

Christopher Harvie: *Broonland*

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Broonland Two Where there was industry

The law will gaol the man or woman
 Who steals the goose from off the common,
 But lets the greater villain loose
 Who steals the common from the goose.

Anonymous radical, c. 1820

I Farepak for Christmas!

Two months before Christmas 2006 the Farepak Hamper/Voucher Company collapsed. This hit at least 150,000 ordinary folk – the *Guardian* (11 November 2006) even suggested 300,000 – but the incident showed the UK's vice of hypocrisy in fine shape, with vintage performances from the neighbourhood of the Treasury. Ten days after Farepak went into administration, Trade Minister Alistair Darling said on the 23rd October that it was 'a matter of great concern' that families had lost millions, and announced a departmental inquiry. Since the affair was now *sub judice* he could remain schtum with a good conscience, and did. So he didn't have to explain that the writing had been on the wall for almost four months, since the beginning of July when Farepak's owner European Home Retail's share price fell in a day from 40p to 16.50p – and *this* was down from almost 110p in December 2005. (*Digital Look*, 10 November 06)

EHR's shares were suspended on the Stock Exchange on 23 August: six weeks before the crisis broke. Why? Darling's department didn't bother to ask,

supposedly since hamper schemes were savings and not credit ventures and hence not regulated. EHR, however, wasn't an obscure fly-by-night operation but the firm whose Kleeneze products had been a fixture of British homes for decades, good quality kitchen products sold by trusted local agents, often the same people who collected cash for Farepak. Its chairman was Sir Clive Thompson, formerly CEO of the Rentokil conglomerate, and in 2000 a notably combative Chair of the Confederation of British Industry, 'the bosses' trade union' and close to its General Secretary Sir Digby Jones, scarcely a shrinking violet. His response to the collapse was to go on a luxury holiday to Argentina.

EHR was in funds in 2005, and Farepak, effectively a bank that didn't have to pay interest, was its cash-cow, which had used it to bale out some disastrous speculative acquisitions. Why did it plunge? The question was not one of straightforward crookedness, or of greed by EHR's bank Halifax Bank of Scotland (HBOS), which had just posted £ 5 billion in profits. A *Telegraph* investigation found that the bankruptcy in February of the gift voucher business Choice Gift Vouchers that Farepak used, after the failure of another hamper company Family Hampers, broke the credit chain that had always governed the business, and vouchers would have to be bought up front. Farepak was a belated casualty of the disastrous festive season of 2005, compounded by witless insensitivity at boardroom level. (James Hall and Louisa Gault, *Telegraph*, 29 October 2006)

The Government had from July 2006 plenty of warnings and plenty of time in hand. But did they do *anything*? There was certainly enough time for one Farepak director William Rollason to sell himself on, along with most of Kleeneze, to Findel plc of Bristol. He had earlier been responsible for withdrawing Farepak from the Direct Selling Association to avoid having to insure against the sort of disaster that actually occurred. (*Independent*, 10

November 2006) And there was certainly time for the HBOS to drive its own interests and get its money back from the Receiver at the expense of the unfortunate Farepak savers who were kept oblivious of their fate until the deal was done. (*Edinburgh Evening News*, 7 November 2006)

Farepak had a particularly strong presence in Scotland and Northern England, a relic of the benefit clubs which had preceded the trade union and co-op movements (which had suffered in their time from a tendency of the treasurer to abscond with the cash: hence the Friendly Society and Trade Union Acts of the 1870s). Would Darling's inquiry find out what, in all this, the Treasury had been up to, because business regulation was one of 'Gordon's things'? A looming financial disaster for 150,000 householders could have immense electoral consequences – to put things at their crudest. Did the high-risk strategies of the government, and the Chancellor in particular, welcoming vast sums of *geld* sloshing into the City during 2005 and 2006, in flight from American prosecutors and from Russian Mafiosi, bear uncalculated risks? Did all of this not place an uncoordinated and overstretched regulatory system under unbearable strain?

The distinguished financial journalist Nick Kochan had written a sympathetic study of Brown's first year in office, but in 2005, in his American-published study of money-laundering *The Washing Machine* the tone had changed:

London increasingly looks like an offshore center serving many dubious financiers while at the same time claiming to have regulations which put it among the world's top onshore jurisdictions...

London's vulnerability is not in its laws but in their implementation. Government has failed to invest in sufficient skilled law enforcement

officers or regulators to curb its sprawling financial system. But this is no accident. The UK's economy cannot afford to curb its income from the 'invisible' financial sector while its industrial sector becomes anorexic. As the UK feeds its addiction to finance and hot money, its regulators bluster ever less convincingly about the security of its financial system and its antipathy to money launderers. (Kochan, 353)

In late summer 2006, while the Farepak crisis was quietly unravelling, the Treasury was obsessed with 'carousel' VAT frauds (see XII). These might mean a hit running into tens of billions. (Ashley Seager in the *Guardian*, July-October, 2006, *passim*). In 2005, the Serious Fraud Office was already reckoning with being overwhelmed. Such was the jam of cases that mistakes and aborted inquiries were inevitable: 'Anyone swindling less than £ 1 million will probably get away with it, and even those cheating a larger amount have the odds sacked in their favour.' (*Guardian*, 3 May 2005)

Under Brown, and typical of the man, there had been unending makeovers of a failing system, resulting in a chaos of competing quangos, with the SFO falling over the Financial Service Authority, Customs and Revenue, the Competition Commission and the Office of Fair Trading – to name but a few, and leave out European Union bodies and the police. Unsurprisingly, a survey of fraud by two regulation barristers, Jonathan Fisher and Jeremy Summers (*Times* 13 June 2006) argued, the system was completely dysfunctional and its personnel demoralised and in decline: fraud investigators falling from 869 to 600 between 1995 and 2003. 'The buck stops with Gordon Brown,' they concluded, with the carousels in mind, but this was only one peak in a landscape of regulatory collapse.*

(* As part of his savings strategy in Whitehall, Brown was cutting the Revenue and Customs staff by over 12 % and closing a third of its offices (Ashley Seager, *Guardian*, 17 November 2006))

Were conclusions being drawn? On our inter- and inner-city travels, we have accumulated enough evidence of Brown's serial industrial failure. Bad enough. But what of the Chancellor as the policeman of the economy, a role he made much of in his encomia of Adam Smith. The old savant was continually leery of 'luxury and corruption' and 'conspiracies of merchants'. The Chancellor was, in comparison, indulgent.

II Industrial Archaeology

Services, while important to growth, have not filled the trade gap left by the decline of manufacturing exports ... it is through manufacturing that we will succeed or fail, and at the moment by any objective criteria we are failing.

This was an earlier Gordon Brown in *Where there is Greed* (1989, 26). In an article lauding the Union of 1707 in the *Scotsman* on 6 November 2006 industry was dismissed in a couple of lines. What had happened?

Go to Slaithwaite, just south of Huddersfield, on the banks of the restored Huddersfield Narrow Canal Dr Paul Salveson set up the Association of Community Rail Partnerships, ACORP, which has done marvels for local railways threatened by Whitehall: a modern *réprise* of Yorkshire independence, self-help and Chartist democracy. In the middle of the sandstone village, when I visited in April 2005, was a big four-storey worsted mill, still in operation, with the once-universal clack-clack-clack of the shuttles echoing over the valley. It

was in profit, with a full order-book, but it would be closed by the year end, because its owners could make more profit by converting it into yuppie flats.

Perhaps, seeing the writing on the Great Wall, *the* owners of Gulden Mill were being foresighted and sensible. But that wasn't the message given out by New Labour in the mid-1990s, which figured in Pete Davies' moving account of the Blair victory *This England* (1998), set in the neighbouring Calder Valley constituency. 'We must manufacture or die!' intoned the incoming Chancellor. Manufacturing led to greater profits and productivity, stimulated training and technical innovation. He could have added that it provided the skills to repair and update a high-value-added service economy, something neglected by more spaced-out propagandists. As the Scottish journalist George Rosie wrote, reviewing Charles Leadbeater's *The Weightless Society* (2000), 'Who's going to service and repair all the machines this levitation requires? Magic elves?'

Britain in the 1970s had been plunged into a crisis of manufacture. This was provoked by the demands of the North Sea oil project, which sucked in about a third of the money needed for current manufacturing investment. It caused what was seen as Old Labour's most rash and irresponsible campaign of nationalisation, involving steel, cars, aircraft, oil, besides several rather-too-miscellaneous factories which Tony Benn, then trade minister, tried to reorganise as cooperatives. This came in for derision, but was logical; without state ownership many of these firms would simply have gone bust. As it was, North Sea oil produced some technical triumphs – chiefly 'positioning', which kept a rig *stationary* within a radius of a few centimetres through a combination of satellite signals, computers and electric thruster motors – only to be disremembered by Thatcherite right as well as Blairite left. When Thatcher came into office in 1979 her prentice efforts at monetarism – hiking up interest rates – coincided with the first Gulf War and the \$30 barrel of oil. The pound rose to

nearly 5 Deutschmarks, export markets dried up and manufacturing was cut by about 20 % (Harvie, *Fool's Gold*, 1994, 294-5). Some of these factories had been artificial growths, undertaken for political reasons, like the Invergordon aluminium smelter or British Leyland Bathgate. But other, later casualties were the sort of prestige goods – shoes, pottery, clothing – the sort of stuff that was branded British, made to last, which trained up manpower, sustained design and research, and marketed itself with sophistication. Many of these products would long survive the places where they were made.

Brown's *Where there is Greed* had largely been devoted to manufacture and the damage done to it by Thatcher. But once in office, things didn't get better. Instead there was a yet-steeper decline, from 21% of Gross Domestic Product in 1997 to 15% in 2003 (Charlotte Moore, *Guardian*, 20 August 2005) while Germany still had 24 % in 2004. Numbers employed bashing metal, etc., fell by 30% between 1997 and 2005; even *gross* manufacturing output rose by only 1 %. Brown claimed that handing over the fixing of interest rates to the City of London was a form of devolution akin to the creation of the Scottish Parliament. In fact it was drastically centralising, with high interest rates favouring speculation and trade and penalising industry – particularly when low interest rates for industrial investment were easily to be accessed by other member-countries of the European Union.

The *Financial Times* greeted the new millennium: 1 January 2000 with two features. One was a jokey story by the then editor Richard Lambert* about financial villains from Whittaker Wright to Robert Maxwell. Another was an upbeat encomium to 'Britain Inc.' and its new technology breakthroughs by Sir Geoffrey Owen, his predecessor: 'Welcome to a sceptred isle bursting with entrepreneurial spirit'. Of the promising companies quoted by Sir Geoffrey, ARM Holdings of Cambridge is still British in 2006, BT jogs along, Vodafone

has lost two-thirds of its 2000 value, and where are Psion, Marconi, Celltech, Powderject? Shrunk, sold off – while our City slickers, in summer 2006 with £ 21 billion to divvy up in bonuses, flourish like the green bay tree. (*Financial Times Business Magazine*, 1 January 2000; *Guardian*, 20 August 2006)

(* In August 2006 Chief Executive of the Confederation of British Industry)

By 2005 New Labour was going with this flow: in the light of the headlong industrialisation of China in particular, attempts to defend European manufacturing were denounced as conservative and protectionist. (Gamble, 2005, 1-13) Brown the Gramscian Marxist had vanished. So had Brown the industrial moderniser. In place of these phantasms there appeared a curious dualism: the neo-Carlyleian worshipper of work, a resumption in tones sterner than Thatcher's of Victorian values: 'a belief in the work-ethic and opening enterprise to all'. A younger Scottish radical, the sociologist and rock-singer (and also *quondam* University Rector) Pat Kane thought this perverse, given the horizons of a more imaginative existence and community being opened up by new technology. But equally mysterious was what people were supposed to work at, given the disappearance of craft-pride along with manufacture (Kane, *Play Ethic*, 2004, 69-73). Could the work-ethic thrive on cold-calling and shelf-stacking? In mid-2006 the numbers from on high, from the City plutocrats and their partners in the games of – legal or illegal – wealth, in a deeply ironic way, seemed to bear Kane out. There was another Chancellor, who was running an altogether unusual economy: casinos for starters.

III 'A tax on all the fools in creation'

In his 2004 British Council Address the Chancellor praised the selflessness of British civil society: 'mutuality, co-operation, civic associations and social

responsibility’ as the heritage of the left – though some years before the thoughtful Tory Douglas Hurd had chalked these up to the credit of the ‘particularly English’ right (*New Statesman*, 27 April 1988). The Charities Aid Foundation begged to differ from Brown: ‘social responsibility’ in the form of donations had fallen 25 % since the mid-1990s and was now £ 1.70 per household per week. (CAF press release, 13 October 2004). These same households could afford £ 30.50 on eating out, £ 5.40 on tobacco, £ 5.90 on additional alcohol, out of a ‘leisure expenditure’ which had doubled to 14% of outgoings since 1982, roughly equal to the cost of motoring. (Lucy Ward, *Guardian*, 30 November 2005)*

(* The National Council for Voluntary Organisations put the total spend on charity at £ 8.2 billion or £ 3.50 per household per week, 0.9 % of GDP – the USA managed 2.0 % – but this also included corporate giving. (www.ncvo-vol.org.uk/press/br/ind))

Reports in the papers in May 2005 claimed that gambling stood at £ 76 billion (Stephen McGinty, *Scotsman*, 13 May 2006), which gave the impression that up to 40% of UK growth over that period wasn’t coming from productivity gains or a flexible labour market, the things 10 and 11 Downing Street boasted about, but from Brits throwing cash at actual or virtual casinos. Wayne Rooney, whose foot injury weeks before the World Cup mattered more to English blokedom than global warming, was part of it, having lost £ 700,000 in a week. Alarm bells started to ring.

