

The UK is cursed: how finance destroyed our economy

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For more than 45 years, the UK has suffered not one, but two economic curses: the resource curse and the finance curse. Both were chosen, primarily by Margaret Thatcher, and both inflated the pound, destroyed industry, and left Britain dependent on hot money and speculation. In this video, I explain how we got here — and what we must do to rebuild a real economy based on work, fair reward and democracy.

https://www.youtube.com/watch?v=WUy_HI-sD6Q&si=375tvoy5CWbrJz2s

This is the audio version:

https://www.podbean.com/player-v2/?i=gc3cr-19d5a84-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

The UK has been financially cursed for more than 45 years, and for once, I am not talking about antisocial neoliberalism. I am instead talking about two forms of curse that are widely recognised within economics, and they are called the "Resource Curse" and the "Finance Curse". Both of them create a strong and overvalued pound. Both of them have attracted hot money into the UK, and they have broken our economy by choice.

The term, the 'Resource Curse' was created by an economist, Richard Auty, in 1993. He

used it to describe countries with abundant natural resources, who often, as a result, grew more slowly and less fairly than countries who were not blessed in that way with oil, gas, coal, mineral rights, timber, or even fishing. The UK is rarely described as having suffered a 'Resource Curse', but of course it did. We had an abundance of oil and gas from the late 1970s and early 1980s onwards, and as a result, we should recognise that this term, usually applied to developing countries, and also the Netherlands, applies equally to us.

The choice that was made by Margaret Thatcher in the early 1980s, when she realised that she was going to have the most phenomenal inflow of funds from the seas, largely off Scotland, was not accidental. She chose to pursue a deliberate political project, and we still live with the consequences of that.

Thatcher inherited a windfall. North Sea oil and gas delivered it. Few governments have ever had luck on that scale, and she blew it.

She could have modernised manufacturing.

She could have rebuilt infrastructure.

She could have created a sovereign wealth fund, as Norway did.

And she could have renewed the industrial fabric of this country, making it suitable and fit for future generations, but she didn't.

She funded mass unemployment.

She funded the destruction of British industry, quite deliberately.

She funded tax cuts for the wealthy.

She sustained industrial closure.

And she expanded the impact of the City of London upon our economy.

She quite literally burned our future to fund her neoliberal dream.

Sterling was pushed upward in value by the demand for oil, and the pound, in fact, rose in value and was maintained above value until 2008 as a consequence. Oil did this at first, and then, when oil began to fall in terms of its significance within the UK economy, Gordon Brown ensured that we suffered a 'Finance Curse' instead, and kept sterling overvalued as a result for far longer than it should have been.

An overvalued pound makes our exports uncompetitive.

It means that the UK cost base rises when compared to our competitors.

And it means that imports can price out homemade products.

The consequence of the overvalued pound created by oil, and then the hot money in the City of London, has been that many industrial sectors in the UK have collapsed: shipbuilding, steel, engineering, textiles, and electronics. In all cases, these have been largely eliminated from the UK economy. It's as if we've forgotten how to make anything but things that are financially engineered.

The government blamed the unions for what happened. They claimed that British business was inefficient, and I don't deny it. British business was not in a great place in the late 1970s, but the opportunity to rebuild was provided by oil and was blown. The inflated exchange rate dealt the death blow to whatever was left of British business and currency policy by overflating the value of the pound was used as the hidden weapon of destruction that Thatcher unleashed upon the people of the UK.

By creating a financial revolution - the 'Big Bang', as she called it in 1986 - which led to deregulation of the City of London and the expansion of our tax haven-linked entities through places like Jersey, Guernsey, the Isle of Man, the Cayman Islands, the British Virgin Islands, and others, all of whom have a habit of putting the King's head on their stamps, we got a model for our international finance that depended upon hot money flowing into the UK.

So what is hot money? It is sometimes illicit funds, and sometimes it's just excess monies held by speculators who are looking for the biggest return, subject to the lowest rate of tax and the lowest level of scrutiny and regulation. That's what the City of London provided as a result of Margaret Thatcher's choice, which no one has ever overturned since.

Until the 1970s, we made things in the UK. Since 2000, we've only been exporting financial claims. We are now dependent upon hot money to keep the UK economy in balance. The sectoral balance data shows that. Real work was replaced as a consequence by rent extraction.

And for 40 years, the Bank of England has reinforced this strategy. It continues to hold rates too high, for example, by undertaking quantitative tightening at the moment, which might increase the real rate of interest being paid by the government and everybody else in the UK by nearly 1% per annum, which is significant when the Bank of England base rate is only 4%.

It has overinflated the value of our pound as a consequence.

It has increased our UK cost base.

And it has deepened de-industrialisation as a result.

And all of this is still going on today because the Bank of England wants it that way.

They focus their attention on the City. We should be looking elsewhere.

And we're still addicted to speculative inflows into this country, and the Labour Party is encouraging them. It calls them foreign direct investment, but that's just a polite term for selling anything of value in the UK to foreigners at an underprice to grab hold of their money. We are not actually, again, making things; we're just flogging off what is left.

The consequence is clear. Industry is still paying. What we have left is suffering because exporters are squeezed. Investment is discouraged by the high price of borrowing. Production is offshored, and trade deficits are run because of policy and not because they're necessary.

Meanwhile, the regions of the UK where industry used to be have been hollowed out as London has centralised wealth.

The result is that democracy has also been hollowed out. Governments fear markets and not citizens. Fiscal rules reassure investors rather than meet needs, and finance is treated as the master and not as the servant.

So what should we be doing?

We must break the residue of both these curses.

We must stop believing that hot money dependence can create prosperity.

And finance must become a public utility again.

We have to end quantitative tightening.

And we have to stop using interest rates as a proxy for industrial policy when they actually deliver industrial destruction. Instead, we must set interest rates in this country for the benefit of the people who live here and our domestic reality, and not for the benefit of foreign capital.

That means that we must also build a modern industrial strategy with a competitive pound at its core, and that is the only basis on which we can build full employment based on lower borrowing costs. And we must create public banks to fund real investment when those we have will not do so.

We have another issue that we have to address as well. I have spent the last quarter of a century talking about the risks from the UK's tax haven infrastructure, and I stand by all the analysis that I've ever presented on that issue, which once dominated my life. We still have to dismantle that infrastructure now because it still exists to undermine our democracy and to support the destruction that our finance-focused economy creates. We must build an economy based on real work, fair reward, and democratic

control and not on the pretence that these tax haven structures put in their place.

We need to move forward, and we can't while we're suffering these curses, which were chosen deliberately by our governments. We need governments that choose not to curse us all, but to work with us for our future prosperity. That has to be the core of where we go as a nation, as we abandon everything that antisocial neoliberalism has delivered to us.

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