Global Economic Governance and the British Economy: From the Gold Standard to the G20

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Abstract

The paper considers the extent to which the G20 process has assisted British state-managers with key problems of economic management. It conceptualises the state as the political form of capital and argues that the institutions of global economic governance have helped British state managers reconcile the objectives of accumulation and legitimation from the Gold Standard to the G20. In particular, it argues that the technocratic approach adopted by the G20 from the finance ministers' meetings to the leaders' summits has provided British policy-makers with a discourse of international expert consensus that reinforces domestic economic strategy based on financialisation, and in the process contributes to the depoliticisation of welfare state retrenchment and labour market-discipline in the context of liberalisation and globalisation.

Introduction

Throughout the 20th and 21st centuries, the development of the global economy has been punctuated by crises that have been explained in terms of the deficiencies of global economic governance, and responded to with revisions to that framework. In the shadows of the Asian financial crisis, meetings of the G20 group of finance ministers emerged from the G7 and G8 as it was agreed that 'key emerging economies were insufficiently included in global economic management efforts' and subsequently, it was argued these meetings proved the G20's 'worth as a way of opening up and rationalizing the international dialogue'[2] on global governance. In the wake of the global financial crisis that emerged in 2007, George W. Bush's invitation to

[1] I am grateful to helpful comments from the anonymous reviewers of *Global Society*, which have helped to improve the paper.

[2] Gordon S. Smith (2011) *G7 to G8 to G20: Evolution in Global Governance*, CIGI 20 Papers No. 6, Ontario: CIGI, 5

leaders of the G20 saw the finance ministers' meeting of 2008 serve 'as a prepatory session for the subsequent meeting at the leaders' level'.[3]

As Eric Helleiner noted, 'many analysts speculated that it might generate a new 'Bretton Woods moment'', while both the French President Nicholas Sarkozy and the British Prime Minister, Gordon Brown, 'held up the hope of a 'new Bretton Woods' in the lead up to the first G20 leaders' summit in November 2008.'[4] Nonetheless, in spite of some reforms in global economic governance, including the expansion of resources for the International Monetary Fund and regulatory reform reflecting a shift from microprudential to macruprudential ideational paradigms,[5] the G20 has not produced a Bretton Woods moment of this kind and the prospect of it doing so in the future seems remote. Indeed, Eichengreen has argued that the modest approach of the G20 'will not be hailed as a New World Financial Order', even if it might go some way to making the global economy more secure.[6] In contrast to approaches such as these, which have examined the evolution of the G20 process in terms of its institutional development, this paper asks how the G20 process has helped British policy-makers confront economic challenges, and the extent to which it has posed new ones.

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[3] *Ibid.,* 6

[4] Eric Helleiner (2010) 'A Bretton Woods moment? The 2007-2008 crisis and the future of global finance' *International Affairs*, 83:3, 619-36

[5] See Andrew Baker (2012) 'The New Political Economy of the Macroprudential Ideational Shift' *New Political Economy* DOI: 10.1080/13563467.2012.662952

[6] Barry Eichengreen (2008) 'New World Pragmatism' *The Guardian* *http://www.theguardian.com/commentisfree/2008/oct/24/marketturmoil-creditcrunch*

The paper understands the state as the political form of capital accumulation.[7] This leaves state managers facing a contradiction between accumulation and legitimation that is exacerbated by the tension between the global character of capital and the national character of political authority.[8] This is because accumulation in the context of international competition relies on market discipline, and the consequences of market discipline include things like low wages, precariousness of employment, and unemployment, which have the potential to pose problems for political authority. The central argument of the paper is that institutions of global economic governance from the Gold Standard to the G20 have consistently assisted British state managers in their attempts to mediate these tensions in the context of its relative economic decline. It argues that the G20's technocratic approach to global economic governance does not question the normative basis of liberalisation or globalisation, and therefore implies both that these processes *must* be accepted, and that there is a 'correct' set of policies to govern them—which includes the acceptance of market discipline and balanced budgets. The paper suggests that this discourse serves to reinforce domestic discourses of globalisation that depoliticise the social consequences of economic restructuring in Britain by allowing policy-makers to defer to a language of international expert consensus.

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[7] The theoretical position reflects the Open Marxist tradition of state theory, captured in works such as Werner Bonefeld (1992) 'Social Constitution and the Form of the Capitalist State' in Werner Bonefeld et al eds. *Open Marxism: Volume I*, London: Pluto, 92-122 and Peter Burnham (1995) 'Capital, Crisis, and the International State System' in Werner Bonefeld and John Holloway eds. *Global Capital, National State, and the Politics of Money*, Basingstoke: Palgrave Macmillan, 92-115

[8] See John Holloway (2005) *Crack Capitalism: The Meaning of Revolution Today*, London: Pluto,

In other words, the paper accepts a broadly shared view of global economic governance as consisting of the institutions and processes through which states negotiate solutions to common problems, but emphasises the role these institutions can also play in domestic political strategies. While the institutions of global economic governance include organisations such as the IMF, the World Bank, and the Organisation for Economic Cooperation and Development, and the G20 (among others), and a full discussion of the role these institutions play in the promotion of domestic political strategies would be desirable, the constraints of a journal article mean that such an analysis is not possible here. The G20 provides the primary focus for this paper.

The first section briefly historicises the way in which various institutions of global economic governance have assisted Britain with managing its relative economic decline by depoliticising the consequences of attempts to restructure its economy since the Gold Standard era. Section two presents data to demonstrate the extent to which the tension between accumulation and legitimation stemming from Britain's relative economic decline has remained a key challenge for the British state since the 1990s, which was mediated through financialisation. The third section shows how British domestic policy has adopted a technocratic approach to globalisation, that the G20 agenda reflects this, and has contributed to depoliticising the consequences of Britain's attempts to restructure its economy by endorsing the domestically promoted view that liberalisation and globalisation are processes that place an effective constraint on the kind of policies the state can pursue. The fourth section discusses the contribution the G20 agenda has made to Britain's attempts to restructure its economy by encouraging the development of complementary strategies in emerging economies.

The British Economy from the Gold Standard to the G20

If, as Bonefeld has phrased it, we understand that 'the purpose of capital is to make profit, and the state is the political form of that purpose',[9] the focus of our analysis of challenges faced by emerging and established powers in global economic governance must shift from the form of the institutions, to the political and economic problems states are confronted with as they attempt to create conditions for accumulation. This approach is distinct from realist traditions in the political economy of international relations[10] and domestic interest / societal approaches to the development of the forms of global economic governance[11] because it does not focus on the pursuit of power or the way in which the state responds to powerful domestic pressure groups. Rather, it is concerned with the tensions between accumulation and legitimation that stem from the fact that the former depends on a disciplined labour force (with low wages, precariousness of employment etc.) and the latter on consumer demand based on high and stable earnings. This section briefly shows how institutions of global economic governance can be understood to have helped mediate that tension since the era of the Gold Standard.

The classic account of the operation of the Gold Standard and its contradictions is found in Polanyi's *The Great Transformation.* Polanyi conceived of the Gold Standard as a means of

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[9] Werner Bonefeld (2008) 'Global Capital, National State, and the International' *Critique*, 36:1, 64

[10] e.g. Robert Gilpin (1987) *The Political Economy of International Relations*, Princeton: Princeton University Press

[11] e.g. Stefan A. Schirm (2013) 'Global politics are domestic politics: a society approach to divergence in the G20' *Review of International Studies*, 39, 685-706

facilitating the expansion of trade through the use of commodity money, which contradicted the management of domestic currencies. This is because whenever changes in the terms of trade threatened the exchange rate, domestic price deflation was required in order to bring the system back into balance.[12] This process was facilitated by central banks, whose function was to cushion 'the immediate effects of gold withdrawals on the circulation of notes as well as of the diminished circulation of notes on business.'[13] However, since domestic deflation carried with it domestic social and political consequences, in a context where adherence to the Gold Standard was 'axiomatic' and where 'the supreme directive of the bank was always and under all conditions to stay on gold',[14] attempts to stabilise exchanges in the context of downward movements in prices had devastating social consequences and exposed the myth of the self-regulating market.