The German weekly *Focus* (20 March) claimed we were blowing \$ 626 per capita on gambling, collectively \$ 32.5 billion a year, equivalent to 2.5% of Gross Domestic Product (GDP). That turned out to be old stuff. Toynbee and Walker (2005, 304-5) already guesstimated around £ 50 million in 2004, and by

the end of 2005 this was £ 1266 per capita, collectively £ 76 billion a year. The statistics were awesome: at a conservative estimate touch-screen gambling at betting shops alone (something that had evaded regulation) clocked up at least £ 290 million a week. (Simon Bowers, *Guardian*, 25 October, 2006)

(* My blog on this in the *Guardian*'s 'Comment is Free' started an interesting debate. One blogger, Derek Worstall, argued that the *net* returns to the promoter of gambling were much lower, with his fruit machine 'constant' of a mere 10 % net of turnover actually added to GDP. This looks at first glance plausible. But in analysing GDP in terms of household expenditure, gambling will still figure as the gross sum spent. This might be matched by winnings coming back as income, but this isn't what gambling's about. Cash staked could also clear off in quite unequal terms to lottery winners, bonuses for directors of gaming firms, etc. This gross stake will still involve a transfer of household resources from potential 'social capital' outlays – house insulation, further education, pension provision, investing in small and medium-sized enterprises – to something random, dependent on emotion and compulsion and associated with the wilder shores of finance and the windy side of the law.)

Prof Leighton Vaughan Williams of the betting research unit at Nottingham Trent University, calculated that between 2001 and 2005 UK citizens increased their spend on gambling from £ 25 billion (£ 416 per capita) to £ 76 billion (£ 1266 per capita). In 2001 UK GDP in terms of consumption was £ 872 billion and by 2005 it had risen to £ 983, an increase of £ 111 billion. The increase in gambling expenditure was £ 51 billion.

Gambling's growth was mainly through a surge in on-line sports betting and casinos. This was disapproved of by the USA, and in summer 2006 various

British managers of such concerns in the States were arrested, strengthening the suspicion that growth in this sector was likely to be tainted by dubious characters. The discredited Labour Deputy Prime Minister, John Prescott, took a freebie holiday on the ranch of one American tycoon, Philip Anschutz. Anschutz's enthusiasms were evangelical Christianity and gambling – in America such combinations were always possible – and Prescott was trying to get him to settle his fruit machines in the empty Millenium Dome. By the winter the spirit if not the climate of Las Vegas had shifted to Britain, with Premier League teams kitted out in online gambling companies' logos, and once-proud manufacturing cities going head-to-head to get their own supercasinos.

Gambling supported 90,000 jobs, with new casinos likely to double that number, according to Vaughan Williams, a fan of all this. The Chancellor was raking in £ 6 billion from taxes, and the Lottery shelled out an average billion a year for good and not-so-good causes, but despite Gordon Brown's bragging about the health of the British economy compared with European sloth, it had always been difficult to square this with the persistent shabbiness of British society and infrastructure. Unemployment might be low, but the British child poverty rate was still over 20% while Germany's was 10%. (*Statistisches Jahrbuch Deutschlands*, 2005) If the Germans were to hit the green baize tables, actual and virtual, with British enthusiasm, they would inject \$ 196 billion (or 6% growth) into their economy. Whether they would benefit from it was another matter.

Worries about gambling echoed Robert Putnam's *Bowling Alone: the Collapse and Revival of American Community* (2000) in stressing the importance of 'social capital', and an economics which differentiated between 'good' growth – expanding people's life-chances through education, participatory sport, safe food, cheap public transport, etc., and 'anti-social capital', or activities whose

ill-effects had to be remedied by public expenditure. Patching up the Saturday night casualties of ‘growth in the food, drink and entertainment sectors’ in Accident and Emergency Departments exemplified the consequences of a rampant economic ‘growth’ which actually diminished social capital. The alcohol market was reckoned to be ‘worth’ £ 30 billion but its social costs were, according to a 2003 Cabinet Office study, £ 18-20 billion. (Adam Jones, *Financial Times*, 20-1 September 2003, Peter Jones, *Scotsman*, 12 September, 2006).

Did the Chancellor ever address booze and gambling’s huge contribution to the British numbers? Yes, and positively, given New Labour’s Gambling and Licensing Acts (2006), which aimed to encourage both. Not a man given to public self-analysis, Gordon Brown still lauded Adam Smith, who once described lotteries as ‘a tax on all the fools in creation’. Britain was experiencing an increase in a deeply anti-social activity not encountered on this scale elsewhere in Europe: emphasising the fact that the shift away from factory employment to the services actually made societies *less* similar to one another. The Germans, according to *Focus*, still gambled only \$ 33 per capita through commercial : gambling may have boosted British GDP dramatically but it also helped inflate the level of domestic debt, and its longer-term add-ons – financial collapse, family neglect, loan sharks, associated addictions, crime – didn’t have to be spelt out.* Brown’s own Scotland had 10,000 jobs in gambling, 35,000 ‘problem gamblers’, and an ‘illegal’ economy (mainly drug-driven, but of which gambling was an important part) which might reach 5% of GDP. (Harvie, 2004, 70)

(* Other studies, adding in the publicly-owned Totto-Lotto, which funded much cultural expenditure, put the overall spend at a more realistic £ 24 billion or £ 305 per capita)

IV Is it Globalisation Time Again?

Confronted with casino capitalism *pur*, a transformation in Savonarola Brown, the arch-critic of Thatcherism, had occurred. When?

Late in 2005 there died the 'father' of modern management studies Peter F. Drucker. He had been in the 1930s, like the somewhat older Karl Popper, an Austrian socialist exile in Britain, where he was taken up by Noel Brailsford of the *Guardian*, R H Tawney's friend. His later revisionism took the form of arguing that many of social democracy's goals could be gained by responsible capitalism as 'pension-fund socialism', and on the surface not a lot seemed to separate this from Tony Crosland's version of the mixed economy. (Drucker, 1969)

But by 2005 the world of pensions funds in general was under threat, as indeed was the integrity of the traditional firm. Luke Johnson, the Chairman of Channel Four television and son of another ex-socialist, the now screamingly reactionary Paul Johnson (who nevertheless served for a time as father-confessor to Tony Blair) quitted this consensus of the troubled to praise the development of hyperindividualism and vast wealth: the Murdochs, Peter Greens and presumably the Barclay Brothers, owners of the paper. Powerful individuals, euphemised as 'private equity', could it seemed survive the threats levelled by stock market decline at such once-solid institutions as pensions funds, many of which first closed their membership to new entrants, then proceeded to dismantle their own final salary pension schemes (*Sunday Telegraph*, 8 January 2006).

Was there anything new in this? A century earlier the robber barons of American railroad, steel and oil concerns had promoted themselves as world-changers with similar energy. They were backed up by such ideologues as Henry Ward Beecher, the influential New York preacher, and Herbert Spencer, the apostle of the 'new' disciple of sociology as well as of an unlimited individualism. They presented an amalgam between the great firm or 'trust', technological and communications advance, and the philosophy of Social Darwinism which could be modified to regard millionaires – William Randolph Hearst, John James Rockefeller, Lord Pirrie, Alfred Krupp, Cecil Rhodes, and so on – as victors in the struggle for existence.

After 1914 this tide turned; war brought the nation and the demand for welfare back into politics, imposing a strain which politics itself could not actually master and which plunged Europe into the imbroglio of the 1930s. America got out through Franklin Delano Roosevelt's New Deal of 1933: not just an economic programme but a somewhat paradoxical mixture of centralisation and a reassertion of faith in co-operation and democratic culture. A culture which ran from bankers like Hans Morgenthau via the young economist John Kenneth Galbraith to Woody Guthrie, his guitar, and 'This land is your land' was in no way consistent, but generated enthusiasm and dynamism, some of which (like the great Galbraith himself) lasted into the new millennium. Little of this, however, impinged on Blair and Brown's New Deal, or on the economic politics of a London dominated by multinational wealth. Two days after David Smith in the *Sunday Times* claimed Brown's domestic economic reforms had failed, the *Observer* registered

... growing unease at the extent to which Britain benefits from allowing foreign-based companies to use our markets. Foreign investors now hold more shares in UK-listed groups than Britain's own pensions funds do –

an indication of how many companies are really based abroad.(Conal Walsh, 24 January, 2006)

If there was a strategy to combat – or alternatively to take advantage of – globalisation, were the British in charge of it, or those whom an unlikely American radical, FDR’s uncle Teddy Roosevelt, had dubbed ‘the malefactors of great wealth’? A later survey in the *Sunday Times* based on its ‘Rich List: 2006’ found that out of the £ 200-odd billion stashed in London by the ‘non-resident domiciled’ only about £ 15 *million* was paid in tax. (Robert Winnett and Holly Watt, *Sunday Times*, 3 December 2006). This did not however, inhibit their welcome by the Chancellor, or their eagerness to influence British politics.

V Shopping Power

‘Castleblair to close!’ said the Dunfermline Burgh website in May 2004. It would, wouldn’t it, this being Gordon Brown’s seat. But the reference was to Fife’s largest clothing company transferring production to Turkey: offering with Dunfermline’s unopened Hyundai chip factory a microcosm of an ailing Scots economy. Gordon Brown’s seven years were seen (by him) as proof that everything ‘Old Europe’ was doing was wrong. Yet to go from Baden-Württemberg with its hi-tech innovation (the Mercedes A-Class, the Smart, new and ultra-sophisticated trains, trams and buses, environmental engineering from biotech to photo-voltaic, and bright, well-motivated students) to Britain (dereliction in the West Midlands, rail delays up fourfold, air toxicity in Edinburgh four times that of Stuttgart, a disabled friend in a great university city who didn’t dare go downtown at night) was always hallucinatory. Brown’s miracle-working made the feeling more extreme. His claims were grounded on growth (up to 2004 about three times greater than Germany’s) and unemployment (about half).

Growth: think about gambling. We have. Think about cars. Despite New Labour's commitment to sustainable development, Scots road traffic alone rose between 1993 and 2002 by 18 %. The Forth Road Bridge, connecting Dunfermline to Edinburgh, was carrying well over its designed level of traffic, and beginning to fall apart. BaWü was making the Mercs, Porsches and Audis which were doing this; but its thrifty ethic meant that car-buying, like house-prices, flat-lined. Britain's poor and expensive public transport – on Brown's watch – partly led to growth in car numbers.* But the real motor was the consumer-led boom caused by the remortgaging of a housing stock whose prices were driven by an expansion in households four times that of Germany, the product of rackets personal relationships, the rise of the student estate (see Chapter 4), wholesale property speculation, and such get-rich-quick flurries as 'buy to rent'. This was spectacular but it did little for industrial investment or regional planning, the necessary foundations of reliable development.

(* Part of this draft was written on a GNER train on Sunday 17 September, which should have taken me from Berwick to London in four hours fifteen minutes. Bus to Newcastle and then 45 minutes wait meant over six hours. Totting up my own records, trains in the UK have been since 1997 four times as late and twice as expensive as those in Germany. GNER effectively went bankrupt two months later).

Like Mrs Thatcher, Brown owed much to chance. Consider mobile phones, a recurrent theme during his Chancellorship. Germans certainly bought them but, as with their cars, didn't use them like the Brits. Between early 1999 and the summer of 2000, there was a true mania. 24.7 million people bought phones, paid connection charges, and ran up bills. Assume £ 500 per phone per year and you get an input of £ 12.35 billion. Set this against total GDP for 2000 of £ 891

billion, and you get a boost to growth of 1.4 %, in a year which saw 2.9 % growth. Knock off the 0.4 % to trim the phone-growth period to a year and you still have a third of Britain's growth in perhaps Brown's most successful year coming from something between a narcotic and a toy. (COI, *Britain 2001*, 379).

