This is the final chapter of my *The Rise of New Labour*, published in 2002. It didn't get any attention and didn't sell but is still available in ebook form. I was prompted to make this available because of the rehabilitation of Gordon Brown recently. Lest we forget, he is one of the chief architects of the economic mess we are in. This chapter shows how.

Robin Ramsay

Chapter 8

Into office

'It is scarcely credible that Britain should once again be crucified on an excessively high exchange rate.' – Wynne Godley, *The Observer* (Business) 23 August 1998.

By the time Labour took office Brown and Blair had promised to toe the conservative line on economic policy: no income tax rises, no increased public spending, no attempts to use government to direct the economy; and no reacquisition of the privatised state assets, the roughly £100 billion of taxation-created assets flogged-off for around £50 billion during the Thatcher years. All talk of justice, fairness and redistribution had been stripped from the vocabulary. They had learned the central mantra of neo-liberalism: private good, public bad.

Taking office in 1997, there was only one major tool left in the hands of new Chancellor Gordon Brown, but it was the critical one, the control of interest rates for the economy.[1] This last lever was duly surrendered to the Bank of England on Brown's first day in office: henceforth interest rates were to be set by a committee chaired by the Governor of the Bank of England and with a majority of its members employees of the

1 For any reader still uncertain about how this works: interest rates higher than those of other countries push up the value of the currency; and increases in the value of the currency make imports cheaper and exports more expensive. So the relative level of interest rates is critical.

Bank, tasked to keep inflation at two and a half per cent using only interest rates.[2]

For Brown, converted to the neo-liberal view of the economy, setting the interest rate was simply a technical issue. Should interest rates rise or fall? Ask the experts. And who are the experts? The bankers, of course.[3] But Gordon, who benefits from interest rate rises? The bankers. Somehow this most banal of observations has escaped 'the Iron Chancellor'.

The consequence of the decision to let the Bank of England control interest rates was that absurdly, and incredibly, like Mrs Thatcher in 1979, Labour set out in 1997 with neither an interest rate policy nor an exchange rate policy. The Bank of England's Monetary Policy Committee duly agreed that interest rates as low as those in the Euro zone or the United States would not maintain inflation at the target figure and they have remained higher ever since. (That strange noise you can hear is sniggering from the stockbroker belt round London.) Consequently the pound has been too high and a chorus of complaint has issued from British manufacturing as the overvalued pound began putting them out of business. This did not deter Brown. He wanted 'stability' and 'an end to Tory boom and bust' – phrases you must have heard a hundred times a year. But Brown defined 'stability' simply as low inflation – currency instability didn't matter and didn't get onto the agenda.[4]

And we had a re-run of 1980-2. Through 1998 and into 1999, as the pound remained too high under the impact of UK

---

2 Nigel Lawson was trying to get this done in 1988 but Prime Minister Thatcher blocked it. See Nigel Lawson, *The View from No.11* (London: Corgi, 1992) pp. 869/70.

The financial press, reflecting the views and interests of the City, could see higher interest rates coming and were thrilled by Brown's decision. See Paul Routledge, *Gordon Brown: the biography*, (London: Simon and Schuster, 1998), p. 294.

3 As I keyboarded this sentence I found myself wondering for the umpteenth time: can he really be this naive? The answer still looks like 'yes' to me. There is no rabbit waiting to be pulled from the hat.

4 The parallels with the Thatcher-Howe regime arise again. Like them, Brown seems to have believed that if domestic inflation is low everything else slots into place, automatically.

interest rates almost double those in the Euro zone, the economics journalists who had spent the 1980s warning of the consequences of the high interest rate/high sterling policy, began recycling their old articles, needing to do little more than change the name of the Chancellor from Howe to Brown.[5]

Finally, on June 10 1999, the Governor of the Bank of England, Eddie George, admitted that the exchange rate had finally made it onto the agenda of the Monetary Policy Committee (MPC) which he chaired and stated that the interest rate cut of a quarter of a percent that week by the Monetary Policy Committee had been done to try and help manufacturing. But it still left UK interest rates roughly twice those in the Euro zone – and sterling did not fall. Even then Chancellor Brown was not impressed. At the same event at which Eddie George admitted the MPC was now considering