Polanyi's analysis therefore gives primacy to the notion that the operation of the gold standard prompted defensive countermoves that undermined its existence. Given the onset of the Great Depression, Polanyi's account fits with a conventional narrative that understands Britain's return to gold in the inter-war period as a policy failure rooted in a mistaken ideological belief in the myth of the self-regulating market. However, given the economy was suffering from 'increasing problems associated with the onset of relative economic decline, a growing dependency on industries of diminishing international importance, and a progressive rise in labour dissatisfaction', which were compounded by the politicisation of economic

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[12] Karl Polanyi (2001 [1944]) *The Great Transformation: The Political and Economic Origins of Our Time*, Boston: Beacon Press, 202-3

[13] *Ibid*., 203

[14] *Ibid.,* 206

policy during World War I,[15] it is possible to construct an alternative narrative. For instance, Kettell has argued that Britain's return to Gold at the pre-war parity of $4.86 'was seen by Britain's state managers as the key element of a governing strategy designed to deal with these problems by imposing a firm anti-inflationary discipline on capital and labour, and by displacing any adverse social and political consequences of this process away from the state through a 'depoliticisation' of economic conditions and policy-making.'[16] In other words, commitments to the institutions of global economic governance generally deemed to have been an abject failure, can be interpreted as a way in which British policy-makers were able to discipline labour to extract competitive advantage while offsetting responsibility for the social consequences of these policies to the technical imperatives of exchange rate management.

The relationship between the Bretton Woods institutions and the British economy can also be understood in a similar way. It is often argued that the introduction of the par-value system of fixed-but-adjustable exchange rates and capital controls served as a means of insulating policy makers from the discipline of international financial markets so they might pursue domestic policy objectives, including full employment. This position is typified by Ruggie's description of the settlement as a reflection of 'the shared legitimacy of a set of social objectives to which the industrial world had moved, unevenly but "as a single entity"'.[17] However, this particular institutionalised form of governing the global economy also allowed

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[15] Steven Kettell (2004) *The Political Economy of Exchange Rate Policy Making: From the Gold Standard to the Euro*, Basingstoke: Palgrave Macmillan, 5

[16] *Ibid.,* 5

[17] John G. Ruggie (1982) 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order' *International Organization*, 36(2), 398

British state managers to take important steps toward restructuring its economy without precipitating a crisis of legitimation.

The keystone in this endeavour was capital controls, which were particularly significant for Britain given the size of overseas sterling balances accumulated during World War II. In the period between 1945-62 these were consistently above £3 billion and frequently above £3.5 billion,[18] and would have exposed the exchange rate to downward pressure in the context of Britain's relative economic decline if they could be freely converted. This became immediately apparent in 1947 as a run on the pound resulted from America's insistence that Britain introduce current account convertibility as a condition of receiving a $3.75 billion loan.[19] The capital controls permitted by Bretton Woods meant Britain was therefore insulated from destabilising capital flows to which it was especially exposed. This allowed it to manage the depreciation of sterling, while the fact that the IMF had to approve currency devaluations meant that any declines in the pound's purchasing power could be attributed to structural factors. This could help to depoliticise both the consequences of economic restructuring and the increasing labour discipline that this implied, as well as increasing costs of living, by deferring to the Fund's view that restructuring and devaluation were economically necessary.

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[18] The figures are reported in Chris Rogers (2012) *The IMF and European Economies: Crisis and Conditionality*, Basingstoke: Palgrave Macmillan, 72, and original data can be found in The National Archives T 267/29, *Treasury Historical Memorandum* No. 16, January 1972

[19] Peter Burnham (1992) 'Re-Evaluating the Washington Loan Agreement: A revisionist view of the limits of postwar American Power' *Review of International Studies*, 18(2), 245

Following the collapse of the fixed-exchange rate regime in the early 1970s and the failure of the British state to successfully restructure its economy in the long-run during the stagflation, which ultimately resulted in domestic political unrest during the 1978-79 Winter of Discontent, the Thatcher governments relied more obviously on the strength of the state in order to achieve its goals. For instance, confrontation with the trades unions represented an explicit politicisation of industrial relations as a means of disciplining labour. Nonetheless, in the context of the liberalisation of finance and floating exchange rates, the British state continued to use the institutional forms of global economic governance to pursue domestic accumulation strategies without provoking political dissatisfaction from the early 1990s. The most notable example of this was through membership of the Exchange Rate Mechanism (ERM) under John Major in the period 1990-1992, which established counter-inflationary credibility while offsetting responsibility for its deflationary consequences onto the international commitments implied by ERM membership.[20]

Challenges for the British Economy

The previous section showed how the institutions of global economic governance have supported British state managers' strategies aimed at addressing contradictions between accumulation and legitimation through the politics of depoliticisation in the context of its relative economic decline. In order to assess the extent to which the same can be said of Britain's participation in the G20, it is first necessary to outline the challenges faced by the British economy since the 1990s. This section uses a range of official statistics in order to

[20] See Werner Bonefeld and Peter Burnham (1998) 'The Politics of Counter Inflationary Credibility in Britain, 1990-94' *Review of Radical Political Economics*, 30:1, 32-52

show how reconciling the tension between accumulation and legitimation in the context of relative economic decline has remained a significant challenge for the British economy.

The most obvious indicator of a state's competitiveness is reflected in its national accounts in the form of the current account balance, and as figure 1 shows, Britain has not recorded a surplus since before 1997. However, Britain's consistent propensity to import more goods and services than it exports is a reflection of more fundamental issues within the economy. As figure 2 shows, production in Britain has also become steadily more expensive as unit labour costs, a function of wages and productivity, has gradually increased across the whole economy, and while unit wage costs in the manufacturing sector showed some decline in the mid-2000s, they too began to increase from late 2007.

[FIGURE 1 & 2 ABOUT HERE]

From the point of view of international comparison, British productivity has also lagged significantly behind other major economies. As figure 3 demonstrates, the British economy has been consistently outperformed by Germany, Italy, and the United States in terms of productivity measured by GDP per hour worked, and remains significantly behind the G7 average (excluding the UK). Reflecting the relatively high costs of production in Britain, and the fact that it continues to lag behind other economies in terms of its productivity, rates of profitability in Britain have stagnated since the late 1990s in the manufacturing private non-financial corporations sector, and in the services private non-financial corporations sector, shown in figure 4. In combination, these conditions have meant that the British economy has

been allowed to operate under capacity as measured by its output gap—the difference between realised and potential GDP—in 14 of 23 years since 1990.[21]

[FIGURES 3-4 ABOUT HERE]

In combination, this data suggests that one of the overarching problems that the British economy faces can be characterised in terms of labour discipline, which has been insufficient to keep costs of production down and rates of profit high enough to realise sufficient rewards for investors. As such, one of the principle challenges for British state managers has been to exert greater discipline over labour to restore some measure of competitiveness in the real economy. This has been reflected in only modest gains in real average weekly earnings, which have been punctuated by periods of negligible growth or declines (figure 5), and levels of unemployment that have only fallen below 5 per cent in two years since 1990 (figure 6).

[FIGURES 5 & 6 ABOUT HERE]

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[21] See OECD (2014) *Economic Outlook* No. 95, Output Gaps: Deviation of actual GDP from potential GDP as a percentage of potential GDP, http://stats.oecd.org/Index.aspx?QueryId=51655#. It is worth noting that the use of the output gap as an official statistic is also interesting in itself, both because of the difficulties involved in measuring potential GDP, and because of its role in determining figures for newly fashionable 'structural deficit' statistics, where it has been suggested that overly pessimistic assumptions about the permanent loss of capacity during the crisis have been used to inflate the structural deficit and therefore bolster the case for austerity measures. See Hugo Radice (2014) 'Enforcing Austerity in Europe: The Structural Deficit as a Policy Target' *Journal of Contemporary European Studies*, 22:3, 318-28

These indicators provide a prime illustration of the central contradiction in capitalist economies: that in order to create conditions for profitable accumulation state managers must extract sacrifices from the labour force on whose support their legitimacy depends. Strategies are therefore required in order to limit the extent to which discontent at these sacrifices come to be directed at the state's political legitimacy. Throughout the late 1990s and the early 2000s, this was principally managed through the politics of financialisation, which Crouch has described as a system of 'privatised Keynesianism'[22] and Finlayson has called a system of 'asset-based welfare'.[23] These systems, it has been argued, were fundamentally dependent on the systematic substitution of state-provided welfare services with market-based means of maintaining consumption, principally the use of revolving short-term unsecured debt and increasing paper-wealth in the form of equity in property inflated by rising house prices. Figures 7 and 8 illustrate the extent to which the British economy was increasingly reliant on financialisation and the ways in which it was facilitated, by showing the increasing levels of household debt as a percentage of net disposable income and the declining rate of interest, first on 2 year fixed rate 75 % loan to value mortgages, and second, on credit card debts.

