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From Panel 1 The World Land-Bridge: It’s Being Built!

The Power of the BRICS Process: Views from the UK — Michael Meacher

Interview with Michael Meacher, MP (Labour), Member of the House of Commons, United Kingdom

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Gabrielle Peut: Good afternoon, I’m Gabrielle Peut and I am here in Westminster, London. Joining me today is the Right Honourable Michael Meacher. Good afternoon, Michael.

Michael Meacher: Good afternoon.

Peut: Thank you very much for your time.

Meacher: Very pleased to give it.

Peut: By way of introduction to our audience, you have been a life-long member of the Labour Party and a Member of Parliament for 45 years.

Meacher: Correct!

Peut: Including 29 years on the front bench and 11 years as a Cabinet Minister. In 2007 you challenged Gordon Brown for the leadership of the Labour Party because he was just a continuation of Thatcher and her brutal austerity policies and of course we had Blair on behalf of the major banks and super-rich. In 2013 you wrote a book entitled *The State We Need: Keys to the Renaissance of Britain*, in which you called for sweeping reform of the economy of the UK and for the world as a whole. Now, obviously I would like to ask you a few questions about the pathway you outlined there, for the recovery of the physical economy of the UK, as well as for the world as a whole, but I first want to start with what is drastically wrong with the current system, and of course, some of the breaking developments, so to speak.

We know, on top of all the criminal activities of the major City of London banks, such as fixing the LIBOR rate, which of course is the world’s bench mark for interest rates for many things including home mortgages; we have manipulation of the foreign exchange market, which is the largest market in the world; and we have had the drug money-laundering, as well as the mortgage scams and many other numerous scams taking place. Most interestingly, we now have the Serious Fraud Office that is investigating the Bank of England for complicity with the big banks, in the rigging of the markets.

You also wrote that given the present financial structure, and I quote here, “that another financial crash is inevitable”. Michael since you’re so close up to all

these events, I would like you to comment on the extent of this criminality, as you see it, and why this crash is inevitable, unless we implement Glass-Steagall legislation and very soon.

Meacher: I think it is inevitable as long as the investment and retail arms of the banks are not separated. It is very significant what happened—I think it was 1933 that Glass-Steagall was enacted in the U.S. and it was repealed very unwisely, by the Clinton administration in 1996 [1999 *–ed. note*], I think. And that was 63 years in the course of which there were no major banking scandals. There were some financial breakdowns, but not on any large scale.

After 1996, within 12 years, we then get a massive crash which crossed the whole world, but which began in Wall Street and the City of London, and was really based on the banks and their misuse of the subprime fiasco in order to spread and disseminate derivatives, which are highly lucrative across the world, at a very high profit to themselves. But it turned out, because the people who were at the base of it, were supposed to provide the value of the asset, the subprime mortgage owners, of course couldn't maintain their mortgages and then in the end so many of them crashed, that those assets were worthless. The fact that the banks did that on the scale they did, I think is staggering.

The Queen asked why is it, that no-one foresaw the crisis coming. Well, a few people did actually, but not many. But, I mean, the system is absolutely rotten. The level of regulation is very poor and that of course is partly because in this country, in the UK, Blair insisted on what he called “light regulation”—light regulation virtually meaning no regulation at all. He was persuaded of the U.S. view, the U.S. ideology, the so-called “Washington consensus”, that the market should be the driving force, we should have deregulation of finance, we should have privatisation of all public institutions and public services wherever possible, the trade unions should be kept firmly in check, and, lo and behold, you will get increasing inequality, and once again the rich and the powerful will do very well.

Blair, after 18 years of Tory government, with a majority, I think, of something like 250 in the House of Commons, could have done anything. He chose to maintain that ideology, and within 10-12 years we have a crash. That ideology has not changed. The only things which have been done, are the imposition of higher capital ratios, that is the amount of capital which a bank must have in order to spread its lending, which has been 25 to one, and I think it has gone up to 33 to one. I mean these are proportions which are totally irresponsible! That has been changed under the Basel III arrangements but it isn't to come into operation until 2019! As though we had all the time in the world, leisurely, to walk towards this.