There is more – much more – to be said about phones, under carousel fraud (see section XIII) but they enabled Brown, far from sitting hand in hand with Prudence on the sofa, to have uninhibited sex with the City. Borrowing an Institute of Economic Affairs wheeze – suggested but never much used in North Sea Oil – he auctioned off 'third-generation' licences at the top of the dot-com boom in March-April 2000, banking over £ 20 billion for facilities worth perhaps £ 3 billion (Bootle, 2002:). This didn't do wonders for the balance sheets of BT, Vodafone, etc., but Brown let British 'new technology' (the hardware was almost exclusively imported) launch itself on Rhenish capitalism when Vodafone took over Mannesmann in 2001. Advised by a new breed of young finance dealer who had quit Germany for the more speculative and profitable pastures of London, Mannesmann's board betrayed its 'social partners' by accepting substantial bonuses and share options to close the deal. Land Nordrhein-Westfalen put them on trial in 2003. They were let off, but with severe judicial observations. The Land appealed to the Constitutional Court in Karlsruhe, and the Judges in November 2006 fined Josef Ackermann €3 million. He paid up. Having the CEO of the Deutsche Bank stitching mailbags would have been too much for business morale. 80 % of German voters disagreed. (*Spiegel*, 50/2006)

'What people don't realise,' a Brown trusty said over drinks, 'is how blind Gordon is.' Memories of hieroglyphic notes and pulverised typewriters testified to energetic compensation, but Brown's clouded sight seems to mean that certain types of information come over, via television and trusted associates,

many dating back to his Edinburgh days, while the appraisal of environments, city streets, collective emotions is thin (James Cusick, *Sunday Herald*, 17 September 2006). Walk through some new shiny-happy town mall and notice that (a) there are no local names on the shops and (b) there are an awful lot of for sale notices in the adjoining streets. Lloyd George could do this sort of thing, backed up by his Liberal manufacturing and journalist friends; not Brown. His dogmatism accords with a Scottish practice whereby the gifted individual gets surrounded by an extended family, but Brown's posse altered with the move south. The figures around the Chancellor – Ed Balls, Douglas Alexander, and at least initially the spectacular Charlie Whelan and Geoffrey Robinson – were far from the Scots planning tradition, or Edinburgh's social-democrat historians like Paul Addison, John Brown or Robert Anderson. The Bank of England, nationalised in 1917 by the dour Andrew Bonar Law to finance war production on Clydeside and elsewhere was in 1997 handed over to the City. It was sometimes compared to the *Bundesbank*, but the latter had originally been 'The Bank of the German Lands' and a strong regional responsibility remained. There were no Scots, Welsh or northern English on the new Monetary Policy Committee. (Hobson 1999, 455-7)

For Brown, in the aftermath of Granita, American 'enterprise culture' displaced a European experience which in 1979 amounted to a school trip to Sweden. His summers on Cape Cod, tutored by Clinton's former Treasury chief Larry Summers, when he was not convulsing Harvard, absorbed the 'intervention-lite' and 'welfare into work' ethos of the Clinton era, while remaining oddly oblivious of US urban collectivism and those big-government bruisers the military-industrial complex and the agricultural lobby. Was this Americanism a way of balancing Blair's European ambitions *and* checking his alliance with Rupert Murdoch? Peter Hennessy's notion that Tony could win space as 'the alternative'? The result was to aid the galloping de-technologising of British

society. The multiplication of ‘Broon jobbies’ – co-ordinators, enablers, outreachers – and the quick fix of the call-centre and virtual casino won out over infrastructure and training, with results that we now see.*

(* Brown’s close associates had stayed with him for years, but his small Treasury team – Stephen Timms, 2006, John Healey 2005, Ed Balls, 2006 – was remarkably untried in parliament. Only Dawn Primarolo dated back, to 1999 when she had succeeded Geoffrey Robinson).

Back to low German growth. In the 1970s, redistribution and conservation mattered more than ‘crude rises in GDP’ and this persisted along with Green politics. Germany succeeded in recycling, power conservation, curbing motoring with innovations in public transport. But these did little for the growth rate, while hi-tech industry tended to mean ingenious machines (to look up timetables, issue all your bus and rail tickets, process empty bottles, sell food in university cafeterias, and do all your banking) eliminating jobs. Still, long-term European technology seemed more manageable than the prospects before Broon’s Britain. As the man said,

Today our roads and railways are congested, our airports and airways uncomfortably and sometimes dangerously crowded, road and rail maintenance in disarray and safety now a major issue in the public mind’.(Brown, 1989, 61)

Spot on, Gordon, but that was in 1989.

VI Whatever happened to Stakeholder Capitalism?

Manufacture had been prominent in the 1992 Labour manifesto and under John Smith, as Kinnock's shadow chancellor: the unexpected result of the election – the failure of Labour to change voting patterns in the south-east – didn't immediately make its mark. Enter 'stakeholder capitalism' which captured the imagination of the liberal left in the days that saw the Major government sink into a swamp of sleaze. The notion of an alliance with 'Rhenish welfare capitalism' seemed borne out by BMW's takeover of British Leyland in 1992. Other German firms had done well out of their British subsidiaries, proving that once crass local management had been stripped out, there was a lot to play for. 'Stakeholding' seemed to be happening. But in fact it was briskly ditched – just about the same time as New Labour signed up its battery of millionaires – though this didn't affect the rise and rise of its originator Will Hutton. (Hutton, 1995, 1997, 1999) *

(* Hutton interviewed me – I had just published *Fool's Gold* – at some length for his *False Economy* series in 1994, and snippets in due course appeared. A promised cheque did not, but an article by Hutton called 'Fool's Gold' came out in the *Observer* without mention of or acknowledgement to the book. I suppose this was a warning of sorts)

Why was this? If you go to Strasbourg you will see space-age trams gliding through the streets. These were built in York Railway Works in 1994 for the European capital's new rapid-transit system. They were the Alstom factory's last products as, with John Major's rail privatisation impending, orders dried up and the works closed down. Hutton had got the financing story more or less right. Not a cent of the £ 500 million blown on the disastrous rail privatisation exercise went on anything useful. Local *Sparkassen* and *Volksbanken* catered better for industry than the London-centred and London-centric high street banks. This was true. But in turn they depended on local networks of technology and

training, and the local state provided by federal institutions and strong communal government. In hypercentralised Britain, the whole financing process became infinitely lengthier and more expensive. In this atmosphere, stakeholder investment vehicles stagnated.

Hutton's problem in all his books was that he said the right things but had no grounding in technology, just as Gordon Brown ticked all the right regulatory boxes, without ensuring that enough regulators were there to do their stuff. The result was, again, worse than useless. Individual projects were encouraged, but the 'cluster effect' which economists wrote about rarely occurred. In the places where it could – around London, for example, and the big airports, or physically offshore on the oilfields – the overheads, especially housing costs, were so huge that they deterred the sort of investments that might have caught fire in the provinces. And in the provinces isolated specialised factories showed little chance of being able to generate their own technology-breeding milieu. Silicon Glen, in Brown's own backyard, rapidly lost the screwdriver plants persuaded to settle there when a new generation of chip technologies had to be accommodated (Larry Elliott, *Guardian*, 4 October 2006) Brown might sneer at German industry, but the revival in the late 1990s of the Saxon economy around Leipzig and Dresden fulfilled his own ambitions for Scotland. While in England his ineptness was responsible for the collapse of one traditional development cluster which, over time, had shown itself remarkably resilient.

The Rover car plant at Longbridge, south-west of Birmingham, was unlovely and inefficient; a few years' experience of trying to run it by BMW convinced the Bavarians that it had no future. But it was the centre of a complex of small metal-parts industries, originally clustered round the canals and warehouses of Birmingham, which could churn out the components – carburettors, windscreen-wipers, lamps – that the assembly-line required. BMW cleared off and Rover

continued for a time to produce. But the real motors of the Broonite economy, those who shuffled little bits of paper around, showed their form when Rover was sold to its 'rescuers' the Phoenix Consortium for £ 10 in 2000. Phoenix got a dowry of £ 500 millions from former owners BMW. John Towers, Peter Beale, Nick Stephenson and John Edwards then set up a £ 13 million fund for their own pensions, while the pensions fund for the 6500 workers had a deficit of £ 73 million (David Gow, *Guardian*, 20 November 2003). The rest of the story might have been written by J B Priestley in the inter-war years: the plot of *Angel Pavement* (1930) but on a far larger scale. Rover could only survive with new models, and huge investment was needed for these. The Chinese found it cheaper and more effective to buy the intellectual property from Phoenix, who then allowed the works to go bust. The Chancellor travelled to China in 2005, and much was written about a likely 'Rover summit'. Nothing happened and Longbridge closed on 17 April. The education minister Margaret Hodge, once a noisy figure of the far left, told the redundant workers to get jobs stacking shelves at Tesco. A year later she was glooming over the rise of the racist British National Party in her Barking-Dagenham constituency. With reason, as the local election results would show.

Something seemed, once one read through the history, to have happened to Brown in the mid-1990s. A Labour trusty like Bernard Crick was certainly all for ditching the old shibboleths of nationalisation, but in the context of an overall control provided by the European Union. Brown didn't share this. (Crick, 2001, 95) In fact, from Paul Anderson and Nyta Mann's account *Safety First* (1998) Brown's ideological thrust in the post-Granita period wasn't going anywhere in particular. It was vaguely pro-European, so didn't appeal to the anti-European left in the party. Nor was the man himself very popular. Things changed quite rapidly when he reached No. 11 and almost immediately liberated monetary policy from Treasury control and vested it in the Bank of England

(op.cit., 59-111), but industrial policy continued to be made up on the hoof or, increasingly, not made at all.

VII Funny money

This change of direction was sustained. Brown's guidelines for joining the Eurozone initially seemed to be a sort of timetable but, under pressure from the stumbling career of the new currency and the sustained hostility of the right-wing press, they became a barrier. 48% of UK manufacturing exports in 2000 went to Europe, but manufacturing was dwindling, and there was a counter-movement of ambitious European financial figures into London, attracted by the growing momentum of what would become the dot-com boom and reach its climax in 2001 (Toynbee and Walker, 2001, 146). Such semi-detachment profited the City, and injected dynamism into the housing-market-retail coupling. Manufacture got ignored. Indeed on 26 January 2006 the celeb fund-manager Nicola Horlick rewrote history, praising Mrs Thatcher for destroying manufacture in the 1980s, thus allowing 'us' (i.e. the City) to divert funds to the Far East, where rock-bottom wages, authoritarian Communism and the threat of poverty or punishment could perform the work of Adam Smith's 'sympathy'. And how big was Ms Horlick's 'we'?

It seems therefore necessary to test the City, in the Popperian sense: if it was a positive force, could it face down the formulation of a negative case against it? With Mack and Kerner's *The Crime Industry* (1975) in mind, and their thesis that globalisation and cybernetics could permanently blur the legal/illegal boundary, such is the purpose of this section.

It wasn't difficult to make the British financial ethos out, but only in the longer term. The spirit of 'caveat emptor' which pervaded it meant that issues about the

functioning of finance and investment markets didn't tend to get discussed until *after* things went wrong – and the dot-com slump in 2002 made the tone less reverential than inquisitorial. Still, opinion was one thing, and effectiveness another: by late 2006 the City was on another roll, and its self-serving largesse – running at a record – had splashed over to the Footsie 100 companies, whose directors regarded themselves as entitled to a million a year. The *quality* of this in terms of social capital was rather different. If one tried to analyse the dysfunctional impact of finance, what was the 'tipping point' at which this began to distort the whole political economy? In the EU upwards of 5% of GDP was reckoned to be black; Kerner in conversation agreed that a level of 10% became problematic, but was more likely to be dangerous when broken into regional components where the whole structure of civil society came under threat, such as South Italy, or the post-unification DDR. (Scott Stelle to CTH, 7 October 2005; Seminar of 21 July 2006, Deutsche-Amerikanisch Institut, Tübingen) Prof Prem Sikka of Essex University estimated the British tax-avoidance business alone at £ 150 billion, or about 15 % of GDP. (*Scotsman*, 13 September, 2006) Here's a *tour d'horizon*.

Scamalog

For starters, consider daily life. Financial services glossies gush through the letterbox. For anyone with an idea of the background, most would be binned straight away and phones slammed down at the first mention of 'home enhancement/double-glazing', 'asset management', or 'survey of opinion'. But many of the elderly take them seriously, with the middle-aged finding their parents fretting: 'But what should I do about this, dear? It looks official.' As with computer spam, there was always a sufficient number of suckers to keep the shysters afloat. And Britain (with the English language as the *lingua franca* of spam) was open country. (Conal Walsh, *Observer*, 27 Aug, 2003)

How far were these scams remote from other doorstep pests, like the high-pressure salesmen Southern Electricity recruited from South Africa with the mandate to coerce householders into changing their electricity supplier? (BBC *Watchdog*, 20 December 2005) These were the result of competition between suppliers, the policy favoured by the government, but carried considerable risks for the uninitiated. The foot-in-the-door men replacing lovely Rita the meter-reader were an example of the capacity of the virus of 'illegalism' to mutate energetically and seemingly without limit. As Farepak showed, even the local worthy who sold from her Kleeneze catalogue was now a suspect agent of misrule.

