

MYTHICAL THINKING IN THE POLITICAL CLASS

feature
Robin Ramsay

Why do myths about the economy survive so long? In part it is because the politicians lack the knowledge and confidence to challenge them.

As we contemplate Britain's recent history with its succession of economic crises and scandals, a question suggests itself: do the country's politicians understand how its economy works? Of course, on the Conservative side there have always been MPs who come into politics after working in the City and so are familiar with the City's version of the story. But the City's perspective provides, to put it mildly, a partial view.

In the UK economic policies which benefit the international money men may not – generally don't – benefit that rest of the economy. Long before the current crisis this was demonstrated by the 1980 Conservative budget which began the great 'liberalisation' of the economy: it abolished exchange controls, raised interest rates (officially to reduce inflation but in reality to make holding sterling assets attractive) and thus pushed up the sterling exchange rate with other currencies, making a large slice of British exporting manufacturing

uncompetitive. (From Mrs Thatcher's point of view, this had the added appeal of punishing the non-metropolitan working class for having the temerity to vote Labour in the previous twenty years.)

Until 1987 the Labour Party as an institution understood that industry and manufacturing had different interests from finance and Labour governments sought to limit the power of the City to shape economic policy. After the election defeat of 1987 the Party's leadership abandoned this approach and Labour began the long, excruciating process of wooing the City. This reached its climax when Chancellor of the Exchequer Gordon Brown delivered a speech to a City audience in 2006 in which he boasted about the benefits Labour policies had brought to the financial sector.¹

¹ http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/speech_chex_210606.htm



British politician, Vince Cable, the only man in the current government who understands the City-industry clash?

Even before Labour adopted the City perspective outright, its misunderstanding of key aspects of economics were leading it to adopt policies that favoured finance over industry. The former Shadow Cabinet member Bryan Gould wrote in 1994 this about the debate over exchange rate policy in the mid 1980s:

I remember [Gordon] Brown addressing the Parliamentary Labour Party on the great advantages of joining the ERM [Exchange Rate Mechanism], using arguments I knew to be erroneous. He suggested that by fixing the parity within the ERM, we would be applying socialist planning to the economy, rather than leaving an important issue to market forces. The party responded warmly to the notion that speculators would be disarmed. They all seemed unaware that the only thing which gave speculators their chance was a government foolish enough to defend a parity seen to be out of line with a currency's real value ... John Smith and Gordon Brown truly believed that the ERM was a new, magical device which would insulate their decisions about the currency against reality.²

I e-mailed Mr Gould: was he suggesting that his colleagues didn't understand economics? He replied thus:

I found that most of my colleagues had no knowledge of economics and either steered well clear of economic policy – preferring to concentrate on more general topics such as foreign or social policy – or else they swallowed whole the current orthodoxy since they had no capacity to take an inde-

² *The Guardian*, 19 August 1995

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Bryan Gould, former Labour MP and Shadow Cabinet Minister

pendent view. Gordon Brown fell into this latter category – Tony Blair the former. John Smith had only a rudimentary knowledge of economics, but was a little more confident on the nuts and bolts of tax and accounting. I don’t think these failings are unique to the Labour Party. I think one of the reasons for all of this is that economists have made economics such an arcane science that most people are frightened off it.

This is very striking. If you’ve been a literate, intelligent human and you have been interested in politics for years (if not decades) how do you avoid acquiring some economic understanding? And if you want to be a member of a government – the ambition of most MPs – how can you consider doing so without understanding the British economy? Even if you aspire no higher than representing the interests of a constituency (to put an MP’s role at its simplest) if you don’t understand the economy, how can you do this?

In the present coalition government the City-versus-industry clash is apparently understood only by Vince Cable, Secretary of State for Business, Innovation and Skills.

But he has no power and his resistance to the City’s agenda represented by the Conservative members of the Cabinet is confined to the occasional comment and article.³ In the current Labour Shadow Cabinet no one seems to understand Britain’s political economy – though it may be that there are individuals who do but feel unable to speak or feel paralysed by the errors of the Party’s years in office.

The leaders of both the Coalition and Labour have spoken since the crash of 2008/9 of the need to ‘rebalance’ the economy away from the City towards manufacturing; but no one has suggested policies that could do this.⁴ And no wonder:

³ See for example www.newstatesman.com/politics/politics/2013/03/when-facts-change-should-i-change-my-mind

⁴ For example Chuka Umunna MP, Labour’s Shadow Secretary of State for Business, had a piece in the Telegraph, ‘If we want the UK to grow, we should take lessons from Germany’ (23 February 2012). The German lessons for Umunna are: more medium-sized firms, better education and a state bank – and an ‘active government approach for business and industry’, though quite what this last would look like was not spelled out.

economic history suggests that at a minimum such a ‘rebalancing’ will require significant intervention by the state in the economy, including in the direction of investment – both of which are deeply unfashionable ideas that the City will oppose. For even though the financial sector now contributes only around 6% of UK GDP⁵ (of which the international sector is about half) as yet none of the major political parties are willing to contemplate policies opposed by the City.

Robin Ramsay is the editor of Lobster, described by Paul Foot as ‘one of the most important magazines to be launched in the post Second World War period in Britain’. His books include The Rise of New Labour, Smear: Harold Wilson and the Secret State and, most recently, Well, How Did We Get Here? A Brief History of the British Economy, Minus the Wishful Thinking.

⁵ That 6% figure is from the Bank of England. See the first table in www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb110304.pdf