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Financialisation and the State

Global Crisis and British Financial Regulatory Change

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Table of Contents

Acknowledgements vi

Declaration i

List of figures ii

List of acronyms iii

Abstract v

Chapter one: Introduction 1

Thesis argument 6

Case selection and methodology 11

Contributions 17

Financialisation 17

States and markets 19

Neoliberal financial liberalisation 21

Chapter structure 23

Part I 24

Part II 27

Chapter two: Financial expansion, productive stagnation, and states 33

Introduction 33

'The financialisation of …' 37

Financial expansion and productive stagnation 41

Expropriation 43

Crisis resolution 51

Financialisation and the state 59

Towards a new reading....66

Conclusion....71

Chapter three: Framing financialisation I: wealth, value, and domination....74

Introduction....74

Value and wealth....80

Classification and capitalisation....86

Crises of value....89

The antagonism of value....95

Conclusion....101

Chapter four: Framing financialisation II: currencies, states, and statecraft....104

Introduction....104

The limits of state action....108

Domination and the system of currencies....108

Crisis and struggle....113

Statecraft strategies during crisis....118

Between palliation and depoliticised discipline....119

Financial de- and reregulation....124

Conclusion....125

Chapter five: The political economy of the profitability crisis in Britain, 1967-1983....129

Introduction....129

Britain's crisis: national, global, or both?....132

Governing stagflation....140

From one currency crisis to the next, 1967-77....142

The strong pound and the lurch into depression, 1977-1983 151

Situating financial de- and reregulation 156

Chronology 160

Conclusion....162

Chapter six: Competition and Credit Control 165

Introduction 165

CCC and financialisation 168

Existing interpretations....171

The Treasury's dilemma 176

Personal borrowing 178

Corporate liquidity....182

The politicisation of monetary policy 187

Depoliticisation in place of solution 191

Conclusion....196

Chapter seven: The abolition of exchange controls 199

Introduction 199

Exchange controls and financialisation 202

Existing interpretations....204

The sterling dilemma 209

I. The Callaghan administration....213

II. Market uncertainty and union militancy 218

III. The Thatcher administration 223

IV. The Winter of Discontent and spooking the market 230

Conclusion....237

Chapter eight: The Big Bang **240**

Introduction **240**

The Big Bang and financialisation **243**

Existing interpretations 246

Thatcher's initial refusal to exempt, 1979 ..... **252**

A medium term *political* strategy **258**

When the rubber hit the road, 1980-82 263

Overfunding and the stock exchange, 1982-83 ..... **266**

Conclusion **273**

Chapter nine: The Financial Services Act **277**

Introduction **277**

FSA and financialisation **281**

Existing interpretations 286

The depoliticisation of financial governance **289**

I. Gower's Discussion Document and the Big Bang, 1982-3 291

II. Depoliticising Gower's proposals, 1984-85 296

III. Defending depoliticisation, 1985-1986 308

Conclusion **312**

Chapter ten: Conclusion **316**

Domination, crisis, and changing financial governance **318**

Original contributions **324**

Limits and prospects **329**

Annex **332**

Bibliography **345**

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Declaration

This thesis is submitted to the University of Warwick in support of my application for the degree of Doctor of Philosophy in Politics and International Studies. The work contained within this thesis is my own and has not been submitted for examination for a degree at another university.

List of figures

Figure 1.	*Time* magazine images	1
Figure 2.	British corporate rate of profit	136
Figure 3.	UK Consumer Price Index annual inflation rate	138
Figure 4.	UK official international currency reserves	151
Figure 5.	The sterling exchange rate	210

List of acronyms

BOE	Bank of England
CBI	Confederation of British Industry
CCC	Competition and Credit Control
DCE	Domestic Credit Expansion
DoI	Department of Industry
DoT	Department of Trade
DTI	Department of Trade and Industry
EEC	European Economic Community
FSA	Financial Services Authority
GDP	Gross Domestic Product
GRG	Gower Report Group
IMF	International Monetary Fund
IPE	International Political Economy
LSE	London Stock Exchange
LTRPF	Law of the tendency of the rate of profit to fall
MIB	Marketing of Investments Board
MLR	Minimum Lending Rate
MRC	Modern Records Centre
MTFS	Medium Term Financial Strategy
OECD	Organisation for Economic Cooperation and Development

OFT	Office of Fair Trading
PSBR	Public Sector Borrowing Requirement
RPC	Restrictive Practices Court
SIB	Securities and Investments Board
SRA	Self-Regulatory Agencies
SSA	Social Structures of Accumulation
TNA	The National Archives
TUC	Trade Union Congress

Abstract

This thesis explores the role of states in propelling financialisation. The neoliberal period has been characterised by two interrelated phenomena: financial markets have expanded at a seemingly inexorable rate, while productive output has stagnated across much of the advanced capitalist world. States have acted to further these processes through discrete financial de- and reregulations. The existing literature has theorised states' roles in this process by pointing either to the power of financial lobbyists and laissez-faire ideology or arguing that the state pursued these policies as an automatic reaction to the stagflation crisis. This thesis evaluates these claims by examining the governing motivations underpinning four key British financial regulatory transformations – the 1971 Competition and Credit Control measures, the 1977-79 abolition of exchange controls, the 1986 Big Bang, and the 1986 Financial Services Act – through the analysis of declassified government, Bank of England, and other documents. The findings presented in this thesis disconfirm both explanations advanced in the financialisation literature: state policy-makers were not dominated by financial lobbyists, entirely beholden to laissez-faire ideology, nor were their actions a reflexive, functional reaction to crisis. Instead, policy-makers employed financial de- and reregulatory measures as pragmatic instruments to strategically navigate the contradictory pressures of the global profitability crisis and the demands of domestic groups. This thesis theorises these findings by drawing from the value-form reading of Marx's writings and Open Marxist state theory.

During periods of crisis, states are forced to reconcile the impersonal domination of global value relations with the tangible demands of the electorate that their immediate needs be met. To do so, policy-makers create statecraft strategies that attempt to either discipline national social relations in line with global imperatives, often in a depoliticised manner, or delay the effects of the crisis through palliative measures in order to maintain political legitimacy. The financial regulatory changes studied in this thesis should be conceptualised as elements of these broader strategies of crisis governance. The British state's propulsion of financialisation constituted a strategic attempt to govern the crisis- and struggle-ridden nature of capitalist social relations.

CHAPTER ONE

Introduction

The cover of *Time* magazine in May 2016 was an image of the word ‘CAPITALISM’ overrun and strangled by an invasive vine with leaves that resembled those found on a US one dollar bill. The illustration embedded in the feature article was even more stark, reading simply: ‘SAVING CAPITALISM’. Capitalism is presented as something in the process of destruction by an external, out-of-control pathology. The existential threat represented by these creeping vines, the article’s author explains, is ‘financialization’ (Foroohar, 2016).

Figure 1. *Time* magazine, 12 May 2016. Illustrations by Lon Tweeten.

Any number of jarring statistics can be presented to demonstrate the tremendous growth of the global financial sector since the 1970s. The Bank for International Settlements (2017) estimated the value of outstanding derivatives contracts to be $542 trillion in 2017, or almost five times global GDP. In Britain alone, the banking sector's total assets stood at 450 per cent of national GDP in 2014, up from 100 per cent in 1975 (Bush et al., 2014: 386). Indeed, the UK has been at the forefront of financial expansion since the 1970s: by 2009, Britain had a larger financial sector relative to GDP than any other major economy (Banks et al., 2014: 14-5). These statistics are even more glaring when compared with the paucity of non-financial economic performance in the post-1970s era. Rates of GDP growth, non-bank profits, investment, and wage growth in many advanced capitalist economies have remained significantly lower than during the postwar boom (The Economist, 2014). Britain, again, has exemplified this trend, with the share of GDP generated by 'production industries' falling from 41 per cent in 1984 to 14 per cent in 2013 (ibid: 9). It is for this reason that the term financialisation has faced competition from another, less glossy, descriptor – 'secular stagnation' – in defining our economic epoch (Davidson, 2016; Hansen, 1939).