Glossiest of all the brochures thudding onto the hall carpet were credit offers from banks, building societies, supermarkets, charities and anyone else who felt like moving into the moneylending business. The headline offers looked good (no deal which implied 'This is a doorstep loan rip-off!' would get very far, though there was a lot of pretty explicit stuff in the tabloids, between nudes, ringtones and footie) and much small and impenetrable print. In September 2005 the Office of Fair Trading found that an agreement between Mastercard and the high street banks to charge a 1.4% fee had cost 20 million British shoppers an illegitimate £ 500 million over five years (Rupert Jones, *Guardian*, 7 September 2005) on annual purchases of about £ 43 billion. 'A year's free use until interest is payable' gambits, which sounded like a good idea until you found that if you didn't make an outright payment by cheque some time ahead of the due rate, you would be hit by exceptionally high levels of APR interest. The relevant snail-mail addresses were usually difficult to come by. One can only go on personal experience, but toxic junk of this sort seemed to run at a level about ten times greater than its German equivalent. Usually big companies reacted with self-defensive outrage, like a clergyman discovering a knocking-shop being run on

church property. This seemed plausible until investigative reporters found out just how much companies like Tesco knew about their customers as well as their business (*Financial Times*, 1 December 2006): a surveillance level that would have stunned George Orwell.

Bluntly, if such scams/voyeurism were part of everyday British life, did their rationale not lie in the patterns of national regulation and control? In 2004 Prof Sikka wrote in the *Guardian* (6 February):

There have been some puny fines for pension mis-selling, but no company executive has returned his or her financial rewards. No company has been prosecuted for closed for the biggest financial scandals.

Yet this is only a small part of the rottenness affecting the finance industry. Its fingerprints are clearly visible on the Parmalat, Enron, WorldCom and other scandals. Many dubious transactions and schemes were designed by accountants, lawyers, bankers and financiers with only one thing in mind: their fees.

When executive pay packets are tied to financial results, almost anything goes.

Bad enough, but the financial journalist Nick Kochan, despite earlier enthusiasm for Brown, saw in his *Washing Machine* the level of corruption as related specifically to Britain debt-ridden economy, the need to balance this by sell-offs to foreign capital, and the ineffectiveness of regulation. To reprise: *As the UK feeds its addiction to finance and hot money, its regulators bluster ever less*

convincingly about the security of its financial system and its antipathy to money launderers. (Kochan, 2005, 353)

Kochan put his finger on the misdemeanours of the giant American Citigroup, and things had certainly moved on from the alliance of barrow-boys and chinless wonders who had merged in the aftermath of the Big Bang, 1986. After the 2002 slump there was an inflow of hard American managers demanding harder cash, the latest in a long stream of wealthy incomers whom the City was desperate to recruit, and those who, in flight from disorder in their various native lands – Lebanon, Indonesia, Nigeria, Argentina – had established themselves in London or the various British tax havens. The very wealthy (who could, uniquely in Europe, claim a non-resident tax-free status) had traditionally included members of imperial elites, South African gold and diamond magnates, South American dictators, Balkan arms merchants. To them was added in the 1970s the *nouveaux riche* of the Arab oil world, in the early 1990s Russian oligarchs and later in that decade Hong Kong Chinese, and the Mafiosi of the former Yugoslavia. By 2005 a further inflow seemed to impend: of the Sarbanes-Oxley refugees: Wall Street types trying to avoid the regulations brought in to stop the recurrences of Enron and WorldCom. (Nils Pratley, *Guardian*, 29 September 2003; Conal Walsh, *Guardian*, 24 January 2006).

Could one be reasonably systematic about this? Some 12 main types of financial malpractice could be detected, straddling Mack and Kerner's blurred border. For simplicity's sake I list them as a table below:

1. Fraud and scams based on London 'letterbox' firms, 'boiler rooms', or hard selling to naïve clients
2. Firms from unstable territories using UK facilities and vice-versa

3. Wealthy individuals from abroad working through London to avoid tax and regulation
4. Corporate fraud within the City of London
5. Multinationals evading European legislation and taxation
6. Financial instrument-selling based on deception, for instance the marketing of split-capital funds and precipice bonds
7. Executives overpaid relative to work done, and integrity of firms compromised by promoting City objectives over the health of the firm itself
8. Pensions underfunding
9. Internal fraud and theft within firms
10. Bribery of supposedly impartial advisers and journalists
11. Megafraud through huge multinational firms exerting influence in London
12. Corruption within the regulatory sector and police force

1. *Old-fashioned scams, or their cyberversions*

In Britain the snake-oil merchants seemed in rude health, judging by mail and cold-calling phone. Mark Honigsbaum (*Guardian*, 3 Feb 2005) estimated this at a billion, which fell into seven main groups:

- (1) Telephone lotteries or TV quiz channels: marvellous prize, premium charge to pick it up. Nothing more heard until the phone bill comes in. The *Guardian* valued the TV quiz racket alone at maybe L 150 million: it was seen as a saviour of foundering terrestrial ITV, and an addiction as harmful as drugs or gambling.
- (2) Free gifts or holidays: same story;

- (3) Opportunities in fine wines or timeshares; ditto
- (4) The endless ingenuity of Nigerian fraudsters sending ill-written e-mails asking mugs to help them access funds in western banks, or of painfully hand-written letters from kids in East Africa, who turned out to be writing to order for local hoods;
- (5) Pyramid selling, supposed to be for ingenious Albanians or Romanians, but see 'Women empowering Women' which originated in the Isle of Wight in 199*? and cut a swathe through the suburbs.
- (6) 'Matrix frauds' promising cheap hi-tech sweeteners for overpriced crap. Only a few buyers ever got them.
- (7) Cheap credit, in return for a fee in advance. And that's the last you would hear.

This should be the point to add *Loan sharks*: you need only look at the adverts in the RedTops. Many of these, once the small print was read, could involve rates of interest of 70% and above; many, like London Scottish, the 'Provident' people who circled the housing schemes as Farepak expired, were 'good investment opportunities'. By then there were newcomers, like the firms setting up IVAs for chronic debtors to avoid *de iure* bankruptcy, whose operation were resented by the credit establishment. Dogs were beginning to eat dogs (Pat Collinson, *Guardian*, 12 February 2005)

A few examples from each of the other eleven categories are chilling enough in their implications:

(2) *Foreign racketeers*: Only in the 2002 slumps did the big banks move in on the offshore 'shell banks' which laundered criminal cash (Jill Treanor, *Guardian*, 6 November 2002), Credit Suisse admitting it 'hadn't a clue' about how many

existed. Were they successful in self-policing? Hmm. See the career, *after* the 'clean-up', of the First International Bank of Curacao between 2004 and 2006 (section XII).

The EFT trust, based in London and Jersey, certainly existed, and built things. It had 'a stranglehold on power deals and dam-building projects in Bosnia, Serbia and Montenegro' largely because it was run by the Mafias of the region.

Attempts to lessen its power by the UN Representative Paddy Ashdown were opposed by the intervention of the Foreign and Commonwealth Office and Robert Gelbart, a former Clinton aide. (David Leigh and Rob Evans, *Guardian*, 15 February 2005)

(3) *Wealthy immigrants*: The Sultan of Brunei, from a small but oil-rich state in the Indonesian archipelago, with his brother the scapegrace Prince Jefri almost single-handedly kept such luxury concerns as Bond Street jewellers Aspreys and Rolls-Royce motors going. (Jon Ashworth, *Times*, 7 February 2005) The consequence of great wealth, unaccompanied by much brain, was a rip-off culture in the luxury goods/antiques area which Sotheby's and Christie's carried to new heights. (Peter Watson, *The Times*, February 1997, *passim*; Van der Weyer, *Lords and Liars*, 2005, *passim*) But then, if very very wealthy nominal Londoners were spectacularly undertaxed, who was going to make a fuss? Better to stay quiet and cash in somewhere else.

(4) *City fraudsters*: At the European elections of 1999 Labour's main broadcast consisted of Tony Blair, flanked by the pop singer Mick Hucknall, Sir Alex Ferguson of Manchester United, and Carl Cushnie. Cushnie was the chair of Versailles, a city finance company which made cash available to small businesses. It had gone public in 1996 and was by 1999 worth £ 690 million – one of the top 200 firms on the stock exchange. The problem was that it didn't

do *anything*. At most, its legitimate business was 20% of its turnover; the rest was a series of transactions between one wing of the concern and another. By 2002 Cushnie was being chased by creditors; by 2004 he was in jail. (Simon Bowers, *Guardian*, 26 and 31 May 2004)

(5) *Multinationals behaving badly*: Straightforward crooks like Cushnie found themselves behaving badly alongside multinationals, under pressure in their states of origin, such as Bill Gates's Microsoft, whose monopolistic infringements were piling up EU fines at the level of £ 2.7 million a day (David Lowsky, *Guardian*, 31 May 2005)

(6) *Pensions problems*: Along with such corporate misbehaviour to regulators went malfeasance against employees whose pensions funds were either being used for speculation or remained untopped-up. Like-on-like comparisons showed a loss of two-thirds of pensions capital since the 1980s. (*Guardian*, 4 October, 2006). This had been aggravated by the Chancellor's withdrawal of tax-exemption from funds in 1997. A consequence of this was the aggressive marketing by reputable firms like Lloyds TSB of dubious and insecure financial instruments such as split-capital funds and precipice bonds, which were highly dependent on the upward movement of the stock market and catastrophic loss-makers without it (Jill Treanor, *Guardian*, 26 September 2003). In 2004 the Financial Services Authority released its report on Split-Capital Trusts, *on Christmas Eve*. It evidently hoped to 'bury bad news'. Between 1997 and 2001 some 250,000 were induced to invest in speculative vehicles, posited on a constantly-rising stock market. Some were in principle risky, like precipice bonds; others, such as split-capital trusts, were invested in by people knowing nothing of the market but assured that this was a reliable investment. (Edmund Warner, *Guardian*, 1 January 2005).

(7) *Bribing the media*: In this, companies were quite prepared to hide the truth and bribe journalists, as with the rise and fall in 2004 of the precipice bond merchant David Aaron, who suborned journalists on *Bloomberg Money*.

Because these were linked with powerful and well-connected firms such as Abbey National and Chase de Vere, the correct boxes had been ticked, but many investors lost three-quarters of their wealth, while the compliance structures were as ineffectual as they were apparently intact. (Tony Levene, *Guardian*, 4 September 2004)

(8) *Fraud within firms*: 'Go for it, hen!' applauded the *Herald* diarist in Glasgow. The activities of a below-stairs fraudster came almost as a relief, like the case of Joyti de Laurey, the PA who embezzled a total of £ 4.4 million from two Goldman Sachs executives whose pay and bonuses – from the crooked Vodafone takeover of Mannesmann in 2001 – were either so huge they didn't miss the cash for months (Adam Fresco, *Times*, 4 March 2004) or, more probably after the Karlsruhe verdict, earnings from a dodgy deal that they didn't want to draw attention to. (see IV)

(9) Journalists should have been a check on this but, as we saw in (7) they were not. They could even be worse, as the trial of *Mirror* men in the 'City Slickers' case (boosting stocks in which they had an interest) showed (*Private Eye*, *passim*). In fact, as print journalism retreated under on-line competition (by late 2006 it was possible to automate journalistic coverage of company reports) investigative reporting became an early casualty, and PR colonised the financial pages, as it had the motoring, travel, fashion and book sections.

(10) *Mega-frauds*: Steaming into all this like the 'Titanic' were such outfits as Enron or WorldCom which were (effectively) like pyramid schemes, the first-comers taking advantage of consolidation within a market in which severe losses

in the longer term were predictable, but touting valueless shares at the highest level. Journalists were unlikely to print earlier, flattering treatments. News Corp and Downing Street familiar Dr Irwin Stelzer, Rupert Murdoch's London *nuncio*, used to have 'advisor to Enron' on his strapline. How many more? (Stieglitz, 2003, Chapter 10; McLean and Elkind, 2005, *passim*)

(11) *Corrupt officials*: Finally there were the supposed guardians of the public interest. Not for nothing was the Serious Fraud Office dubbed the Serious Farce Office, a Clouseau-like outfit panting in the wake of the hoods. An unreassuring prospect, given the collapse of the huge Jubilee line fraud case (cost £ 60 million) and the failure by the Crown to convict the property millionaire Nicholas van Hoogstraten of the murder of a business rival, both in 2003. (Allan Travis, *Guardian*, 17 November 2006). A lower-profile case showed public officials as often more screwed-up and corrupt than the people they were meant to be investigating. The Butterfield Enquiry into malfeasances by Customs and Excise, which was fed inaccurate information by the very people it was supposed to prosecute, centred on one Alfred Allington, a customs informer who had built up his own illegal duty-free empire while being paid by the customs to inform on others trading illegally, with the result that an entire trial collapsed, carrying the service's reputation with it (Sylvia Jones, *Guardian*, 9 February 2004).

In discussion at Tübingen Hans-Jürgen Kerner argued that investigators were *inevitably* institutionally corrupt, as so much of their business involved running and protecting lesser crooks whom they needed as informants. The German criminologist Nicholas Leumann called this *Brauchbarillegalität* (useful-illegality), and the more 'open' the economy, the greater the risk.

