

PERFECT STORM

Vince Cable's new book is an excellent primer on the financial crisis but does not answer the moral questions underlying the crisis, says Simon Titley

Given that economic welfare is fundamental to political success, remarkably few politicians are economically literate. They seem frightened of economics in much the same way that infant school children run scared of 'hard sums'.

Whether you agree with him or not, Vince Cable commands respect because of his economic literacy. The House of Commons tends to fall silent when a genuine expert gets to his feet, and Cable knows what he is talking about. He was a professional economist before he entered parliament; in columnist Alan Watkins's famous phrase, he has had "a proper job".

Cable combines this expertise with fluency. He has the knack of taking complex subjects and expressing them in lay terms. For all we know, he may have talked about 'neo-endogenous growth theory' while employed as a full-time economist but he does not use such jargon on a public platform.

True to his Yorkshire roots, Cable is a plain speaker. He never indulges in the sort of contorted language written by spin doctors, nor does he resort to populist tropes about "struggling families". If house prices are over-valued, he is not afraid to say so, despite the risks this runs with the Daily Mail.

MERCHANT OF DOOM

But the quality for which Cable is now best known and most respected is his apparent ability to predict the future. He was warning of a looming economic crisis as early as 2002, when conventional wisdom still bought into Gordon Brown's promise of "no more boom and bust".

For a long while, Cable was derided as a merchant of doom; in an exchange with Gordon Brown in the Commons in November 2003, Brown claimed that Cable "has been writing articles in the newspapers... that spread alarm, without substance, about the state of the British economy." It was not until Northern Rock went bust in 2007 that people began to take serious notice.

Before Northern Rock, few experts were prepared to break with the prevailing consensus and warn of the debt crisis and the possibility of a recession. Professor David Blanchflower was the sole member of the Bank of England's Monetary Policy Committee to express such sceptical views. Gillian Tett at the FT and Larry Elliott at the Guardian were just about the only leading financial journalists to see the crisis coming.

But it is mistaken to categorise such mavericks, including Vince Cable, as magical soothsayers. The evidence was plain to see and therefore the true mark of such people is less foresight than the courage to break ranks. Their special quality is an unfashionable willingness

to say, in effect, that when something seems too good to be true, it probably is.

For example, anyone who subscribes to Credit Action's free monthly e-mail bulletin *UK Debt Statistics* (www.creditaction.org.uk) would have long been regularly exposed to some eye-watering statistics about the levels of personal indebtedness in Britain. And it was obvious that housing was absurdly over-valued and that house prices could not rise indefinitely. But such was the devotion to life on Fantasy Island that even shocking statistics and common sense were not a powerful enough combination to counter the collective delusion.

Even amongst those who could see trouble ahead, few realised until recently how the mountain of debt was being sliced and diced and repackaged into assorted exotic financial products such as 'collateralised debt obligations' and 'credit default swaps'. The levels of debt were bad enough. It turned out that nobody, least of all the bankers responsible, knew where the liabilities were.

THE PARTY'S OVER

It is now twenty months since Northern Rock hit the buffers, yet it was not until the symbolic fall of Woolworths last Christmas that reality finally dawned on the Great British Public. With house prices nose-diving and unemployment soaring, the impact of the financial crisis is now widely felt. But although people may realise that the party's over, most don't understand why, preferring instead to heap blame on Sir Fred Goodwin or Gordon Brown. Neither man is blameless yet we would have been in a similar mess without either of them.

For anyone seeking to make sense of the current situation, Vince Cable has come to the rescue with his new book, *The Storm*. As if to underscore the title, the cover features a dramatically posed photo of a windswept Cable with upturned collar. Fortunately the pages inside are free of such publishing gimmicks. The book is aimed at the intelligent lay reader; it is short (only 170 pages) and provides sufficient historical perspective not to lapse into one of those journalistic efforts pieced together from the clippings library, which inevitably are out of date before they are published.

Cable's narrative is a story of stupidity, greed and complacency. He points out that, despite a recurrence of economic manias and crises going back to 'tulip mania' (the world's first speculative bubble in 1637), the lessons had been forgotten. Politicians and economists instead adopted the conceit that, this time, it would be different.

Cable examines both the national and international dimensions. In the UK, the house price and debt bubbles have been worse than elsewhere, encouraged by a national obsession with property and property values. The economy

became excessively reliant on the financial sector, which enjoyed excessive prestige. In the USA, there have been the problems of sub-prime mortgages and the trade imbalance with China. Cable also studies the oil shock, the food price shock, and the rise of China and India with the consequent problems for world trade.

