Briefing

The Financial Crisis

In responding to the crisis in financial markets over the past week, the STUC has argued that:

- the ‘financialised’ economic model pursued with particular vigour by the US and Britain is now dead in the water;

- financial markets require more effective regulation as a matter of urgency;

- more effective regulation is only part of the story. The economy must be rebalanced – the ‘financialised’ model which exaggerated and skewed the role of financial services was never sustainable; built as it was on rapidly expanding household debt-income ratios and corporate debt-equity ratios. Policy should now emphasise stabilising and growing manufacturing investment and employment;

- events of the past week have only served to highlight the vacuity of the anti-government crusaders on the fringes of Scottish politics and media. The free-market economy is a myth. Regulation is a public good. Efficient economies require appropriate Government oversight and intervention; and,

- With the end of the unsustainable ‘financialised’ economy, there now exists an opportunity to build a society where the fruits of sustainable economic growth are broadly shared with those who create that growth each day of their working lives. To do this it will be necessary to create an economic architecture that reconnects a strong, flexible economy to the living standards of all, not just to residents of the penthouse.

HBOS

The proposed Lloyds TSB takeover of HBOS is the inevitable consequence of regulatory and management failures. ‘Spivs’ may have accelerated the demise of HBOS as an independent company but there is no escaping the management failures that invited the speculative activity; management failures that are in themselves a function of lax regulation and the reward mechanisms blighting the UK’s model of shareholder capitalism.

This assessment is not to underestimate the potential threat to jobs and the loss of a major Scottish headquartered institution.

Action

The demise of an independent HBOS and the financial crisis are inextricably interlinked. We now require a coherent and consistent response from Government.

HBOS

The Scottish Government must:

- press upon Lloyds TSB’s Board and senior executives **the importance of immediate and comprehensive engagement with the recognised trade unions.** It is imperative that the workforce is fully informed and consulted as the takeover proceeds; and,

- maintain the alliance with civic Scotland to **ensure that pressure is brought to bear to retain jobs and HQ functions in Scotland** – as a minimum, there should be no compulsory redundancies.

Regulation of finance

An economy based on deregulation of markets, asset price bubbles and consumption fuelled by prodigious levels of debt was never sustainable. The STUC has pointed this out relentlessly but Government at all levels (Scotland and UK) was not prepared to listen.

- Regulation is a reserved matter but **all politicians can play a role in changing the prevailing business culture – a very clear signal should be sent to the markets that the reckless behaviour that became endemic over the last decade will no longer be tolerated**.

At UK level, Government and regulators must act to effectively regulate the markets. Priority should be given to:

- reducing the risk from executive reward mechanisms which incentivise reckless behaviour; and,
- effectively regulating the securities market. Far from improving stability through risk-dispersal, securitisation only served to globalise the consequences of reckless lending in specific markets. All financial securities should now be traded in licensed exchanges by organisations whose accounts are subject to regular inspection.

Rebalancing the economy

Finance should support the wider economy, not destabilise it. Despite light touch regulation, the UK financial sector has become no better at supporting the productive sector. The share of domestic lending going to manufacturing declined from 5.2% in 1999 to 2.3% in 2007. Therefore, the Scottish Government should:

- establish a **Scottish Investment Bank** to provide patient, committed long-term capital to growing Scottish companies; and,

- working with stakeholders and using all the levers available to it, design and implement a **modern industrial strategy for Scotland**.

Council of Economic Advisers

The STUC is not remotely surprised that George Mathewson, Chair of the CoEA is also Chair of a hedge fund and that the fund engages in short-selling. The STUC supported the principal of a CoEA based on the US Federal model and could see no reason whatsoever for inviting business people to participate. The Chair's credibility disappeared during his first appearance before the Economy Committee when he argued that the main issue facing businesses in Scotland was an over-regulated labour market - thereby ignoring massive international evidence to the contrary.

- **The First Minister should act to ensure that the CoEA begins to interact with stakeholders in the economy** – he should use the Bank of England as a model. The BoE's Agent in Scotland ensures that MPC members have access to the full range of views across the country.

Powers of the Parliament

- The HBOS situation and wider financial crisis raise serious questions about regulation, ownership and control and the role of Government and central banks. **Both the National Conversation and Calman Commission need to engage with these issues as a matter of urgency**. It is incumbent on all parties to develop and articulate consistent plans for the regulation of banking and finance in Scotland.

STUC
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