Business comment

Matthew Lynn

The crisis of 2008 still has a way to go

Interest rates are starting to rise again. Global trade is expanding despite Donald Trump's best efforts to prevent it. The equity markets are up, despite this year's wobbles, and company profits are robust. A decade on from the global financial crash, it is looking like we are starting to emerge on the other side.

But hold on. In fact, it might be far too soon to conclude the economy is getting back to normal. According to a paper presented at the Economic History Society this week that is the lesson of the collapse that most closely parallels that of 2008/09 – the panic of 1866. The hit to trade and output lasted at least two decades, with its ripples still being felt into the early 20th century. On that reckoning, we'll be living with the consequences of the crash well into the 2020s.

When the banks went down in 2008, taking the global economy with them, most people assumed we were faced with a potential re-run of the Great Depression of the Thirties. But according to a paper by Harvard's Chenzi Xu it was actually a lot more like the 1860s. Just like the run-up to 2008, the world was witnessing a globalisation boom, as new countries and markets were opened up, and capital travelled across borders on an unprecedented scale. It was fuelled by a powerful currency and financial centre – which happened to be London and sterling – and a lot of people were making a ton of money very fast. It all started to unravel when Overend Gurney failed in May 1866. Known as the "bankers' bank", it was a 19th-century version of Lehman Brothers, playing a key role in processing transactions between different financial institutions and providing the credit that allowed global trade to boom. When it failed, it caused a nationwide panic, with people rushing to get their money out. Almost a fifth of the banks headquartered in London went down over the following few months.

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The cities around the world that depended on those banks suffered an immediate collapse in exports. Those losses took decades to recover.

Xu has crunched the numbers from the Bank of England archives on trade finance, as well as the Lloyd's List data for records of port activity, to come up with some measurements for the impact on the movement of goods around the world. His estimates? The aggregate global loss in trade that resulted from this crisis was between 12pc and 16pc, which is comparable to the levels seen in the global financial crisis that began 10 years ago.

The important point, however, is this. It took a very long time for the global economy to recover from that shock. He reckons that trade levels remained below what they would have been well into the 1880s. It wasn't a five or 10-year event. Global trade still expanded, mainly because it was also an era of rapid technological innovation. But it didn't expand as fast as it would have done if the financial system hadn't been in a mess.

It is not hard to see the parallels with today. As it starts to recede, the 2008 crash seems less like the Thirties. It wasn't driven by central bank mistakes, and, unless the current disputes grow much worse, there has been no sudden lurch towards protectionism. Instead, it looks a lot more like the crisis of the 1860s, with a tightening of credit that rippled out across the globe, and a loss of appetite for risk and investment that persisted for year after year. And while the world bounced back relatively quickly from the collapse of the Thirties, the recovery in the 1860s onwards was slow and painful.

History is not always a reliable guide. And yet, it is often the only pointer we have. It might look as if industry and the markets are starting to get back to normal. Under the surface, however, many of the same problems remain. Many banks are still fragile, finance is still trying to adjust to globalisation, trade patterns remain disrupted, and growth is a lot weaker than we would expect it to be at this stage of the business cycle. The lesson of the 1860s is that it can take a very, very long time to recover from a major financial crash. We might think the economy is fixed. The truth is it isn't, and may not even be close. The ripples from 2008 will carry on for at least another decade – and any expecting regular growth to be restored from here on is likely to be disappointed.

As the Commonwealth stands at a crossroads, India is the key

Lord Gadhia *and* **Tom Tugendhat MP**

The global rules-based order is in desperate need of new champions, like India

History has a curious habit of repeating itself. In 1949, Jawaharlal Nehru, India's first prime minister, arrived in Britain for the fourth Commonwealth heads of government meeting, hosted by Clement Attlee. They were joined by leaders from Australia, Canada, Ceylon (Sri Lanka), New Zealand, Pakistan and South Africa, which all recognised the British monarch as Head of State.

Among them, Nehru was a known sceptic of the Commonwealth, keen to shed the last vestiges of imperial rule. Severing all colonial ties would also allow him to pursue a distinctive foreign policy of non-alignment and build relations with countries like Russia and China.

As India made plans to become a republic from 1950, events came to a head. Following an intense campaign led by Earl Mountbatten – Nehru opened the door to some form of ongoing association if an acceptable formula could be found.

