

Nine Crises

Fifty Years of Covering the British Economy from Devaluation to Brexit

William Keegan

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Nine Crises is an attempt to encapsulate the UK's economic crises of the last 50 years, and the way they were managed by the leading lights of the day, as they were reported in William Keegan's newspaper columns over the period. Keegan was not to know that as soon as 2019 was out, the biggest economic crisis since WW2 would take place, with some suggesting it is likely to be the biggest for 100 years.¹ That said, it lends a certain perspective to the events of the last 50 years and a new twist to the 'Crisis, what crisis?' comment (which was falsely attributed to 'Sunny Jim' Callaghan, Prime Minister in the late seventies). It turns out that, judged by the events of 2020, all previous crises were mere blips in times of steady economic growth and prosperity for the majority.

It appears that far from being the Beast holding the UK back, the state is vital to propping-up not only the banks, as in 2008/9, but the entire shooting match. For all the denial of the role of modern monetary theory (MMT), as described by Stephanie Kelton in her book,² when push came to shove MMT is the only thing preventing an even bigger crisis.

William Keegan will need no introduction to readers of the *Observer*, where he has been a permanent fixture as a financial journalist commentating on economic affairs through five decades. He appears to have lived a gilded life: schooled at Wimbledon College, on to Trinity College, Cambridge, first dabbling in classics, before settling on economics under the auspices of the leading Keynesians of the day. Steered into journalism, first at the *Daily Mail* and *Financial Times*, he became safely berthed at the *Observer*, where he remains to this day. He has been perfectly placed to observe and comment from close quarters on what passed for the economic dramas of most of the fifty year span of his book.

¹ <<https://tinyurl.com/y3cz9dan>> or <<https://www.dailymail.co.uk/news/article-8188035/We-facing-biggest-financial-crash-100-years-economists-warn.html>>

² Which I reviewed in this issue of *Lobster* at <<https://www.lobster-magazine.co.uk/free/lobster80/lob80-deficit-myth.pdf>>

Each of the nine crises he covers is given its own chapter and these are listed in the contents, thus showing in advance the approach he is taking: the devaluation crisis of 1967; the oil crisis and three day week of 1973; the 1976 IMF crisis; so-called sado-monetarism and the Thatcher recession 1979-82; the Lawson boom and bust and fallout with Thatcher 1983-89; Black Wednesday 1992; the financial crash 2007/9; Osbourne's austerity 2010-16 and the Referendum and threat of Brexit 2016.

Obviously the book is made up from his many past columns and cuttings. This is good, as we are transported back to re-live the dramas of those days and to sit alongside him as he formed his opinions and judgements on how such crises were managed.

In understanding where the key actors in the scene are coming from and explaining this to readers – both when he did so at the original time of the events and now retelling it in this book – he becomes complicit in the judgements they made. This is born out by his promotional essay for the book (which is essentially a direct summary of its contents) that appeared in the *Guardian*.³ A more rounded review has been provided by Dr Rebecca Harding from the Society of Professional Economists.⁴

Thus it is now clear that the big error in 1967 was in trying to defend the indefensible for so long and not devaluing more quickly; that in 1973 the error was placing the UK at the centre of what was really an international crisis that Heath wanted to turn into a class war; that the 'IMF crisis' was over a tiny amount of money that could have been easily found by the Bank of England itself but was a useful stick to discipline a left-leaning government; that sado-monetarism, the theory that the money supply caused inflation, is now not given the time of day as credit subsequently has expanded exponentially with little ill effect. The Lawson spat with Thatcher, that cost them both their jobs, was petty rivalries over who was in charge of economic policy (and the economic instability of the period was more a product of events in the USA than in the UK). The 1992 Black Wednesday episode was again caused by attempts to face-off international opinion on the value of the pound. The financial crash of 2007/9 was due to international deregulation of financial services industries; the austerity crisis initiated by George Osbourne was another attempt to use bogus economic theory – expansionary fiscal contraction – to fight a class war; and the Brexit referendum crisis was the scapegoating of the EU as the source of the adverse consequences of globalization. Keegan is restrained in his criticisms

³ <<https://tinyurl.com/yym6uque>> or <<https://www.theguardian.com/politics/2019/feb/09/william-keegan-nine-british-financial-crises-since-1967>>

⁴ <<https://spe.org.uk/reading-room/book-reviews/nine-crises/>>

and considered judgements and content to rest on the comments he made at the time. He reports the undoubtedly sincerely held views of the people closest to events, communicated personally during meals in fine restaurants paid for by his newspaper.

This would have been convincing but for subsequent events. The real crisis represented by a pandemic and what has been done to manage its consequences lends a cruel perspective. The state, far from being powerless faced by market forces, appears as the saviour. It is poignant and ironic that 'Captains of Industry' and City of London financiers, who have long preached self-sufficiency and rugged individualism when addressing the needs of the weakest and poorest in our society, are pushing themselves to the front of the queue to receive handouts, credit, loan guarantees, quantitative easing etc. to keep their gravy train on the road. While citizens, normally content to deride politicians and senior civil servants, are anxiously waiting their every word for news of support.

I found the book to be a compelling commentary on some of the dramas of my own life and an enjoyable read. The weird thing is it leaves me with the feeling that this was merely a prelude to bigger dramas to come. Unfortunately answers will have to be found elsewhere; but the book accurately reflects the ease with which leading protagonists can convince themselves that they do have the answers, when history seems to show they were as deluded as most; or, if not deluded, intent on exploiting the disarray for partisan purposes.

Is this being unduly negative? The 1976 crisis which has featured in discussions in this magazine over the years⁵ still leaves commentators puzzled.⁶ Keegan for his part throws a lot of elements in the pot: malevolence towards a left-wing government from the US; the influence of *Times* economics correspondent Peter Jay, a newly converted monetarist and Callaghan's son-in-law; Callaghan's oversensitivity to the plight of the holders of sterling balances, the value of the pound and 'confidence' in the government. Add to that division in government circles, the hostility of senior civil servants and the press to the government and, in Keegan's words, the mishandling of pay policy (in not getting the unions to accept pay cuts) and it is not a surprise that the reputation of the government was tarnished and Thatcher therefore won the election of 1979. Given that the actual IMF loan was only \$3.7bn (\$17b in today's money) and that, in the

⁵ Searching for '1976 crisis' in *Lobster's* search engine produces 66 hits.

⁶ See, for instance, <<https://mainlymacro.blogspot.com/2017/01/the-uks-1976-imf-crisis-in-light-of.html>>.

event, it wasn't needed as the value of the pound rose shortly afterwards, only shows that economic crises can act as smokescreens for other political events. The support to UK banks in 2008 was £500bn and already government support for the pandemic effects is £333bn, and this, I think, says more than any of the discussion in Keegan's book.

It's only in a real crisis that we learn what is truly important.

P.S. A light is shown on the hapless nature of MI6 who, following the Black Wednesday events of 1992, were looking for explanations for the sudden loss of confidence in sterling. Keegan was invited to the Pot Au Poule restaurant (in a dark candle-lit recess) by an old acquaintance from his Cambridge college who worked for MI6. Keegan gave the secret service the whole story but confesses that it was nothing more than could have been read in the newspapers. He was also quizzed by the Chinese embassy on economic matters but seems to have fallen out of favour because his own large family was deemed offensive at the time of the 'one-child' policy. He also confirms that Harold Wilson was destabilised and made paranoid by rogue elements in the security forces who thought him a communist agent. But we all knew that.