The simultaneous expansion of finance and stagnation of production[1] has elicited both popular and academic scrutiny. The initial excitement with the alchemy of contemporary finance that allowed Larry Summers (at the time Deputy Secretary of the US Treasury) in 1997 to remark '[f]inancial markets don't just oil the wheels of economic growth – they are the wheels', evaporated following the 2008 financial

[1] 'Production/productive' is used in this thesis to refer to the non-financial sectors of the economy, rather than to denote a normative judgement on social usefulness.

crisis (Mirowski, 2013: 222). Financial elites have been increasingly identified as the culprits for a range of social ills and, more generally, there appears to be rising concern that our economies and polities have become subject to domination by financial capital (Streeck, 2017). This sentiment has united both left and right politicians and populist movements in recent years. For example, in Western Europe, the two politicians who have been most vocal in advocating for the potential reimposition of capital controls (for quite different purposes) are the British Labour Party's John McDonnell and the French Front National's Marine Le Pen (Parker et al., 2015; Melander et al., 2017). Leftist and rightist accounts also mirror one another in their insistence that money has been increasingly manipulated by financiers and their political collaborators, such that it no longer acts as the lifeblood of the 'real' economy, but has instead become an instrument of speculation and avarice. In her book *Occupy Money* (2012), Margrit Kennedy, a leading activist in the Occupy movement, called for the creation of a 'sustainable monetary system [that] will reflect *real wealth* rather than the smoke and mirrors of speculative profit' (my emphasis); while the right wing of the US Republican Party has seen a post-2008 resurgence in calls for a return to the gold standard as a remedy for financial malpractice (White, 2015). 'The gold standard is *real money*', states *The Gold Standard Now*, a website associated with Donald Trump's economic advisor Judy Shelton, and thus a return to gold is crucial to stamp out the 'insidious monetary process of political manipulation of the value of national currencies' that have engendered 'systematic financial disorder' (my emphasis). Such initiatives – ranging from the more reasonable to the absurd – reflect a broader social

phenomenon, namely the fundamental anxiety with the synthetic nature of financial wealth and the desire for the recreation of an economy that serves tangible purposes.

In the academic sphere, processes of financial expansion and productive stagnation have fed a growing body of literature that can be gathered under the label of financialisation studies. Spanning a range of disciplines and fields, this literature has pointed to the myriad ways in which financial logics and practices have come to dominate modern economic life. While certain studies have focussed on the macro dynamics of regimes of financial accumulation (Arrighi, 1994; Boyer, 2000), others have examined the everyday practices and subjectivities that constitute and are constituted by financialised capitalism (Langley, 2004; De Goede, 2005; Watson, 2009a). For the most part, accounts of financialisation have employed the term in an almost pejorative manner (Schmidt, 2015: 13); that is, while the concept is used for its analytical traction, it nevertheless generally signifies a set of developments that are seen to be profoundly negative and socially damaging. 'At stake', Natascha van der Zwan (2014: 101) writes in her influential survey of the financialisation literature, is 'not only a deeper understanding of the financialization process, but also the question how we can create a more stable and equitable capitalist system in the context of expanding financial markets'.

However, before any answer can be given to Lenin's question 'what is to be done?', it is essential to develop a sophisticated understanding of precisely *how* the contemporary financial order came to be. If financialisation constitutes an immutable stage in the development of national economies, as Giovanni Arrighi (1994) suggests, then attempts to combat the domination of finance capital and reinstitute a form of production-oriented capitalism would appear to be wishful

thinking. On the other hand, if financialisation has resulted from the hegemony of a pernicious ideology, such as shareholder value (Lazonick and Sullivan, 2002; Stockhammer, 2004), then attempts to propagate counter-hegemonic ideas of economic value, and in the process forge a fairer financial system, would appear wholly reasonable.

A central element of any such explanation of the origins of this phenomenon, yet one that has been seriously underexplored, is the role of states in propelling the dual processes of financial expansion and productive stagnation. Through the dismantling of existing financial regulations, the creation of new regulatory frameworks that enhance the expansionist tendency of global finance, and the restructuring of monetary governance, states have been key catalysts of financialisation. As Eric Helleiner (1995: 315) argues, the increasing scale and global character of financial markets is not simply 'a product of unstoppable technological and market forces', but rather state policy initiatives have been of 'central importance in encouraging and permitting the process'. Amongst the advanced capitalist countries, the British state in particular has been noted for its early and intense propulsion of financialisation dynamics (Davis and Walsh, 2017), leading to what some have termed Britain's 'Finance Curse' (Christensen et al., 2016)[2]. An examination of the reasons for the British state's actions in furthering processes of financial expansion and productive stagnation is thus of crucial academic, as well as political, importance. Indeed, most post-2008 campaigns that

[2] This article argues that national economies with over-sized financial sectors display similar dynamics to the 'resource curse', whereby the presence of this booming sector results in the crowding out of other economic sectors, increases in inequality, and the growing volatility of economic growth.

have sought to repress runaway financial expansion have directed their demands precisely at the state. With this in mind, this thesis will seek to address the following main research question:

> *Why did the British state act to propel financialisation through financial de- and reregulation?*

This question will be explored through the following derivative questions:

> *What were the governing motivations that led successive British governments to restructure Britain's financial regulations?*
>
> *What was the relationship between the postwar profitability crisis and the British state's overhaul of UK financial regulation?*
>
> *What is the utility of the concept of 'domination' in explaining the British state's furthering of financialisation?*

Thesis argument

Existing accounts of the role of states in furthering processes of financial expansion and productive stagnation can be gathered into two broad groups, which this thesis terms *expropriation* and *crisis resolution* approaches. *Expropriation* explanations

argue that the expansion of financial markets has acted to depress the growth of the productive economy, through a variety of mechanisms (Stockhammer, 2004). Within this explanation, it is argued that states have acted to spur financial expansion because of a) the lobbying power of financial elites (Duménil and Lévy, 2004), and b) the enduring power of pro-finance, laissez-faire ideology in the neoliberal era (Palley, 2013). *Crisis resolution* explanations advance the opposite causal narrative. The expansion of finance, it is argued, resulted from the pre-existing malaise in the productive economy (Arrighi, 1994). With regards to the role of states, *crisis resolution* approaches insist that policy-makers deregulated financial markets as a way to resolve the crisis of the underlying economy through, for example, the expansion of credit. In the case of Britain, the former approach has emphasised that the administrations of Margaret Thatcher had extraordinarily close ties with the City of London (referred to from hereon as the City) and was particularly committed to free market principles (Davis and Walsh, 2016); while the latter approach has insisted that the British governments of the 1970s and 1980s acted to propel financial expansion as an automatic reaction to the stagflation crisis (Brenner, 2006).

This literature has two key shortcomings: methodological and theoretical. Methodologically, examinations of financialisation generally have remained at a high level of abstraction, with many accounts making use of global- or national-level descriptive statistics (Duménil and Lévy, 2002) or sweeping macro-historical narratives (Arrighi, 1994) to examine the relationship between financial expansion and productive stagnation. With certain notable exceptions (Krippner, 2011), there is a profound lack of detailed historical examinations of the political deliberations

that resulted in key regulatory transformations. With regards to theory, this literature has relied heavily on instrumentalist/pluralist and functionalist explanations of state behaviour; that is, policy-makers acted to propel financialisation either due to their domination by financial lobbyists and adoption of neoliberal ideology, or as a reflexive, automatic reaction to economic crisis. The strategic agency of state actors is thus downplayed and the governing contradictions that they faced remain unexplored.

This thesis will seek to rectify the methodological shortcomings by advancing an in-depth historical examination of the most important changes in British financial regulatory policy in the postwar period. By analysing declassified government and Bank of England (referred to from hereon as the Bank) documents, as well as a range of other archival sources, this thesis pieces together the policy-making processes that resulted in crucial financial de- and reregulations. Through the employment of this underutilised methodology, unique insights will be provided into the reasons for the British state's actions in propelling financialisation.

