

Brown risks reining in the banks too far

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Recession is potentially hostile to competition policy," notes John Fingleton, CEO of the Office of Fair Trading, and one of the industrial world's most influential enforcers of competition laws.

It seems like a long time since Gordon Brown sat in the Treasury, happily presiding over a growing economy that benefited from his decisions to stay out of the euro and to grant the Bank of England quasi-independence. Those were the days when the chancellor had time to think about how to improve the supply side of the economy, how to make it more responsive to consumer demands (the public services excepted), how to break the grip price-fixing cartels held on the economy. And not only for the traditional reasons Adam Smith laid out in his *Wealth of Nations*. Those had to do with economic efficiency.

Brown knew that competition provides not only a good deal for consumers, but a more mobile society, one in which entrenched interests cannot conspire to snuff out the new entrepreneurs who produce the gale of creative destruction that contributes so much to rising living standards.

I remember our in-depth discussions on this subject, and the then chancellor's decision to

overrule his Cabinet colleagues and make price fixing and other cartel behaviour a criminal offence. Fines are no deterrent to such behaviour: they are paid by shareholders, not by price-fixers, and are viewed merely as a cost of doing business. Jail is another matter altogether. Missed social engagements, bad food, ejection from the House of Lords (perhaps), social stigma.

That was then. Now Gordon Brown has moved on to Number 10. And to an economic crisis. Fingleton recognises that his agency must "display a degree of pragmatism in recognising times when other policy interests may over-ride competition policy". But he would like the virtues of a competitive economy kept in mind by the recession-fighters.

Unfortunately, the measures ignore the need to preserve a competitive economy, one that will breed and sustain firms that can contribute to long-run economic efficiency and social mobility, and be the lean and mean machines that Britain needs to compete in a globalised economy.

Start with the banks. The Prime Minister has seen fit to waive competition rules to force bank mergers, producing what some wags describe as two drunks holding each other up. So post-recession Britain will inherit a



Irwin Stelzer
believes that over-reaction to the recession would be as bad, or worse, than doing nothing

heavily concentrated banking sector – risk-averse, no competitive pressure to innovate, no need to cater to consumers.

This might sound attractive given recent excesses. But once a regulatory regime is in place, the excessive risk-taking and warped compensation system that contributed to the present difficulties will have been brought under control. Britain will need a competitive, as well as a properly regulated, banking sector. It will also need an economy in which newcomers are not forced to

compete with industrial dinosaurs given a prior claim on the nation's capital by a government that has put them on life support.

Still, the recession must be confronted. Brown is right to try to unfreeze the flow of credit to all firms competing for it. He could do even more if he would have a competition advocate sit in the room with the bankers and CBI types who fought his pro-competition efforts. Competition might have to take a back seat in some cases, but that should be a decision taken only after hearing alternative, pro-competition proposals.

No discussion of this subject would be complete without reference to two areas in which the Prime Minister's enthusiasm for competition has always been, er, restrained. Brown views competition by private sector players with the public sector with suspicion. Private health care providers have to jump through so many hoops that they cannot compete with the NHS on a level playing field. And Brown did undermine Tony Blair's attempt to improve the performance of state schools by forcing them to compete with each other and with private-sector alternatives.

Then there is the competition between nation states for businesses and mobile talents.

Nothing offends Brown quite as much as "tax havens": he plans to attack them at the G20 meeting in London in April. Illegal havens, of course, should be shut down. But legal competition by governments to attract businesses by offering the most attractive mix of low taxes and quality public services is as effective in making government efficient as competition among retailers, or producers of a host of household goods, is in forcing private firms to be efficient.

France's Nicolas Sarkozy is offended when Brown cuts VAT; he doesn't like the competition. And Brown is offended when other governments woo British firms by offering to lower the "price" – taxes – charged for residence. He doesn't like competition that might force him to lower his cost of doing business – the wage bill of the bloated public sector.

Fingleton makes a powerful point. "When the current recession is over, the UK and the EU will face even stronger competition from growing economies... Restrictions on competition would represent a long-term drag on the economy in the future." A less frantic Gordon Brown would once have understood that.

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