Cable considers the potential for dangerous political reactions to the crisis. He fears a rejection of liberal economics but, with the demise of socialism, regards the main threat as ultra-nationalism and identity politics leading to protectionism. He also has little time for the anti-globalisation movement.

His remedy is a pragmatic economic programme that steers a middle way between the 'New Interventionists' who believe the fault rests with weak regulation and the 'Old Liberals' who believe the fault lies with bad regulation. Cable counsels "a middle position... which acknowledges that financial markets are subject to repeated bubbles, panics and crashes, and maintains that they should not be confused with markets in goods and services within and between countries. The worry some of us have is that legitimate arguments for re-regulating financial markets will become confused with a generalized movement towards dirigisme and state control of economic activity."

Cable's 'road map' for reform is fine so far as it goes, but sees the remedies mostly in terms of fixing the "blocked financial plumbing and dangerous economic wiring". He believes that the openness of our economy should be balanced by a sense of fairness but does not really address the deeper moral and social issues raised by our systemic economic problems: the growing sense of insecurity, the loss of community, the damage to the environment, and people's increased reliance on consumerism to fill a void in their lives.

But these issues must be addressed if one wishes to construct a robust defence of liberal economics. We are also at a time when politics has reached one of its periodic turning points. Some sort of value judgement about the fundamental purpose of the economy would therefore have been welcome.

For example, does Cable agree with the view advanced in the recent ALDC booklet *The Theory and Practice of Community Economics*, that economics is a means to an end rather than an end in itself? This booklet's essential argument is that, "In a democratic society, the role of politics is to enable its citizens to determine their political, social, environmental and cultural objectives; economics is the means for achieving them." It is not clear whether Cable is comfortable with such a rejection of economism.

But the big question about Vince Cable is why the Cable 'brand' has not much benefitted the Liberal Democrat brand. There are probably two reasons. The first is evident in the book, which is non-partisan in the sense of neither crowing about the Liberal Democrats (the party is hardly mentioned) nor taking cheap shots at the Tories or Labour. Cable's public image has developed into that of an avuncular figure somehow above party politics, even though he sometimes makes cruel jokes at the expense of leading figures in the other parties (his 'Mr Bean' joke about Gordon Brown is still fondly remembered).

"A story of stupidity, greed and complacency"

The other reason is Nick Clegg's failure to build on Cable's stature. While Clegg himself avoids criticism of Cable, there have been regular jealous mutterings from some in the bunker complaining that Cable steals the limelight. Also, Clegg seems to be trapped in something of an ideological bind, able neither

to promote nor to repudiate neoliberal economic dogma.

On this point, *The Storm* provides little solace for the Liberal Democrats' dwindling band of market fundamentalists. In terms of internal party politics, the significant thing about Vince Cable's recent statements on the financial crisis (not just this book) is that Cable emerges as a Keynesian. His ideological sympathies remain to the right of those of most Liberator readers, but he is nevertheless a mainstream Liberal Democrat who supports capitalism but is pragmatic about it.

Any neoliberals still standing must have choked on their corn flakes when they read Cable's article in the Independent (24 April): "The failure is much deeper: that of a model of economic growth which originated a quarter of a century ago in Thatcher's resurgent Britain which New Labour meekly adopted. And the more successful the Tories are in transforming this crisis into votes, the greater the likelihood of their inheriting a deep, systemic problem which they helped to create and which their modern PR skills are now hopelessly ill-equipped to solve.

"The Falklands War was a key turning point in modern British history since it signalled the end of a long period of national demoralisation, relative decline and perceived failure. The basis of the subsequent economic recovery, which was brutally but only temporarily disrupted by the recession of the early 1990s, rested on several key elements: a liberalised, internationally competitive, financial services sector in the City; a property-owning democracy in which personal well-being and wealth were reflected in house prices; and a growth in personal consumer spending based on easy access to consumer finance and high personal indebtedness. The historic importance of Blair and Brown was to take and build on Thatcher's legacy enthusiastically and uncritically. And they milked it for all it was worth for 10 years before it failed.

"Each of the three pillars of that model have now buckled. The banking sector has collapsed and the failure of the City tax revenues has contributed greatly to the crisis. The housing market has fallen by over 20 per cent and faces a much bigger correction. Frightened, over-indebted consumers will no longer spend."

Don't get too excited. Vince Cable is unlikely to sign up to the Social Liberal Forum. But we can safely assume that hedge fund millionaire Paul Marshall's cunning plan to turn the Liberal Democrats into a bespoke vehicle for his bankrupt ideology – which effectively neutered the party's ability to criticise the Thatcherite consensus – is finally doomed.

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