The theoretical shortcomings in the existing literature will be addressed by interpreting the archival evidence through a theoretical framework that draws heavily from the 'value-form' reading of Karl Marx's mature writings (see Rubin, 2010). With a few exceptions (see Knafo, 2007; and Konings, 2015), value-form Marxism has not been widely discussed in International Political Economy (IPE) literature. Nevertheless, certain Open Marxist scholars that operate within the limits of IPE – particularly Werner Bonefeld – have consistently engaged with and contributed to this theoretical tradition. This approach, like the aforementioned pluralist and functionalist state theories, is interested in the dominating pressures

experienced by state policy-makers. However, value-form theory neither locates the source of such domination within a particular fraction of the capitalist class nor the external forces of the mode of production. Instead, domination is understood as decentred, impersonal, and deriving from the very money-mediated exchange relations that constitute capitalist society.

The value-form approach interprets Marx's value theory as a theory of a historically specific form of wealth that is simultaneously a form of self-imposed social domination. When human socialisation takes place through money-mediated commodity exchange – a form of social mediation that only becomes generalised in the capitalist epoch – it gives rise to a system of crushing social constraints that set individual producers against one another in unending competition over labour time. This pressure to produce more in less time, and thus boost labour productivity, tends to depress the average rate of profit within the economy as a whole, resulting in periodic profitability crises. However, people are not simply marionettes of value relations, executing predetermined laws in a mechanical manner; instead, people continuously reject the *abstract* dictates of the value form of wealth, and in its place assert their *tangible* needs and demands. Capitalist development is thus characterised by the unruly struggle between a homogeneous form of wealth and its dominating tendencies, on the one hand, and people's everyday assertions of heterogeneous, concrete forms of wealth, on the other.

Within this struggle-ridden society, states are not external regulators, smoothing out inconsistencies and resolving contradictions. Rather, states are *constitutive* of capitalist society through – amongst other things – the creation and management of national currencies and international monetary regimes, which give

rise to global exchange relations and to value as a global principle of social organisation. Policy-makers are therefore subject to dominating pressures that, while they *appear* external, are in fact fundamentally self-generated. States are forced, especially during times of crisis, to ensure that national productivity and profitability meet global averages or else face a range of external sanctions that can threaten national economic viability and domestic social stability. Yet policy-makers must simultaneously ensure that their political legitimacy is not compromised in the pursuit of national economic competitiveness, as the impersonal dictates of global value relations run up against the tangible politics of human need. Thus, during capitalism's cyclical profitability crises, state managers pursue statecraft strategies that fall on a spectrum between two poles: palliation, meaning the delaying of the worst effects of the crisis in order to protect governing legitimacy; and depoliticised discipline, which refers to the direct confrontation of the crisis through disciplining measures in a manner that veils the state's hand in the process and thus insulates policy-makers from political backlash.

This thesis ultimately argues that the transformations in Britain's financial regulatory structure should be understood as elements of such broader crisis governing strategies: whether palliative, depoliticised disciplining, or a hybrid of the two. Successive British governments, from 1971 to 1986, pursued financial de- and reregulatory measures as attempts to govern the contradictory imperatives of a global system of dominating wealth in a period of crisis and the concrete demands by the British electorate that their immediate needs and demands be met. By archivally tracing the policy-making processes that resulted in key changes in British financial regulation, this thesis will demonstrate in forensic empirical detail

that such policies are best conceptualised as statecraft strategies designed to ameliorate this fundamental dilemma inherent to the political governance of capitalist society.

Case selection and methodology

Four cases of financial regulatory restructuring are examined in this thesis, namely the 1971 Competition and Credit Control (CCC) measures, the 1977-9 abolition of exchange controls, the 1986 Big Bang, and the 1986 Financial Services Act (FSA). These policies were chosen because of their central role in spurring processes of financial expansion and productive stagnation during the critical years of the 1970s and 1980s. CCC constituted a radical restructuring of British monetary policy, whereby the London clearing bank cartel was abolished, quantitative limits on bank lending were scrapped, and Bank Rate (the interest rate at which the Bank loaned money to domestic banks) became partly marketised. These changes provoked both an enormous credit expansion and increasing financial innovation. The abolition of exchange controls consisted of the dismantling of limits on the use of British funds for overseas investment and rules regarding the repatriation of profits earned overseas. This resulted in a massive flow of investment out of the UK, the diversification of British capital's investment portfolio from industrial to financial assets, and the increasing global competitiveness of the City. The Big Bang saw the deregulation of the London Stock Exchange (LSE), whereby the exchange was opened up to foreign financial firms and fixed commissions on securities trading

were abolished. This liberalisation boosted the global status of the City as a world financial hub and propelled the expansion of the UK financial sector. FSA forged a new regulatory structure to govern the British securities industry, characterised by self-regulation within a statutory framework. This reregulation complemented the Big Bang in propelling the City's global prospects, by ushering in a comprehensive system of regulations for global actors to follow when operating in London.

This thesis employs an archival methodology to explain the British state's role in propelling processes of financialisation. The empirical chapters are based upon primary documents spanning the years 1968 to 1986 and which are located at three main archival repositories in the UK: the National Archives, the Bank, and the University of Warwick's Modern Records Centre. In addition, this thesis also consulted, to a lesser extent, the government documents that have been digitised and shared online by the Margaret Thatcher Foundation, Hansard (the official record of parliamentary debates), and the newspaper archives held at the University of Warwick library.

The majority of documents examined during this PhD are located at the National Archives in Kew, London. In 2013, this archival repository changed its policy regarding the release of government documents from the 30-year to the 20-year rule, such that, in 2014, records from 1986 were made available to the public. This coincided perfectly with the beginning of this PhD in 2014, as the records concerning the Big Bang became accessible for interrogation. Within the National Archives, this thesis explored records from the Prime Minister's office, Treasury, Department of Trade (DoT), Department of Industry (DoI), and Department of Prices and Consumer Protection. These documents provided insights into the

political deliberations between the Prime Minister and senior government ministers, as well as allowing for an exploration of the debates taking place within the civil service and amongst less senior officials who were nonetheless working at the coalface of policy implementation.

This thesis also interrogated primary documents located at the archive of the Bank in London. This archival repository similarly changed its document release policy in 2013 to the 20-year rule, allowing for full access to documents related to this thesis' case studies. Within the Bank archives, two types of documents were examined. Firstly, the minutes of meetings of the Court of Directors were explored – documents that have been digitised and made available online. These meetings, which take place at least seven times a year, are attended by the Governor and other senior executive and non-executive members. As such, these documents provide insights into high-level deliberations concerning the broad direction of monetary and regulatory policy, as well as the content of recommendations that will be made to the government on policy issues. Secondly, this thesis draws from recently declassified, non-digitised documents held at the Bank. These records include letters sent from the Governor to the Prime Minister (as well as other government ministers), internal memos sent within the Bank, and economic analyses created by Bank officials for internal circulation. In combination with the documents in the National Archives, these Bank archives allowed this thesis to examine the areas of agreement and disagreement between the government and the Bank, the strategic manoeuvrings between these two institutions, and the manner in which both bodies contributed to the formulation of financial regulatory policy.

The analysis contained within this thesis' archival chapters was supplemented by documents interrogated at the Modern Records Centre. This consisted chiefly of the archives of the Confederation of British Industry (CBI), but certain documents from the Trade Union Congress (TUC) archive were also examined. The CBI archives shed light on the British business community's concerns regarding the state of the economy in the 1970s, and highlighted the extent of the organisation's efforts in lobbying the government to create policies that would alleviate the pressure on British capital. These documents often provided clear insights into the relationship between the demands of British industry and the transformations of financial regulation undertaken by the government.