Nehru had also started to re-evaluate the political and economic advantages for India of being conciliatory in its formative years of freedom. Mahatma's Gandhi's philosophy of "forget and forgive" is likely to have played on Nehru's mind.

So statesmanship and draughtsmanship came together in the text of the London Declaration, which "affirmed India's desire to continue her full membership of the Commonwealth of Nations and her acceptance of the King as the symbol of the free association of its independent member nations and as such the Head of the Commonwealth."

At a State banquet afterwards, George VI quipped: "Mr Nehru you have reduced to me to an 'as such'." And so the modern Commonwealth was born. Each successive country to gain independence, or become a republic, could comfortably follow India's lead and remain in the club. Following her accession to the throne, the Queen became Head of the Commonwealth, not by right of succession but by common consent.

Now, almost seven decades later, as leaders of the much-enlarged Commonwealth family of 53 nations gather in London for their 25th meeting, all eyes are once again on the Indian prime minister.

Neither Narendra Modi, nor his predecessor Dr Manmohan Singh, have attended the last three summits. And like Nehru, Modi has struggled with the relevance of the Commonwealth, looking instead to the US, Japan, ASEAN, and increasingly Israel, as his innermost circle of allies.

This matters to the group. Without India's active engagement, the Commonwealth would be a shadow of its potential. It is by far the biggest member, representing more than half of its 2.4 billion combined population and, alongside Britain, the biggest economy. After 66 years at the helm the question of the Queen's successor is also on the horizon.

With the Commonwealth at another inflection point, Indians are asking the fundamental question: what is the Commonwealth for? This is a point that the House of Commons Foreign Affairs Committee has also made in its latest report, calling for "clear aims for what the UK wants to achieve … with a credible strategy, specific objectives and metrics for success".

It is clear the Commonwealth cannot be a fully-fledged political bloc given the widely diverging interests, and long-standing bilateral disputes, between its members. But the UK could, for example, build a caucus in the UN bridging its role as the sole Commonwealth member of the Security Council with the General Assembly. Nor can the Commonwealth be a multilateral defence pact like Nato without defining common interests and a framework for military co-ordination. So this leaves economic collaboration as the only alternative.

'India could take a lead on trade and shift the centre of gravity of Commonwealth away from London'

A greater focus on prosperity would suit the British agenda. The combined GDP of the Commonwealth is over $10 trillion (£7 trillion) and includes some of the fastest growing countries and regions in the world. Intra-Commonwealth trade and investment is projected to surpass $1.5 trillion by 2020. It is also a conduit for the fast-growing corridor of south-south activity between developing economies, now representing over a quarter of world trade.

So the prosperity agenda is plausible but it cannot stand alone. Britain must show the other 52 members that its renewed focus on the Commonwealth is not just an opportunistic antidote to Brexit but a real change of heart from the British Government. Here too the Foreign Affairs Committee has called for a "long-term vision for the UK's relationship with the Commonwealth" and clarity on what "members can expect from global Britain".

A greater focus on trade and investment should certainly be welcomed by prime minister Modi as he enters a critical pre-election year. Delivering tangible results from his economic reforms will be a top priority. Aspirational India is becoming impatient India.

Beyond the short-term electoral horizon, there is also a wider geopolitical prize too. There are few international forums where India doesn't face head-on competition from other emerging superpowers. This might be relevant in Africa, with 19 Commonwealth members, allowing India to bring counterbalance to the region. More broadly, the global rules-based order is in desperate need of new champions, like India, who are in a position of influence with Russia.

Although India's ambivalence towards the Commonwealth is understandable given the colonial baggage, and lack of clear purpose and direction, there is arguably more alignment today than in 1949.

Last November, the Prince of Wales visited Delhi, meeting prime minister Modi for the first time. He was following in the footsteps of his favourite Uncle Dickie (Earl Mountbatten) on a mission to persuade an Indian prime minister of the merits of the Commonwealth. By all accounts, the meetings were warm and friendly and it is possible to see how the contours of a New London Declaration might emerge.

India could take a lead on trade and investment and shift the centre of gravity of the Commonwealth away from London. As for future leadership, Indians understand families and the need for a "family arrangement" and "as such" might graciously repeat Nehru's words of almost 70 years ago and accept Prince Charles as the next Head of the Commonwealth.

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