[FIGURES 7 AND 8 ABOUT HERE)

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[22] See Colin Crouch (2009) 'Privatized Keynesianism: An Unacknowledged Policy Regime' *British Journal of Politics and International Relations*, 11(3), 382-99

[23] See Alan Finlayson (2009) 'Financialisation, Financial Literacy, and Asset-Based Welfare' *British Journal of Politics and International Relations*, 11(3), 400-21

This set of circumstances played a key role in sustaining the increase in house prices that saw the Land Registry's House Price Index nearly triple in the period between December 1995 and July 2007 (figure 9). However, while this strategy was able to insulate British governments from political pressure that was otherwise likely to stem from their willingness to use levels of unemployment consistently upwards of 5 per cent in order to impose discipline in labour markets in the context of increasing welfare conditionality, it was clearly not a sustainable strategy. This is illustrated by the dissonance between the rate of increase of house prices on which privatised Keynesianism and the system of asset-based welfare were based and the much lower rate of increase in wages, which was ultimately reflected in the increasing indebtedness of households. Ultimately, this state of affairs was unsustainable, as increases in wages failed to keep pace with indebtedness and undermined debt serviceability, with concomitant implications for the housing market on which the boom had been based, as well as the highly leveraged positions of British financial institutions with exposure to mortgage backed securities.

[FIGURE 9 ABOUT HERE]

Data on Britain's recent economic performance therefore shows a number of things. On the one hand, it paints a picture of an economy in decline, with attendant consequences for standards of living and potentially, for political legitimation. On the other, it paints a picture of an economy that has managed to mute the potential for political dissatisfaction to be directed at the state by using financialisation to sustain consumption as other policies have allowed the economy to frequently run below capacity, unemployment to remain above 5 per cent, and the trend in real wages to be punctuated with periodic declines. The next section considers the extent to which the evolution of the G20 process can be understood to have

played a role in endorsing and legitimising the domestic policies that allowed this situation to develop.

From Finance Ministers' Meetings to Leaders' Summits

The central argument of the paper is that institutions of global economic governance may help domestic political authorities with the legitimation of policies designed to address tensions between accumulation and legitimation. In section one, it showed ways in which British state managers have benefitted from such strategies historically, and section two showed how this tension remains an ongoing problem in Britain. This section argues that, since 1999, the G20 process has contributed to creating a technocratic discourse of liberalisation that reflects, endorses, and reinforces the domestic growth model adopted in Britain, and in the process contributes to depoliticising the social consequences that stem from the politics of austerity it implies. This analysis comes with the important caveat that the G20 is not the only significant institution in global economic governance, and that the technocratic approach that has endorsed British strategy is neither uniform nor wholly uncontested. For instance, the IMF and the European Central Bank have been instrumental in managing the Eurozone sovereign debt crisis by providing finance and injecting liquidity into the European banking sector. The IMF has also introduced debate over the desirability of capital controls to manage large capital inflows, suggesting a degree of normative contest and incremental ideational change[24] in the institutions of global economic governance more broadly defined.

[24] See Manuella Moschella (2014) 'The Institutional Roots of Incremental Ideational Change: The IMF and Capital Controls over the Global Financial Crisis' *British Journal of Politics and International Relations*, doi: 10.1111/1467-856X.12049

The argument is not, therefore, that 'global economic governance', broadly defined, has supported domestic economic strategy in Britain by providing policy-makers with an international expert view that endorses their strategies as 'correct' in technical terms and serves to depoliticise the consequences of those strategies as a result. Rather, the argument here is that particular institutions of global economic governance *may* play this role, that there are numerous historical instances where there is evidence to support this claim, and that the G20 is another instance in which it is possible to conceive of institutions of global economic governance supporting domestic political strategy by providing an external endorsement of policies being introduced that is couched in the language of technical 'correctness'.

(a) Finance Ministers' Meetings

It is commonly acknowledged that the emergence of the G20 finance minister's meetings reflected a need for the institutions of global economic governance to recognise the significance of emerging economies, and to incorporate them into dialogue on global economic management to realise benefits for all.[25] Following the establishment of the ad-hoc

[25] See *inter alia* John Kirton (1999) 'What is the G20?' University of Toronto G8 Information Centre http://www.g8.utoronto.ca/g20/g20whatisit.html; John Kirton (2005) 'From G7 to G20: Capacity, Leadership and Normative Diffusion in Global Financial Governance' Paper prepared for International Studies Association Annual Convention, Hawaii, March 2005, www.g8.utoronto.ca/scholar/kirton2005/kirton_isa2005.pdf, p. 4; Mark Beeson and Stephen Bell (2005) 'The G20 and the Politics of International Financial Sector Reform: Robust Regimes or Hegemonic Instability?' CSGR Working Paper No 174/05, http://wrap.warwick.ac.uk/1943/ p. 4; Gordon S. Smith (2011) *Op. Cit.* p. 5

G22 and G33 processes, the G7 nations were aware 'of the merit in engaging systemically important emerging-market economies in a regular informal dialogue' on the basis of their 'growing importance in the global economy' and because 'their vulnerabilities had been exposed by earlier crises.'[26] The G20 itself was therefore established with the mandate to promote 'cooperation to achieve sustainable world economic growth for all', which was ratified at the Berlin meeting in 1999.[27] Alongside it, although without formal connection,[28] the Financial Stability Forum was established in order to assist in the construction and coordination of international standards,[29] and in combination provided a new and more inclusive[30] international framework for governing the global economy.

The way in which this task was undertaken, however, was fundamentally dependent on the way that the emergence of crises in emerging markets in 1997 was understood. This was clearly demonstrated in the initial meetings, which resulted in a consensus 'that in order to reduce a country's vulnerability to financial crises, sound macroeconomic policies, including

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[26] Group of Twenty (2008) 'The Group of Twenty: A History' available from http://www.g20.utoronto.ca, p. 16

[27] *Ibid.,* p. 19

[28] *Ibid.*, p. 45

[29] Eric Helleiner (2010) *Op. Cit.* p. 630

[30] The inclusivity of the G20 has been contested, on the grounds that 'it contains no representation either from the poorest and smallest developing countries or from the European like-minded countries (the Nordics and Dutch)', because it lacks accountability and transparency systems, and because its origins lie in the G7. See Gerald K. Helleiner (2001) 'Markets, Politics, and Globalization: Can the Global Economy be Civilized?' *Global Governance*, 7 (3), p. 253

appropriate exchange rate and debt management policies, were essential', and should be supplemented with 'improved financial sector regulation and supervision, including the observance of internationally accepted standards and codes.'[31] From the perspective of the G20, it was not capital account liberalisation itself that was at the root of the problem. Rather, it was argued that outflows of capital reflected poor market sentiment which emerged from the fact that 'the development of supervisory and regulatory systems in many emerging economies had not kept pace with the challenges posed by the opening of capital accounts', while prevailing exchange rate regimes 'proved brittle in the face of persistent capital outflows.'[32]

As Eric Helleiner notes, this interpretation of the Asian financial crisis was not necessarily shared by emerging market economies, which felt it was necessary 'to reduce their countries' vulnerability to global financial markets' and reignited interest in capital controls and reserve accumulation.[33] However, emphasis nonetheless came to rest on the sequencing of capital account liberalisation,[34] which is to say an emphasis on the implementation of adequate regulatory standards before the capital account was liberalised, rather than on an examination of the benefits of the process itself. As the implications of the Asian financial crisis receded, the focus of the G20 gradually shifted towards social priorities because it appeared that discussions on crisis prevention and resolution had 'run their course, at least for the time being.'[35] After 2004, this new emphasis revolved around the G20 Accord for

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[31] Group of Twenty (2008) *Op. Cit.* p. 29

[32] *Ibid.,* p. 11

[33] Eric Helleiner (2010) *Op. Cit.* 628

[34] Group of Twenty (2008) *Op. Cit.* p. 29; Mark Beeson and Stephen Bell (2005) *Op. Cit.* p. 13

[35] Group of Twenty (2008) *Op. Cit.*, p. 40

Sustained Growth, which included agreement among members on 'the importance of price stability and fiscal discipline, strong domestic financial institutions, prudent debt management, competition, global trade liberalisation, flexible labour markets, education, and social safety nets.'[36]

The approach adopted to global economic governance in the aftermath of the Asian financial crisis can be described as technocratic because it placed emphasis on the way in which liberalisation was facilitated rather than the desirability of liberalisation itself. Liberalisation and globalisation were therefore accepted as facts, which required the implementation of particular kinds of policies if benefits were to be realised. This approach provided an international institutional endorsement of policies that British state managers had been adopting in order to try and increase its economy's competitiveness while sustaining levels of consumption by encouraging financialisation and developing a system of asset-based welfare. For instance, the G20's technocratic approach to managing globalisation clearly resonated with the notion of 'The Third Way', and its suggestion that the primary task of government was to help citizens negotiate the challenges presented by the 'revolutions of our time',[37] including globalisation. It was even more firmly manifested in the policy discourse by Ed Balls' assertion that 'The rapid globalization of the world economy has made securing credibility more rather than less important',[38] and that credibility was effectively dependent on 'low and stable inflation and sound public finances'.[39]