---

5 See for example:

* David Smith *et al*, 'Strong pound drives up insolvencies', *The Sunday Times* (Business) 22 February 1998;

* Charlotte Denning, 'Trade slumps into the red', *The Guardian* 24 June 1998;

* Larry Elliot, 'Circular walk along the Third Way', *The Guardian* 6 July 1998;

* Peter Kellner,'How the Bank has been taking us all for a ride', *Evening Standard* 4 August 1998;

* Mark Atkinson, 'Brown attacked by Benn', *The Guardian* 14 August 1998;

* Bill Jamieson,'EEF slams "arrogant" Treasury', *The Sunday Telegraph* 13 September 1998 ;

* 'Larry Elliot, 'Brown proves a covert radical', *The Guardian* 21 December 1998: 'His reluctance to even attempt to talk down the level of sterling seems bizarre, given what the confederation of British Industry has been saying about exporters' prospects'; Elliot, 'Sweet talk won't stop sterling now,' *The Guardian* 10 May 1999:

> 'on the one hand a government which has its roots in Britain's manufacturing heartlands and professes to want to join the single currency; on the other an exchange rate that will close factories and preclude membership of the single currency';

* Charlotte Denny, 'London visitors fail to impress metal bashers', *The Guardian* 20 May 99, which quoted a Midlands 'metal basher' that they had had the Governor of the Bank of England in Birmingham the night before 'who went on record as saying he was not prepared to offer any solace to manufacturing whatsoever'.

the exchange rate (even though they hadn't done anything), Brown not only failed to respond to the complaints from the domestic economy, he warned of the dangers of having an exchange rate target.

> 'Anyone who thinks that dropping the inflation target to replace it with an exchange rate target, or running inflation and exchange rate targets at the same time is the right way to achieve domestic stability is failing to learn the lessons of the 1980s.' [6]

Notice how Brown rejects a solution to a question the manufacturing sector was not asking. The exporters being crippled by the high value of the pound were not suggesting that 'running inflation and exchange rate targets at the same time is the right way to achieve domestic stability'. There were simply pointing out that the pound was so high they were going out of business! Nor is it clear which 'lessons of the 1980s' he is thinking of. Certainly not the lessons of the early 1980s when Thatcher and Howe followed a policy identical to Brown's, with the same consequences – destruction of manufacturing jobs.

After all the policy making and policy changing of the 1980s and early 1990s, New Labour's economic policy is essentially Thatcherism mark 1. Superficially it appears different but only because 'controlling the money supply' is no longer considered an intermediate target *en route* to controlling inflation; and as Brown inherited much lower inflation than existed in 1979, the Monetary Policy Committee has not yet had to be as savage as Thatcher and Howe were in the early 1980s.[7]

But the policy remains the same: we will 'control' inflation by putting up interest rates; that is, by making people unemployed; and that is, chiefly, by making people unemployed in manufacturing.

---

6 *The Guardian* 11 June 1999

7 The oddity is that Brown appears to be believe that something new is going on. He seems to have forgotten that in the 1950s and 60s the policy of putting up interest rates and clobbering the domestic economy as soon as a little inflation appeared was derided by Labour spokespeople as 'stop-go' economics.

As in the 1980s, the prosperous, City-driven greater London area can experience growth while chunks of the rest of the country are in recession. In May 1999 the TUC reported that in the 106 constituencies where manufacturing employed more than 30% of the work force, half had recorded a rise in unemployment in the previous six months.[8]

As I was writing this paragraph the BBC news announced at the beginning of August 2001, that the manufacturing sector of the British economy was officially in recession – in large part the victim of interest rates higher than those in the Euro zone and the USA and the concomitant over-valued pound. The same old story: the City does well, manufacturing does badly.

All of this is being done in pursuit of policies which now come under the rubric of 'the Washington consensus'; that is, American-style neo-liberalism. But these policies were adopted by Labour under John Smith as Shadow Chancellor (with Brown as his deputy) when they were quite specifically the policies sought by the City of London. The City's well-being is top of the economic agenda. At every negotiation with the EU the City's interests are paramount. The notorious 'five conditions' for UK entry into the Single Currency which some bright spark at the Treasury persuaded Gordon Brown to adopt early in his term as Chancellor, refer in general terms to the effect of Single Currency membership on the rest of the economy, but specifically includes Single Currency membership's effect on the City.

