

**THE MESS
WE'RE IN
WHY POLITICIANS
CAN'T FIX
FINANCIAL CRISES**

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‘Just why are we in this mess?’

It was really all Peter’s fault. I was sitting in a beach hut restaurant in Goa, enjoying that feeling of deep contentment with the world that only chicken achari, garlic naan and several cold beers can induce, when he piped up with his question.

Peter is not his real name, by the way. If anybody is going to get the blame for this book then it clearly should be me, not him. After all, I wrote it.

Peter is a hugely intelligent and highly educated man, a professor no less, and a Fellow and gold medal winner of the Royal Society. When he addresses a subject you would be well advised to listen carefully, for what comes forth tends to be pure, condensed wisdom. Which also makes it rather unsettling when it is your opinion on a matter that he is requesting, since you know that your answer will be weighed in the white heat of his intellect, and quite possibly found wanting.

‘So just why are we in this mess?’ he enquired.

‘What mess?’ I queried. Surely we had enough cash on us to pay for the meal?

‘Oh, you know, the financial crisis,’ he said, with a grandiloquent gesture that the waiter happily interpreted as an order for two more beers. ‘The banks, Greece, pensions, all that sort of stuff.’

‘Ah, that,’ I said, giving myself time to think. I suppose I had brought this on myself, since I had recently been featured on various television programmes on the subject, claiming to know what I was talking about. Fortunately, most of these sort of appearances are so short that there is rarely time for the limits to one’s knowledge to be exposed. This occasion would be different. The baking hot afternoon stretched ahead of me and just across the table a razor-sharp mind lay in wait.

‘The main difficulty,’ I began, ‘is that it isn’t really just one problem at all. It’s actually at least five different problems, all of which have become tangled together like a big knot, and if you really want to understand what’s going on then you need to unpick the knot and examine each of the strands separately.’

'Go on,' he said, lighting a cigarette. An avowed non-smoker, he was trying unsuccessfully to limit himself to twenty a day.

'In no particular order,' I went on, 'there are five of them.'

I started ticking them off on my fingers.

'First, there is the aftermath of the banking crisis of 2007 and 2008. Governments need to work out how they are going to manage the banking sector so as to minimise the chance of having to use public money again in the future to rescue banks which get into trouble.'

'Second, there is the question of governments around the world running budget deficits and as a result having higher and higher levels of national debt. That's what has happened in Greece, but it's a problem everywhere, not least in the USA, as well as most European countries.'

'Third, there is the threat of recession, and what governments might do to try to avoid this by boosting the economy.'

'Fourth, as yet largely confined to the UK, there is the problem of pension funding. As you know, many schemes are in deficit, that is to say they simply don't have enough money to meet their obligations.'

'Fifth, and this may come as a surprise since it doesn't seem an obvious point to make from an economic point of view, there is the whole question of how our political system works, and in particular how it works in making economic decisions.'

I checked my hand. Five digits, five issues. So far, so good. Thank goodness I couldn't think of a sixth.

In fact, writers being the slippery customers they are, I have taken certain liberties with my account so far. Not only names have been changed, but also the chronology, though only slightly. This conversation did indeed take place one long afternoon in a beach hut in Goa, but by then I had already embarked on the odyssey that would lead to this book.

It would prove to be a journey of more than two years' duration as I wrestled to analyse what was going on in the world of finance. In the meantime, many books were published claiming to have all the answers about how the financial crisis had happened, but I wasn't really interested in 'how' things had happened so much as 'why'. The

distinction is subtle, but highly significant. I was not so much interested in the crisis as in understanding the economic framework within which events had unfolded. This brought a very different perspective to the situation.

For instance, most writers seemed to be treating the crisis as having begun in mid-2007 (though admittedly the various causes which they ascribed to it had happened earlier – most said from about 2003 onwards) and ended some time in 2009. The more I read, the more I realised these views were defective in two respects. First, it seemed to me that the crisis had not ended, but was still with us, though having developed in nature. Second, it seemed to me that its causes had been constant and ongoing for many years, indeed decades.

To some extent, this was because many people appear to have treated the events of recent years as a banking crisis, with bankers, in their various forms, being responsible for it, and an avalanche of future banking regulation as the solution. I beg to differ, believing this to be part, not all, of the problem; only one contributory factor, though a significant one.

Similarly, everyone seemed to agree that what had occurred was a dramatic failure of the financial system, evidenced by banks tumbling like dominos during the dark days of 2008, though they differed as to what precisely had brought it about and when (or indeed whether) it had come to an end.

The conclusion to which my reading and thinking brought me was startlingly different. That what had occurred was in fact a massive and sustained failure of the political system, which had begun many decades ago and been eagerly abetted by just about every prime minister since the Second World War, with Margaret Thatcher perhaps being the only exception and even then only partially.