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[36] *Ibid.,* p. 40

[37] See Anthony Giddens (1998) *The Third Way*, Polity: Cambridge, p. 68

[38] Ed Balls (1998) 'Open Macroeconomics in an Open Economy' *Scottish Journal of Political* Economy, 45 (2), p. 122

[39] *Ibid.,* p. 116

Through its treatment of the process of globalisation as a technical matter that needed to be managed in order to maximise its advantages, rather than as a site of normative contest, the G20's approach effectively mirrored New Labour's treatment of globalisation as a non-negotiable external constraint. This is part of what Gerald K. Helleiner has described as a 'great deal of nonsense [that] has been written and said about globalization in recent years',[40] since it erroneously treats liberalisation as an unavoidable fact rather than as the product of political, economic, and social decision-making.[41] Rather, the vulnerability of governments to capital flight has been used to justify the imposition of counter-inflationary discipline on the domestic economy, as well as to normalise the logic of market-discipline that has been used to justify labour-market flexibility and increasingly conditional approaches to public expenditure on the grounds of prudence.

Domestically, the principal forms this took were central bank independence, which served to depoliticise the consequences of deflationary policies adopted to secure a low-and stable rate of inflation on confidence grounds,[42] and the invocation of globalisation as an irrevocable constraint to 'render the contingent necessary.'[43] Internationally, the probity of this approach was endorsed by the position of the G20, while its technical treatment of liberalisation and

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[40] Gerald K. Helleiner (2001) *Op. Cit.*, p. 243

[41] *Ibid.*, p. 244

[42] See Peter Burnham (2001) 'New Labour and the Politics of Depoliticisation' 3 (2), pp. 127-149

[43] Matthew Watson and Colin Hay (2003) 'Rendering the Contingent Necessary: The Discourse of Globalisation and the Logic of No Alternative in the Political Economy of New Labour' *Policy & Politics*, 31 (3), pp. 289-305

approaches to crisis prevention and resolution also served to legitimate a growth model based on financialisation because it implied it could be stabilised with the adoption of appropriate regulatory policies. In this way, British policy-makers were able to draw attention to an international consensus among experts that justified its claims that there were no alternatives to increased labour market discipline and the substitution of state-based welfare systems with financialisation. As such, the development of the G20 in the period between 1999 and 2007 was able to assist British state managers in their attempts to balance the imperatives of capital accumulation and political legitimation through its endorsement and reinforcement of an economic common sense in which the immutable reality of market-discipline and the precariousness of work and welfare provision was firmly entrenched.

(b) Leaders' Summits

Between 1997 and 2007, the Finance Ministers' Meetings established a technocratic view of global economic governance, but following the crisis of 2007, the involvement of international leaders in G20 hinted at the possibility of a thorough repoliticisation of policy-making. However, this did not occur, and initial injections of liquidity that briefly offered the prospect of a return to Keynesianism ultimately proved to be little more than temporary measures geared to preventing the system's outright collapse, rather than an indication of serious normative contestation about economic management. This is reflected in the relatively quick change in the G2O's role from 'recession buster' to 'steering committee', [44] and indicates that

[44] Andrew F. Cooper (2010) 'The G20 as an improvised crisis committee and/or a contested 'steering committee' for the world' *International Affairs*, 86 (3), pp. 641-2; see also Andrew F. Cooper and Colin I. Bradford Jr. (2010) 'The G20 and the Post-Crisis Economic Order' CIGI G20 Papers, No. 3, June 2010

leaders' involvement in the G20 does not appear, in the case of the UK, to be so much an attempt to shape the debate as to consolidate the *status quo ante*, and to effectively transmit responses framed in technocratic terms to domestic constituencies.[45]

The G20's transition from 'recession buster' to 'steering committee' reflected a return to 'business as usual' rather than a fundamental challenge to the way in which the system operated, as attention turned quickly from diagnoses and treatment of the crisis to a much broader range of issues related to maximising the benefits of the open economy for the broadest possible range of people. The G20's role as 'recession buster' was clearly central in the summit declarations from Washington and London in 2008 and 2009 respectively. In the first instance, the G20 committed to increasing global liquidity, to strengthen the capital base of significant financial institutions, and to support the international financial institutions' (IFIs) role in helping the global economy. It particularly involved the coordination of fiscal stimulus and monetary policy to offset deflationary pressures and sustain global demand, and commitments to ensure reform of the IFIs so that they had the necessary resources and legitimacy to succeed.[46] By the conclusion of the London summit, the G20 had delivered on its commitments to coordinate fiscal stimulus and interest rate cuts to stimulate growth, but perhaps most significantly trebled the resources of the IMF to $750 billion, and pledged 'to support a new [Special Drawing Rights] allocation of $250 billion, to support at least $100 billion of additional lending by the [Multinational Development Banks], to ensure $250 billion of support for trade finance', constituting in total 'an additional $1.1 trillion programme of support to restore credit, growth, and jobs in the whole economy.'[47] The coordination of

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[45] I am grateful to an anonymous reviewer for suggesting development of this point.

[46] G20 (2008) 'Declaration Summit on Financial Markets and the World Economy' November 15 2008, p. 1-3

[47] G20 (2009a) 'London Summit—Leaders' Statement' 2 April 2009, p. 1

domestic fiscal and monetary policies and the injection of liquidity into the global economy that stemmed from the expansion of the IFIs resources allowed the leaders to declare in Pittsburgh later that year simply that 'it worked'.[48]

In addition to preventing the exacerbation of the crisis in so far as possible, the second task taken on by the G20 related to the diagnosis of the crisis, and measures to attempt a recurrence in the future. The diagnostic element of this work was made clear from the outset of the 2008 Washington Declaration, which stated that the crisis stemmed from the fact that

> 'market participants sought higher yields without an adequate appreciation of the risks and failed to exercise proper due diligence. At the same time, weak underwriting standards, unsound risk management practices, increasingly complex and opaque financial products, and consequent excessive leverage combined to create vulnerabilities in the system. Policy-makers, regulators and supervisors, in some advanced countries, did not adequately appreciate and address the risks building up in financial markets, keep pace with financial innovation, or take into account the systemic ramifications of domestic regulatory actions.'[49]

In essence, this diagnosis reduced the origins of the crisis to matters of conduct and matters of regulation. On the surface, this may appear to set a broad agenda. However, it excludes reflection on or reconsideration of the fundamental purpose of market activity. The aim is simply to 'correct' prevailing forms of social and economic relations that have historically shown themselves to be prone towards crisis, rather than attempt to think about different forms of organisation. It is an explicit treatment of the logic of no alternative as fact, which set the stage for a technocratic response to the crisis, involving strengthening of banks' capital

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[48] G20 (2009b) 'Leaders' Statement: The Pittsburgh Summit' 24-5 September 2009, p. 1

[49] G20 (2008) *Op. Cit.* p. 1

adequacy requirements, proposals to reform the trade of over the counter products like Credit Default Swaps, the regulation of shadow-banking activities including hedge-funds, and revisions and streamlining of standards for credit ratings agencies and accountancy firms.[50]

The technocratic approach broadly reflected the proposals of mainstream economists.[51] As a result, it has been noted that 'the policy agenda did not in fact go much beyond pre-existing international initiatives'[52] and it certainly did not 'propose an alternative growth model.'[53] It is correct to question whether institutions like the G20 have the remit to engage in such activities. However, it is telling that very little consideration about the social usefulness of particular kinds of market activity has been undertaken by domestic political elites who do have the democratic mandate to do so, leaving technocratic discourses of institutions like the G20 relatively unchallenged. In this respect, the technocratic focus of the G20's response to

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[50] See Eric Helleiner and Stefano Pagliari (2009) 'Towards a New Bretton Woods? The First G20 Leaders Summit and the Regulation of Global Finance' *New Political Economy* 14(2), pp. 275-87 and Eric Helleiner and Stefano Pagliari (2008) 'The G20 Leaders' Summit and the Regulation of Global Finance: What Was Accomplished?' CIGI Policy Brief No. 11, December 2008

[51] For instance, see Mathias Dewatripont, Xavier Freizas and Richard Portes eds. (2009) *Macroeconomic Stability and Financial Regulation: Key Issues for the G20*, London: Center for Economic Policy Research on, among other topics, global liquidity, fiscal stimulus, zero interest rate policy, central counterparty clearing for CDS, regulation of CRAs and accountancy firms.