These examples can be multiplied to such an extent that the antics of the *Daily Telegraph's* pin-striped spiv Alex at Megabank don't appear at all unusual, something borne out by reports of behaviour from throughout the Square Mile. It was Tony Blair, when asked 'Was it possible to earn too much money', who replied, 'Not really, no. Why does that matter?' (Jonathan Freedland, *Guardian*, 23 November 2005). Because government's regulatory resources were thinly spread, dubious finance wasn't deterred. It simply adapted its tactics, secure in the knowledge that any changes brought against it were statistically pretty unlikely to stick. This could be done in several ways short of blatant bribery: by moving in and out of different financial vehicles; by exerting political pressure through charity donations, and niche financing of 'equipment' like think-tanks; influencing the press by ownership, advertising, or bulk purchases; influencing the public directly by financing sport and the cult of celebrity. And Britain contributed two crucial conditions: a mass public which was by European standards blindly-acquisitive, badly-fed, semi-educated if not actually doped or drunk, gulled by the red-tops, and thus ideal for such purposes; and a streetwise, manipulative, hypercentralised media culture which could contribute just enough skills to enable the big fish to manoeuvre. (Engel, 1996, 243ff; Mount, 204, 235ff.)

Just about every one of the City's specialities came loaded with risks, of which probably the greatest was the influx of 'wild capitalists' from the former Soviet Union, about whom countless stories were published, largely concentrating on the loot which they would bring in. Not only were they often criminal, they were also, as Kochan shows, linked to Israel and in particular to the Israeli nationalist right, a grey area in which, through his aide Lord Levy, Tony Blair had already considerable contacts. (Kochan, 2005, 12-15) When a well-thought-of New Labourite, Dr Tristram Hunt wrote agitatedly in the *Guardian* (25 October 2005) about Ken Livingstone's attempts to induce more Russian 'oligarchs' to settle in

London the paper got into trouble with Menatep's Boris Berezovsky. Livingstone protested, and the *Guardian* deleted Hunt's piece from its website. When the German weekly *Stern* tried to interview Roman Abramovitch, owner of Chelsea FC and the wealthiest man in Britain, it failed to board his 5000-ton yacht at Kiel but ran into his political adviser, one Greg Barker. He turned out to be the Tory MP for Lewes, Shadow Environment Minister and confidant of David Cameron. But the Russian connection didn't feature on his Register of Interests, and the blatts were more interested in him leaving his wife for a male interior-decorator. (*Stern*, 7 June, 2006; online *House of Commons Register of Members' Interests*, 2006).

There was also an unmeltingly alien counterforce around the place in the shape of Arab/Muslim wealth, with its Wahabi fundamentalist linkages to terrorism. This had illegal roots in heroin trafficking from Afghanistan and its accompanying money-laundering. It was also building up its own financial tax haven in the spectacular development of Dubai, initially financed by illegal trade of one sort or another and, but now buying into international transport utilities, taking over Britain's last big shipowner P and O in early 2006, and even eager to rival London, particularly in the Middle East, filling the 'Swiss Levant' role long vacated by Beirut (Kochan, 222-4, *Guardian*, 2.1.2007). Such a challenge was unlikely to make the City more fastidious in its ethics.

In all of this, forget manufacturing. The City, even in earlier days, had never shown much interest in it. Now, except in certain areas such as arms dealing, or during the brief biotech and dot.com booms, or takeover activity when money could be got out of consultancy work, share trading and legal fees, it forgot about it. Government was unlikely to retaliate, or even to remind it of other priorities. A wrist or two might be slapped; that was all.

At the centre of all of this was the halting gait of the government, and its almost total incomprehension of crime, international trade, and even financial centres, because of the orthodox economics to which it was fervently committed. The dominant pattern was of sharp practice, tolerated illegalism, inefficient regulation, wealthy law firms able to distort outcomes, public relations able to alter perceptions of the system at all levels. This wasn't something marginally skewing a basically healthy body politic but a system amounting to Mack and Kerner's 'crime industry': not driven that way by one or two linked causes, but by a large number of dysfunctional elements which reached a 'tipping point', making it collectively plastic in the hands of the 'malefactors of great wealth'.

VII Training and M'learned Friends

Orthodox economics still talked in terms of 'the firm' but there was no corporate culture of that sort in Goldman Sachs, which was why the ill-paid, mainly Asian, cleaners of the London HQ protested about the crazy rewards of their bosses: £ nine *billion* for 2006 (or enough to feed the whole Scottish population of five millions for a year). A bit further up the 'London worker' scale, the skilled trades *could* menace the London bourgeois by charging sums based on value-added for house improvements and repairs. This was white van man territory which had long coexisted with a culture of City *geld*. Culturally it went back to Geoffrey Chaucer's 'Merchant with a forkyde bearde' flogging his shares, moved through Ben Jonson's City Comedies like *Volpone* to Defoe's fascination with trade and speculation, and Trollope's disgust at it.

The opposition to this (unsurprisingly coming from the less well-off professionals) had always boasted a sort of Horatian rural virtue, and echoes of this hung around Brown in his contest with Blair. Yet when one reached the provinces, matters didn't improve. After the hype in the colour supplements, the

sophisticated-culture bits of Newcastle, Bristol, etc., seemed public-sector-driven (theatres, concert halls, museums), with flash stores and restaurants on their doorsteps, but geographically limited and surrounded by sadder environs of megaboozers, cheap shops, fast food outlets, and a lifestyle-gear of fags, trainers, baseball-caps, that didn't elevate.

This declined to Yahoo-land, especially at weekends. In late 2006 the on-message Labour Chair, Hazel Blears, MP for Salford, admitted that the government's attempt to introduce a civilised, continental drink culture had failed. (*Times*, 31 December 2006): Brits were congenital boozers, with violence hard-wired into their DNA. This was nonsense. The serious drinking of the Victorians was drastically curbed during World War I, and stayed that way for fifty years. Alcopops and loss-leading supermarket booze offers (often cheaper than bottled water) weren't responses to spontaneous public demand. 'The quickest way out of Manchester' came well-promoted by one side of British business: 'entertainment and recreation'. The compulsion to escape came directly from the collapse in morale associated with manufacturing and the culture of training around it.

British unemployment was about 3 points under that of Germany in December 2001. But in a paper reported in the *Guardian* on 5 September, David Webster of the LSE estimated that 'long-term sickness' could account for 7.0 % out of work, compared with 2.1 % in Germany and 0.3 % in France. People had been moving from unemployment benefit to incapacity benefit 'sickies' as the terms of the former were made more rigorous. Allowing for such socio-medical factors as drug addiction, about three times the German level, teenage pregnancies and their consequences, and the connection between child poverty (about 20 % compared with 10 % in Germany) and ill-health, 'real unemployment' was certainly greater than that of Ba-Wü, and in some areas, such as Glasgow

(official level 12%, total without employment nearly 40 %) higher than in the old DDR.

Still, the Scottish workforce – for example – was a bigger proportion of population than that of Ba-Wü (45.6% of population against 36.3%). Hold on, is that ‘full-time workers’? Er, no. Of Scotland’s 2.3 million workers 26 % are part-time, while in Baden-Württemberg this only reaches 15 % (though the Germans have only just admitted that 85% of cleaning ladies are unregistered ...) Unsurprising then that the decrease in actual poverty was, to put it mildly, gentle. As for training: 25% of Scottish teenagers left school at 16 without qualifications; in Germany the figure was 9.1%, with most school-leavers going into some form of apprenticeship. The Scottish record in such areas as ‘modern apprenticeships’ was patchy, and *these* amounted to only 5% of the age cohort. Bill Jamieson and Jeremy Peat in their *Guide to the Scottish Economy* (1999: foreword: Gordon Brown) largely attributed the problem to the lack of medium-sized enterprises (only 13 % of employees were in firms of between 50-249 employees, compared with about 25 % in Ba-Wü). They ought to be even more worried now.

The fate of industrial training, research and development, and enterprise initiatives, under the Brown regime, was that they became about the most ineffective in Europe. The University for Industry? Individual Learning Accounts? Modern Apprenticeships? For those who kept their eye on the career of specific Chancellor-backed policies, the outturns varied from disappointing to scandalous. The University for Industry, despite the effectiveness of the Open University (where Brown had taught) attracted few takers and downsized drastically; the ILAs were the scene of a heist on the public funds by various villains running bogus courses which cost £ 273 millions. (National Audit Office Press Release, 25 October 2002; Donald MacLeod, *Guardian*, 10 December,

2004; Bower, 2005,) Only a third of Modern Apprenticeships were completed. Once upon a time there had been the trade unions, not just a line of defence for the workers, with vivid leaders such as Joe Gormley or Jack Jones to register dissent, but the opposition to capital whose criticisms made employers act at least circumspectly, with some regard to old Adam Smithian point about 'seeing ourselves as others see us'. Union profiles, however, had slumped even more rapidly than their membership. Could anyone put a face to Bob Crow, Jack Dromey, Brendan Barber? Their membership lay predominantly in the public sector so their confrontations were more likely to hit consumers and welfare programmes than the bosses.

Important within the public sector was education, education, education which occupied or employed about 20% of the population. Getting towards 50% of 18 to 22 year olds were at university, much higher than in Germany (36%). But in what sort of university? Those of the Russell Group – Oxford, Cambridge, London, Edinburgh – eyeing the wealthy powerhouses of the Ivy League? Or the civic redbricks and their Robbins-era successors? Or those (amounting to about half the capacity) which were former technical colleges, big but usually lacking much in the way of research facilities. The content of many university courses was widely criticised. There were aunt sallies like Media Studies, though if well done (and this was as demanding as learning Sanskrit) a mastery of the new media, its languages, techniques and codes, was essential. Though too often its accompanying public culture was about the stuff coming through your letter-box, the scan-and-bin magazines with which 'customers' whiled away delays on Virgin Rail, and the PAs and gofers of the spin business. Nose-diving numbers were studying modern languages, under the daft belief that 'everyone speaks English'. Most middle-class Europeans had a grasp of it at a tourist level, but the *fachsprache* used in law, engineering, medicine was the native language. (*Economist*, 20 December, 2006)

Broadsheet writers snorted at courses on soaps or on *The Simpsons*, but devoted page after small-type page to complex studies which were making progress to altogether ambiguous ends. Law boomed, as the rise in house purchase, divorce, the marketisation of society, disputes between what had once been integrated parts of firms, the increase of illegalism and the faltering hands of the regulators caused spiralling increases in legal profits and the rise of megafirms like Linklaters and Freshfields. Even a capitalist roader like Dominic Hobson was liberal with the word 'shyster'. Chartered accountants had once been the butts of clever *Monty Python* sketches. Terminal boredom now gave way to an almost Errol Flynn reputation, as predators swooped, swindlers fiddled, and public servants tried to regulate. David Leigh's *Sleaze: the Corruption of Parliament* (1997) ended with an accountancy cliff-hanger in which in 1995 a *Guardian* reporter rummaged through files in a derelict Swiss hotel in search of invoices which proved the Tory minister Jonathan Aitken was lying his head off. Faxed back to London, this evidence would in 1999 send Beaverbrook's grandson down for 18 months. Copied to a Tuscan villa, it assured Labour's young leader that a crushing victory was in prospect.

This undoubted industry was linked with the even greater powers of the big accountants, now transformed into slightly ominous acronyms: PwC, KPMG, Deloitte, Ernst and Young, and thanks to New Labour liberated from the threat of unlimited liability (Nick Cohen, *Observer*, 8 August, 2004). By 2005 the fear was growing that the over-close involvement of any of these with corporate misbehaviour, as in the case of Andersen-Enron, would bring one of the Big Four down, with perhaps irremediable consequences.

What about the other end of the scene, the problem kids who seemed a national specialism? 'If a teenager in Walsall in the 1960s could read a technical

drawing, and make a metal part from it, he was on the road to skilled employment, with good pay.’ The former metallurgist turned management specialist Noel Spare, saw the end of this status relationship, of apprentice to master, as basic to a loss of social cohesion; its replacement by brawn, brands and bling was toxic. The liberal Tory Ferdinand Mount saw the emergence of an underclass as a reflex of the managerial heartlessness of New Labour patronage which sapped the autonomous values that workers and their institutions (co-ops, friendly societies, allotments) had once preserved, replacing these with the crass stereotypes of the soaps. (Mount, 2004, 90-93) But surely the divergence went much deeper, tied to the disappearance of work-culture itself, felled by cheap imports and lack of technological planning.

Survival in a non-manufacturing world had different values. Observers noted in the Maze Prison in the 1980s that the IRA men read Marx while the Prots read comics and did body-building: but a body, even one packed with steroids, was perhaps more valuable on the ‘rest and recreation’ scene than a knowledge of scientific materialism. And at the local level of insecure or excluded Britain no well-organised gang in the burgeoning ‘fourth sector’ was without its tame solicitor and accountant, like the unfortunate Andrew Ramsay (see section XII).

VIII PFI

Since there was now no policy for manufacturing development, what was to be done with the vestigial manufacturing sector? The problem was similar to that of the 1970s; Brown’s solution was state action, not nationalisation but subsidy. The Private Finance Initiative was not a Thatcherite invention. Thatcher’s privatisations had been car-boot sell offs, which apart from the sale of Britain’s stake in North Sea oil – she shrewdly disposed of it at the top of the market in 1986 – brought her far less than the continental practice of offloading portions in

good market conditions. Privatisations, albeit informal ones, were largely the work of Labour local authorities in the 1980s, selling off capital assets and then leasing them back: one reason why their accountancy had become labyrinthine by 1997. This was touted as a way of getting rid of underperforming assets, but often the purchasers were straying into territory they were unfamiliar with, and there were tears all round.

