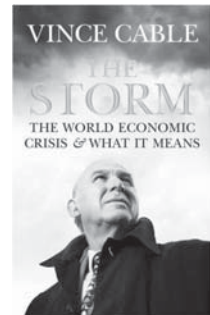


The Storm

the world economic crisis and what it means

by Vince Cable

Atlantic Books, London, 2009, 181pp, hardback, £14.99, ISBN 978-1-84887-057-4



Who Runs Britain? ...

and who's to blame for the economic mess we're in?

by Robert Peston

Hodder & Stoughton, London, 2008, 360pp, paperback, £8.99, ISBN 978-0-340-83944-7

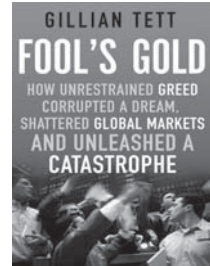


Fool's Gold:

how unrestrained greed corrupted a dream, shattered global markets and unleashed a catastrophe

by Gillian Tett

Little, Brown & Co., London, 2009, 337pp, hardback, £18.99, ISBN 978-1-408-70164-5



■ A review article by Peter Warburton

These titles all grapple with the causes and consequences of the global credit and financial crisis which erupted in 2007. They are all from British authors. From a variety of standpoints each asks: why has this crisis occurred? How was it allowed to happen? Who is to blame? What lessons should be learned? What will be the legacy of the crisis? What changes must be made to prevent a recurrence?

Where there is no revelation, the people cast off restraint, but blessed is he who keeps the law. (Proverbs 29:18, NIV)

For three books completed within a few months of each other, between late 2008

and early 2009, there is remarkably little overlap in content between them. In a curious reversal of expectation the youngest author (Tett) has written the most considered account of the crisis and the oldest (Cable) arguably the least. Gillian Tett's book was by far the longest in the making and, as a social anthropologist, her focus is on the "how" of the crisis. Robert Peston, a financial and political journalist, is much more concerned with the personalities and the "who" issues. Vince Cable, an accomplished business economist and politician, has produced a quick-fire assembly of his thoughts and throws his spotlight on the "what" issues.

From a different perspective each author observes the process whereby specialists within sophisticated financial functions

1. The word 'silo' is widely used within financial services to denote a management system incapable of reciprocal operation with other related management systems. See en.wikipedia.org/wiki/Information_silo

responded to distorted incentives, with far-reaching human and economic consequences. Gillian Tett is shocked by the tribalism of the credit industry: she observes the silos¹ of financial activity whose participants seem self-absorbed, unaware of the significance of their actions in a broader context. No-one possessed a blueprint of the entire financial system. Vince Cable is shocked by the speed and extent of the global crisis, how its complex connections relayed the shock around the world in the twinkling of an eye. Robert Peston is shocked by the "jaw-dropping naivety of ministers and officials" in facing down "powerful financial interests".

At the heart of the crisis was an unholy collaboration between private firms offering obscure financial instruments that were difficult to value; a central banking mindset that refused to acknowledge the dangers of excessive credit creation and its relationship to asset price bubbles; and a political culture that aligned itself too closely with the interests of the rich and powerful. Collectively, our society cast off restraint. The pursuit of legitimate self-interest was not subjected to the sanctions of a redeemed conscience or to the disapproval of peer review. As a result, hardly anyone has been held accountable for their part in the fiasco and, even where wrongdoing was proved, there have been few successful prosecutions. Compare and contrast this with Henry I's physical dismemberment of the moneyers, "who had

fordone all the land with their great quantity of false money which they all bought" in 1125.

The financial and economic crisis has had savage consequences for the public finances of developed economies in America and Europe. It has left a legacy of higher taxation and lower public spending for many years to come. Herein lies a public policy dilemma: whether (or not) to attract the super-rich and their wealth-creating entourage of interests and activities by using a lenient tax and regulatory regime. London (and Dublin) followed this game plan and enjoyed very buoyant tax revenues during the boom years. However, the financial crisis had a disproportionate impact on the earnings and tax liabilities of the highest earners. This left a larger void in the public finances than in other countries. Subsequent attempts to raise the tax take on such high earners are threatening to drive away these highly mobile wealthy individuals, leaving the exchequer no nearer to stabilising the budget.