If this is so, then how is it that so many people have been led to such a profoundly mistaken conclusion?

First, it seems to me that people show a disinclination to examine the past in analysing the present and, in particular, critically to explore the past actions of politicians. It is as if politicians enjoy some sort of privileged status in this regard. If the head of an industrial firm manages

it into insolvency then he is blamed and dismissed, though not always in that order. In the public sector, things work differently. The governor of the Bank of England can repeatedly miss his inflation target and yet be praised and rewarded. Politicians move seamlessly on to retirement, board seats and lucrative consultancy contracts, yet never have to face the consequences of whatever damage they may have inflicted. It is as though the day of reckoning can be indefinitely postponed.

This appears to be coupled with an instinctive trust in politicians to do the right thing, a trust which, remarkably, seems to have survived despite the clear evidence to the contrary of the last several decades. In fact, as I will demonstrate, politicians are part of the problem – indeed, they *are* the problem – rather than the bringers of solutions.

This unwillingness logically to analyse a situation based on clear data runs right through every aspect of our present situation. For example, though most people seem to believe that our problems had been caused by a banking crisis, nobody outside the world of academia has actually bothered to enquire into the nature of banking crises. What causes them? Can they be prevented? If so, how? These are all questions that even a commission specifically set up to enquire into banking regulation totally failed to address.

Then there is the related problem that, in order to understand what has happened, using knowledge drawn from only one discipline is no longer sufficient. For example, most people instinctively describe our present circumstances as ‘the financial crisis’ whereas in fact it is an economic and political crisis; only its symptoms are financial, and even then not all of them.

Again, the writer in me is taking a few liberties. This was not a journey upon which I suddenly embarked two years earlier. As both a reader and writer of history, I was already familiar with the works of Correlli Barnett, to whom I must acknowledge a huge debt. It was his *Pride and Fall* series, upon which I have drawn heavily in this book, which first made me aware that the official version of events should at least be seriously questioned, and that our problems really began several decades ago, not a few years. Going back to reread these was where I began my quest.

In fact, partly thanks to Barnett, the historical side of things was the easy part. I already had several bookshelves (and a few wardrobes) groaning under the weight of a myriad of books on modern history. What I was lacking was a specialist knowledge of economics and I immediately embarked upon a sustained reading spree. I had in fact strongly considered signing up for a degree in economics at one time, but as things turned out I think the fact that I had not previously studied the subject was a strength rather than a weakness, as I was able to come to things with no preconceptions and ramble about at tangents as one book suggested another, rather than having to stick to a pre-set curriculum.

I started off reading about economics from textbooks but soon progressed to reading economics itself, acquiring various rather battered second-hand volumes in the process. It was here that I struck gold.

I had long been aware that post-war economics had featured two rival schools of economic thought: that of socialism, inspired initially by Karl Marx, and that of Keynesianism, named of course after the great economist John Maynard Keynes. I was also aware that British economic policy had featured an uncomfortable mix of these, with different administrations drifting between the right- and left-hand sides of the road.

What I had not previously known was that there was in fact an additional school of thought, to which we might refer loosely as the Austrian School, which was viewed as so deeply subversive that many economics textbooks entirely failed to mention it, preferring to pretend that it had never existed. Yet, on investigation, its subversive tendencies seemed to be based on little more than a passion for personal freedom and a belief that money should actually possess some absolute value, hardly things that struck me as likely to bring about the collapse of civilisation as we know it.

Going back to reread history from the perspective of the Austrian School was a revelation. Suddenly the *real* causes of our current difficulties, the fundamental causes with their roots deep in the past and their consequences glaringly obvious in the present, became clear. What also became clear was that if I was to report them honestly and

fully then this was going to be a deeply controversial and provocative book, and certainly in many quarters a deeply unpopular one.

So it is only right that I should acknowledge from the outset that many readers may find what I have to say disturbing. Those with any sort of involvement with the public sector will almost certainly brand it alarmist, cranky, foolish, impractical or even just dangerously insane. In my defence, all I can say is that the historical facts that I state can be checked and that the views that I express seem to me to be logical conclusions drawn from a combination of theory and circumstances, though I freely acknowledge that others may disagree with them. My intention throughout is to attempt to awaken an awareness of past actions and to prompt an informed debate about the present and the future.

One thing seems to me clear, and I take it as my starting point. Whatever approach has been taken in the past has failed. In fact, it has created the present mess. The two points of which I will seek to convince you are firstly that some totally new approach seems to be called for, and secondly that politicians are not the ones to whom we can look to implement it. My central argument will be that it is politicians themselves who have caused our current problems, and that the time has come for them to be called to account. The day of reckoning can be postponed no longer.