[52] See Eric Helleiner and Stefano Pagliari (2008) *Op. Cit.*, p. 1, also Eric Helleiner and Stefano Pagliari (2009) *Op. Cit.*, p. 277

[53] Andrew Baker (2010) *Op. Cit.,* p. 661

the financial crisis reflected the fact that 'Anglo-American elites face serious disincentives in retreating from financialization, securitization and the access to credit and housing finance [...] because these processes have become integral elements of the social and welfare settlements in these societies'.[54] In the process, this served to endorse the financialised growth model on which British state managers had been relying in order to reconcile their attempts to increase competitiveness and secure domestic political legitimacy, just as the technocratic approach of the finance ministers' meetings had done before 2008. However, the G20 leaders' declarations also did more than this.

In particular, the leaders' declarations' increasing emphasis on fiscal responsibility and the threat that tax havens and tax evasion posed to domestic tax bases served to consolidate long-standing views about the significance of prudent fiscal policy, which has been used to justify welfare state retrenchment and impose market discipline on domestic constituencies. This strongly suggests that initial injections of liquidity were indicative of crisis measures rather than borne of serious normative contest. On fiscal policy, the Toronto declaration of 2010 noted that the G20 was 'communicating "growth friendly" fiscal consolidation plans in advanced countries that will be implemented going forward',[55] and is representative of the euphemistic way in which G20 leaders have referred to the politics of austerity. On the tax front, Christians has noted 'there is no evidence that even the complete elimination of tax havens [...] would fill the revenue gap created during (and before) the crisis',[56] casting doubt

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[54] *Ibid.,* p. 655

[55] G20 (2010) 'The G-20 Toronto Summit Declaration' June 26-7 2010, p. 2

[56] Allison Christians (2010) 'Taxation in a Time of Crisis: Policy Leadership from the OECD to the G20' *Northwestern Journal of Law & Social Policy*, 5 (1), p. 24

on whether references to protection of the tax base by the G20 amount to anything more than a platitude to social constituencies bearing the brunt of austerity.

What we see in the G20's approach to fiscal policy is therefore part of what Baker has described as 'politically driven nonsense'[57] and Blyth has thoroughly debunked as a contradictory form of class politics, in the form of austerity, which constitutes a 'dangerous idea'.[58] Nonetheless, it has formed a centrepiece of David Cameron and Nick Clegg's coalition government since its formation in 2010, when its founding principles published in *The Coalition: Our Programme for Government*, described deficit reduction as 'the most urgent issue facing Britain'.[59] Moreover, Cameron has explicitly used the G20's endorsement of deficit reduction as a necessary precondition for restoring economic growth in his remarks to Parliament. For instance, in 2012 he noted that at the G20, 'As at the G8, there was absolute agreement that deficit reduction and growth are not alternatives. You need the first to get the second.'[60] After Seoul, he argued that 'Countries with larger deficits need to act on them and

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[57] Andrew Baker (2010b) 'Why austerity is not common sense but politically driven nonsense' https://www.qub.ac.uk/schools/SchoolofPoliticsInternationalStudiesandPhilosophy/FileStore/Stafffiles/AndrewBaker/Filetoupload,224825,en.pdf last accessed 3 March 2015

[58] Mark Blyth (2013) *Austerity: The History of a Dangerous Idea*, Oxford: Oxford University Press

[59] David Cameron and Nick Clegg (2010) *The Coalition: Our Program for Government*, London: Cabinet Office, p. 15

[60] David Cameron (2010a) 'Prime Minister's Statement on G20' 25 June 2012 https://www.gov.uk/government/news/prime-ministers-statement-on-g20

do so now', and that this 'was exactly the view of the G20'.[61] Again in 2013 he noted that the St. Petersburg Action Plan 'contains all of the features of the plan we have been following in Britain since the coalition government came into office', and in particular 'the importance of dealing with our debts.'[62]

The fact that the British government runs a budgetary deficit and is in debt is beyond doubt—in July 2014 the Office for National Statistics reported Public Sector Net Borrowing for the financial year to date of £32.4 billion and net debt in the amount of £1299 billion, or 76.5 per cent of GDP[63]--however what those figures mean about the necessity of austerity is open to contest because of the contested nature of 'sustainability'. As Burnham has noted, before austerity measures were introduced

> 'Public sector net debt, excluding the financial interventions, was approximately 58% of GDP—within the Maastricht Treaty's Excessive Deficit guideline of 60%. The figure of 58% of GDP was not excessive when compared with Britain's postwar debt which topped 237% of GDP in 1946 and remained above 60% until 1970. Only with the

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[61] David Cameron (2010b) 'Statement on G20 Summit in Seoul' 15 November 2010 https://www.gov.uk/government/speeches/statement-on-g20-summit-in-seoul

[62] David Cameron (2013) 'G20 Summit: Prime Minister Statement to the House of Commons' https://www.gov.uk/government/speeches/g20-summit-prime-minister-statement-to-the-house-of-commons--2 9 September 2013

[63] See Office for National Statistics (2014) 'Statistical Bulletin: Public Sector Finances July 2014' http://www.ons.gov.uk/ons/dcp171778_374935.pdf Table 1

financial interventions included did the debt figure rise to approximately 150% of GDP and this took no account of the newly acquired government assets.'[64]

Not only was Britain's debt position not particularly high by historical standards when financial interventions were excluded, the frequent invocation of comparisons between household debt and government debt in Britain are entirely inappropriate since governments with their own central banks can 'determine the supply of a currency they preside over' and makes it 'next to impossible for a government with its own central bank to go bankrupt.'[65]

In other words, British politicians have not used the G20 to repoliticise policy-making—they have used it is a platform from which to reiterate the position that there is no alternative to prudence. In combination, the G20's technocratic approach to the diagnosis and treatment of the crisis and the gradual shift in emphasis to fiscal sustainability provided international endorsement of a domestic growth strategy that was based on the twin pillars of financialisation and fiscal austerity. In the process, it serves to endorse the view that greater exposure of labour to market forces, which includes the reality of stagnating wages, unemployment, precariousness of employment, and a diminishing social safety net, is a reality that has to be accepted but can be managed by implementing the correct policies. In the process, it presents inherently political decisions about the way that the economy is managed as apolitical technical decisions, and in doing so not only serves to address problems of competitiveness related to Britain's relative economic decline, but also insulates the government itself from the negative consequences that stem from it. As a result, it can be argued that the G20's response to the crisis served to legitimise British growth strategy

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[64] Peter Burnham (2011) 'Towards a Political theory of Crisis: Policy and Resistance across Europe' *New Political Science* 33 (4), pp. 502-3

[65] Andrew Baker (2010b) *Op. Cit.*, p. 4

through the construction and consolidation of a discourse that depoliticised the politics of austerity on the grounds that 'there is no alternative.' In this sense, the evolution of the G20 process has served as an external anchor to which British state managers' have deferred in order to help justify their strategies to address one of the core contradictions it faces.

Global Capital, National State, and the G20

The paper has so far argued that as the political form of accumulation, the state is confronted with a challenge to create and maintain conditions for accumulation and legitimation, which are co-dependent but contradictory, since competitiveness is dependent on labour market discipline. It has argued that the institutions of global economic governance have assisted British state managers with reconciling this tension from the Gold Standard to the G20 by helping to depoliticise the politics of economic policy-making, in particular by constructing and reinforcing views of globalisation as an unavoidable reality that can be managed by implementing appropriate policies designed by technical experts. However, while the paper has suggested British state managers have benefitted from the institutional arrangements of global economic governance in this way, the paper has suggested that this cannot be accounted for by realist traditions in the political economy of international relations. As such, an important question remains. Given that 'Historically, international financial regulation has been dominated by British and US officials because of the pre-eminent position of London and New York as international financial centres',[66] why would G7 members 'incorporate political

[66] Eric Helleiner and Stefano Pagliari (2008) *Op. Cit.* pp. 10-1

authorities from outside the G-7 into the governance of the regime?'[67] As Porter has phrased it, this 'appears to be an irrational weakening by powerful states of their own political dominance.'[68]

The answer to this question lies in the practical implications of the tension that exists between the global character of accumulation and the national character of political authority. As nodes in the global flow of capital, individual states pursuing strategies to reconcile tensions between accumulation and legitimation are dependent on the adoption of complementary strategies being implemented elsewhere. In practice, it is not possible for one or more states to adopt a growth strategy based on financialisation unless they have access to liquidity to finance consumption, and commodities are available for purchase. Similarly, manufacturing-based economies cannot provide jobs for their people unless there is effective demand for the goods produced. In other words, the reconciliation of accumulation and legitimation in the domestic sphere is fundamentally dependent on the prevalence of complementary strategies in the international sphere.

