

'The Scandal that's throttling Britain'

We have all heard of Parkinson's Law: "Work expands to fit the time available." Less often quoted is the second half of that law: "That public administration, bureaucracy and officialdom grows regardless of the amount of work done."

In coining the phrase Cyril Parkinson might well have had the Financial Conduct Authority (FCA) in mind so grotesquely overblown has its remit become according to Ewen Stewart, City economist and co-director at Global Britain.

It was established to reduce and prevent financial crime, put consumers' needs first and strengthen the UK's position in global wholesale markets.

All well and good you might think. But the annual cost of running such an organisation? **£755m**. You read that correctly. Nearly £1billion a year.

If ever a quango symbolised all that is wrong in broken Britain the FCA is surely it. For all those who despair at the size and scope of the bloated state, the following article should come with a trigger warning.

We re-publish the article in full below with a link to the original beneath it.

The Anatomy of our State Strangulation

By Ewen Stewart

THE BRITISH STATE is failing. Almost all agree regardless of

political hue. Economic growth per head of population , since Johnson's election victory in late 2019, has been the worst in 200 years (i.e no growth per capita at all). This is despite (or I should say because of) everything including the kitchen sink has been thrown at the public sector economy.

The scale of the increase in the size of the state is unprecedented in peace time.

As a brief re-cap public spending was £888bn when, in 2019-20 it was forecast by the OBR to be £1250bn this year. Even taking account of largely self-inflicted inflation that is an increase of £150bn in real terms. The State now spends £43,000 per household – on exactly what?

Just imagine if, when you were in your 20's, instead of paying tax you put the money into a fund to pay for all the services you might need. I'll wager you would get a mightily better service at a fraction of the cost.

As an illustration, the growth of one quango, the Financial Conduct Authority (FCA) shows how bonkers we have become. The FCA is the overarching UK financial services regulator focusing in its words on "reducing and preventing financial crime, putting consumers' needs first and strengthening the UK's position in global wholesale markets." What do we think it might cost to run such an organisation?

I conducted a small if unscientific experiment. I asked three clients all of whom work in the City, what they a) thought of the FCA and b) what its budget was.

I won't repeat their answers to a) – save they were all near identical and perhaps best left anonymous – but on the size of the budget the answers were £5m, £22m and a high ball of £60m. I would personally have probably guessed £50m adding quite a bit for bureaucratic privilege if that's the phrase.

We were all way off beam. Alerted by Rupert Lowe's **excellent**

article, the actual answer is £755m!

When I read Rupert's piece, I thought £755m was a typo. But alas it's not, you can check its budget **here**, including an inflation busting budget rise of 10.7% proposed for next year. Moreover, the FCA "to help meet our growing remit" now employees over 5,000 people – up substantially from 3,766 quoted in March 2022. Quite a growth for a stagnant economy.

The FCA's remit has indeed increased and some might argue its interpretation of its powers have stretched the limits of reason. At the start of my career the overarching philosophy was *caveat emptor*, or buyer beware. It was assumed the client was capable of making sane and rational decisions. Within the law the responsibility lay with the individual, without retrospective recourse. The unforeseen happens and that's the way markets work.

Now the FCA approach appears more like 'heads you win, tails you don't lose.' A recent example of this 'consumers cannot lose philosophy' is currently under way with its investigation into alleged miss-selling of motor finance arrangements which could potentially lead to multi-billion pound aggregate claims retrospectively on policies written, giving possible windfalls to those taking out such policies at the expense of the industry.

This is not a win-win scenario at all. Some lucky few, who seek redress, may well get a pay-out but guess what, the industry will simply claw it back through higher pricing. There is no free lunch, simply a redistribution of that lunch, arguably with less on offer.

The £755m price tag for the FCA is therefore just the starting price. The additional costs and burdens on the industry are potentially many times that, with the price to you in higher fees.

However, if the FCA is not lavish enough, it is only one of

four primary city regulators; the others being the Prudential Regulatory Authority (PRA) which is part of the Bank of England, the Bank of England itself and the Treasury.

The PRA's **budget for 2024/25** is anticipated to be £353m which is an increase of 11% on the prior year with a payroll of some 1,250 'full time equivalent members'.

What is the PRA you might ask? Well, its responsibility is "prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms creating policy for the firms we regulate enacted through the PRA rulebook." Duplication with the Bank of England perhaps?

On top of this the UK Treasury has 3,175 staff and the Bank of England around 5,000 employees. Thus, the four primary regulatory bodies in the UK will have a budget of well over £2bn and around 15,000 employees. No wonder the UK has become the global *regulation central*.

No one disputes the need for some oversight but the reality is much of this is duplication and adding greatly to bureaucratic burdens.

Budgets are increasing well ahead of inflation and with that a bureaucratic treacle comes rising costs and the stifling of the UK's competitive advantage in an industry that remains one of the UK's few areas of strategic advantage.

I promised last time I wrote that the next article would be about remedy and opportunity from the morass we find ourselves in. A key remedy is a wholesale reappraisal of what the state does. Less than 10 companies in the entire North East of England employ more than 5,000 people yet in financial services there are at least 15,000 regulators! What do they all do?

These are massive numbers and wholly disproportionate to the task in hand. Of course, some oversight is required but the

example of financial regulation is but one example.

Regulation is stifling creativity up and down the land from the new football regulator (honest, that's not a typo) to OFCOM, regulating free speech (!!) from **Defence Equipment and Support** employing '11,500 talented civil servants' – to the Office of Budget Responsibility with its 45 economists, which incidentally is around 40 more than most investment banks employ to analyse the UK economy – and with rather better forecasting records!

In 1955 Cyril Northcote Parkinson observed what was to become known as 'Parkinson's law.' Namely, "that work expands to fill the time available and that public administration, bureaucracy and officialdom grows regardless of the amount of work done". He estimated it grows at 6% compound.

Parkinson's basic premise is correct but sadly today the maths is wrong. Its growth of late has been very much greater.

So, plan one, let's reduce public sector numbers and regulations back to 2020 levels with immediate effect and set a medium term goal of resetting the regulatory and bureaucratic clock back to the Millennium.

Nobody can tell me that public services were chronic back at the turn of the century. Services worked far better then, at a fraction of the cost. Such a plan would save many, many tens of billions of pounds which could be re-cycled into growing the productive private sector, not through ministerial direction, but naturally through market opportunity and creativity.

Will it happen, outside calamity, Non. Labour certainly won't do it and we know fine well what the current administration has done. So, we need to encourage the demand for change.

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Ewen Stewart is a City economist whose career has spanned over 30 years. He is director of Global Britain and a co-founder of Brexit-Watch.org.

We thank Global Britain for their kind permission to re-publish this article which can be read in its original form here.

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