The City has had complete control of the UK's economic policies now since 1979. The last flicker of the thought of resistance by Labour to the City's agenda occurred about a year before the election of 1997 when, for a few weeks, Will Hutton's take on the City-versus-industry thesis, his idea of the Stakeholder Economy, was apparently being taken seriously by Tony Blair – until the idea was run past Labour's contacts in the City.

> 'One minute the then editor of The Observer [Will Hutton] was sitting in Blair's kitchen, watching Tony push

8 Will Hutton, *The Observer* 2 May 1999.

> down the plunger on the cafetiere, as he said, "Will, stakeholding is going to be our bible". [9] Just six weeks later Hutton found his idea had been dropped, after Blair's adoption of it had been greeted with suspicion in the business world....'[10]

This account was confirmed by the Australian academic Shann Turnbull, who has proposed a slightly different version of the stakeholder concept. Turnbull wrote:

> 'When I met Geoff Mulgan [one of New Labour's policy advisors in No 10 Downing Street] back in Australia on his honeymoon in 1998 he advised me that stakeholder idea had frightened *the big end of town* and so it had been dropped. Company directors were concerned that they would be made accountable to people other than shareholders and institutional investors were frightened that it would destroy shareholder value.' (Emphasis added.)[11]

'The big end of town' for the City of London is an interesting image. But how big is it? How important is the City to the UK economy? What proportion of the Gross Domestic Product is the City? To have this much power it must be big – at least as big, say, as manufacturing, which has been persistently cut-down in the City's interests for the past 20 years. *Wrong.* According to figures produced in 1999 by the City of London's own propaganda outfit, British Invisibles – which may be presumed to exaggerate somewhat in the City's favour – the

9 The notion had been at the core of *The State We're In*, Hutton's best-seller which persuaded large numbers of people to join Blair's rebranded New Labour.

10 Paul Vallely 'Enemies of the people', *The Independent* (Review) 4 July 2000.

11 This was in an e-mail posted on the Net as 'OWNERSHIP: Re: HOMESTEAD: No 3rd Way?' from Shann Turnbull sturnbull@mba1963.hbs.edu on 25 May 2000. Turnbull's Website is http://members.optusnet.com.au/~sturnbull/index.html

A significant part of New Labour's relations with the City involves Gavyn Davies, Chief Economist at the American bank Goldman Sachs. His wife has been Gordon Brown's PA for many years. In a profile of Davies by Brian Milton written for, but not published by, *London Financial News* of 10 June 1996, Milton quoted a 'Labour source' as saying:

Continues at the foot of the next page.

City contributed 6.4% of the UK GDP. That is not a misprint: 6.4%. Manufacturing, by contrast, is still, even after twenty years of assault, somewhere between 20% and 30%, depending on how you define manufacturing.[12]

And, let it be noted, that 6.4% is now mostly owned by Americans. The reorganisation of the City, the so-called 'big bang' in 1986, was the beginning of the end for the British ownership of the City. These days it is essentially a branch office of Wall Street. [13]

Pursuing 'the knowledge economy' (Blair) and 'an enterprise culture open to all' (Brown), Blair and Brown may now believe they are on the wave of the future, driven by technology and changing world markets; but the truth is that at the end of the 1980s they simply swallowed whole the ideology of the City of London – the pioneers of globalisation, after all – and adopted its policies, which reflect its interests. The result has been, just as it was under Mrs Thatcher who was pursuing the same policies, the continued destruction of the manufacturing base of this country.

A disinformation operation

> 'I have taken from my party everything they thought they believed in. What keeps it together is success and power' – attributed to Tony Blair by Andrew Rawnsley in his *Servants of the People* (p. 195, 2001 paperback edition).

Note 11 continued

'Gavyn doesn't write policy, but he is our own City sounding board. We draft the ideas and Gavyn tells what the effect will be on the economy and what the response will be in the markets.' No wonder Goldman Sachs made him a partner, now worth about £50 – or is it £100? – million! The Milton article got as far as page make-up before being rejected. I was sent a copy of the page.

