



FEDERAL UNION

61 Leopold Road, London N2 8BG

info@federalunion.org.uk
www.federalunion.org.uk

Her Majesty The Queen
Buckingham Palace
London
SW1A 1AA

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Madam

Your Majesty will have received a letter from the British Academy of 22 July 2009 opening an enquiry into the question of why nobody had predicted the crisis. Of course, it is welcome that such eminent scholars should undertake an investigation of this question, but I hope you do not think it out of place for an interest group to express some opinions of its own.

Federal Union was founded in 1938 to campaign for federalism for the UK, Europe and the world. It has argued since then that democracy and the rule of law should apply between states as well as within them.

The answer to the question of why nobody predicted the crisis is that, in fact, people did. The growth of an enormous bubble in housing prices and the accompanying surge in personal indebtedness was seen by many observers as dangerous, and the fact that such unwise policies were being pursued not only by individuals but also, as it turned out, by the banks turned the recession into the greatest economic crisis in two generations.

In fact, without swift and effect intervention in the credit markets last autumn by the British government and other governments, every single bank would have collapsed for the lack of available credit. Even those that had not made bad or risky loans themselves were still dependent on liquid credit markets to continue to operate profitably. The situation could not have got more serious without complete collapse of the financial system.

The question, then, is not why the crisis was not predicted but why it was not averted sooner. Part of the reason might have been a misguided market fundamentalism. Some people argued that markets were always right and that regulation was always wrong. But if the failure of communism in 1989 and the collapse of the Soviet Union in 1991 proved beyond doubt the superiority of a broadly free market economy over a state-controlled system, the failure of capitalism last autumn has proven equally that even a free market economy needs to be regulated.

But there is a second reason, which is that financial regulation needs to be enacted on an international basis and not merely a national one. If that is the scale on which companies and markets are now operating, that is the scale on which they should be regulated. However, this point is still, regrettably, controversial. If there is hostility to regulation, there is even greater hostility to international regulation.

Federal Union was founded in 1938 upon the realisation that it was no longer possible for any individual country to assure its own peace and security. Such assurance could only be found through a shared international framework of law. The peace of Europe since 1945 shows that this realisation was correct.

The experience of the recent financial crisis shows that it is not possible for any individual country to assure its own prosperity and financial stability, either. Future economic policies and structures have to be examined not only from the point of view of a single country but from the point of view of the world as a whole.

Federal Union looks forward to engaging in the debate about what form future economic and market regulation should take. We will look at proposals put forward and consider whether they address contemporary needs or whether they are still inadequate for the task.

I have the honour to remain, Madam, Your Majesty's most humble and obedient servant

Richard Laming
Federal Union