AM: Lord King, good morning to you.
MK: Good morning, Andrew.
AM: We were talking in the paper review about general anger against the elites. Is your economic warning part of the reason, do you think?
MK: I think it is. I think that in the wake of the last crisis — and it was only the last of a many — a long series of crises, that governments and central banks did boost employment and increase spending, and in the short run that prevented the rise in unemployment that we saw in the great depression. So we avoided a great depression. But since we didn’t put right the fundamental problems living standards have continued to grow very slowly, we’re seeing an extremely slow recovery across the whole world, and anger has built up because the people who are suffering weren’t those who felt responsible for the crisis.
AM: And the usual ways of trying to get out of this problem of low growth and people feeling very angry because they haven’t got high enough incomes and so forth, which is low interest rates, that’s been tried and tried and tried and it’s run out, really.
MK: Yes, it was sensible to cut interest rates and to increase government spending in 2008-2009, but that’s a temporary solution, it’s a painkiller, if you like. And if all you do with painkillers is keep taking them but never deal with the underlying symptoms, you don’t get better.
AM: Now, you say in your book that it’s virtually certain that we’re facing another financial and economic catastrophe or crash. Why is that?
MK: Well, in the very long run and we don’t know long that will be, the banking system is still potentially subject to the sort of runs that we saw during the crisis. Now, no one knows when that will be. But what is clear about the world economy is that most
countries, if not every country around the world, could say, if only
the rest of the world was growing normally we’d be fine. But since
it isn’t, we aren’t. And so you get countries competing with each
other to push down exchange rates.
AM: You say – you’ve got the reputation of being a cautious,
underspoken man, if I can put it that way, but you say in the book
that unless we get reform of the financial institutions, another
crisis is certain, sooner rather than later, which will scare off
people watching.
MK: Well, we shouldn’t be scared. The banking system is safer
now than it was before the crisis. But it’s not safe enough. And
what I say in the book is that we do have 10 to 20 years to put in
place measures that will make our banking system much safer. In
the short run what we need to be worried about actually is the
rest of the world. The euro area which still has immense
difficulties, China, which is not growing as rapidly as it claims to
be and the banking system there is in trouble. Many countries
around the world are now starting to compete with each other
rather than cooperate with each other.
AM: So we should be worried about the failure of a Chinese bank
or a bank in another part of the world setting off the ripples that
we saw last time round?
MK: Yes. I think one of the things which people perhaps didn’t
appreciate enough last time and which I think the United States
doesn’t appreciate today is that events all around the globe can
affect our own economy.
AM: Now, it’s very clear from the book that some of the things
that you want to happen have been talked about for a long time:
dividing, as it were, ordinary banks that ordinary people use to
put their money into from what has been called, perhaps unfairly,
casino banking, and then greater leadership by the IMF and so
forth. In the end you’re talking about a lack of political leadership
at the top level, a lack of decisive leadership. And I wonder why
you think that’s happened. Is it because, frankly, politicians have
simply been intimidated by the bankers and the financial services?
MK: Shall I say two things? One is I don’t try to split banks into narrow and wide, I want banks like motorists to take out insurance before they go on the road. And the whole point about that is that if you decide to drive a bigger and more dangerous, faster car, you pay a higher insurance premium. You don’t need to ban people from driving certain cars. And that flexibility, I think is one of the key points of the book. To come back to the question of leadership, I think – and politicians – it is very difficult for countries in the end to work for each other. I’ve been to every G20 meeting until I left the bank, and frankly most of the people there were looking at their home constituencies and domestic political considerations, not really facing up to the major challenges. But there was a problem before the crisis, and I suspect it hasn’t gone away, that the large financial institutions had an influence – it wasn’t crude in the sense of, you know, bribing people in any shape or form, though I’m sure there are some countries around the world where that’s true. Not here. But first of all, politicians depend on finance and funding, and you can see clearly in the United States how much they depend on financial institutions to pay for their campaigns. And here – AM: Too close.
MK: And here people were rather captured by the apparent success, everything was going very well.
AM: They were starry-eyed.
MK: They were starry-eyed, because this was a sector that appeared to be making ever-bigger profits. And the big question you should always ask when someone’s making a lot of money is, so what risks are they taking?
AM: Sure. Sure. Now, in the book also, The Alchemy – The End of Alchemy it’s called. In the book you are very, very critical of the Eurozone. You say this is in fact a terrible disaster. You suggest Germany might be better off leaving the Eurozone, but they’re going to go for deeper and deeper integration to try and make it work. And you talk a lot about the importance of national sovereignty and people having some control over their destinies. I
have to say, reading this book, I came to the obvious conclusion that you must be in favour of us leaving the EU rather than being shackled to this Eurozone disaster.

MK: I don’t think you can draw that conclusion. It’s very clear that we are influenced and affected by what goes on in the euro area, and as I describe it, it has been a, I think, economic, if not disaster, very serious problem. And it’s affecting us.

AM: The most divisive policy since the Second World War.

MK: Yes. Because the – you know, the motives behind the creators were of the very best. In particular, in Germany. Germans wanted to bind Germany into Europe so the rest of Europe would never again be frightened of Germany. It’s had exactly the opposite effect, and if you look at the attitudes towards Germany today in Greece or even Italy, you see there’s more tension and concern about Germany than ever before. And this is a headache for Germany. They didn’t set out to find themselves in this position. But the economic arithmetic has led them inexorably to it. And that is why in the longer run the euro area, not the EU but the euro area, is something that we should all be concerned about.

AM: But isn’t the problem, so long as we are inside the EU we are tied to the euro area very closely. We can’t influence it, we’re not part of it, that’s true, the Prime Minister has kept us out, but we are tied to it and therefore if it goes down, if it gets into terrible trouble we will be badly affected?

MK: That will be true in or out. The euro area is our biggest trading partner, that’s going to carry on being the case, and therefore it does matter to us what goes on there. I worry that when I’ve – you know, this is now going to be a battle between the political will of an elite that created this and daren’t now admit that it was a mistake, and economic arithmetic. And we’re all going to suffer from that.

AM: Mervyn King, on that cheerful note, thank you very much indeed for joining us.

(ends)