Regardless of their different agendas, the crisis has confronted each author with the timeless moral issues presented by human fallibility: "the lust of the eyes, the lust of the flesh and the pride of life" (1 John 2:16). The ethical contours of the global credit crisis are these: personal and corporate greed; the seeming lack of moral conscience or social awareness; political ambivalence and global permissiveness. Gillian Tett presents the largest body of evidence to convict the *dramatis personae* in this crisis, but confines her moral strictures to a few closing remarks: "It is a terrible, damning indictment of how twenty-first-century Western society works." "In essence, what is needed is a return to the seemingly dull virtues of prudence, moderation, balance and common sense." (*Fool's Gold*, p.300)

Vince Cable is also quite guarded in addressing the moral issues. However, as an author reaches the last few pages of a book, this often has the wonderful effect of drawing out his or her convictions. He bemoans the weakening of the "social contract". "There must now be a reconnection ... a commitment to openness can be – and has to be – matched by a commitment at the national level to a



Mediaeval moneyer with limbs still intact

balancing sense of 'fairness'." He argues for "genuinely redistributive taxation and strong, solid safety nets for working families ... to remove extreme inequalities of wealth, income and opportunity." (*The Storm*, pp.156-7)

It is left to Robert Peston to express a sense of moral outrage towards the supposed architects of our "economic mess". While none of the three argues for a comprehensive overhaul of economic liberalism, Robert rails against the apparent immunity that the super-rich enjoy. "Why is the propensity of the super-wealthy to shelter the bulk of their income and capital gains from taxation any less reprehensible than other manifestations of disdain for the norms of citizenship?" He questions whether the activities of hedge funds and private equity firms confer any general benefit to society: "Their spoils are usually an opportunity lost to the pension funds on which most of us depend for our retirement income." Noting that the charitable contributions of the super-rich in the UK are pitiful in comparison to those in the US, "it

would be a welcome change if the billionaire class simply paid the same tax as a proportion of income and capital gains as the rest of us." Making the connection between wealth and political power in our society, he warns that "we are more vulnerable than perhaps we have been since the nineteenth century to the advent of rule by an unelected oligarchy." (*Who Runs Britain?*, pp343-7)

Each author appeals to some supposed norm of collective responsibility, common sense or good citizenship. Vince Cable castigates the "narcissistic self-absorption and twisted priorities" of Western society. Could it be that what we require is not more laws or more regulations, but some better examples of responsible moral leadership within private and public life? The gospel of Jesus Christ is the antidote to selfish gain and prideful ambition. Those who allow this gospel to take root in their lives are also giving permission to others to bring timely rebuke and correction. (See 2 Timothy 3:16,17.) ■

Peter Warburton

Peter Warburton is director of Economic Perspectives Ltd, an international financial consultancy and economist to Ruffer LLP, an investment management company.



Stephen Green

Stephen Green, who has worked for HSBC since 1982 (from 2003 to 2010 as Group Chief Executive and then Chairman), has now left the bank following his appointment as Minister of State for Trade and Investment in the Coalition Government. To enable him to be accountable to Parliament he has also been created a life peer as Baron Green of Hurstpierpoint. We reviewed Stephen's book *Good Value* in FiBQ 13:2.

Graham Brightman

We are sorry to announce the death of one of FiBQ's keenest subscribers and most attentive readers. Graham Brightman was a nuclear physicist who worked for many years for the UKAEA (Atomic Energy Authority). He was a member of the Iona Community and of Christian Ecology Link and a prominent layman in Carlisle diocese, worshipping at St. Bees Priory Church. Graham was a forthright exponent of the case for nuclear energy and articulated this as recently as last September in a letter which we published in FiBQ 13:2. He died on 27 November 2010 from cancer. We extend our warm sympathy to his widow Marjorie and their four children.