Death Agony of Thatcher Deregulated Finance Model

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Global Research, January 22, 2009
22 January 2009
Region: Europe
Theme: Global Economy

During the end of the 1970's into the 1980's British Conservative Prime Minister Margaret Thatcher and the City of London financial interests who backed her, introduced wholesale measures of privatization, state budget cuts, moves against labor and deregulation of the financial markets. She did so in parallel with similar moves in the USA initiated by advisers around President Ronald Reagan. The claim was that hard medicine was needed to curb inflation and that the bloated state bureaucracy was a central problem. For almost three decades, Anglo-American university economic faculties have turned to Thatcherite deregulation of financial markets as 'the efficient way,' in the process, undoing many of the hard-fought gains secured for personal social security, public health care and pension security of the population. Now the 'poster child' economy of the Thatcher Revolution, Great Britain, is sinking like the proverbial Titanic, a testimony to the incompetence of what is generally called Neo-liberalism or free market ideology.

As the Neo-liberal revolution began in the economies of the USA and UK, it should not be not surprising that the epi-center of catastrophe in the global crisis now unfolding also lies with the economies of the USA and UK, as well as a handful of economies, including Ireland Canada, Australia, New Zealand and Iceland, all of which embraced the free market Thatcherite agenda most strongly in recent years. Notably, the man who personally implemented Thatcherite financial market reforms and deregulation during the era of Tony Blair in Britain was Gordon Brown, then Treasury Secretary.

A sample of most recent British developments is instructive. Britain's economy is about to suffer its most vicious slump since 1946, shrinking by a drastic 2.8 per cent this year, according to EU latest estimates. The UK is predicted to suffer the worst recession of any large European economy.

The consequences for the UK will include soaring unemployment, while the economy also teeters on the brink of full-blown deflation. Unemployment will rise by more than 900,000 people over the next 12 months, driving the jobless total to 2.55 million by the end of the year, or 8.2 per cent of the workforce, from 5.3 per cent at present.

In parallel, the currency, the Pound, which is not part of the Eurozone currencies, has fallen dramatically against the Euro and even the US dollar in recent weeks over growing fears of the collapsing UK economy and banking system. Sterling has fallen below $1.40 to its lowest point in seven and a half years because of concerns about the depth of Britain's banking crisis and the Government's rising debt levels. This coming year the UK Government's borrowing levels may exceed £118 billion, equal to 8 per cent of GDP.

Britain will not be able to reap much benefit from a lower pound for exports because, as part of the Thatcher Revolution, the national economy has out-sourced, de-industrialized and turned to a service economy where, as in the USA, finance and banking became the motor of economic growth the past two decades. That motor has now broken.

Public debt soaring

Fuelled by the cost of state bank bailouts, the UK's national debt is set to rise to £1.06 trillion, or 72 per cent of GDP, by 2010, a sharp rise of more than 70% from present levels.

Yesterday, the Gordon Brown Government, only three months ago hailed as the place which was taking effective action to control the global financial meltdown, was forced to introduce yet another new bank bailout package of measures designed to rescue the country's banking sector. He refused to put any ceiling on the amount that he might ultimately need, creating great distrust in the Brussels and across the EU.

Combined, British banks have some $4.4 trillion of foreign liabilities. That is twice the size of the British economy. UK foreign reserves are virtually nothing at $60.6 billion. Little wonder that savvy currency traders and hedge funds have decided the British Pound can go only one way, down. Swap markets for CDS now price in an alarming 10% probability of Britain having to default on state debt obligations in the next few years as public debt explodes.

The last time England had a default on state debt in the early 14th Century when King Edward III decided to declare default on his then huge debts to the large Italian banking house of Bardi & Peruzzi, taking the large bank down with it and spreading ruin across Europe.

'…giving the kiss of life to a corpse'

The Brown Government admits it does not know whether the second bank rescue package it just launched will work, senior ministers admit. One minister is quoted anonymously in the British press, 'The truth is that we can't be sure whether it will be effective. We have to look calm to try to instil some confidence in the system. But we don't know what will happen next. No one can be sure that this is the end of it. We are in completely uncharted waters. The position is changing all the time.' In brief, the authorities have lost control in the UK.

Gordon Brown and Treasury Secretary Alistair Darling claim the second bailout did not mean the first package they unveiled last October had failed. That deal, they insist, was about preventing banks from going bust; this one was about ensuring they had the confidence to lend to businesses and the public.

The Government refuses to reveal how much it would cost taxpayers. Officials dismissed talk of a £200bn bailout, saying some measures had a low risk and figures were still being calculated. Labour backbenchers conceded it would be difficult to "sell" the rescue plan to an increasingly hostile public. Not surprisingly, polls have turned dramatically against Labour and Brown, now showing that were elections held today, the Conservative Party would win a gain over Labour of 9% to 13 %. An astonishing 49% of all Brotins fear losing their job this year as well.