This kind of dynamic is most commonly referred to in terms of the imbalances between China and the United States, which has seen the Chinese surplus effectively recycled through the United States in order to create effective demand in the former and sustain levels of consumption in the latter. In the process, this temporarily allowed for the reconciliation of accumulation and legitimation in both the United States and China, although without regard

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[67] Tony Porter (2000) 'The G-7, The Financial Stability Forum, the G-20, and the Politics of International Financial Regulation' Paper Prepared for the International Studies Association Annual Meeting, Los Angeles, 15 March 2000 p. 12

[68] *Ibid*., p. 12

to the ability of American debtors to repay or the limits of China's international market, such that it has been described as a contradictory form of *de facto* cooperation between the two states.[69] Beeson and Bell have astutely noted that 'both sides are locked into a symbiotic relationship upon which they all depend', even if this looked, and has ultimately been proven 'unsustainable in the long term.'[70] However, the problem of imbalances 'is not just a US-China story. The UK, Spain, and Australia have had large current account deficits; Germany, Japan, and several Asian emerging market counties as well as some commodity exporters have had large surpluses',[71] and this fact helps explain why the G20 has been mobilised as the premier forum of global economic governance with a much broader base of participants.

This is because the G20's technocratic approach to global governance does not only assist countries like Britain through its consolidation of the notion that there is no alternative to greater market discipline at the domestic level. It also helps to foster legitimacy for liberalisation within the emerging economies on which deficit countries like Britain depend not only for liquidity, but also for the supply of commodities, by bringing them into the process. In this way, just as the G20 process has helped states like Britain negotiate the tensions between accumulation and legitimation at a domestic level, it has also served to help it negotiate the tensions between the global character of accumulation and the national character of political authority by legitimising the idea of the open and liberal economy on which it depends overseas.

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[69] See Gyu Cheol Lee (2014) 'The Political Economy of the Sino-American Imbalance' Unpublished Ph.D Dissertation, University of York, UK.

[70] Mark Beeson and Stephen Bell (2005) *Op. Cit.*, p. 19

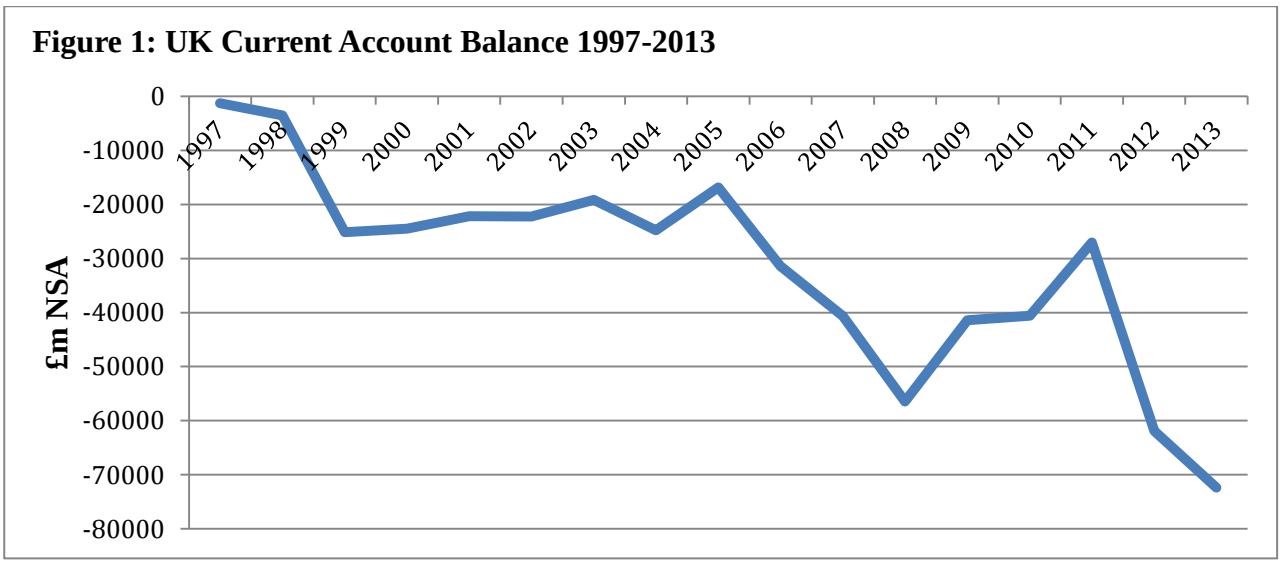
[71] Mathias Dewatripont, Xavier Freixas and Richard Portes eds. (2009) *Op. Cit.,* p. 5

Conclusions: Second Time as Farce?

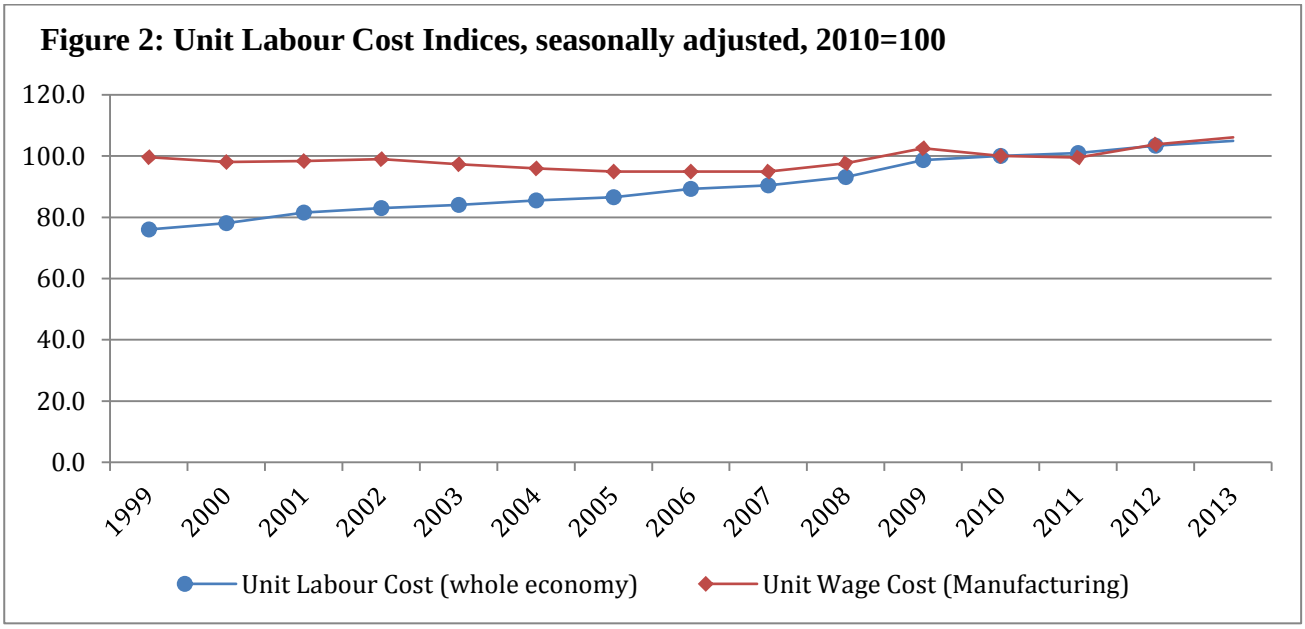
The paper has used an understanding of the state as the political form of capital in the context of a tension between the global character of accumulation and the national character of political authority as its underlying framework. It has argued that the institutions of global economic governance from the Gold Standard to the G20 have assisted British state managers in their attempts to reconcile the tension between accumulation and legitimation as it has sought to regain competitiveness by imposing labour-market discipline and the politics of austerity. In particular, it argued that the technocratic approach to global economic governance in general and liberalisation in particular has served to depoliticise the consequences of increasing market discipline and the politics of austerity at the domestic level by consolidating views of globalisation as a fact that must be managed in a particular way. By incorporating emerging economies into the framework of the G20, it has also served to legitimise liberalisation in nations on which countries reliant on financialisation, like Britain, depend for liquidity and the supply of commodities. In one sense then, the G20 process appears to have addressed many of the political challenges faced by the British state in the face of its relative economic decline, and continues to do so. However, given the proven fragility of the growth model it has contributed to consolidating, the possibility remains that its real contribution will be to history repeating itself, in Marx's famous phrase, 'first as tragedy, then as farce'.[72] In order to prevent this, decisive action on global imbalances is required, and while this is on the G20 agenda, it remains to be seen whether national states—

