5 Some Criticisms of Investment Credit Economics

5.1 INTRODUCTION

Any observations which critically appraise the relationship between banks and industry in Britain are sure to find a ready and well-funded response. It is perhaps unfortunate that all the criticism (of this new investment credit economics) has been originated by groups or individuals in the pay of the clearing banks, but that is perhaps inevitable. All these criticisms could be seen as the predictably defensive reactions of a well-established and cautious clearing banks' cartel, who naturally have a very rosy view of themselves. But on occasion these critics have made some quite substantial points, and even if I disagree with most of what they say, I do not presume infallibility on all issues, and if they are right in part of their criticism I shall not hesitate to say so. Equally, however, they frequently construe and interpret data in a manner and with a bias which consistently favours the clearing banks' cozy view of things; and where I thoroughly disagree with their data and interpretations I shall also make that difference quite clear.

There are three broad categories of criticism: first, the academic abstract criticism, which alleges that I am theoretically wrong because of the logical superiority of free markets above planned economies; second, the broadside criticism, which alleges that I am in error in general and in every particular; and third, the specific criticism that I have misrepresented one particular issue or failed to understand some specific situation. There is a possible fourth category, which is at best only an elliptical criticism – the self-justifications of the clearing banks or the documents issued by the Public Affairs Unit of the Committee of London Clearing Banks (usually abbreviated as CLCB), which appear to present data for public information but which actually praise the clearing banks, whatever the reality of the recent circumstances. Perhaps that is what Public Affairs (or public relations) Units are all about.
The first document I have chosen to examine in this chapter (Section 5.2) is a memorandum for the NEDC Committee on Finance for Industry called The Banks and Industry: Some Recent Developments, dated July 1981. This document belongs to the fourth group mentioned above: it is a self-justifying document, which purports to be informative, but presents data with a pro-banking slant, with the result that it misinforms more than it informs. The words in this document describe rapidly increasing bank assistance to industry in monetary terms; making allowance for the monetary growth of the economy, support actually fell as a percentage of GDP. The words describe rapidly increasing term lending in monetary terms; the minor increase in term lending was more than offset by a reduction in overdraft lending when both are expressed as percentages of GDP. Industrial instalment credit was static as a percentage of GDP - virtually all the vast claimed increase was due to monetary growth - and the real increase from 1976–79 in leased assets (at +0.8 per cent of GDP) was less than the collapse in export lending (at −1.28 per cent of GDP from 1977 to 1980). All in all, the report claims increasing financial help to industry through advances which are wholly due to the inflation of GDP value and the words in the report are completely unsupported by the data. This is a paper which attempts to justify the clearing banks' record, but utterly fails to perform that function, except perhaps for those who read the words without understanding the numbers.

The second CLCB paper I have chosen to analyse is possibly the best example of the broadside criticism, alleging that I am wrong in every point I have made, and is the March 1982 report 'Bank Lending and Industrial Investment: A response to Recent Criticisms' produced by Dimitri Vittas and Roger Brown and published by the CLCB in March 1982. In many ways, this is a fascinating report; it is the best attempt the clearing banks have ever made to deny all criticism. The paper alleges it has two purposes - first, to expose serious errors of fact and argument in my criticisms of bank lending; and second, to accurately describe the key features of bank lending to industry in five countries. However, in my opinion, the Vittas–Brown report has an undeclared but obvious third purpose which overrides both these declared objectives – it has been produced, like virtually everything emanating from the CLCB, to deflect all criticism from and to glorify the British clearing banks. The Vittas–Brown report is too complex to be summarised here, beyond remarking that in my view here are certain difficulties in declaring an allegiance to truth while