While archival analysis can offer an unprecedented glimpse into states' policy-making processes, which in turn allows the researcher to both 'test theoretical propositions' and offer 'persuasive causal explanations' (Reuschemeyer, 2003: 318), this methodology entails certain risks. As Bryman (2016: 546) points out, researchers must be wary of the credibility, representativeness, and meaning of the documents that they are examining. Credibility and representativeness can refer to two interrelated factors: 'the reliability of the author and the reliability of the information on which the author is basing their opinions' (Wellings, 2013: 131). When analysing the recommendations of a Treasury official to the Chancellor of the Exchequer on the relationship between exchange controls and inflation, there is a danger that the official misrepresents the broad views of the Treasury or that the official is basing their recommendation on inaccurate statistical data. This thesis attempts to counter these risks by corroborating the opinions found in the archival record with a range of secondary sources, including political memoirs, interviews

conducted with policy-makers by other scholars, and alternative scholarly analyses of the same or similar archival material. Furthermore, where possible, the data presented in the archival record is corroborated by other official data sources, including the Bank's statistics branch and the Office for National Statistics.

Problems of meaning can arise from misinterpretations of the context within which the authors of archival materials were situated (Scott, 1990). For example, reading the archives of the Prime Minister's office from the 1970s through a presentist lens (i.e. in a context of long-term low inflation) may lead the researcher to be confused by the level of political concern over the effects of inflation on governments' re-election chances. These possible confusions surrounding the contextual meaning of certain concepts can be rectified through a broad reading of the secondary literature – a necessary preliminary stage to archival research. Yet certain ambiguities surrounding the meaning and interpretation of archival material are unavoidable: as Burnham et al. (2004: 212) write, documents 'do not speak for themselves', but can only be understood through a framework set by 'analytical and methodological assumptions'. This thesis is transparent about its theoretical assumptions and makes clear that it interprets the documentary material through this lens.

Abstract theorisation and a detailed empirical methodology are combined throughout this thesis. On the one hand, the analysis put forward draws from a highly abstract conceptual tradition that begins with the commodity form of wealth and logically unravels the full array of imperatives and tendencies that constitute contemporary capitalism. On the other hand, it advances a forensic examination of the archival record and insists that this method reveals something novel about the

causes of financial regulatory change. This thesis thus insists *both* that the fundamental character of capitalist society cannot be grasped through empirical scrutiny of surface phenomena alone *and* that robust empirical analysis is highly valuable for social scientific study (see Burnham, 1990, Kettell, 2004, and Rogers, 2012 for examples of such a synthesis). This reflects a contradiction at the heart of capitalist social life, namely that people's everyday agency, subjectivity, strategising, and practical action appear to confront intangible, abstract barriers that are broadly conceptualised as 'economic realities' or 'structures'. This thesis' theoretical framework attempts to grasp these apparently immutable, external structures as self-imposed social constraints that define the limits of the socially possible – so long as the basic monetised exchange relations are left intact. The manner in which these rules of social reproduction are subjectively understood, negotiated, challenged, or reinforced by real agents cannot be deduced by abstract reasoning, but is rather the domain of empirical discovery. As such, this thesis attempts to bridge the abstract and the concrete by archivally tracing how political elites employed financial regulatory restructuring as a strategy to navigate the impersonal domination of global value relations in a period of crisis. This thesis' concepts of palliation and depoliticised disciplining statecraft strategies act as a mediating level of abstraction between these extremes: statecraft strategies are clearly visible in the archival record, yet only acquire their full significance when understood in relation to the intangible social forces that are distilled through theoretical inquiry.

Contributions

This thesis makes significant contributions to three bodies of literature: the interdisciplinary study of financialisation, and IPE scholarship on state/market relations and neoliberal financial liberalisation.

Financialisation

Financialisation literature, as Chapter 2 explains, has spanned a broad range of disciplinary boundaries within the social sciences and humanities. Scholars from various fields have examined the diverse ways in which the growth of financial institutions, logics, and practices have transformed contemporary capitalist life – from the increasingly financialised nature of housing, credit, and food (Fernandez and Aalbers, 2016; Montgomerie, 2006; Clapp, 2014), to the creation of financialised subjectivities and identities (Aitken, 2007; Watson, 2009a), to the causal relations between financial expansion and productive stagnation (Arrighi, 1994; Stockhammer, 2004). To the extent that this literature has examined the relationship between financialisation and states, states tend to be understood as the subject of processes of financialisation – as in Ian Hardie's analysis of how the financialisation of bond markets has restricted developing states' borrowing capacity (2011) – or as actors that govern through financialised mechanisms – such as Andrea Lagna's study of the Italian state's employment of derivatives for strategic purposes (2016). Far less attention has been paid to the motivations that pushed states to actively promote processes of financialisation in the formative

years of this phenomenon. Furthermore, those accounts that have examined this question have tended to treat states' behaviour in a pluralist/instrumentalist or functionalist manner, as exemplified by the *expropriation* and *crisis resolution* approaches.

My research will address this lacuna in the financialisation literature by examining the governing imperatives that pressed the British state to propel processes of financial expansion and productive stagnation. By focussing on the pragmatic and political nature of the British state's actions in transforming the UK's financial sector, as well as by placing these policy decisions in the context of the global economic crisis of the 1970s-80s, this thesis will contribute to the work of Greta Krippner (2011) and Wolfgang Streeck (2014) in conceptualising financial regulatory restructuring as a strategic response to the political and economic dilemmas generated by crises. This theoretical contribution is complemented by this thesis' methodological innovation, namely the employment of archival historiography. Studies of states' roles in financialisation, while providing useful descriptive statistics and stylised historical narratives, have generally not incorporated the interpretation of primary sources into their accounts. The interrogation of documents from the National Archives, Bank archives, Modern Records Centre, and other archival repositories will allow this thesis to trace the complex political deliberations that ultimately resulted in key financial de- and reregulations.

States and markets

Within IPE, it has become widely accepted that scholars must advance beyond the conception of states and markets as opposed antagonists engaged in a perpetual tug of war (Gilpin, 1987; Strange, 1996). Geoffrey Underhill (2000: 808) has attempted to transcend such dualism by arguing that 'the state and the market are part of the same integrated system of governance: a state-market condominium'; Foucauldian IPE scholars have insisted that power has no 'central locus' in either states or markets, and instead employ the concept of 'governmentality' to suggest that states and markets reproduce diffuse power relations through forms of knowledge and practice (Aitken, 2007: 18); and Polanyian interpretations have claimed that states and markets are 'mutually constituting spheres of activity' – both simultaneously embedded in civil society (Block and Evans, 2005: 505). While these insights are extremely valuable, it is important to ensure that this positing of the mutual constitution of states and markets acts as the starting point, rather than conclusion, of IPE analyses (Burnham, 2011: 478).

This thesis contributes to, and also intends to complicate, Open Marxist IPE accounts of state/market relations and the broader nature of capitalist society. The Open Marxist framework, exemplified in IPE by the work of Peter Burnham, attempts to grasp states and markets not as ontologically separate categories but as different forms or 'mode[s] of existence' of capitalist social relations (Burnham, 1994: 225). This approach is careful not to subsume all social phenomena under the logical workings of capital accumulation, as in structural-functionalist interpretations, but rather emphasises that capitalist society is characterised by

struggle; and thus states and markets must be understood as rigidified forms of such struggle (ibid). While this framework has been successful in advancing a Marxist IPE approach that overcomes the pluralist state theory of neo-Gramscian IPE (van der Pijl, 1989), it has shown signs of stagnation in recent years as Open Marxist IPE scholars have failed to engage with cutting-edge interpretations of Marx beyond the Anglophone literature. This thesis will thus follow Bonefeld (2014) in exploring value-form Marxism and employing its insights to forge a more sophisticated Marxist intervention into IPE debates.

