

Banking on austerity

BANKERS, eh? Even without resorting to rhyming slang, banks and bankers are not enjoying a golden period in the eyes of the public. And with good reason as, aided and abetted by the ill-conceived neoliberal deregulation started by the Thatcher government but embraced and extended by Gordon Brown as Labour Chancellor in 1997, they are largely responsible for the so-called financial crash of 2008 and the austerity economics imposed on the UK by the Tories since 2010. Let's not forget, the rationale for imposing 'austerity measures' was to ensure the UK national debt was eliminated over a 5-year period. Notwithstanding whether or not that was, or is, the most important factor in managing the economy, that was the Tory/Lib Dem government's priority so let's see how that panned out...

Well, according to the Office for National Statistics, when Gideon Osborne, the then Tory Chancellor, introduced his masterplan the UK national debt stood at £1.2 trillion – today, after 9 years of austerity, the debt is £1.8 trillion! Philip Alston, United Nations Special Rapporteur on extreme poverty and human rights, reported on the human costs of austerity in the UK last year:

The costs of austerity have fallen disproportionately upon the poor, women, racial and ethnic minorities, children, single parents, and people with disabilities. The changes to taxes and benefits since 2010 have been highly regressive, and the policies have taken the highest toll on those least able to bear it. The government says everyone's hard work has paid off, but according to the Equalities and Human Rights Commission, while the bottom 20% of earners will have lost on average

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10% of their income by 2021/22 as a result of these changes, top earners have actually come out ahead.

Significantly, his report praised the Scottish Government for their efforts to mitigate the worst effects of UK policies but, overall, he concludes:

The experience of the United Kingdom, especially since 2010, underscores the conclusion that poverty is a political choice. Austerity could easily have spared the poor, if the political will had existed to do so. Resources were available to the Treasury at the last budget that could have transformed the situation of millions of people living in poverty, but the political choice was made to fund tax cuts for the wealthy instead.

Even some of the UK mainstream media recoiled in horror, with *The Guardian* describing the report as "excoriating" – ouch!

Yet we all know it doesn't have to be like this, as other countries have recovered and rebuilt without austerity. Portugal, for example, tried it for a while before the people decided that wasn't the answer and elected a new government committed to changing course. In 2015 Portugal instituted ambitious spending and regenerative policies instead – stimulating demand by increasing the minimum wage, restoring wages and pensions in the public sector to pre-austerity levels, increasing welfare spending and reversing regressive taxes. The results to date are impressive – deficit reduced, growth increased, investment increased, and unemployment halved! And, in contrast to much of Europe – the UK included – Portugal has not seen an increase in right-wing populism. Last year, Prime Minister António Costa told the European Parliament, "In Portugal, we devised an alternative to the austerity policy focussing on higher growth, more and better jobs and greater equality." Interestingly for us in Scotland, he concluded his speech by observing that, "The most important point of all, is that our affirmation of sovereign democracy meant that people regained trust in democratic institutions and in their belief in the EU."

As another example, take Iceland, with a population roughly equivalent to Aberdeen and Dundee combined. When their banking system collapsed in 2008, in what was widely described as "the largest experienced by any country in economic history", they not only restructured their entire economy and banking system but went on to identify the criminal behaviour of the bankers responsible,



an end to



by Gordon
Craigie



prosecute them and send them to prison. Last year the biggest circulation Icelandic newspaper *Fréttablaðið* reported that 36 banking executives had been jailed for a total of 96 years after being found guilty of charges including fraud, market manipulation, embezzlement, breach of fiduciary duty and making fraudulent loans. Compare and contrast with the actions of the Great British Establishment, who knighted their counterparts in the UK... Meanwhile, back in 2008, oor Gordie Broon had essentially labelled the Icelanders 'financial terrorists' by invoking the Anti-Terrorism Act (2001) to freeze all Icelandic assets in the UK!



Innovative design concept for new Scottish banknotes [Image courtesy Amy Dunne Illustration (Instagram @amydillustration)]



The Central Bank of Iceland oversees the Icelandic króna

Still, the Icelandic bankers got off lightly compared with poor old George Morgan Esquire, an agent of the Bank of Scotland who in 1826 was fatally shot in Scotland's last recorded duel! A linen merchant from Kirkcaldy, David Landale, had taken exception to Morgan making his financial details public and duly challenged him to settle the matter with 'pistols at dawn' the next day in a field near Cardenden. Strange and shocking though that whole episode is, some related details are even stranger. The *Fife Herald* reported at the time that "Mr Morgan received his death-wound from the very same pistol that killed his father who, it is said, met with his death in a similar manner, namely, in a duel with the father of Mr Landale"! That contradicts

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another report that states Landale had bought a new weapon in Edinburgh and that its modernity was possibly a telling factor in his victory. Irrespective of which pistol was used and which story is most accurate, Morgan was dead! Landale was subsequently tried for murder at Perth where he was acquitted due to his being 'unreasonably provoked' in the eyes of the judge and jury. He would go on to be Provost of Kirkcaldy and, clearly, the two families didn't hold grudges as his daughter later married Morgan's nephew!

