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"Britain's Way out of the crisis:

Moving away from Washington and Wall Street and closer to its European allies?

The economic crisis has deeply shattered British economy. Britain's strong bonds to US-American economy and stock markets, her enormous financial sector, and the comparatively isolated position Britain holds in the European Union, are only some factors that doom Britain in the current situation. It is without surprise that doubts concerning established structures of the political system arise. Are a more intervening state, a stronger integration into the European Union and a withdrawal from the US economic model the way out of the crisis…?

Stephen Haseler*

In January Britain's economic position took a sudden turn for the worse. The country's financial establishment no longer seemed to be in control of the credit crisis; and this loss of confidence led to a fall in the British currency - against both the dollar and the euro. Indeed, over the last year sterling had lost about 30% against the dollar, about 20% against the euro and about 40% against the yen. By month's end it seemed that Britain was entering a full-blown old-fashioned sterling crisis - rather similar to the 1976 crisis which led to the visit to Britain of the IMF. And the news that the projected G7 talks in February were to place sterling's position at the top of its agenda only reinforced the sense of gloom.

This latest loss of confidence resulted from an awareness that Prime Minister Brown's bank bail-out of September/October, had not worked, and that some kind of new state assistance for banks was needed. Yet when, in late January, the government announced a new state-backed insurance scheme for Britain's banks it did little to revive confidence. And confidence was further eroded by an IMF report (published on the 27th January) which predicted that the British economy would shrink by 2.8% and would be the hardest-hit in the developed world and in what is expected to be 'the deepest recession

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since the second world war'. [Report of the IMF, Guardian, 28th Jan., 2009]

Part of the reason for Britain's continuing confidence problem was that a deeper story was also unfolding. Commentators -and markets- were beginning to realise how specially vulnerable to the global economic and financial slowdown the British economy had become. Since the late 1980s -when 'the Thatcher revolution' de-regulated London's financial services industry with its famous 'big bang'- successive British governments and opposition parties (including David Cameron's Conservatives) have all been part of a tight consensus that, taking its cue from Wall Street, had not just encouraged globalised financial capitalism but had consistently proclaimed to a watching world its limitless virtues. In the process, and as a determined act of policy Britain's political and economic leadership has encouraged the development of a powerful banking and financial services sector with a massive global reach.

This grand economic strategy was born of a 'neo-liberal' Thatcherite belief that the global 'free market' of the late twentieth and early twenty-first century should determine and shape the British economy. It demanded, so it was argued, that Britain concentrate upon its 'efficient' sectors that were plugged into the global economy -primarily the financial services sector based in the City of London- and that it should let its manufacturing sector fend for itself. It was a strategy that resulted in a hugely over-blown banking and finance sector and a frighteningly un-balanced economy.

Britain, more than any other major G7 industrialised country, became dependent on the global casino of international, funny-money, finance. It began to resemble a giant off-shore hedge fund. And the economist Will Hutton coined the term 'Iceland on Thames' to describe Britain.

Britain's over-extended global banking and financial sector was at the root of Britain's special problem. The US and other western countries have real problems with their banks, and the US, like Britain, is in the middle of a deleveraging crisis. Yet Britain is vulnerable in a way that the USA is not. Put simply, as national governments now start standing behind their banking system (either by loans, or 'quantitative easing' or outright nationalisation) the USA's continental size economy is ultimately big enough to do the job. The Euro-zone economy also has a continent-size economy (with a continent-sized central bank) to back its various banks. The problem for Britain is that its 'sovereign' position is weak. Size matters - for, like Iceland, the country's economy was in no way proportionate to its overblown banking system. As Britain edged ever closer to nationalising its banks (Northern Rock was nationalised outright and the gigantic Royal Bank of Scotland was 70% government owned) and thus 'nationalising' the debt of its global private institutions, the British government's own financial position began to come into question. With its huge borrowing requirement growing, Britain became the first major industrialised economy to face the possibility of a sovereign default.

This weakness at the heart of the British position -essentially its isolated vulnerability to global economic winds, gales raging at hurricane force- now leads some serious commentators to argue that Britain needs to change the whole course that it has set itself since the

Thatcher revolution. In sum, it needs to abandon its love affair with Washington and Wall Street and its semi-detached relationship with Europe. In short, it should finally resolve its relationship with its European neighbours and further integrate into the European economic system. And former Bank of England Monetary Policy Member, Willem Buiter, and the BP Chairman, Peter Sutherland, have even suggested that Britain should join the euro as soon as is politically possible.

They argue, still against the grain of much establishment opinion in London that joining the euro would be good for Britain. But what about the euro-zone? How would the European Central Bank react? In one sense there is no question that the global crisis has seen tensions rising between Britain and the leading Euro-zone countries as sterling falls and Britain gains a competitive 'beggar thy neighbour' advantage over its fellow EU members. But there is little doubt that sterling's addition to the zone will mean that the euro as a reserve currency to match the dollar will have finally arrived. And in the present crisis Europe desperately needs the euro to be a reserve currency - with all the advantages that such a status has given the US over the post war decades. As of writing the prospect still seems somewhat far-fetched, but, as so often happens in EU history, a big crisis, rather than blowing the EU apart, could easily become the occasion for greater European coordination and integration. Indeed, such increased European integration will be an absolute priority should the new US Obama administration take the road towards greater trade protection, a future in which trading blocs become important.