In the aftermath of 'Black Friday', 16 September 1992, the devaluation of sterling against the ERM, Chancellor Kenneth Clarke had used public-private-partnerships as a means of kick-starting delayed public works projects, but he had also discovered their incidental benefit: they looked like state businesses and acted (most of the time) like state businesses, but didn't figure in the national accounts, as the capital was coming from the private sector. It was rather like a householder, instead of buying a fridge on hire purchase, renting one. He or she would pay out more, and have nothing in the end to show for it, but their annual debt was, for the moment, reduced. One of the earliest proved anything but ideal: the road bridge to the Isle of Skye cost £ 27 million to erect in 1989-95, brought its constructors the same in tolls of nearly £ 6 a crossing, and in 2005 was bought by the Scottish Executive for a further £ 27 million, an overrun of nearly 300 % (George Monbiot, *Guardian*, 28 June, 2005)

Gordon Brown, however, learned to love PFI because of the selling abilities of Geoffrey Robinson. Robinson had been an associate of Labour's first and most sulphurous wealthy backer, the publisher and ultimately fraudster Robert Maxwell, but his own way up, exhaustively detailed by Tom Bower in an unflattering biography, was as the lover and financial adviser of a wealthy Belgian widow, Isabel Bourgeois: a sort of Tintin with testicles. This had enabled him to rise to the top at Jaguar Cars, to survive the collapse of Tony Benn's 'Triumph'-motorcycle-manufacturing Meriden Cooperative, which he

chaired, and to continue through his firm Transtec (until it went bust) to be a major supplier of parts to the automotive industry. Robinson became Brown and Co's major link to the world of business and also the proprietor of the *New Statesman*, Brownite in persuasion but a long way from its oracular days under Kingsley Martin and Anthony Howard, V S Pritchett and Karl Miller (Bower, 2001, 31-8)

Robinson's triumph came early in the government's career, when he organised the 'windfall tax' on the privatised utilities promised by Brown: the 'fat cats' who had bought state properties in car-boot sale days. This he did with the cooperation of Arthur Andersen, the international accountants (who schmoozed the incoming government as enthusiastically as they had Enron and WorldCom) – although the outcome of £ 5.2 billion was only half what was originally hoped for (Rawnsley, 2002, p. 43). Brown had come a little late to the cohabitation with the City that had characterised the Blair *ménage* but Robinson made up for it.

In Brown's accounting figure, net investment by the state in 1999-2000 was supposed to be £ 6.4 billion (of which about £ 5.2 would be covered by the windfall tax) while a further £ 3.8 billion would come through the PFI. (Toynbee and Walker, 2001, pp. 104-5) By 2001 '150 projects worth over £ 12 billion, including 35 hospitals, 520 schools and 4 prisons' were in the pipeline. There were problems about these: specifications were inflexible and over-sensitive to profit outcomes, and participants weren't always competent. Andersens in particular fouled up on a scheme for National Insurance Computers which went £ 45 million over budget. They got a slap-on-the-wrist fine of £ 4.1 million but nemesis came in 2001 with their part in setting up the gigantic Enron fraud.

The PFI schools and hospitals won few architectural awards. They tended to be dull, rather like the Union workhouses which had sprouted round the country after the Poor Law Amendment Act of 1834, and which often still did service, disguised as 'House' or 'Lodge', as old folks' homes (though it was unlikely that the PFI buildings would last 170 years). 'Care in the community' had however emptied many of the county asylums and special hospitals (the jury was still out on this one) and these had often been made-over into chic flats for the well-doing. Only in 2006 did it dawn on environmentalists that PFI 'newbuild' instead of repair and restoration, had undermined the economics of much of Britain's Victorian heritage of schools, hospitals, and public offices. The demolisher's ball-and-chain would soon be moving in on the elegant architecture of Waterhouse or Brodrick, as soon as the vandal's fire-raising had taken the roof off.

So housing-and-retail was doing its bit, as elsewhere. But as the saga of the Jarvis group (railway contractors so incompetent that when a train fell off the track railwaymen talked of it being Jarvised) indicated, PFI had come to be a way of keeping manufacturing and construction's head above water, the taxpayer footing the bill for a very rigid system, and in the long term, as the studies of Prof Allyson Pollock showed, a very expensive one.

Just how rigid was shown in the autumn of 2005, when the TV chef Jamie Oliver attacked kids' snacks and school meals as junk food (McDonalds had gone from liberating hero to toxic zero in fifteen years). Blair instantly had Oliver round to Number 10 and promised initiatives, taskforces, kitchen Tsars and so on. Only to be reminded by the Chancellor that quality of meals was spelt out in PFI contracts for years in advance. A turkey-twizzler was for life, not just for Christmas.

IX The Battle of Whitehall

Gordon Brown's Britishness speeches contained not a word about war. (Brown, *Guardian*, 14 January 2006). Until leadership beckoned he was regarded as fundamentally pacifistic: this much remained from his studies in the history of the ILP, and in a Scottish revulsion from war which endured even when the enemy was Adolf Hitler. (This would change: by February 2006 he was calling for cadet forces in problem schools. See that the neds shoot straight!) Yet the Blair-Brown government would from the start be skewed by constant interventions in foreign conflicts: in Bosnia in 1997, in Kosovo in mid-1999, in Afghanistan in 2001 and in Iraq after March 2003. (Kampfner, 2004)

In part this could be attributed to the Premier's taste for drama: turning up for photocalls with Our Boys in jeans and open-necked shirt (an on one occasion being snapped, mobile at ear and naked to the waist, Mussolini-style) would always guarantee coverage in NewsCorp's papers and broadcasts. Brown (never photographed out of a bulky, single-breasted lounge suit: something which endured from the 1970s) stayed clear of this. His initial competitor in Scotland was more forthright: George Robertson, the right-winger who had won the Hamilton by-election in 1977, went to Defence because he proved inept as shadow Scottish Secretary, and in 1998 became a NATO General Secretary dog-like in his devotion to Washington. He was duly rewarded in 2002 – as John Major had been earlier – by plentiful directorships in defence-contracting firms.

However, 'Blair's Wars' exposed a vulnerable Brownite flank. The more wars, the greater Blairite power in Whitehall: something which seemed truly menacing after the embarkation for Iraq. Despite his American enthusiasms, Brown inevitably found himself cut out of the war strategy circuit although he had to fund it. In late 2005 the cost of the British element of the Iraq campaign had

already come to nearly £ 6 billion (Richard Norton-Taylor, *Guardian*, 6 December 2005).

More specifically, war enveloped what was left of British heavy-industrial manufacturing. By 2005 the only substantial Scottish shipyards left were owned by the huge and ethically dubious defence contractor BAe Systems, about to divest itself of its last civilian element: its stake in Europe's Airbus Consortium. Much of the skilled labour in Brown's own constituency was employed at the privatised but still defence-dependent Rosyth naval dockyard. People had once joked that if one followed the ethos of the Adam Smith Institute (a bunch of dingbats who despite their principles proved to be worryingly close to the Chancellor and picked up £ 8 million in government contracts) the defence of the realm would be put to tender, and if the contract were to be won by the Red Army, fair enough. (Hutton, 2002, 261) Now something similar was happening in Whitehall, and the Treasury was only in fitful charge of it, as the prerogatives of 10 Downing Street increased. Blair hadn't forgotten how Thatcher had used the otherwise dotty melodrama of the Falklands to pull herself out of the mire of 1982.

BAE was by 2003 'Europe's greatest arms producer' (Anna Bluston, *Chartist*, July/August 03). Its deals were supposed to be subject to government oversight, a vestige of Robin Cook's 'ethical foreign policy', but if they didn't physically occur on British soil, that was all right, so a long tail of dodgy payments and backhanders (not only to shady Arabs) was predictable. 'Nearly half the work of the civil servants in the Export Credits Guarantee Department is related to arms exports' – amounting to £ 180 million per year (Andrew Wood and Ian Pritchard, *Guardian*, 16. August 04). The result was expensive without being profitable. Supporting arms sales – dominated by deals with Saudi Arabia and (increasingly) the Pentagon – might cost government an extra £ 100 million;

technology fees rebates ploughed in another £ 640 million. £ 125 million was recouped, leaving an £ 888 million net subsidy. Despite all of this, BAE's pensions fund was in deficit by £ 4.26 billion in February 2005 (Michael Harrison, *Independent*, 25 February 2005). Half of BAE's business was with the Gulf, and half of that with the Saudis, the consequences of the Al Yamamah contract negotiated by Thatcher in 1986. Her son 'Charmless Mark' was reputed to have picked up several millions which fell off the back of that lorry, and the price of planes was inflated by 32% to pay off royals like Crown Prince Sultan's family which, according to the British Ambassador had 'a corrupt interest in all contracts'. That didn't prevent MI6 from keeping Riyadh (and presumably whoever Al Qaeda had there, listening in) up to date on its intelligence, but the SFO had been on the BAE's trail, and revelations appeared imminent. (David Leigh, *Guardian*, 20 November 2006)

Such entanglements awoke only distant echoes among fat-cat and especially defence-related civil servants. No less than 344 mandarins had transferred to the private sector between 1997 and August 2004 (David Hencke, *Guardian*, 16 August 04): not enough and not fast enough, apparently, for Brown and Blair. Blair's instrument for prising open this bottleneck was Sir Patrick Brown, who had privatised National Freight and the water industries for Thatcher and Railtrack for Major (a record which might suggest a public inquiry rather than a promotion). Expertise was certainly needed. The Ministry of Defence had in the late 1990s blown £ 250 million on eight Chinook helicopters that have yet to fly because of missing software (Richard Norton-Taylor, *Guardian*, 18 March 05). It sold off its part-privatised research arm Quinetiq, bringing a huge profit to the civil servant concerned, and its American private equity partner Carlyle Group, in which a leading partner was John Major. When under attack, however, as in the Deepcut scandals (the suicide of young recruits which seemed attributable to

a regime which was as perverted as it was brutal) the MoD proved a formidable adversary (Jon Robins, *Times*, 11. January 05).

On 6 December 2006 the newly-retired Commander-in-Chief Sir Mike Jackson claimed that the MoD was incompetent in managing the conditions of his troops. (BBC 7 December, 2006): an outburst without precedent, though it had plenty of successors. But, though it had a whiff of South America about it, was this all a diversion? Hardly a week later came the news that the Attorney-General, Lord Goldsmith, was calling off the SFO's inquiry into BAE's slush-funds, 'in the wider public interest, which had to be balanced against the rule of law.' (Sic.: BBC 15 December, 2006)

X Our Friends in the South

The other joker was the growing instability of the City. The economy had crashed into recession in 1990-2, although the electorate didn't exact revenge itself on the Major government: something which perhaps affected Labour's strategy: 'It's *not necessarily* the economy, stupid!' The City powered out of crisis just as Labour came to office, but had been literally blitzed twice, in June 1992 and February 1996, by the IRA at the Baltic Exchange and Canary Wharf, and it would crash again in 2002.* This didn't imply resilience. The City of 1990 had still aspects of the Pre-Bang days. These vanished in the 1992 crash; thereafter it was a foreign colony dominated by half a dozen global concerns. Where there had been stockbrokers and stockjobbers there were now the likes of Goldman Sachs and Credit Suisse on one side, and PwC or KPMG on the other, and slipping between them, like fish through the rusting ribs of a sunken liner, were the firms in which they bought and sold interests, and the sharp young men who got fat bonuses for doing such deals, and were wont to speculate on their own account.

(* Studies of New Labour and the Peace Process are silent about the relation between the IRA's ability to cause billions in damage, with few casualties, and the attitudes and actions of influential financial interests *vis-a-vis* a threat which could have finished London as a trading centre in weeks. Another Good Friday theme, the relationship between the State Department, the curbing of the IRA's American income, and the post-truce availability of thousands of UK troops for foreign duties (from Bosnia and Kosovo to Afghanistan and Iraq) deserves further research.)

After the 9/11 attack (which put all financial centres on the front line) and the 2002 slump which terminated the Dotcom boom, most of the city's business moved into the ever-more-exotic areas of private equity and hedge funds. Figuring nowhere at all in Hobson's *National Wealth* (1999), these instruments with their constantly-changing portfolios were meant to guard against such fluctuations in an increasingly unpredictable world, by shifting investment in and out of commodities, specie, insurance, property. Alone in tax year 2005-6, hedge fund business in the City rose by 41% (Angela Balakrishnan, *Guardian*, 24 October 2006). Brown like Hutton had called in earlier days for financial stability, but the selling-point about hedge funds was that they would congenitally unstable: 'turn(ing) over their portfolio 20 or 30 times more than a long-only fund' (Elizabeth Rigby, *Financial Times*, 22 July 2004). Where did this differ from the concomitant rise of 'spread betting' in which the gamble became quite explicitly that, with no loyalty at all to any firm? The organisational frontier between speculation and gambling simply vanished, which may help account for government's silence about both.