Well, I don't think anyone can immediately predict exactly how it is going to happen, but the banks which in 2008/09 were regarded as “too big to fail”, so they had to be bailed out, are now, all of them, both on Wall Street and the City of London, substantially bigger than they were. Their dominance is even greater. There is no sign of remorse, or of a wish to change. They simply want to go back to the status quo ante, to the situation which they dominated, including the politicians, with all three of

the main parties in the UK, frankly, I won't say beholden to them, but accommodating them, to a degree to which one does ask, "Who actually runs Britain? Is it the banks or is it the government?"

So in that situation the banks are, I think, greedy. I think the level of bonuses which we are seeing, even at times when average wages in this country have gone down 8 per cent in real terms, on average; the bonuses are still enormous. I mean, the level of profit which they are demanding from high-risk speculation, hasn't changed. The level of productive investment in the UK is far too low compared to other countries, especially to the Asian countries, and the money is lent, not to industry, not to manufacturing, not to public services; it is lent on foreign speculation, it is spent on tax avoidance on an industrial scale, as we all now know. It is spent on derivatives which, for a time, they suppressed because of the public outcry, but it has now expanded to a market which is just colossal. I think we are talking about 10 or 15 or 20 trillion, or even more! I mean, just staggering totals. And there has only got to be just one flaw in that colossal pyramid, and the whole thing could break down.

So, for all of these reasons: like the Bourbons, as we say in this country, they have learnt nothing and forgotten nothing. There has been no absorption of the causes of this crash, no commitment to fundamental change. It's not surprising that this has happened with a Conservative government, because the Conservative government in this country gets half of its income every year in donations from the finance sector, so they are not going to make any changes. But the Labour Party has still, in my view, been extremely cautious, not to say timid, in being prepared to make fundamental changes.

I think that has to be Glass-Steagall, right at the front. I think the banks need to be broken up. We have the Big Four who dominate 85 per cent of retail accounts in this country and I think that is not competitive. You feel, if you are in one of these big four banks (as I am, I have to say), what is the point of changing because they are all the same? They are not identical, but there is no real fundamental difference. And you need real competition. You need many more entrants into the market and the Big Four prevent that happening.

Peut: Michael, if I can just ask, because we do have coming up, the elections in the United Kingdom, which by all accounts, it would appear to be, with the SNP vote growing enormously in the north, that there seems to be a backlash against the Conservative government. So therefore there is a potential of a much stronger, if you like, Labour-leaning, or even Labour winning the right to govern, coming out of this election. Where do you see Glass-Steagall at that point? What potential, considering that 250 people in the House of Commons in 2013 voted for Glass-Steagall amendments to the Financial Reform Bill? How do you see that playing out post-election?

Meacher: Well, that's a very important figure you have just mentioned—250 is very substantial. It's still a minority, but it is a very, very big minority—there are 650 members in the House of Commons and they are never all there, so 250 is a very large section. Now what will happen if we have a Labour-SNP (Scottish National Party)—it

probably won't be a coalition, but some kind of arrangement, some kind of deal/pact that the SNP will support the Labour government over crucial things like the budget or constitutional issues, or votes of confidence, and they would seek, of course, to get their pound of flesh, as to what they want.

Now, I think it is very significant that what Nicola Sturgeon, who is the leader of the SNP, the new leader of the SNP, and the old leader of the SNP, Alex Salmond, is almost certain to be an MP in the House of the Commons, so both the Leader and the Deputy Leader of the SNP are now in a very strong position, and they will certainly work together. Now, what Nicola Sturgeon was demanding, was two key things as part of a potential deal. One is to move away from austerity, which I think is absolutely fundamental, and I can't help thinking that it is very curious that, from my position in the Labour Party, we might have some kind of pact with the SNP, which is pushing the Labour Party to the left, not the other way around. And the other is the abolition of Trident [the British nuclear-armed submarine program, based in Scotland]. And these are both fundamental points.

Now, what would that architecture, what would that configuration produce in terms of Glass-Steagall? I don't exactly know, because the subject in the last couple of years hasn't come up again, but because I would think that the next House of Commons is definitely going to be to the left, I am not sure how far, but I would have thought there is a pretty reasonable chance that this will come up early in the new administration, and that it is quite possible that it will pass.

Now, let me give the argument against that. [Conservative government Chancellor of the Exchequer] George Osborne deliberately set up a Commission to look at this issue, of how to maintain separation between investment and retail activities of banks, and he set up Vickers, as the chairman, and they produced a report, and as I am sure you know, what they recommended was not a split, but that there should be what we call "Chinese walls". Well, Chinese walls refers to the sort of fantasy idea that you have the same organisation, and over there you have the investment arm, and over there you have the retail arm, but they never meet and they never talk to each other, and they are completely independent. I mean, the whole idea is ridiculous.