A major impediment to swift and consequent Government action to contain the impact of the banking crisis has been the dominance of Thatcherite ideology as an almost religious dogma that permeates even Labour, where Tony Blair was portrayed as a Labour version of Thatcher. The ideological absurdity of the situation was underscored recently when the Conservative opposition offered broad support for yesterday's measures, even though their concern over soaring borrowing led them to oppose the Government's £20bn fiscal stimulus designed to keep the economy moving.

As well, it is clear, following the nationalization last year of Northern Rock and the forced state share of 70% in the large Royal Bank of Scotland, that a type of approach as that used in the early 1990's Swedish banking crisis, in which the State nationalized banks that were insolvent and unable to raise private capital. Sweden then split the banks into 'good bank' and 'bad bank.' In the good bank, business of lending to the real economy continued unabated. The assets in the bad bank, largely illiquid Swedish real estate holdings, were held by the state until economic growth again allowed the government to sell the assets in a healthy market. The ultimate taxpayer cost of the Securum model were estimated to have been zero or even a tiny profit when all costs were factored.

The ideological Labour government is stubbornly refusing to admit the logic of the situation, and ends up 'cutting the dog's tail off by inches.' As certain Labour MPs call for the full nationalisation of the banks the Government says that is not its goal. Chancellor Darling stated, 'We have a clear view that British banks are best managed and owned commercially and not by the Government. That remains our policy.'

John McFall, Labour chairman of the Treasury Select Committee, who believes full nationalisation of the banks is inevitable, asked Darling in recent House of Commons debate if the Government would take a 100 per cent stake in the banks if the new package did not restart lending. Vince Cable, Treasury spokesman for the Liberal Democrats, said, 'The Government increasingly resembles somebody who is trying to give the kiss of life to a corpse. The Government now effectively controls one of the largest banks in the world. It will almost certainly have to put more money in; it may well acquire other banks.' Cable had also predicted the bursting of the house price and personal debt bubbles – and the nationalisation of Northern Rock.

Royal Bank of Scotland next

The same day Brown's Government announced the second bank bailout attempt**,** Royal Bank of Scotland issued a statement revealing it expects losses of £28bn for 2008, far greater than anyone was expecting, and triggered further selloff in all major British banks. The huge losses announced at RBS were mainly the result of its acquisition of ABN Amro in 2007. RBS paid a high price for ABN and yesterday admitted that the business was worth around £20bn less than it had previously thought. This unexpected announcement resulted in a 67 per cent fall in its shares.

Brown, in a pathetic attempt to deflect blame, has said that he was particularly 'angry' at the record losses racked up by the Royal Bank of Scotland, and the large write-offs of foreign debt. Lloyds Bank is rumored to be the next bank in need of emergency help as the economy of Britain goes into free-fall, the tragic eulogy to Thatcherism.

Origins of the neo-liberal model

The so-called neo-liberal finance model which was espoused by the Thatcher government after 1979 had its origins in a decision by leading Anglo-American financial powers and their circle that it was time to begin a wholesale clawing back of the concessions which they had granted under, as they saw it, duress, during the great depression of the 1930's and in the case of Britain the postwar economic difficulties.

The origins of the effort in the United States go back to a seminal little known book by a scion of the vastly wealthy Rockefeller family, the late John D. Rockefeller III, titled The Second American Revolution. There, amid soporific rhetoric about creation of a 'humanistic capitalism' he calls for drastic reduction in the role and size of government in the economy. That theme was then propagated through the efficient propaganda apparatus of the Rockefeller imperium, aided by the economist guru of the Rockefellers' University of Chicago, Milton Friedman.

Amid the misnamed 'stagflation' sluggish growth high inflation era of the late 1970's into the 1980's, that propaganda machine, conveniently ignoring the pivotal role of the manipulated oil shocks, shocks incidentally manipulated and brought about by the same Rockefeller family, as I detail in *A Century of War: Anglo-American Oil Politics*, blamed all ills on 'big government.' Rockefeller protégé, Paul Volcker of Chase Manhattan Bank was sent to Jimmy Carter on orders of David Rockefeller, to 'wring inflation out of the system' in October 1979, the same general time Thatcher's Bank of England imposed its own form of economic 'shock therapy.'

True economic causality was obscured and reams of press copy from the Friedmanite free market camp, during the Reagan and Thatcher era claimed that the 'defeat of inflation' had been due to the ruthless discipline of Volcker and Thatcher. That was, we were told, again and again, the reason why the market should be unfettered from government regulation, freed to the devices of its own unbounded innovative genius. The results of that unfettered 'humanistic capitalism' or what Alan Greenspan approvingly called the 'revolution in finance' is now bringing both meccas of neo-liberalism, the United States and Great Britain to economic ruin. Somewhere between this and Stalin's Soviet central planning there lies a better way.

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