In the 1970s the *Sunday Times*, then fairly radical, talked of a fish-farm culture: of a desire among business high-flyers to grab a substantial fortune and spend

the rest of their life tending a fish farm in northern Scotland. (Salmon lice, loch pollution and 'Frankenfish' were in the future). The point was to find the optimal packet for long-term security through investment, and this seemed to be reflected in City and CEO patterns of short stays for big bucks: the four years of Chris Gent at Vodafone-Mannesman against Arnold Weinstock's thirty-three (1963-96) at GEC. Not necessary selfishness, implied a German study of Gent, it could be the threat of burn-out as well. (Reiner Luyken, *Die Zeit*, 2 November 2000). But what happens if the price of such packets increases, accompanied by that of the goodies on offer? More clients from Russia and the Gulf also meant more demand for fixed resources, so there was either a price escalation or a decline in quality.

The consequence was that 'illegalism' was not only widespread in the City, it was snowballing as bonus culture increased and along with it, therefore, the desire to avoid tax, while heading for that ideal fortune of £ 3.75 million which would enable security, plus the equipment to speculate on one's own account and get in on the private equity escalator. Hence the big accountancy firms homed in on illegal schemes to benefit their clients, despite the ethical conflict that arose with their auditing principles, and possible regulatory action. Fines, KPMG discovered in a typical case, would be \$ 31,000 against profits of \$ 360,000. And in the UK there wouldn't even be fines. (Prem Sikka, *Guardian*, 8 February 2004).

In this scenario, pressure on the captive domestic market was inevitable: cutting pensions rights, screwing cardholders and poor credit risks who would have to borrow from unsecured sources, palliating straightforwardly crooked schemes, like pyramid selling; and helping unsavoury clients to bank (or launder) their winnings in safety. And no-one on the financial pages (or, it seemed, anywhere else) asked the further question: what was to prevent a group like Al Qaeda,

whose origins weren't in Wahabi Madrassas but in one of the world's oldest trading elites – the dhows of Jiddah plied the Red Sea and Gulf when Liverpool was a swamp – actually funding itself *through* the global market? Staging an outrage in a financial centre, buying shares cheap after the ensuing crash, and discreetly selling them on when the market recovered?

If one takes the functions of finance to be the provision of investment for infrastructure and industry, the insuring of life and prosperity, the advance of cash towards homes, the provision of pensions and (some distance after these) the financing of pleasurable consumption, then the British record was always patchy. In an orthodox capitalist society these functions are of national interest, with a greater or lesser involvement of the state. But Britain (or at any rather the 'United Kingdom of London' was anything but orthodox. Not least because of the tax-avoiding flows it had to sustain: from Arab and other oil-owner wealth; from American speculators, from oligarchs fleeing from the Russia they had looted, and from the European wealthy who wanted free of the constraints of the social market.

Some of this was traditional. But the cost and the pace of the drama were changing. Self-regulation and the surge of post-Yom Kippur Arab wealth had pulled the City through the fringe banking crisis of 1973-74, when the fiddlers, tiddlers and crooks got hammered. Their replacements were the giant firms whose partners were looking for deals, usually hostile takeovers, in their own interests. Their behaviour filtered sideways to the CEOs of non-financial FTSE 100 firms who wanted security *and* bonus packages, regardless of the health of their firms. Glaxo's share value halved, 1999-2003, but its CEO Jean Paul Garnier's income – salary plus bonus and share options – went up from £ 1.2 to £ 5.9 million. (Tony Jackson, *Financial Times*, 7 January 2003) This was

typical. Garnier became in May 2006 one of Brown's panel of prestigious economic advisors.

New statistics from the Bank of England, breaking at about the same time, were remarkable. Russians had £ 5.8 billion invested in the UK in 2002, and £ 14.4 billion in 2004, but by March 2006 this had rocketed to £ 49 billion. One third of London's 'super-prime' properties, according to the BBC's Rory Cellan-Jones (Sunday 25 June, Radio 4), were going to Russian buyers. The automatic response was to attribute this to the kleptocracy of post-Yeltsin Russia: the fortunes made by *apparatchiks* in the privatisation of the command economy, while a Soviet style public-control and welfare system staggered on at a lower level. Tony Judt, generally speaking a neo-liberal, had already written that in 2004

36 Russian billionaires ('oligarchs') had corralled an estimated \$ 110 billion, one quarter of the country's entire domestic product. The distinction between privatisation, graft and simple theft all but disappeared: there was so much – oil, gas, minerals, precious metals, pipelines – to steal and no-one and nothing to prevent its theft. (*Postwar*, 689)

As such the migration of about a fifth of Russian GDP was a crime, on a scale rarely acknowledged by the apologists for the transformation of 1989-91: the Lord Dahrendorfs and Tim Garton Ashes. But a crime that was wholly within the paradigms of Mack and Kerner's 'able criminal' in his chosen milieu.

In classical J A Hobson 'underconsumptionist' terms the Russians oligarchs' coup was itself doomed if confined to Russia. Living standards of workers were so depressed that no large scale consumer-based enterprise would flourish

within Russia itself: the longer-term revival of the economy might be promising, because of oil and gas resources, but this was too far into the future. The United Kingdom of London was different. Far superior to any other European financial centre, in the rapid availability of the gratifications it offered. Not just the cranked-up winnings of its investment houses, but entertainment, gambling, sex and alcohol without inhibition, away from Putins, Muftis, Rabbis and (for that matter) Southern Baptist pastors. But how could such a place, with so many cultures, become *moral*?

This wasn't a question anyone important cared to ask, though the reason for this only became apparent late, Brown being a prolific spawner of committees and inquiries which kept awkward topics *sub judice*. Only in the spring and summer of 2006 did the details leak out of how New Labour was funded: nominal loans from very rich men in exchange for honours and peerages far outweighed union levies and members' subscriptions. This was Tony's stuff, but the Chancellor's silence had to be explained – he either knew where the £ 18 million the party was shelling out was coming from, or he wasn't up to his job. (Ned Temko and Mark Townsend, *Observer*, 19 November 2006)

This came as the economy, faced with a revived Europe, stuttered and slowed, and by-elections in Scotland served notice that North Sea oil, worth £ 13 billion a year with the \$ 70 barrel, might be up for grabs.

2006 was the jubilee of John Osborne's *Look back in Anger*, when the modern elbowed itself on to the London stage, just as Anthony Eden and the Empire fell apart. The Royal Court theatre celebrated by reviving the play, only to find it greeted as a quaint tirade. More credit went to the National Theatre when it staged Harley Granville-Barker's *The Voysey Inheritance* (1905) in which a young Edwardian lawyer discovers that his respected, conservative family firm

is in fact a 'long fraud' in which the clients' capital has vanished, while the dividends are paid by his family, doomed to live on the *qui vive*. Most reviews in Britain commented on the play's relevance, but an American critic dismissed a parallel revival in Los Angeles by David Mamet:

Any theatregoer today who doesn't find the Voyseys reprehensible is living in a dream world in which a Martha Stewart-Enron approach to business ethics is acceptable. Granville-Barker may have been making news in 1905 but in 2005 we've heard it all.

(Stephanie von Buchau, <www.theatremania.com>, 5 March 2005)

Nothing would be done about such a situation, just as no Westminster politician, as the New Labour dream evaporated, was likely to emulate the frustrated reformer Henry Trebell in Barker's other classic, *Waste* (1906) and shoot himself.

XI Social Capital: Transports of Decay?

Brown's adoption of Adam Smith prompted awareness of Smith on social capital – the necessary container of a market society – and 'police', whereby conspiracies of merchants as well as criminality were put under restraint. Once a nation loses its industrial establishment – not just manufacturing firms, but the high-technology without which high-value-added services are impracticable: design, power supply, training, marketing, specialised insurance – any lasting recovery becomes difficult, and the reconstruction of civil society is infinitely deferred. On Brown's watch, transport was the most glaring example both of market and policy failure. In late November 2006 the senior Treasury economist Sir Nicholas Stern, returning after secondment to the World Bank, logged a report on the economic causes of global warming. He laid particular stress on

curbing transportation costs by congestion charging (which Alistair Darling as minister had deferred for ten or more years) and increased taxation of air travel.

Britain's post-war problem had not been that of year-on-year industrial decline. Her manufacturing inferiority to Europe had been, in many critiques of the 1960s, exaggerated by those with personal axes to grind. Prof Alan Milward argued that in the motor industry Britain wasn't far behind Germany in efficiency, and in innovation probably ahead. Minis and Land Rovers have outlasted Beetles, not to speak of Trabbis. (Milward, 1992)

So what went wrong? British infrastructure was poorly-equipped to deliver the product: social capital versus consumption, again. The railways in the 1950s were run-down, motorways non-existent. But pro-road policies from government in the 1960s and 1970s only expanded the car market to a size that the native industry couldn't supply, even before the 'double-whammy' of the 1973 fuel crisis and entry to the EEC. Thereafter the race to secure North Sea oil, a situation unique in Europe, sucked much of the investment which might have gone towards modernising the motor industry. (Harvie, *Fool's Gold*, 358) Nationalisation in 1975 at least saved British Leyland (though it did little to modernise equipment and work practices) just as nationalisation by the Tories in 1971 had saved Rolls-Royce and Britain's aero-engine industry *tout court*. Returned to the private sector in 1987, it would be the only major high-tech leader left in 2006.

The result of the continuum of policy after 1992, Kenneth Clarke followed by Brown, was growth – yes – but not the accumulation of social capital. The contribution of gambling and its convergence with City irresponsibility suggested rather the reverse. Sprawl, as we have seen, induced an increasingly asocial 'life-style' less and less integrated with any community. (Chapter 2) The

mall, the giant comprehensive school, the foreign beach-bound holiday, the airport: the stations of British middle-class life were distinguished by a combination of numbers and atomised social behaviour – Las Vegas coming downline on the family PCU – which, dignified by the term 'choice', reduced the citizen into a consumer. Against this, New Labour had neither a programme nor a philosophy. (von Tonnies, 2005,)

But, with a record balance-of-payments deficit, the Chancellor was grateful for any and every cash inflow, even if this meant that what Harold Macmillan called 'the family silver' ended up in some very odd places indeed. In late 2006 the Spanish Ferrovial company had taken over BAA, owners of the biggest UK airports; another Spanish concern Ibendrola made off with Scottish and Southern Electricity. Iceland, the freezer shop chain, was now owned by Icelanders, along with many of its high street neighbours. Britain's remaining steel industry, now part of the Anglo-Dutch Corus group, would end up either under Indian or Brazilian control.

Transportation (not wholly individualised, as it also stressed the airport and the parkway station) provided in theory an extensible net to hold together social behaviour which was otherwise either out of British control or falling apart. Matters were moving the government's way, if only slightly. Bus passenger numbers, after long decline, were reviving a little, but only by senior citizens getting free transport. The national railway network survived beyond the UKL, catering for the privileged in First Class paying telephone-number fares, and young people and pensioners on railcards in Standard, at a price twice what Germans, three times what Spaniards were paying. (*Independent* 3 January 2007) Some sort of general access remained. The worsening problem was the congestion cost, the safety corners cut, the impact of depersonalisation.

The issue was quantified by the late David Pearce in 1996, the result of a study commissioned by Chris Patten when Environment Secretary to Thatcher (of all people). He found that road freight covered only a third of its global costs. But trying to convert this deficiency into legislation was too daunting for a New Labour government whose horizon never went further than catering for the voter *qua* consumer. (Pearce, 1996, 140) Into the vacuum slipped, yet again, the able criminal. A BBC Today report on lorry safety joined the police at Dover and Holyhead. Overloaded trucks and overworked drivers were 60% of those examined at Dover, and 30% of those at Holyhead. The others were those unmarked lorries headed up the M1 to the giant state-of-the-art warehouses at Daventry and Nuneaton. (Ann Brown, BBC Radio Four, 1 November, 2006) The incredible adaptivity of road haulage, which according to Adrian Lyons, chair of the Railway Forum, upgraded its technology every three years, and was putting long-distance rail freight out of business – less rail freight was going via the Chunnel to Europe than in train ferry days – was dependent on the near-slavery of East European drivers. (interview, Stuttgart, 21 October 2005) Much would depend on the trial of the Betzes in Stuttgart, but in December 2006 Betz Senior was out of the dock. According to his counsel, 'He no longer understood the world'. Which was either convenient, or very profound.

Brown's transport minions could have intervened but didn't. The practical consequences of this were made explicit by the Strategic Rail Authority during its brief existence. Responding to Brown's restrictive finance, rail was to concentrate on where it could provide 'value for money', and either face down or co-opt the opposition. This meant essentially medium-distance inter-city services and south-east commuters. The German or Swiss strategy of using public transport to decentralise investment to regional *Ballungsgebiete* (hubs-and-spokes) didn't work because urban investment was so strongly concentrated

in the Southeast, and the strategies that remained were essentially electorally-driven. Mondeo Man voted, bus station man did not.

Yet the devolved polities of Scotland and Wales had their own idea where their capital city was: one that didn't fit London into the reckoning at all. By 2006 Brown had boxed himself into a situation where his Scottish munchkins in the Transport ministry were prescribing what amounted to drastic transport disinvestment for the English provinces, gambling on an apathy about their future shown by the response in 2004 to an (admittedly unattractive) devolution package. London, the UK's picture card, with the Olympics looming up in 2012, fared no better. Bob Kiley, the New York transport boss hired by Ken Livingstone, tried fifty times to get a Brown to a summit on London transport. The response was even chillier than that given Sir Alastair Morton. His calls were not returned. ('Dispatches', Channel Four, 21 August 2006).