However, the obstacles to Britain changing course and moving away from Washington and Wall Street and closer to its European allies are large and difficult to surmount. Even though the crisis has shown up and exposed the bankruptcy of the Wall Street model, Britain still remains very reluctant to give it up. This is partly to do with the particular problem of the ownership of the British media. Apart from the BBC most of the British media, particularly in its still influential print and on-line journalism, is owned by Rupert Murdoch. Both opinion-leading newspapers like the Times, and campaigning tabloids like The Sun and the News of The World, and the television company BSKyB, engage in tireless promotion of both American-style capitalism and populist nativist nationalism.

As well as these media elites, key players in the British foreign policy establishment have also thrown their lot in with the Bush-era USA - and particularly with its assertive foreign policy. This was the '51st state' complex, and it was most perfectly represented by the actions of former prime Minister Tony Blair. Blair, more so than any of his Tory predecessors (including Margaret Thatcher), supported all of the twists and turns of US foreign policy under Bill Clinton's and then under George W. Bush, ending up with the invasion of Iraq.

But, following the Iraq imbroglio this Washington-led British foreign policy has lost favour. What's more, the new Obama administration, will, out of necessity if not ideology, be faced with the need to chart a new course for America. The USA's financial problems are already leading the new administration to abandon the 'neo-liberal' economic model. The state is taking a major role in US economic and financial life, and trade protectionist views are increasingly in favour amongst the Democrats in the US Congress. And in foreign policy, no matter any change in values and approach, the US will simply be unable to afford the extreme interventionist and globally assertive posture of the Bush years.

In such a new environment US attitudes towards Europe and the EU are bound to change. In sum they will become much friendlier, with the US needing Europe to 'step up to the plate' in order to fill the vacuum left as the US retrenches. The US will no longer need the 'special relationship' with Britain in order to 'divide and rule' in Europe. Indeed, rather like George Bush Senior, Washington will likely seek a more united Europe as a strategic objective. As the pro-European former Tory Chancellor recently argued President Obama will not want a future Conservative government to be right-wing and nationalist, he'll want a more European-oriented Tory party.'

So, can Britain's leaders, having placed all their eggs into the American basket during the last decades of the twentieth-century, now, in the coming second decade of the twenty-first, begin to take them out?

The answer I believe is: yes. It will be difficult, but it is already happening. Under the pressure of the banking and financial failure, Britain is already having to discard -out of urgent necessity- some of the key beliefs and institutions of the market fundamentalists which have dominated the national discourse and policy-making. Already we are seeing a return to a more social democratic way of acting - if not yet thinking. And nowhere more so is this obvious than in the 'return of the state' to the centre of our economic and political life.

Britain now has a large public sector banking system, having in essence nationalised the bulk of its banking sector (although, as of writing, Barclays remains totally in private hands). There is also talk in government circles of creating a state bank via the post office -'a peoples' bank'- a new development in British history. And on top of state banking Britain is tightening up the state's control of the financial services sector (as, for the first time since the birth of Thatcherism, it accepts the need for serious 'regulation').

The state is also beginning, slowly, to return through the re-emergence of 1970's-style indicative planning as government agencies start subsidising and lending to companies that are in trouble - those that are perfectly solvent but have liquidity problems because of the credit crunch. Lord Mandelson, the new Business Secretary, has just completed a government loan system for the foreign-owned car industry in Britain, and will soon be using tax-payer funds to aid in one form or another a growing list of private sector companies.

In this dismal economic climate Britain is once again beginning to truly value its welfare state. As the financial meltdown now becomes an economic meltdown, unemployment is beginning to rise. 6.1% of the potential workforce (or almost 2 million people), were unemployed in November 2008, up from the previous three months and the highest level since September 1997 when New Labour came to power. Lay-offs are occurring across the sectors, from retail outlets to steel-making. 'Highly skilled workers are losing their jobs in their thousands across the UK' says Peter Skyte, the Unite trade union's national officer for the IT sector. And it is widely expected that the unemployment rate will rise beyond two million and could reach the three million mark during late 2009 - the level last seen in the early 1980s. Predictions are that it will go much higher. The Tory leader David Cameron has said that 'it is clear that the British economy faces dark days ahead'.

This growth in unemployment and insecurity creates an environment in which state universal welfare provision -not least the national health service- becomes valued as never before.

The credit crunch has also placed the character of capitalism back on the British political agenda. Questions are already being asked in all major parties about some of the shibboleths of Thatcherite free-market capitalism. With more state spending now urgently needed the two decades long low tax environment is finally being questioned, as is the previous toleration of tax havens. Also, we might even see a return to the discussion of earlier times when the very structure of companies was on the agenda. In the 1970s, and again when Tony Blair first came into office in 1997, there was a real debate about corporate governance and about the character of capitalist corporations. Ideas about 'stakeholding' -that is broadening out ownership beyond shareholders to 'stakeholders' which included unions and consumers- were taken seriously. There was also talk of industrial democracy, including German ideas about co-determination.

And, inevitably, as the state comes back to the forefront of British political and economic life, it is inevitable that big questions about how it should be organised, will arise. So we can expect a renewed burst of interest in constitutional change, in devolution and de-centralisation of power, and in reforming the antiquated feudal system of the House of Lords.

No-one should be surprised that there is now a more tolerant attitude towards the state and the public sector in Britain. Of course, for the past three decades the country has been in love with American-style capitalism; but it should not be forgotten that before the 1980s Britain had pioneered welfare capitalism and modern European social democracy. British thinkers from the economist John Maynard Keynes to the public intellectual Tony Crosland (in his famous work The Future of Socialism) set out what amounted to a social democratic consensus that lasted right through from 1945 to 1980. It seems that this consensus may well be about to return.

The views expressed in this article are those of the author and do not necessarily reflect those of the FES London.

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