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Old wine in new bottle?

Senior Lecturer in Finance from the University of Lincoln's Business School, Dr Geeta Lakshmi, considers last night's Mansion House Speech by the new Chancellor, George Osborne. History teaches us that fashions come in swings and roundabouts. Market efficiency teaches us that we can depend on the markets to signal the correct prices. Who except the [...]

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Who except the historians could have predicted that words like "policing" and "regulation" would have become jargon busting terms again. Perhaps the same people who talked about the Glass –Steagall Act many eons ago.

The Mansion House Speech by George Osborne, yesterday, emphasised the re-emergence of the hegemony of the Bank of England and the demise of the FSA. The FSA which, hurriedly, sprang in to action post-Northern Rock is to be hived off into a consumer protection wing, a crime fighter branch and one which polices the banking system i.e. Financial policy committee.

Given that The United Kingdom is strongly dependent on banking as a sector, its move to try and prevent “financial- asset bubble” culture from taking hold, and ultimately bursting, is welcome news. However, one wonders: haven’t we been down this path before? Deregulation and the growing independence of the individual became de-rigueur in the late 1980s. Who would have predicted that the Big Bang of the Financial Markets would have become exactly that – the Big Explosion?

Who indeed, except the historians who chartered the turbulent waters of the 1930s. Can economists and historians live happily together? Strange bedfellows indeed, as economists are set with their eyes firmly on “expectations” in the future and the historians look back for inspiration? Historians talk of financial hardship, the change in industry patterns in the UK and the problems with the return to the Gold Standard making exports more expensive to the rest of the world. Market efficiency proponents believe that past trends don’t predict the future. A more liberal view could be to embrace efficiency and price adjustment as a golden axe, the falling of which cannot be predicted, but which is inevitable. Perhaps historians and financial economists can get along after all.

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