This thesis' value-form approach understands that capitalist domination does not emanate solely from the realm of market interactions nor is it purely a state project. Rather, capitalist social relations are constituted by a network of private monetary exchange (Heinrich, 2012) that is participated in, and facilitated and enforced by, sovereign states. It is thus correct to characterise states and markets in the capitalist epoch as mutually constitutive. However, the value-form interpretation pushes this claim further. While private and public actors forge capitalist social relations through their everyday activities, these social relations become 'autonomised' (Reichelt, 2007: 5): that is, they take on a rhythmic pattern that is independent from the conscious intentions of the active participants who bring them to life. As Marx (1993: 157) writes, the 'general exchange of activities and products, which has become a vital condition for each individual – their mutual interconnection – here appears as something alien to them, autonomous, as a thing'. Both policy-makers and market agents, as such, become dominated by the very social relations that they have created.

By directly engaging with such definitional categories as value and capital, which contemporary IPE literature generally sidesteps, this thesis' value-form approach makes two contributions to IPE's understanding of state/market relations. Firstly, it offers a convincing account of the mutual constitution of states and markets as simultaneously creators and subjects of capitalist domination. Secondly, it provides an explanation of why this form of self-imposed domination appears as external domination. In other words, it explains why certain IPE scholars understand states as embattled institutions struggling against external market forces (Gilpin, 1987; Strange, 1996), and why neoclassical economists have tended to conceptualise economic pressures as natural or at least transhistorical forces (Davidson, 1991: 33).[3] These misapprehensions of the global political economy are not simply analytical mistakes, but rather reflect the real *appearance* of capitalist society (Rubin, 2010); a society in which people are 'governed by the products of [their] own hand[s]' (Marx, 1976: 772).

Neoliberal financial liberalisation

This thesis also contributes to IPE literature on neoliberal financial liberalisation. Within IPE, the transformations in financial regulation that took place in the advanced capitalist world in the 1970s and 1980s are generally understood to have

[3] Paul Davidson (1991: 33) writes that 'neoclassical theories presume that the economic system resembles the mechanical systems analysed by nineteenth-century physical scientists. The movement over time of such systems is determined by events and laws existing at the initial instant of time'.

resulted from two causal factors: dynamics of competitive deregulation between states and the growing influence of laissez-faire economic ideas (Helleiner, 1994; Andrews, 1994; McNamara, 1998; Gallagher, 2015). The former explanation emphasises that the increasing mobility of capital flows in the 1970s created powerful sanctions and incentives that motivated policy-makers to pursue financial liberalisation. The sanctions refer to the fact that states were increasingly forced to compete 'for the right to regulate capital' (Andrews, 1994: 199) or else face capital flight; while the incentives meant that states could promote their domestic financial industries as global financial centres through deregulation (Cerny, 1994; Green, 2016). The latter explanation, advanced by constructivist scholars, posits that at various scales – from national states to international organisations – a fundamental ideational transformation took place, whereby Keynesian instruments of demand management became stigmatised and were consequently replaced by a new liberal policy consensus, often with a monetarist bent (Best, 2005; Chwieroth, 2010). Within this IPE literature, Thatcher's deregulatory agenda – particularly the abolition of exchange controls and the Big Bang – is considered the archetypal case of the role of competitive deregulation and neoliberal ideology in propelling financial regulatory change (Helleiner, 1994; Germain, 1997).

This thesis fundamentally challenges this consensus by arguing that the transformations in British financial regulation in the 1970s and 1980s are better understood as strategies to navigate the contradictory forces generated by the stagflation crisis. While there is some evidence to suggest that policy-makers were concerned with boosting the City's competitiveness and that certain politicians were motivated by ideological commitments to neoliberal and monetarist doctrines, the

bulk of archival data points to a more practical, ad hoc explanation. British policy-makers found themselves torn between, on the one hand, the material imperative to discipline domestic social relations in line with a global system of social wealth in deep crisis, and the political imperative to meet the immediate needs and ambitions of civil society, on the other. This thesis demonstrates that the same financial regulatory changes that the IPE literature has generally explained with reference to competition and ideology, must be conceptualised as elements of broader statecraft strategies of three types: 1) palliation strategies, designed to delay the contradiction set out above; 2) depoliticised disciplining strategies, designed to address the economic imperative while neutralising the resultant political backlash; or 3) hybridised statecraft strategies that incorporate elements of both aforementioned strategies. This theoretical schema is able to capture the ideological character of the different governments and political actors of this period – particularly the growing influence of monetarist economic doctrine at the expense of Keynesianism – yet it transcends existing IPE accounts by further explaining how governing norms and economic ideas confronted an inescapable policy-making dilemma and were in turn warped and instrumentalised for strategic political purposes.

Chapter structure

In addressing the research questions set out above, this thesis will be divided into two parts. Part I, consisting of three chapters, will provide a conceptual discussion of financialisation, the state, and the nature of capitalist domination. Part II,

consisting of five chapters, will apply these theoretical insights to the case of the British state's financial regulatory restructuring, and, more specifically, the four cases of financial de- and re-regulation outlined above. Finally, this thesis will end with a concluding chapter.

Part I

Chapter 2 is this thesis' literature review. This chapter will examine the existing literature on the topic of financialisation, which is organised into three categories. The first category refers to a body of literature that this thesis terms 'the financialisation of' approach. These accounts of financialisation point to the increasing role of financial logics in various economic sectors, mechanisms of state management, and aspects of everyday life. The second category of this literature, which this thesis argues has more analytical precision, understands financialisation to denote the corresponding expansion of finance and stagnation of production since the 1970s. In explaining these twin phenomena, this literature can be further grouped into two approaches, namely the *expropriation* and *crisis resolution* explanations discussed above. The third category of financialisation literature examines the role of states in advancing the simultaneous financial expansion and productive stagnation; with *expropriation* approaches insisting that states unleashed the expropriating power of finance due to the role of financial lobbying or neoliberal ideology, and *crisis resolution* approaches arguing that states deregulated finance as an automatic reaction to the underlying economic crisis. While this last category of financialisation literature has relied on pluralist and functionalist theories of state

behaviour, the work of Streeck and Krippner has offered a welcome *strategic* approach to understanding the role of states in propelling financial expansion and productive stagnation. This thesis will contribute to these innovative scholars' reconceptualisation of the contested and political nature of the relationship between states and financialisation, and move beyond their theoretical deficiencies by grounding the empirical analysis of policy-makers' strategic machinations in a comprehensive and internally consistent theory of capitalist domination.

Chapter 3 is the first stage of a two-part theoretical framework that explores the forms of domination that underpinned states' propulsion of processes of financialisation. This chapter will argue that rather than conceptualising capitalist domination as deriving from specific sociological groupings, capitalism's dominating tendencies inhere in the very form of social wealth that predominates in this society, namely value. This chapter examines the value-form reading of Marx's theory of value, and explains how money-mediated commodity exchange forces market participants to compete with one another over labour time, resulting in a historically peculiar form of self-generating temporal domination. This in turn generates powerful tendencies towards the classification of society into dependent and flexible wage-labourers, separated from the means of non-market survival. These same dynamics similarly set capitalist development along a cyclical developmental trajectory, whereby the pressures to continually raise productivity also tend to depress average profitability, resulting in periodic crises. However, actual capitalist development is not a pre-scripted affair: the pressures arising from the value form of social wealth are perpetually resisted in myriad ways, as people assert alternative forms of wealth, societal objectives, and social organising

principles. Capitalist society, as such, is characterised by a struggle between a decentred, impersonal, and accidentally self-imposed form of temporal domination, on the one hand, and people's everyday assertion of tangible needs and demands, on the other.

Chapter 4, the second part of this thesis' theoretical framework, integrates states into this reading of capitalist domination. Rather than standing outside of the capitalist system and regulating it in an objective manner, states are fundamental constituents of capitalist society. Through the creation and management of national currencies and international exchange rate regimes, states plug their national territories into a global system of monetary exchange relations, resulting in the foundation of value as a *global* organising principle and system of impersonal domination. In order to avoid a range of economic sanctions, ranging from capital flight to payments imbalances to currency crises, states are forced to maintain average rates of profit within their territories. Yet the measures necessary to ensure the correspondence of national economic performance to global averages can threaten to undermine the basis of the state's political legitimacy, especially during times of global crisis. Therefore, policy-makers formulate statecraft strategies, or strategies of crisis governance, that allow them to navigate the contradictory imperatives of global value relations and the tangible demands of enfranchised citizens. These strategies fall on a spectrum between two poles: depoliticised discipline, whereby domestic social relations are disciplined in line with global averages in a depoliticised manner, and palliation, whereby the underlying crisis is not directly addressed but its affects are delayed so as to preserve governing legitimacy. This chapter will argue that the policies of financial regulatory

restructuring examined in this thesis must be understood as elements of such statecraft strategies.