There was one city in These Islands whose planning reflected European priorities. The Dublin commuter area embraced nearly half the population of the Irish Republic. Since the late 1970s, not long after rejecting a report from Sir Christopher Foster (for it was he) advocating closing its whole railway network, the Irish government had poured cash into the region, as part of its 'Celtic Tiger' strategy of excellence in such high-value-added branches as pharmaceuticals and software. Young Irish folk flooded into Europe for training, many to the Tübingen area. At home the government's motto could have been encapsulated as 'Infrastructure, infrastructure, infrastructure.' It created a suburban railway DART, followed by a tram system 'Luas', and was now pumping equally substantial investment into a provincial railway little changed since the 1960s. In 1986 Irish income per capita had been 56% of that of the UK. In 2005 it was 136% and, according to the *Economist*, 'the envy of Europe'. The sceptical might see such growth as at least in part fairy gold – it paid the accountants of

multinational firms to allocate the *numbers* of high-value added manufacture to branches in countries with low corporate taxes – but the Irish had been swift to use their reputation to attract significant social and educational capital for the future. (Claudia Vesenmaier, ‘Regional Development in mid-western Ireland’ Tübingen MA thesis, 2005; *Economist: The World in 2006*).

XII Carousel!

In terms of positive social capital, that was that. But what about Adam Smith’s ‘policeman state’? Readers of Joseph Conrad will remember the Assistant Commissioner from Scotland Yard in *The Secret Agent* (1908) whose discreet detectives pinned down the *agents-provocateur* of the Russian Embassy. ‘You look at Europe from its other end,’ he rebukes the sinister Mr Vladimir, before with equally understated sovereignty ushering him out of the country. (Conrad, 1908, 227)

In August 2006 Tony Blair headed off to Sir Cliff Richard’s villa in Barbados for his holiday. John Prescott kept house in Whitehall. The Chancellor was unwontedly silent, spending ‘quality time’ with his young family at home in Fife. On 16 August the press ran photos of the youngsters and their smiling parents. But this was an inside-page story, while the headlines had a public convulsed by a Muslim terrorist threat to British airlines, aggravated by disorganised security efforts at the main UK airports run by the British Airports Authority (now Spanish-owned).

The happy snaps were not quite enough to obscure another fact: that the previous day 500 police and revenue officers had descended on sixty addresses in the UK and arrested twenty-two people, fifteen of them (apparently of Middle Eastern provenance) in Glasgow, on charges to do with VAT fraud.

This was a *tsunami* which had been building up for years. Initially it had been to do with criminals importing small hi-tech items such as mobile phones or microchips free of VAT, selling them plus VAT but avoiding both VAT payment – ‘missing trader fraud’ – and through forged invoices reclaiming fictive VAT payments from the tax authorities. By 2005 the business had become a ‘virtual carousel’, directed to a great extent from Dubai, in which the items never moved themselves but the deals were done on a greatly-increased scale with specially-constructed computer programmes. (‘Panorama’, BBC 1, 16 July 2006) In June 2004 a Bridge of Allan businessman Michael Voudouri, famous for bling and BMWs, had been imprisoned for four years for a fraud of £ 3 million. A piddling sum compared with two hoods sentenced in July 2006: Clive Saunders, an organiser of ‘entertainment security executives’ (bouncers) in Stoke-on-Trent went down for £ 68 million and ‘Riviera Ray’ Woolley, another bouncer-boss from Stoke, for £ 38 million – out of a probable turnover of £ 555 million. (‘Panorama’, BBC 1) There were rumours of a far bigger fish who had got out intact with a clear billion.

At North Queensferry the Chancellor would certainly get the Labour loyalist *Daily Record*, and read:

Carousel frauds reap organised crime syndicates massive rewards and are less risky than running Class A drug-trafficking operations. Law enforcement agencies have seen an alarming trend recently whereby gangs involved in narcotics are switching their attention to such frauds.

(Richard Elias, *Daily Record*, 16 August 2006)

The impact was by then immense. According to KPMG’s head of forensics in Scotland, Ken Milliken:

It's getting so big now that it is beginning to affect the country's balance of payments. £ 50 to 60 million a time ... makes our overseas trade figures seem higher than they are, because of the same goods going around and around. (Elias, loc. cit)

'HM Revenue and Customs,' wrote Ashley Seager in the *Guardian*, 'Has estimated that 10% of the country's exports are related to carousel fraud ...

the tax losses to the government have grown to billions of pounds. The most recent estimates are for losses of £ 1.1 billion-£ 1.9 billion in fiscal year 2004-5. But since then activity has increased tenfold ... (Seager, *Guardian*, 16 August 2006)

If the EU guessed at total losses of €50 billion (£ 34 billion) a year (equal to the cost of the CAP), the Chancellor's 'policeman state' had turned out to be the centre of this megacrime.* And so clever were the crooks, fitting into nests of legitimate import-export firms, that attacks by government or European agencies ended with the prosecutors facing proceedings from aggrieved traders (*Financial Times*, 1 August 2006).

(* in comparison, the Eurostat scandal, which helped bring about the fall of the Santer Commission in 1999, and thrilled the Euroseptic media, seems to have involved a maximum of £ 3 million over several years, (Anthony Browne, *Times*, 26 September 2003))

Glasgow, the fortress of Scottish illegalism, already awash with drug-dealing, counterfeit sales, and money-laundering (see Harvie, *Mending Scotland*, pp. 68-74) was scarcely 40 miles from Brown's own constituency. Fraud in Scotland

had risen 370% 1995-2005 but KPMG's Milliken reckoned the sum of £ 18 million surfacing in the courts was only a fraction of a total which might reach a billion. (Craig Brown, *Scotsman*, 30 January 2006).

By mid-September there were quasi-official statistics. The good news was that in July the tax losses through carousel fraud had fallen to £1.6 billion thanks to a doubling of Revenue investigators to 1000. The bad news was that they had been running at an average of £ 3 billion a month until then. The total 2006 hit wasn't the talked-of £ 1.9 billion, it might be £ 23 billion. (Ashley Seager, *Guardian*, 13 September, 2006)

Back to Nick Kochan on the UK's addiction to 'hot money' and light-touch regulation (Kochan, 2005, 353) His book had yet to be published in Britain: Ashley Seager, over the phone, said he hadn't read it. But Kochan had hit the button. Even setting the VAT business on one side, the Revenue was already being ripped off for £ 1.17 billion in tax credit fraud (Phillip Inman, *Guardian*, 24 October 2006) which suggested an 8% Scottish quotient of £ 93 million. Mack and Kerner's 'able criminal' was now loose in Mack's native city, but doing damage that Mack – or for that matter Ambler – could never have dreamed about. (Seager, interview with CTH, 16 August, 2006).

Seager did cast light on one Scottish mystery: the case of Andrew Ramsay, a Glasgow accountant who on 22 February 2006 was 'arrested' by two men claiming to be fraud squad detectives, and driven off in a black car. He never subsequently resurfaced. On 30 July the *Record's* sister the *Sunday Mail* announced that Glasgow police, under Detective Inspector Willie Prendergast, had closed the case. But its reporter, Norman Silvester, wrote:

In the weeks before he was taken, he (Ramsay) told friends he feared for his life. The accountant believed he had unwittingly become sucked into a world-wide carousel fraud involving mobile phones, with links to Al Qaeda ... Between 2004 and 2005 Andrew worked for a firm based on the south side of Glasgow, and was sent to Belgium to handle their overseas operations. He had also travelled to Barcelona, Spain, Dubai, Holland and Saudi Arabia. A month before his disappearance Andrew was quizzed by Customs officers about his work and told he might be a witness in a future trial. (*Sunday Mail*, 30 July 2006)

Silvester reckoned another £ 40 million might be involved. Prendergast was almost certainly dissimulating to keep the villains *in situ* pending the 16 August raids.

The manoeuvres looked like a case for Ian Rankin's Inspector Rebus but the sums were huge and where they had come from was blatant. The *Sunday Telegraph* on 17 August (Jasper Copping and William Langley) blamed the unravelling horror on the EU, where the Chancellor's indifference to Brussels concerns had long been notorious, yet at the time of writing even this seemed buried under another piece of larceny on the public sector in the shape of the iSoft scandal (directors helping themselves to cash intended for NHS computerisation out of a runaway budget of maybe £ 6 billion. (Simon Bowers and Richard Wray, *Guardian*, 23 August, 2006)

The carousel cash was stupendous, but where was it going to? Was it inside the British financial system, part of the remarkable rise in bank profits? Within the mysterious international networks of private equity? Or somewhere in the archipelago of microstates and tax havens? Surely the all-powerful Chancellor (who now had 1400 Revenue agents on the case) ought to know? *

(* this was written without the benefit of Profesor Michael Levi's 'Pecunia non olet: the control of money-laundering revisited' (in proof 2006) which the author has just sent me.)

On 21 September 2006 a story by Iain Cobain and Ashley Seager in the *Guardian* claimed that since May 2005 the Revenue had been aware that much of the cash from the carousels was leaving the UK via the First Curacao International Bank (FCIB). Representative of a type of 'shell bank' thought to have been squashed after the 2002 slump, its transactions had risen from \$ 60 million in 2004 to \$ 6.5 billion when the UK government closed it down in mid-September 2006. Until August the outfit had factored cash through respectable banks, including Barclays. The last was UBS, as the 2500-odd 'carousel hoods' among its British customers were all silly enough to plump for the same money-launderers. This wasn't a game for Professor Moriartys but for provincial villains, and they still ran rings round the Treasury's finest.

Back in December 2003 in his pre-Budget statement, Brown had announced that VAT fraud, then estimated at £ 2.75 billion, was 'in decline' (www.hm-treasury.gov.uk/pre_budget_report). From then until the 2006 Budget, there were only generalities about strengthening legislation, otherwise silence. The Chancellor told the IMF conference in Singapore, 15-16 September 2006, that the government was 'getting to grips with the problem', but Bill Keegan, the *Observer's* senior economics commentator, wrote to the author

All I can say is that at the World Bank/IMF annual meetings in Singapore last month, one needed several hands to count the number of people who were concerned about the possibility/probability of a great Regulatory Failure! (Keegan-CTH, 21 September, 2006)

How do these situations occur? Not through corruption on a huge scale. Hans-Jürgen Kerner emphasised the fact that the able criminal is always in favour of the rule of law. He has nothing to gain by the system he milks falling apart. He values the links he has with authority, because these ensure that the game will have rules.

It is much more plausible to see several factors at work:

First: a low-level but substantial ‘crime industry’, such as the drugs business and money-laundering in the West Midlands or Scotland, incubated in the *lacunae* of Brown’s less-than-successful industrial ‘strategy’, and operating through a ‘fourth sector’ (Rifkin) of scrap merchants, pubs and clubs, security firms, tanning studios, and so on. This provides the ‘entrepreneurs’ and a lot of untraceable cash.

Second: a City concentration on profit and investment-attraction is needed, without much consideration about the origins of the cash. Cue the Goldman Sachs high-roller versus the Chancellor on under £ 200,000, and the uncharted extent of private equity.

Third: the regulators might see the compliance boxes being ticked (I had to do this on inheriting my wife’s estate, so imagine the scale ...) but following this up means having to cope with low pay, confused lines of command (local, regional, national, European, international) and low morale, even before they are then faced with a huge investigative burden like carousel fraud.

Fourth: a small, overextended and hyperactive political leadership is continually

issuing targets, reformulating policy, ‘burying bad news’ and restructuring – generating redundancy, new recruitment, painful learning processes – so that the institutional strengths of continuity and solidarity are lost.

Fifth: sudden systemic crisis causes political leadership, however powerful, to crack. Pressure of work means prioritisation, and intractable longer-term issues get sidelined until they reach a critical mass and blow up. Lloyd George’s brilliance as a war economist beat the Kaiser with millions of tons of high-explosive shell; his ineptitude in the micro-politics of Ireland meant he lost to a scratch guerrilla force to whom the capture of a machine-gun was a famous victory. (Harvie, 2007, Chapter III. 3)

Occlusion – failing to string these factors together – means a misreading of government competence. Even government successes (and the precedents they bring) are ignored: North Sea oil, for example, wasn’t high politics, so it largely vanished from the political history of the 1970s, not rating a mention in the standard biographies of Harold Wilson, though without it, the UK would have collapsed. (Harvie, *Fool’s Gold*, 8-10) The regulatory issue has a similar but much more negative biography.

On 22 August a *Guardian* ICM poll put the Conservatives at 41%, and a possible majority of 10 seats. On 23 August the same poll denied Brown any credit for Britain’s growth, with 55% of families reporting themselves worse off since 1997 (Julian Glover, Richard Adams). By the year’s end, a majority of Brown’s own countrymen favoured Scottish independence (James Blick and James Bolger, *Financial Times*, 18 December, 2006). The wind had shifted, though not, as the foregoing might indicate, before time.

19, 571 words