As an aside, what's the story with Kirkcaldy and the world of finance? Apart from the unfortunate Mr Morgan, the Lang Toun was also the home town of the influential economist and philosopher Adam Smith. His 'magnum opus', *The Wealth of Nations*, is still influencing economists today even if they don't always agree over its meaning. One thing however is certain, Smith believed that, "No society

Duelling pistols displayed in the Kirkcaldy Galleries (Photo credit Gordon Craigie)



Ancient Bank Building (Banco de Portugal) at the Largo de Portagem Square in downtown of Coimbra





can be flourishing and happy, of which the far greater part of the members are poor and miserable." He would surely recognise the UN report highlighted earlier as evidence of this. Of course, Kirkcaldy is also associated with the aforementioned Gordon Brown, the self-professed "saviour of the global financial system" – aye, that's worked out well for all of us! Then again, he wasn't actually born there, so maybe that's why his particular brand of economic genius hasn't stood the test of time...

Anyway, we appear to have, thankfully, progressed beyond shooting bankers even though we've also been 'unreasonably provoked'! But we don't look likely to see any of the 2008 culprits brought to justice this late in the day, so where does Scotland's banking stand at present? Early last year the Royal Bank of Scotland announced branch closures despite announcing first quarter profits of £792 million! The Clydesdale Bank has bought Virgin Money and, in addition to the £1.7 billion cost, will be committed to paying Richard Branson £15 million annually for 'branding' royalties! And there's still the possibility, as yet unsubstantiated, of his coupon replacing Robert the Bruce's on the banknotes!!! TSB may have returned, nominally, to being 'Scottish' following the enforced break-up of Lloyds – its Head Office is in Edinburgh although it is owned by the Spanish banking group Sabadell – but didn't cover itself in glory while disentangling its IT systems a few months back. And what of the Bank of Scotland – fifth oldest bank in the UK and the only Scottish commercial institution with a direct link to the original Scottish Parliament, having been established by an Act of that parliament in 1695...? Sadly, still tied to the Lloyds Banking Group, that pillar of the London Establishment!

The creation of the new Scottish National Investment Bank is welcome for all sorts of reasons, but it won't do anything directly for the average consumer as its focus will be on supporting businesses, specifically SMEs (small and medium-sized enterprises). When the Airdrie Savings Bank closed its doors in 2017 after 182 years, Scotland lost the last of its traditional savings banks. With the 'big boys' all being controlled outwith Scotland, one of the first priorities once we regain our independence must be to reconnect with our proud banking history and establish retail banks owned in Scotland, headquartered in Scotland, working for Scotland, overseen by a Scottish central bank – perhaps the ideal time to reclaim **the** Bank of Scotland controlling, and funded by, our own Scottish currency? It's not as if we haven't done it before – Scotland successfully used its own currency for hundreds of years before the Union, and it was a Scot, William Paterson from Tinwald in Dumfriesshire, who founded the precious Bank of England in 1694. Ironically, when the English banking system collapsed in 1825 Scotland was unaffected as our banks were managed on an entirely different basis. As part of their recovery the English banks adopted the Scottish joint-stock system... but, you know, too wee, too poor, too stupid! Anyway,



Prototype new coin set based on the Scottish Ryal, originally in use in the 1500s [Image courtesy Scotmint (www.scotmint.com)]



Adam Smith statue, Edinburgh

currency and banking are issues which will no doubt continue to be much debated in the coming months, particularly as we head towards a second chance at voting to regain our independence, however, and whenever, that vote comes about.

As independent sovereign states, Portugal and Iceland have many differences yet have both recovered from crippling financial crises in relatively short timescales. Importantly, they both demonstrated the political flexibility to reject austerity policies once they realised that approach wouldn't work. Both have central banks – Banco de Portugal and Central Bank of Iceland. Banco de Portugal has overseen two changes to its national currency – from the *real* to the *escudo* in 1911, and from the *escudo* to the *euro* in 1999 – and

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Bank of Scotland Head Office, The Mound, Edinburgh - since 1806



is a member of the European System of Central Banks. Meanwhile the Central Bank of Iceland has complete responsibility for the Icelandic *króna*, with Iceland proudly being the second smallest country in the world to have its own currency and monetary policy, the smallest being Seychelles. Only in Scotland, apparently, is the decision about national currency deemed to be controversial, problematic or, in cases of extreme exceptionalism (aka, the Scottish cringe), impossible! These two countries, along with every other **normal** independent country, find their own solutions to whatever issues arise without waiting to be told what is good for them. (By the way – interesting aside – at present there are 180 currencies operating across

Scottish one farthing copper coin from the 1790s



At present there are 180 currencies operating across the world's 195 countries

the world's 195 countries.) Portugal, inside the EU, rejected austerity and its government, supported by its own central bank, implemented its own radical investment-based policies to restore prosperity to the nation. Iceland, outside the EU, effectively did much the same. The common factors were a rejection of neoliberal austerity, state control of central banks, and the political will to serve the citizens. Hopefully all these things are coming to our proud wee nation very soon when we finally, after 300+ years, return to the **normal** situation of making our own decisions and serving our own citizens. Now is not the time? Aye right, **we'll** be the judge o that!