I mean, even if there was some separation, the one thing that the City of London is good at, is regulatory arbitrage, finding a way of getting round the regulation and the rules. They have some highly paid lawyers who are very skilful at that. So that is due to come into operation and the real test will be for the new Parliament, are we going to accept that, which I think is totally inadequate to do the job, or do we have to wait until it has been in operation for two or three years and it's failing, or are we going to take a big step now and say, "I'm sorry, it hasn't been implemented, we don't want it, and we are going to go for the proper thing"?

And we do need to talk to other countries. I mean, we could do it ourselves of course, but I think it would be much more effective if we could get agreement with Germany, France, Spain, Italy, etc.

Peut: In your book, I want to come back to that, because once Glass-Steagall is implemented, obviously, you have to have a vision; you have to have a following policy to rebuild the economy, which is in terrible condition. So, in your book you called for introducing policies of “directed credit” in order to foster a major renaissance in manufacturing, in particular, in order to restore some life and some sanity back into the British economy. Could you elaborate on that?

Meacher: Yes, certainly. At the present moment, as I have already said, the banks are the body through which industry tends to get its finance, but, as is well known in this country, the banks in the last five years have not been lending to industry. I think in each of those years, the banks have been lending less to industry than they have received back from industry, repaying loans. So the amount of new finance for new investment in new industrial projects has diminished all the time. And the real reason, of course, is that the government tried to get the banks to do more bank lending, and they used this system of quantitative easing which is printing money and then bond-buying in order to put much more money in the hands of the banks in the hope that they would lend to industry. But what did the banks do? Because they had to be bailed out and their balance sheets were so weak, they used the money to consolidate their own weak balance sheets, and consequently it never really got through to industry.

So I’m saying, cut the banks out altogether. They ought to be doing that job, and I will come on in a moment to why we should be able to make them, because, in my view, the banks having behaved in the way they have done, over the last two or three decades, make it perfectly clear that we cannot trust them to carry through their fundamental function, which is to take deposits from individuals or organisations and use it for industrial investment. They haven’t done that and they are so important to the economy, and there is no reason I can see why they have changed their view on this. I think they should be taken into the public sector and we should therefore direct it ourselves, in the interests of the common good and the welfare of the people and the economic growth of the economy.

So the real reason, I think, for directed investment is that the banks aren’t doing it; we ought either to do it by taking over the banks, or we use quantitative easing—this is an alternative route—but instead of giving it to the banks, we print the money and we have a national economic council, together with key industrial leaders. I would involve the trade unions in this as well, together with the government, deciding where are the areas that we are going to invest. So we do it directly and we cut the banks out. That is what I mean by directed investment.

I mean, this is what the Asian countries have done. I am not saying we should be like China in terms of top-down. I think that is a degree which is not acceptable in the West now, but you know, they have made up their mind the kind of objectives they want to see for the economy, and they have used the mechanisms that will secure that. Well, I am in favour of that! If this mechanism doesn’t work with the banks, then remove them! Or take them over and make sure it does work, rather than trying to make a machine work that is patently going in another direction.

Peut: And it is one of the things in the concluding chapter of your book Michael, called “The Global Architecture of National Interest Capitalism”. It was very prescient, I thought, because you called for the creation of a “new, just, world economic order” which you forecast, already, would be led by the “fast-emerging and soon to be dominant economies of east Asia and parts of the Southern world” (that was your quote) and you wrote in this, that in the east Asian model, and I quote here again, “most bank credit was allocated to productive use” and that “this intervention in credit allocation was widely recognised to underpin the east Asian economic miracle. Japanese-style window guidance was also adopted by China in the Deng Xiaoping reforms of the 1980s, which laid the foundations of the very high and sustained economic growth that did not fall foul either of the Asian economic crisis in the late 1990s or the global banking crisis of 2008.”

Meacher: Absolutely. I think that is entirely correct. They have a model which works. And that is exactly what I think we should do, and I think the BRICS is a new innovation on the east side of the world, which is actually going to implement this.

Peut: Exactly. You were describing precisely the emergence of the BRICS. And of course, you very much think that Britain should orient towards the BRICS.