12 See Oliver Morgan, 'Official figures hide manufacturing jobs, *The Observer* (Business) 22 October 2000, which suggests that more careful analysis of the categories gives manufacturing something like 28% of the British GDP.

Why manufacturing in this country has so little political influence is one of the central issues of our post-war history.

13 The impact of the 'big bang' is clearly described in Philip Augar, *The Death of Gentlemanly Capitalism* (Harmondsworth: Penguin, 2000).

The capture of the Labour Party by the Blair-Brown faction has been the most successful political disinformation operation I know of in this country's political history. Those to be disinformed where the unions, who used to fund most of it but whose share of Labour's funding is now down to around 50%; the party's members, who funded part of it and did the work; and MPs. The union officials eventually realised what the game was but had nowhere else to go; only one union had withdrawn some of its political funding by the election of 2001. The members of the party were too ill-informed to grasp what was going on, unable to find a means of opposing it, or incapable of believing that the New Labour faction really meant what they said. Many party members trust their leaders and they were placated by periodic statements proclaiming that Labour values were still in place, while Labour policies were removed or undermined; and reassured by the presence of the totemic figure of John Prescott at the elbow of the Brown/Blair group. The MPs were generally bought off with the prospect of election victory or 'disciplined' by the fear of another loss – however unlikely that seemed after 1994 – for which they might be blamed.

In 1997 I gave to a talk to my own branch of the Labour Party and laid a simplified version of the thesis in this book before them. Nobody took it seriously. I didn't expect them to. I had already tried – and largely failed – to persuade the members of my branch of the Labour Party that the Militant Tendency really was the conspiracy in the party that the party's leaders, various Militant defectors and a couple of well-researched books said it was. People who attend meetings of political parties – the dreaded 'activists' – may be a tiny self-selecting minority but they seem to be no more able to confront difficult problems than any other group. I was in Hartlepool on the night of the election of 2001 and watched the Hartlepool Labour Party members cheer as Peter Mandelson entered the sports centre in which the vote count was taking place. Labour's policies? They just looked thrilled to have a celebrity as their MP.

It is all deeply depressing at one level – and hilarious at another. Based on nothing more than a hunch about the shape of the future, a Labour government is pissing away what was left of the manufacturing base after the Thatcher governments had a go at it. This country's fishing industry was largely wrecked as part of the price of entering the EEC in 1972. The steel industry was 'rationalised', and, like coal, was mostly closed in the 1980s. Agriculture is being reduced under 'set aside' schemes and another chunk will vanish as a result of the foot and mouth outbreak; and a further section will go as the result of the collapse of farming incomes in the last three years caused by the low payments made in 'green pounds' (i.e. Euros) via UK membership of the EU's Common Agricultural Policy. But never mind, eh? Trust your Uncle Tony: he may not know how to use a PC but he knows we have 'the knowledge economy' coming over the horizon and everything is going to be OK.

And perhaps it will. Perhaps we will all end up in 'the knowledge economy' (whatever that is) and we won't need fishing, farming, steel-making, mining, machine-tools and manufacturing in the future. What am I complaining about? Labour's policies are working. Unemployment fell in the same month that manufacturing officially went into recession. Perhaps the neo-liberals are right; perhaps the service sector can replace manufacturing.

But it can't: the service sector has not replaced the manufacturing destroyed by its policies in the last 20 years. Britain is running a huge and growing trade deficit: this is not permanently sustainable. Thus far only a bunch of the 'old lags', the unreconstructed Keynesians, as Gordon Brown probably thinks of them, are worried by this.[14]

I'm with them. I cling to the now old-fashioned idea that on a small island with a population of 60 million it is madness to let the island's productive resources be abandoned. I think Labour's leaders have got it completely wrong and however they think of themselves, history will judge that the Brown-Blair faction was merely the ultimate triumph of the ideology of the City over the rest of us; and, let us hope, the last dribble

14 See for example Ian Aitken, 'This country's living beyond its means', *The Guardian* 28 May 2001.

of Thatcherism down the leg of British politics.