Part II

Chapter 5 marks the beginning of this thesis' empirical section, whereby the preceding theoretical insights are applied to the case of British financial regulatory policies during the profitability crisis. In particular, this chapter will act as a bridge between the earlier chapters' abstract conceptual discussions and the in-depth archival analysis of the following chapters. This chapter begins by arguing that analysts must be careful to differentiate between the long decline of British imperial and capitalist dominance, on the one hand, and the immediate and steep economic crisis that beset Britain in the 1970s, on the other. This latter crisis was the national manifestation of the global profitability crisis that plagued the world capitalist economy during this period. This chapter then puts forward a novel historical categorisation of the British experience of stagflation, by identifying two distinct periods within Britain's experience of the global profitability crisis. The first, from 1967 to 1977, was characterised by low rates of corporate profit, rising inflation, and repeated current account imbalances that resulted in currency crises. The second, from 1977 to 1983, still saw low profitability and high inflation, but the rising price of sterling ensured that there were no sterling crises. The chapter then details how various governments deployed statecraft strategies during these two periods as a way to navigate the contradictory accumulation and legitimacy

imperatives. The following financial regulatory policies must be understood through the lens of these broader statecraft strategies.

Chapter 6 is the first archive-based chapter in this thesis. This chapter explores the 1971 CCC measures that restructured British monetary and financial regulatory policy. While this policy change was a brainchild of the Bank, it nevertheless had to gain Treasury assent – and it is this latter puzzle that this chapter tackles. In the context of the early stages of the global profitability crisis, Britain's worsening trade performance had resulted in a series of currency crises, to which Harold Wilson's government responded in 1967 by devaluing sterling. In aid of devaluation, the government enacted a series of contractionary measures, designed to reduce demand for imports and thus promote a balance of payments recovery. However, two obstacles stood in the way of this governing objective. Firstly, people proved resistant to this reduction in their living standards, and thus endeavoured to combat income losses by extending their bank borrowing. Secondly, due to falling profitability, companies faced a liquidity crisis that threatened to derail the export recovery. As such, the government needed policy instruments that could both restrict credit to persons and extend credit to companies: that is, operate a simultaneously disciplining and palliative monetary policy. This chapter shows that this could not be achieved with the existing monetary toolkit, which had also become increasingly politicised and painful for the authorities to operate. The Bank's CCC proposals, in contrast, appeared to offer an arm's-length mechanism that would reallocate credit from persons to companies by allowing interest rates to determine access to credit, while shielding the government's hand in the process. The Treasury's approval of CCC constituted a hybrid statecraft strategy that

combined both palliative and depoliticised disciplining measures to respond to the political and economic dilemmas churned up by the global profitability crisis.

Chapter 7 examines the abolition of exchange controls in the years 1977 to 1979. Exchange controls, which had been in place since the second world war, were first partially dismantled by the Labour government of James Callaghan before being completely scrapped by the Thatcher administration. This chapter demonstrates that exchange control abolition must be understood as a reaction to the immediate political dilemmas facing both governments. Following the IMF's 1976 seal of approval on British government policy, and the increasing revenues from North Sea oil, the pound's price began to rise. While this aided the government's attack on inflation, it exacerbated the effects of the profitability crisis on exporters. This chapter shows that both the Callaghan and Thatcher administrations sought to ease the pressure on exporters by dismantling exchange controls and allowing investment to flow out of sterling, thus reducing the currency's price. Yet there were two problems with this palliation strategy: the trade union movement was vehemently opposed to this deregulation, and there was a concern that global financial markets would be startled by this policy and orchestrate a run on the pound. While these obstacles ultimately impeded the Callaghan administration from pursuing the full abolition of exchange controls, the Thatcher government publicly deployed a rhetorical strategy that emphasised their laissez-faire ideology in order to convince global markets that this was not a beggar-thy-neighbour policy, but rather one driven by sheer principle. The dismantling of exchange controls should thus be understood as a palliative statecraft strategy to delay the political ramifications of the strong pound's exacerbation of the

profitability crisis – a strategy that was pursued in a manner that would veil the government's intentions from global markets.

Chapter 8 focuses on the Thatcher government's 1986 Big Bang deregulation of the LSE. This policy was the result of a winding institutional process, beginning in 1979 when the Restrictive Practices Court (RPC) began a case against the LSE for non-competitive practices. Despite the pleas of the LSE's Chairman Nicholas Goodison, the Thatcher government refused to exempt the LSE from this court case because it would contradict the government's laissez-faire, pro-competition rhetoric. However, the government's perspective began to change following the launching of the Medium Term Financial Strategy (MTFS): a plan to discipline the British economy in line with global value relations in a depoliticised manner by imposing a rules-based policy straitjacket upon the state. In order for this statecraft strategy to be successful, it was essential that the government meet certain chosen monetary targets, which would justify the painful deflationary measures. Yet this plan went awry immediately upon implementation, as the Thatcher administration plunged the British economy into a deep recession and was unable to hit the monetary targets. To prevent the complete presentational failure of MTFS, the government began to make massive sales of government debt on the LSE as a way to soak up excess liquidity in the economy and artificially reduce the money supply. This in turn made it crucially important that the RPC case would not disrupt the normal functioning of the LSE, which led the Thatcher government to exempt the LSE in July 1983 and begin the countdown to the Big Bang deregulation. The decision that led to the Big Bang, then, was a pragmatic attempt to rescue the

government's depoliticised disciplining strategy for directly addressing the profitability crisis.

Chapter 9 explores the political deliberations that resulted in the 1986 FSA. FSA was a *re*regulatory measure that acted to create a statutory regulatory infrastructure appropriate to the preceding decade and a half of financial liberalisations discussed in the preceding thesis chapters. This chapter will explain the impetus underpinning this policy and why it assumed its light-touch, arm's-length form. Following several financial scandals in the City, the government commissioned a legal academic – Laurence Gower – to investigate Britain's securities regulation and make recommendations on future amendments. Gower's initial proposals for a system of self-regulation to be governed directly by a government body were met with disapproval by the government and Bank. However, the impending Big Bang deregulation changed policy-makers' opinions. This radical liberalisation would invite global actors to operate in the City, which in turn necessitated the creation of an impartial and legally-enforced system of rules. Yet the Thatcher government was concerned that Gower's proposals would make them politically responsible for future financial crises, while the Bank worried that their informal relations with the City would be interrupted by government meddling. As such, the government and Bank worked to depoliticise Gower's plans by inserting a private body between the government and the City, and thus insulate policy-makers from legitimacy problems that would result from financial crises. FSA can thus be understood as an attempt to create a depoliticised framework of financial governance that would simultaneously regulate Britain's newly liberalised

financial system and protect the government from the political backlash deriving from this financialised pattern of accumulation.

Chapter 10 is this thesis' conclusion. This chapter will provide a summary of the thesis' overarching argument, explain the original contributions, and put forth a discussion of the limits of this work and the possibilities for developing a future research agenda.

CHAPTER TWO

Financial expansion, productive stagnation, and states

Crush the financial sector, end the great stagnation?

Title of Matthew C. Klein's 2015 article in the *Financial Times*.

