant economic role for the state. Giving up on the state has been the right's central error.

There are even voices within the City starting to ask if the 'Big Bang' of 1986, selling off most of the City to American banks, was a good idea:

'Viewed from the perspective of the biggest financial crisis since the 1930s.....Terry Smith, the Tullet Prebon chief executive, now reckons Big Bang was a "colossal mistake". Peter Meinertzhagen, the former chairman of Hoare Govett, says: "It's absolutely not something to celebrate. Everything that went wrong in the City went wrong because of Big Bang – greed, nobody knowing their counterparties, and good firms getting taken over and wrecked."'<sup>5</sup>

## **Paralysis**

**B**ritish politics is paralysed by the fact that the obvious move to make against the globalisation catastrophe is to return to

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<sup>5</sup> Alistair Osborne, 'The Big Bang, says JP Morgan Cazenove chairman David Mayhew, "transformed the opportunity for London,'" 26 October 2011, <[www.telegraph.co.uk/finance/newsbysector/banksandfinance/8849116/How-the-Big-Bang-created-new-life-in-the-Square-Mile.html](http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/8849116/How-the-Big-Bang-created-new-life-in-the-Square-Mile.html)>

the nation-state and *get a bloody grip on things*; but few believe this is possible or desirable. The nation bit of the nation-state term is no-go territory for the left and the state bit is no-go territory for the right.

At the heart of the 'we can do nothing' case is the belief that given any strengthening of the state's role in the economy – if it actually did try to regulate the financial sector, for example – the City would decamp for somewhere with fewer regulations. Some would; but we don't know how many. This belief usually stands on an exaggerated sense of how significant the financial sector actually is, as I have discussed repeatedly in previous issues.<sup>6</sup> It is actually now about 7% of the GDP.<sup>7</sup> Which is significant; but a chunk of that is British retail banking, which is going nowhere; and not everyone else would go. We don't know what the effect would be of regulating the global gamblers.

The exaggerated notion of the UK's dependence on 'financialisation' has spread as far as the German Chancellor. The *Guardian* (16 November) quoted Angela Merkel as saying that the UK generates 'almost 30% of their gross domestic product from financial-market business in the City of London.' By 'financial-market business' I presume she means the financial services sector, which is actually about 7% of GDP. But no wonder Merkel would find a 30% figure plausible. Only a big figure explains the British state's obsession with defending the City's position. All the effort spent and enmity generated for 7% would make no sense. And that's right: *it makes no sense*.

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6 See for example <<http://lobster-magazine.co.uk/free/lobster60/lobster60.pdf>> p. 54.

7 Jeremy Warner, associate editor of the *Telegraph*, who spotted the Merkel comment, said 'it's more like 6%' in 'If the euro goes up in smoke over the next year, then one thing is certain; it'll be the City that is held responsible', *Daily Telegraph* 17 November 2011.