Banking and Finance

What Labour Forgot

J. E. Mortimer

Jim Mortimer was General Secretary of the Labour Party from 1982 to 1985. He recently alerted us to the contemporary relevance of the Labour Party's statement on Banking and Finance, which was originally agreed in 1976. It has just been republished by Socialist Renewal under the title Labour's forgotten statement on Banking and Finance *(price £3 from www.spokesmanbooks.com). Here we reprint Jim Mortimer's new introduction together with a short excerpt from the conclusion to the statement.*

In the discussion within the labour movement and the press about the current failings of the financial system, the 'credit crunch' and the consequential rise in unemployment, little, if any, attention has been given to a statement entitled 'Banking and Finance', prepared by the National Executive Committee of the Labour Party and then presented to and accepted by the 1976 annual conference of the Party.

The report saw the operation of Britain's financial system within the wider context of the problems of the economy. How right they were! At the heart of these problems was the need to increase industrial investment. This need, said the Labour Party report, was 'too important to be left to businessmen and financiers alone'. The report called for a doubling of the rate of manufacturing investment over the next decade. Manufacturing, it said, had 'grown anaemic and needed a major transformation'.

The Labour Party's statement argued that the funds to pay for such a massive expansion of manufacturing investment could not come solely from ploughed back profits or even from a strengthened National Enterprise Board. A larger proportion of long-term funds would have to come from outside sources such as banks and other financial institutions. Hence it was essential to examine the flow of funds to ensure that industry had the necessary degree of support.

This warning from the Labour Party was in large measure disregarded. Manufacturing continued to shrink and soothing words were used about the growth of financial services and the services sector. The Labour Party made proposals for the extension of social ownership and fundamental changes in policy.

In subsequent years, the housing policy, associated above all with Mrs Thatcher, worsened the situation. Council house building for rent declined at a steep rate. All the emphasis was on the growth of home ownership, with ever-increasing debt. The assumption was that the debt would be met by the ever-increasing prices of property, providing so-called 'gains in capital equity'. When the bubble burst, we all became familiar with the term 'sub-prime mortgages'. The downturn started in the United States and spread rapidly to many other countries, including Britain.

Unfortunately, the Labour Party's 1976 statement on 'Banking and Finance' was not adopted as a guide by New Labour when it was elected with an overwhelming majority in 1997. There is a lesson in this experience.

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The main conclusions of the Labour Party's 1976 statement on Banking and Finance are summarised in this excerpt.

'For too long the financial system has been able to shelter behind a mystique of its own creation. That mystique has finally been punctured by the extent of the threat to confidence and to people's savings from a series of failures which now compel serious questioning of the operations of the financial system. The "difficulties" experienced by second mortgage specialists Cedar Holdings and First National Finance; by finance houses Moorgate Mercantile, United Dominion Trust, Mercantile Credit and Lombard North Central; by London and County Securities, Western Credit, Keyser Ullman and Cannon Street Investments; the failures of Vehicle and General, Bastion Insurance, London Indemnity and General Insurance, and Nation Life Insurance; and the current problems of merchant bankers Edward Bates all suggest that the 1967 companies Act, the 1973 Insurance Companies Amendment Act etc. were nowhere near tough enough to safeguard the public. We must now recognise the commanding heights of the economy for what they are, and acknowledge that a major publicly-owned stake in banking and insurance is an essential condition for a viable economic strategy and for sustained recovery.

Our experience of industry and the financial system teaches us that we would be unwise either to wait upon their lead, or to passively accept the pace they adopt or to blindly follow in the direction they set. Accordingly this Statement proposes:

- A publicly-controlled Investment Reserve Fund Scheme to encourage firms to invest, as suggested in our 1975 Statement "Labour and Industry".

- Integration of the existing publicly-owned sections of the financial system by combining the Giro and National Savings Movement.
- A major publicly-owned stake in the financial system comprising the top seven insurance companies, (sufficient to account for 50 per cent of total premium income) a merchant bank and the four major private clearing banks, whose separate identities, services to customers and responsibilities to staff would be maintained.
- Reform of the Bank of England so that it ceases to be the spokesman for the private sector financial institutions and takes on responsibility for the investment fund scheme, for publicly-owned banking and insurance, and for co-ordinating and planning the provision of finance to industry.

It is essential that all sections of the Labour Movement, especially the unions representing banking and insurance staff, give voice to their feelings on these issues. The spokesmen of financial interests are already congratulating themselves on having survived the collapse of the property boom and its aftermath, conveniently forgetting the City's original escape into unreality. For 25 years the Doctrine of the Unripe Time has been used as an excuse for refusing to grasp the nettle. The lack of any outright commitment in Labour's October 1974 Manifesto other than "to ensure that banking and insurance make a better contribution to the national economy" need not prevent the Annual Conference from adding to the Party's official policy Programme. In doing so Conference should be aware of the extensive influence of bankers and financiers anxious to preserve the 'status quo', and their own privileged place within it, by claims that despite the evidence, all is for the best in the best of all possible financial worlds.'