[72] See Karl Marx (1852) *The Eighteenth Brumaire of Louis Bonaparte*, Marx / Engels Internet Archive, https://www.marxists.org/archive/marx/works/download/pdf/18th-Brumaire.pdf p. 5

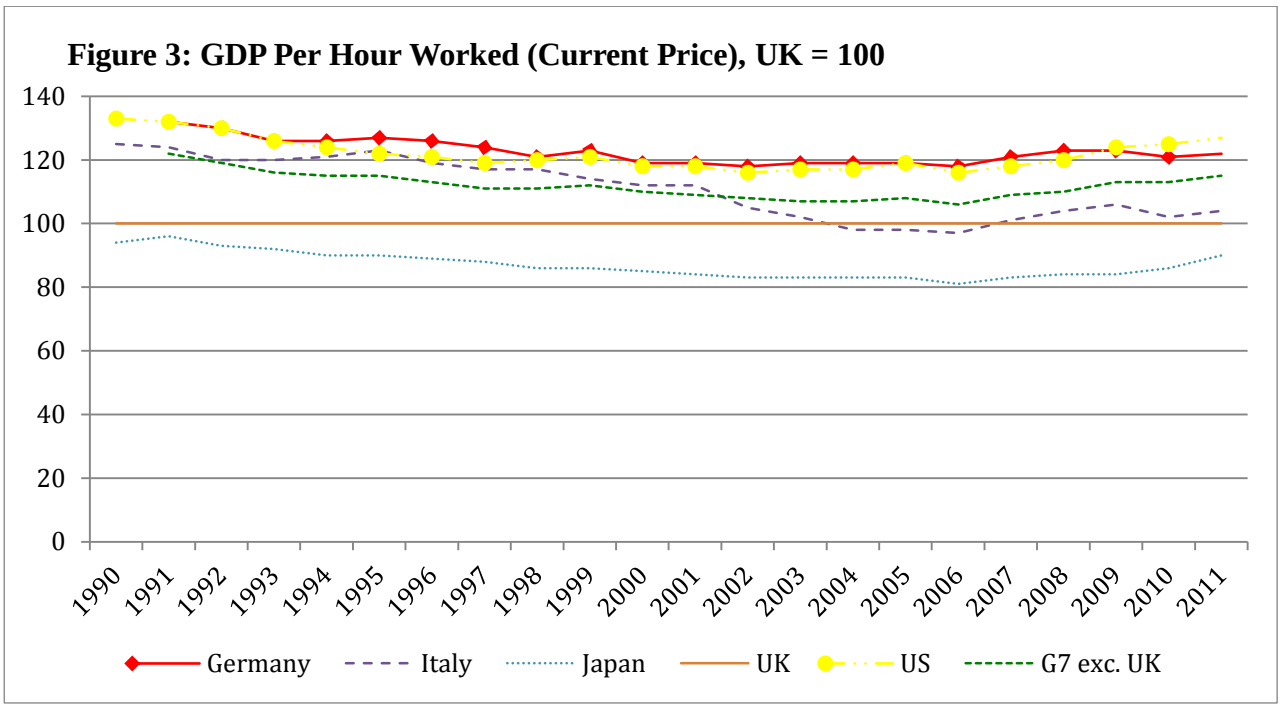
Britain among them—are ready to accept the domestic political consequences of adjustment in the absence of a clearly articulated alternative growth model.



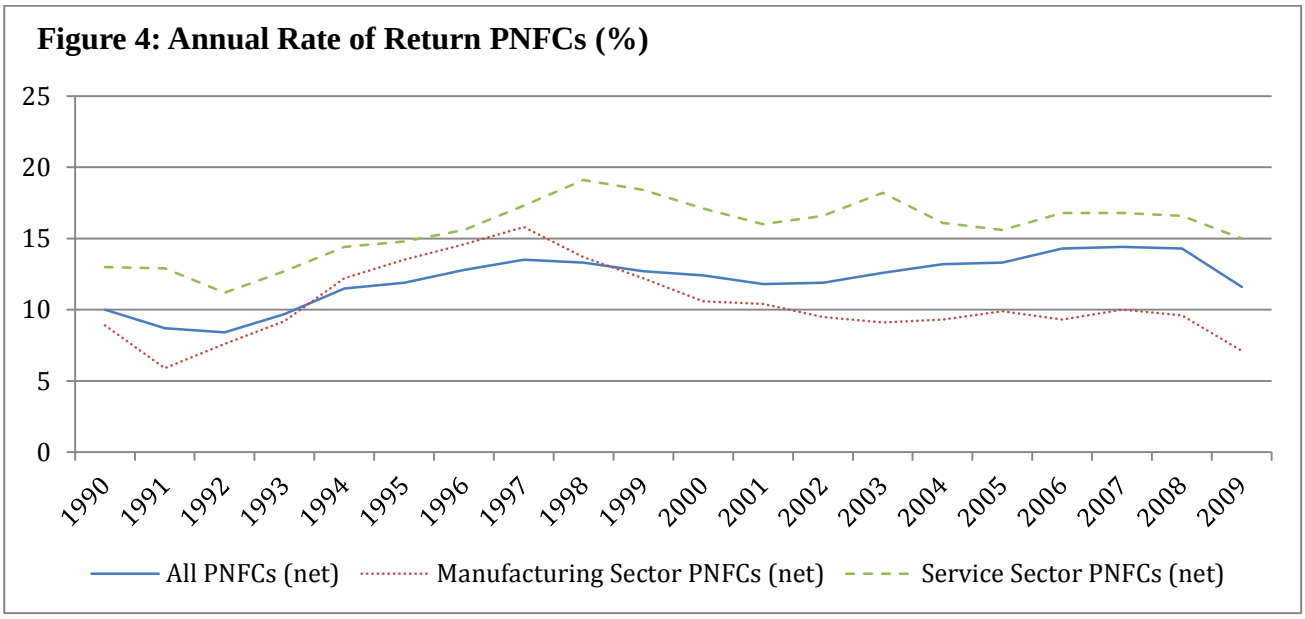
Source: Office for National Statistics (2015) Pink Book--Current Account (series HBOG) Last Updated 20 January 2015, Available from http://www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2014/tsd-pink-book-2014-time-series.html last accessed 3 March 2015



Source: Office for National Statistics (2014) LPRODHIST: Historical Series of Labour Productivity, http://www.ons.gov.uk/ons/datasets-and-tables/index.html?pageSize=50&sortBy=none&sortDirection=none&newquery=LPRODHIST&content-type=Reference+table&content-type=Dataset last accessed 3 March 2015

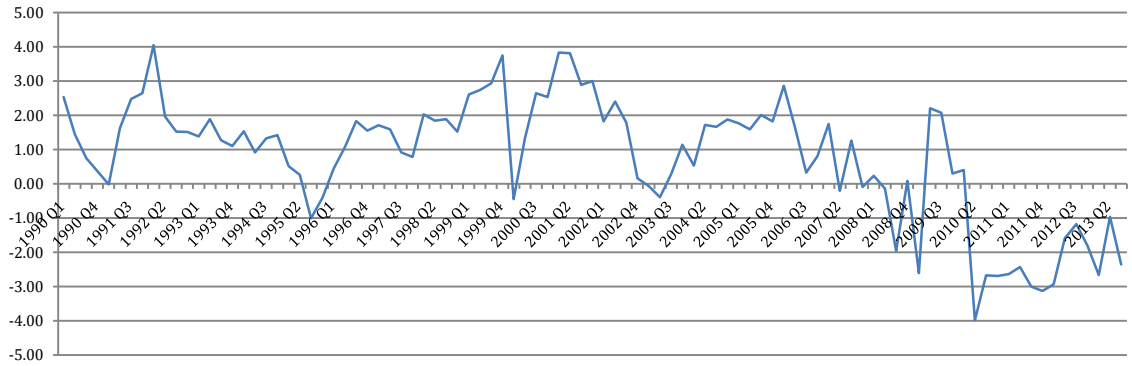


Source: Office for National Statistics (2013) International Comparisons of Productivity--Final Estimates for 2011 Available from http://www.ons.gov.uk/ons/datasets-and-tables/index.html?pageSize=50&sortBy=none&sortDirection=none&newquery=international+comparisons+of+productivity+final+estimates+2011 Last Accessed 3 March 2015



