Marketplace

Re bankers members of the human race? And don’t they deserve to be treated as such?

Over the past three years, the media have launched a scathing attack on the banking industry, apparently confident that it is to blame for the worst economic downturn since the 1930s. But what is it that they are supposed to have done wrong? Bankers in the private sector do not set interest rates, they do not determine the rate of money supply growth and they do not decide the levels of government spending and taxation that together fix the budget deficit. Since such variables constitute the standard instruments of macroeconomic policy and are meant to be under government or central bank control, how can private-sector bankers have been responsible for the meltdown?

If these bankers are powerful enough to have caused the recent Great Recession, why are they not entitled to take the credit for the 15 or so preceding years of the Great Moderation, which was the most benign period of favourable macroeconomic outcomes in the 20th century and perhaps ever? How can politicians boast about their ability to “run the economy” when inflation and unemployment are low and blame others—and particularly the finance sector—when macroeconomic conditions turn bad?

The hostility to bankers is a sociological puzzle. The overwhelming majority obeys the law, complies with regulations and pays taxes. In most industrial countries, they received no money from the State during the recent crisis, where “money from the State” is understood as an outright grant that is part of government expenditure. (In Ireland and Iceland, the banks’ insolvency has had huge costs for the nation, but this is not so in Britain or most other advanced economies.)

Or is it possible that bankers’ most serious misdemeanours in Britain have their origins 30 or even 40 years ago? It was then the great post-war boom in offshore finance—in so-called euro-banking, euro-bond issuance, currency trading, the origination, and sale of derivatives, etc.—began. Productivity in international finance benefited hugely from two big-picture trends: globalisation (which expanded markets and led to economies of scale) and computerisation (which multiplied the trading volumes which could be processed efficiently). Personal incomes in banking and related financial activities rose much faster than in the economy as a whole.

By the early 21st century, the City of London was an unregulated casino where much wrongdoing took place. One evil was that the people in the City took great risks, worked long hours and received large bonuses. The worst crime was that the bankers who were successful and dynamic and employed diligent and capable people who became much richer than the national average. This diligence and ability therefore led to extra inequality that in a small-minded Britain and an increasingly envious Europe was unforgivable.

The European Union has just pushed through an Alternative Investment Fund Managers Directive (a law, in other words) that is intended to stop a range of activities that had been conducted, unobtrusively and within the law, for the previous 20 years or more. One of these activities—that of private equity investing—was blessed by New Labour in its early years as being a particularly worthwhile kind of finance and received large fiscal advantages because of its supposed contribution to the nation’s economic wellbeing. Now private equity professionals and hedge fund managers are leaving Britain because their activities will be illegal. They are moving to more congenial centres, such as Switzerland, Hong Kong or Singapore.

This is not the first time in the last millennium that European jurisdictions have spurred the emigration of rich and successful minority groups active in the financial sector. Indeed, it is not the first time that such groups have been deemed “socially useless” (to quote a phrase made familiar by Lord Turner) because they dealt in money or that their property has been regarded as appropriable by the state by means of special levies. England led the way when it expelled the Jews in 1290, Spain followed after 1492 when it expelled the Moors and the Jews, and so on, through to the barbarisms of the last century.

The directive is different in degree from this barbarism. But in its surrounding rhetoric, it is depressingly similar. Britain’s hedge fund and private equity executives had done nothing wrong, apart from being clever, hard-working, rich and successful. And—precisely because they were clever, hard-working, rich and successful—the EU’s political elites couldn’t stand them.