Meacher: Well, I am in favour of that, for two main reasons. First of all, the world distribution of power at the end of the Second World War favoured the five countries that form the Security Council, the United States, UK, France, China and Russia. Well, the world is now very different—it’s now 60, 70 years later and the world is far more multi-polar and there is no doubt that the centre of economic gravity has moved east and will continue to move east. I think, frankly, that is a way of rebalancing the world in a fair and proportionate and helpful way. I think the West has dominated for far too long. I mean, I am a member of a western nation and I think there is a lot that is good about western nations, but there is no question that the U.S., with the UK as its rather small partner, has always sought to dominate.

So, the second reason is that if you take the institutions set up at Bretton Woods in 1944, the World Bank to assist the poorer nations, at least allegedly that was what it was for, as opposed to using it as it has been used, to promote western trade and western power and western dominance over weaker countries. Secondly, the IMF, which was to deal with all countries which failed to keep up with the capitalist model, by then requiring them, if they were going to be bailed out, that they should cut wages, that they should reduce public expenditure and open their economy to imports from, believe it or not, U.S. multi-nationals. So it was always, once again, giving help, but in a way which was designed to reinforce western dominance. And the third is the WTO, the World Trade Organisation, which, again, has a view of capitalist trade which is not necessarily shared by other states.

Now all of those three, as I say, I think were basically set up to ensure a system by which global capitalism could work, dominated by the biggest powers, i.e. particularly the U.S. Now, the BRICS (Brazil, Russia, India, China, South Africa) are also very big and powerful countries and they resent western dominance and U.S.

control, and I think that if I were not British, but Chinese or Russian, I would have a similar view.

I think the West, in military terms, has pushed ever further towards the Russian border and what has happened in Ukraine is awful. It is a terrible tragedy, and the West of course blames Putin for this, but I am sure Russian nationalists, of whom he is one, see the western push right up to the borders of Russia, as something very threatening. And as I have said, what would we have felt, or what did we feel when the Russians tried to import weaponry into Cuba in 1962? We said Cuba is not allowed to make up its mind who it's going to be friendly with. They are 90 miles off the U.S. border and we are going to stop this. Well, okay, rightly or wrongly, I understand that. But why shouldn't Russia behave in the same way? Because I think their situation is very similar.

So I think the West has got to understand that it is not going to indefinitely boss the world. America has weakened, relatively, as a result of the very unwise interventions into Iraq and Afghanistan and is clearly not able to control the rest of the world in a way that it once did, and in fact Obama, of course, I think, doesn't actually want to involve America in further wars and further intervention in other countries, although his predecessor and his likely successors may well do so.

So I do support BRICS. The Chinese have also set up a new bank for development [the Asian Infrastructure Investment Bank], which I think, perhaps rather surprisingly, even the coalition government has decided to join or support, much to the chagrin of the United States, but undoubtedly not because we support it as an institution, but it could be good for trade. So there is always some other motive!

So, I think BRICS is a very valuable alternative. It is based on peaceable development. It is based on a much more equitable development across the world than would ever be produced by capitalist domination. We always talk about how far fewer people are now in poverty across the world—that is mainly of course in China—but capitalism dominates. It does ensure economic development but at a price by polarising society between the rich and poor. I hope that BRICS is going to find a better way of doing this.

Peut: Thank you Michael, thank you very much for your time, and what I would like to ask you, is if there is anything you would like to conclude today's discussion with, your vision and your hopes, to the Australia people?

Meacher: Oh, to the Australian people, in particular? Well, we always watch Australia very closely because many people think the way Australia goes, is the way the UK does and you are a relatively—relatively—new country, and one which is, I think, less hide-bound by tradition than we are, which is an advance, and also one which is quite innovative in a way that the old, encrusted nations of the north and the western world are bound by.

What can I say to the Australian nation? I mean, we look to you to find a way out of these problems. There is no single obvious solution which people have all agreed about as to escape, once again, the disaster of 2008-09 which I think could easily be repeated. And I think a country like Australia could well make a contribution

to this. All of the European nations which, I think in the past have been pretty creative, really, either under the impact of the eurozone or because of Angela Merkel, and because of austerity—I won't say they have gone to sleep, I don't think that is so, but they are no longer inventive, innovative, dynamic, thinking about the future. And we look for other countries to do it. Australia is sovereign in its own right. It is not bound by any conventions or allowances which cripple it in any way. We are over-bound by the United States. I think there is a great opportunity for Australia to show the way, and I hope you will.

Peut: Thank you very much.