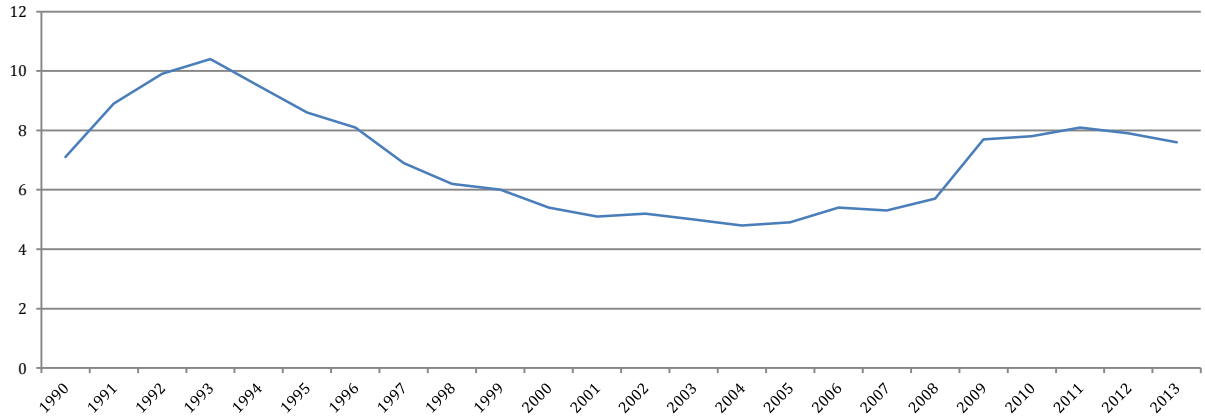
Source: Office for National Statistics (2010) *Profitability of UK Companies* 1st Quarter 2010 ONS: Newport Table 1, p. 6

Figure 5: Average Weekly Wage Growth (deflated by RPI, % increase on previous year)



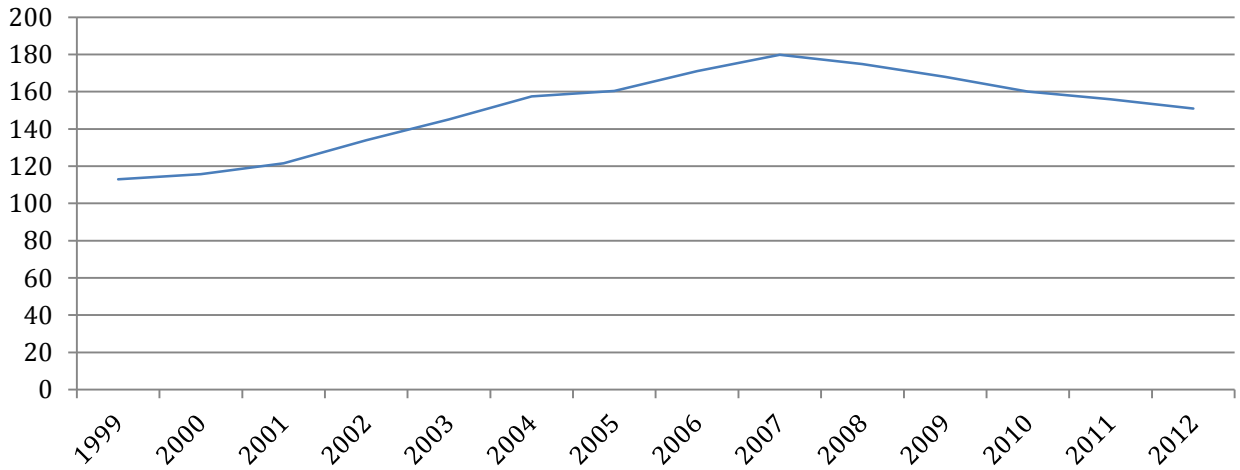
Source: Data from Office for National Statistics (2014) "An Examination of Falling Real Wages 2010-2013", Figure 2, p. 3, used under terms of the Open Government License

Figure 6: Unemployment 16+, %



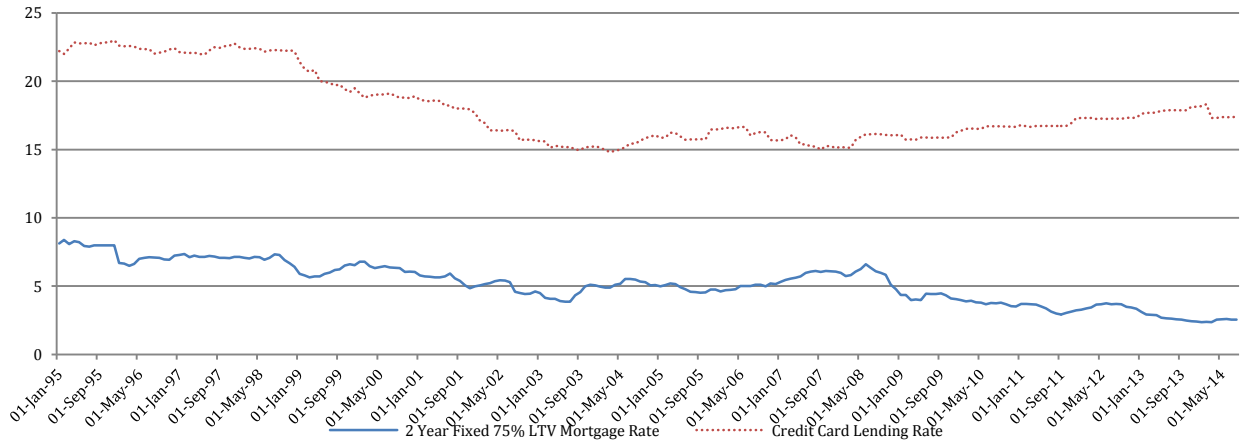
Source: Office for National Statistics (2015) Series MGSX available from http://www.ons.gov.uk/ons/site-information/using-the-website/time-series/index.html Last accessed 3 March 2015

Figure 7: Household Debt as % of Net Disposable Income



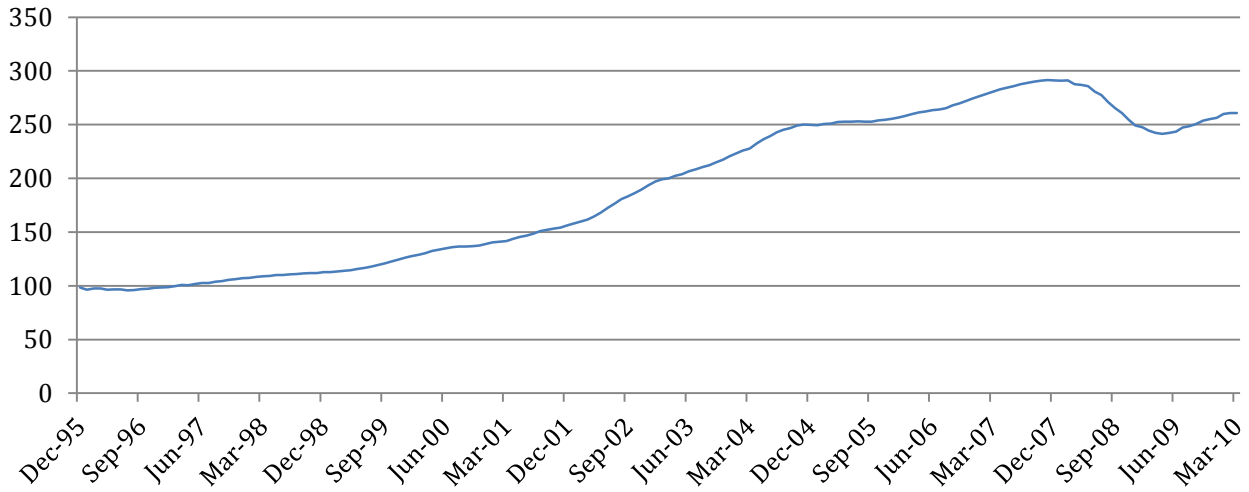
Source: OECD data available from http://data.oecd.org/hha/household-debt.htm last accessed 3 March 2015-03-03

Figure 8: UK Interest Rates



Source: Available from Bank of England Statistics Database http://www.bankofengland.co.uk/boeapps/iadb/Index.asp?first=yes&SectionRequired=I&HideNums=-1&ExtraInfo=true&Travel=Nix data generated 15 September 2014

Figure 9: House Price Index For England and Wales



Source: Land Registry data available from http://landregistry.data.gov.uk/app/hpi Last accessed 3 March 2015