Introduction

It is rare that a contemporary political economy concept crosses over into mainstream usage. 'Globalisation' is the most obvious example, having been employed *ad nauseam* by politicians and commentators since the 1990s. To a lesser extent, 'neoliberalism' has also gained significant cachet in recent years. It is premature to add 'financialisation' to this list of cross-over concepts, yet it too has displayed the potential to bleed from an originally rather niche set of academic debates into broader usage.[4] Furthermore, like globalisation, financialisation

[4] See, for instance, Bruce Bartlett's 2013 *New York Times* article titled 'Financialization as a cause of economic malaise', Steve Dennings' 2014 *Forbes*

denotes a broad, seemingly tectonic shift in economic life that implies a worrying set of limits on the democratic process. Within the social sciences, however, no ambiguity exists about the traction of this term. A large and still growing number of accounts have attached themselves to this burgeoning literature, which spans a range of academic disciplines, including economics, political science, IPE, sociology, management studies, and geography. This in turn is reflected in the continuing proliferation of conference panels, special issues of journals, and research projects that explicitly address the phenomenon of financialisation.

While this literature can be dissected and examined in myriad ways[5], this chapter will adopt an innovative approach to characterise the existing accounts of financialisation. Moving from general to specific, this chapter is divided into three main sections. The first section looks at what is here termed 'the financialisation of…' approaches. These approaches conceptualise financialisation as the general growth of financial actors, practices, and discourses, and seek to apply this broad understanding to particular cases, such as insurance or housing. While providing a number of valuable insights, this specific branch of the literature risks diluting the analytical clarity of the term by stretching it too thinly. Secondly, this chapter examines a narrower and more analytically precise branch of this literature that understands financialisation to denote a causal relationship between financial expansion and productive stagnation. Pointing to the simultaneous occurrence of runaway financial growth and the faltering performance of 'real' economic

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article titled 'Why financialization has run amok', and Rana Foroohar's 2017 *Guardian* article that states: 'Our economic illness has a name: financialization'.

[5] Different attempts to categorise the financialisation literature have gone about this task in distinct ways. See, for example, van Treeck (2009), Lapavitsas (2011), and van der Zwan (2014).

indicators in various OECD countries since the 1970s, these approaches argue that some form of directional causation exists between these dual phenomena. *Expropriation* explanations insist that financial expansion has provoked productive stagnation, and *crisis resolution* explanations posit causality in the opposite direction. While these approaches have made a crucial contribution to the literature by pointing out that financial excess and general economic underperformance must be understood as internally related, and in turn contributed towards a more precise definition of financialisation, they share a deeply unsatisfactory understanding of the role of states in this process. The third section of this chapter, then, examines how *expropriation* and *crisis resolution* explanations have integrated state action into their accounts. The former explanation has relied on a pluralist state theory, whereby financial elites captured the levers of state power, directly or through the diffusion of pro-finance ideology, and thus utilised the state to facilitate the expropriation of productive capital. The latter employs a functionalist state theory, whereby states reacted automatically to the crisis of productive capital by deregulating the financial sector and boosting credit expansion. Neither explanation leaves significant room for an examination of political and social struggle nor the strategising of policy-makers. A small but important exception are the *crisis resolution* accounts put forward by Streeck (2011; 2014) and Krippner (2011), both of whom have sought to conceptualise states' roles in propelling financial expansion as a matter of the strategic reconciliation of economic imperatives and legitimacy concerns.

This thesis seeks to contribute to the literature on financialisation understood as the simultaneous expansion of finance and stagnation of production, by

advancing a novel understanding of the British state's role in mediating these processes. Two important gaps currently exist in this literature. Firstly, there has been a distinct lack of archival historiography, meaning that state behaviour tends to be explained in either abstract logical terms – with reference to statistical correlations between economic variables – or by drawing from secondary sources. This thesis will attempt to fill this lacuna by putting forward a detailed historical account of key British financial de- and reregulations, in order to examine the strategic dimensions of the policy-making processes that fuelled financialisation, and thus to overcome the simplistic pluralist/functionalist binary that characterises the existing literature. Secondly, while Streeck's and Krippner's distinctly strategic accounts constitute a welcome improvement upon previous explanations of states' involvement in financialisation, they suffer from significant theoretical deficiencies. Streeck's limited and economistic definition of capitalism leads him to point to exogenous factors as the cause of the crisis that in turn provoked financial growth; Krippner draws from contradictory accounts in developing a conceptual toolkit to examine financialisation; and both accounts fail to outline a coherent theory of the state – their subject of analysis. In contrast, this thesis will ground its detailed empirical analysis in an internally coherent theory of capitalist society, within which financialisation, crisis, and the state are fully integrated, rather than understood as exogenous factors. In sum, by filling these methodological and theoretical gaps in the existing literature, this thesis will shed new light on the state's role in mediating processes of financial expansion and productive stagnation.

‘The financialisation of …’

As Brett Christophers (2015: 186) argues, if the various accounts of financialisation share anything in common, it is ‘perhaps only the hazy conviction that “finance” … today enjoys a historically unique significance’. Indeed, Gerald Epstein’s widely cited definition casts the analytical net particularly wide: ‘financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies’ (2005: 3). Manuel Aalbers (2015: 214) broadens this definition further still, by conceptualising financialisation as ‘the increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households’. Furthermore, in many cases, financialisation is considered to be one third of the triumvirate, alongside globalisation and neoliberalisation, that structures contemporary social order (Christophers, 2015: 183). These conceptualisations of financialisation as a loosely defined form of processual change in the role of finance, understood as either a material, ideational, or semiotic phenomenon, on any number of spatial scales, and related to globalisation and neoliberalism in some way, has led to a vast research agenda within the social sciences. Scholars have analysed the financialisation of different aspects of the social world, whether that be specific industries, governance mechanisms, or everyday life.

Literature on the financialisation of different industries is too vast to list exhaustively here, but certain accounts are particularly emblematic of this strand of

research. Johnna Montgomerie (2006) examines the financialisation of the US credit card industry by focussing on how the development of securitisation has boosted the profitability of this sector. By moving 'receivables' off the balance sheets of companies, this financial innovation allowed 'loan pools to be re-capitalized, lowering the cost of borrowing and increasing revenues from payments on securities issued' (Montgomerie, 2006: 316). Similarly, a number of accounts have analysed the financialisation of housing, as mortgage markets have been increasingly integrated into global arteries of financial accumulation (Rolnik, 2013; Fernandez and Aalbers, 2016). Through the advent of mortgage securitisation, credit scoring, and 'risk-based pricing', housing has gradually been transformed from a social good to a vehicle for financial profit-making (Aalbers, 2008: 148). In addition, there is a growing literature addressing the financialisation of food commodity chains (Burch and Lawrence, 2013; Clapp, 2014). Jennifer Clapp (2014) argues that the increasing trade of financial derivatives linked to food commodities has led to the abstraction of the exchange value of foods from their physical forms. This process of 'distancing' has obscured the links between prominent financial actors involved in agricultural commodity chains and the ecological damage associated with this industry, making it difficult for civil society actors to mount coherent critiques of the financialisation of food (ibid).

A further strand of literature has examined how the advance of financialisation has interacted with state governance mechanisms. Financialisation, for Hardie (2011: 143), denotes the trading of risk on the performance of a financial asset. As bond markets have become increasingly financialised, developing economies have faced rising borrowing costs, which in turn has heightened the risk

of sovereign debt crises (Hardie, 2011). This position, in which processes of financialisation stand opposed to successful state economic management, has been resisted by Lagna (2016), who has focussed on how governments pursue statecraft strategies *through* financialised mechanisms. Specifically, Lagna (ibid) focusses on how Italian neoliberal policy-makers employed financial derivatives so as to gain admission to the European Monetary Union and in turn boost their own political power. Similarly, Matthew Watson (2009a) has argued that financialisation is not a pure market phenomenon that is imposed upon states, but can also be understood as a state-promoted form of economic citizenship. New Labour, he argues, actively promoted an 'asset-based system of welfare', which required the construction of financialised economic agents who could counteract the state's falling pension provisions by utilising their home as a financial asset (ibid).

A third stream of financialisation research has changed focus from the level of business and the state to the sphere of 'everyday life'. This literature has a prominently cultural bent, as it seeks to analyse the manner in which the expansion of financial practices amongst non-elite sections of the population has led to transformations in the lived experiences of contemporary capitalism. As Paul Langley (2004: 554) argued, such scholars understand financialisation less as a 'logic' and more as a 'set of processes constituted in practice through discourses of economy'. This approach emphasises the instability, uncertainty, and unevenness of financialisation, rather than characterising it as a coherent and all-encompassing stage of capitalism. In his book *Performing Capital*, Rob Aitken (2007) launched a critique of notions of capital as an objective or natural force, and instead examined the cultural constitution of capital through everyday practices and discourses.

Focussing on finance, Aitken analysed how various strategies employed by US banks, businesses, and even government agencies have attempted to draw large sections of the population into the realm of private finance, and have specifically attempted to construct the notion of US citizen as prudent saver and investor (ibid). Leonard Seabrooke (2006) has also utilised an everyday approach to examine how the US state attempted to imbricate low income groups into credit networks as a strategy to boost the US' position in global financial markets, while also exploring how the involvement of non-elite groups can lend legitimacy to financial systems. Switching the focus from a broad concern with non-elite groups to capitalist class divisions in particular, Randy Martin, Michael Rafferty, and Dick Bryan (2008) have conceptualised financialised capitalism as a sort of contemporary dystopia, in which the pressures unleashed by financial innovation have both intensified competition between capitals and forced workers to approach their everyday life as a balance sheet.

While the aforementioned approaches to financialisation are diverse, shining a light on the expansion of financial practices at the corporate, state, and everyday level, they have in general avoided directly linking these processes with a second glaring feature of contemporary capitalism in the advanced capitalist world: the slowdown of productive growth. The following section will introduce a range of approaches that attempt to examine the relationship between financial expansion and productive stagnation, and to posit causality between these phenomena, in one direction or another.

Financial expansion and productive stagnation

The somewhat anxious commentary surrounding the Bank's increase in interest rates on 2 November 2017 may appear exaggerated, considering the rate rose by just 0.25 per cent to 0.5 per cent. Yet a broader examination of the fundamentals of the British economy provides a stronger basis for trepidation. Britain, in line with many industrialised countries, has witnessed falling rates of investment that long predate not just the Brexit referendum but also the 2008 financial crisis (Thwaites, 2015). UK fixed capital investment (excluding banks) as a share of GDP has fallen precipitously since the mid-1970s (Jowett and Hardie, 2014: 14); the profit rate of non-financial firms has stagnated at a level below even the early 1970s, a time of serious profit squeeze (Mejorado and Roman, 2014: 102); the current account of the balance of payments has remained in deficit since 1984 (HM Treasury, 2007: 152); and GDP growth was one third lower between 1973-2009 than between 1949-73 (Freeman, 2012). The fact that this lacklustre economic performance has coincided with a period of falling interest rates makes the extent of the problem even more stark. Indeed, former US Treasury Secretary Larry Summers concisely summarised the monetary policy dilemma facing contemporary capitalist economies at the IMF Research Conference in 2013: 'we may well need, in the years ahead, to think about how we manage an economy in which the *zero* nominal interest rate is a chronic and systemic inhibitor of economic activity' (my emphasis). In other words, even 'free money' has proven insufficient to kick-start a spurt in economic growth.

This phenomenon, which has manifested itself in several advanced capitalist economies, has been attempted to be grasped by various concepts, from discussions

of Japan's 'Lost Decade(s)', to 'Eurosclerosis', to recent debates amongst economic policy-makers and commentators about the possibility that we are living through a period of what Alvin Hansen (1939) termed 'secular stagnation' (Davies, 2017; Backhouse and Boianovsky, 2016). While a variety of explanations abound for this continued stagnation, there exists a loose consensus amongst mainstream economists concerned with this phenomenon that demographic changes, particularly slowing population growth, are a key causal factor (Davidson, 2016). However, in contrast, several scholars from across the social science spectrum have rebelled against this exogenous explanation, and instead sought to locate the cause of this persistent stagnation *within* the makeup of contemporary capitalism. By conceptualising the tremendous growth of global finance since the 1970s as internally related to the atrophy of the productive economy, these approaches contribute to a more precise definition of financialisation than the accounts discussed in the previous section. This understanding of financialisation denotes the interrelated development of two phenomena: financial expansion and productive stagnation.

This section will divide this literature into two broad camps, which this thesis has termed *expropriation* and *crisis resolution* explanations, based on the direction of causality posited between these twin phenomena. *Expropriation* explanations emphasise that financial expansion has weakened the productive economy, while *crisis resolution* explanations argue that pre-existing weaknesses in the productive economy have spurred financial expansion. The literature does not split neatly into *expropriation* and *crisis resolution* approaches with zero remainders, and in fact certain accounts have drawn from both explanations.

Furthermore, the scholars that this thesis assigns to *expropriation* or *crisis resolution* schools would not necessary self-identify in these terms. Nevertheless, this characterisation is a useful and novel heuristic device developed in this thesis, because it captures the essence of the debate on the relationship between financial expansion and productive stagnation in the existing literature.

Expropriation

The title of *Financial Times* editor Rana Foroohar's popular book criticising financialisation excellently captures the main thrust of the *expropriation* approach: *Makers and Takers: The Rise of Finance and the Fall of American Business* (Foroohar, 2016). Fundamentally, financialisation is said to constitute the expropriation of the makers ('real economy' or non-financial firms) by the takers (finance capital). This explanation has had a large degree of success in capturing the imagination of left and populist political campaigns and movements, due to its intuitive appeal following the 2008 financial crisis. Elements of this logic can be found in the rhetoric of the Occupy movement and Bernie Sanders' 2016 campaign for Democratic nominee. Yet a cruder and often anti-Semitic incarnation of this same explanation also has a presence in far right and right populist movements. This can be seen, for instance, in authoritarian Hungarian Prime Minister Viktor Orbán's recent declaration of war against a shadowy, financial threat:

> We are fighting an enemy that is different from us. Not open, but hiding; not straightforward but crafty; not honest but base; not national but

> international; does not believe in working but speculates with money; does not have its own homeland but feels it owns the whole world (Walker, 2018).

According to literature that draws on the *expropriation* explanation, the expansion of the financial sector, at both national and global scales, has directly undermined the non-financial sectors of the economy, resulting in stagnant rates of real investment. More specifically, these explanations have tended to focus on transformations in corporate behaviour and its impact upon the distribution of corporate revenues. Corporate management practices, it is argued, have been restructured to serve the principle of shareholder value, whereby returns to shareholders must be maximised at the expense of all other objectives. Originally developed by agency theorists such as Eugene Fama and Michael Jensen in the 1970s, shareholder value theory emphasises that corporate managers tend to pursue their own selfish ends if they are not exposed to the whip of market discipline (van der Zwan, 2014: 107). This inefficiency could be rectified, it was proposed, by transferring greater corporate control to shareholders, through a variety of mechanisms. Such a transfer of control, *expropriation* explanations insist, is key to understanding the relationship between financial expansion and productive decay.

Crotty (2000; 2003) argued that it is precisely the ascendance of this principle of shareholder value that has contributed to the financialisation of non-financial corporations and resulted in their growing aversion to long-term fixed capital investment. This represented, Callaghan and Höpner (2005) argue, 'a clash of capitalisms', in which shareholder value oriented capitalism has come to predominate at the expense of coordinated varieties of capitalism. The rising threat

of hostile takeovers in the 1980s and the use of stock options as the dominant form of managerial remuneration has transformed the investment strategies of firms, disincentivising investment in productive capacities and incentivising short-term measures to keep stock prices rising. In pursuit of this objective, companies ploughed retained earnings back into their own stock and increased dividend payments to shareholders, draining the reserves available for future investment (Stockhammer, 2004; Lazonick, 2011). In addition, Duménil and Levy (2002: 61) argue that a large fraction of non-financial corporate profits is paid to financial actors in the form of interest, such that 'the profits pumped out of the productive sector of the economy do not return to it' (see also Jayadev and Epstein, 2007). Corporate earnings that *were* invested became increasingly directed towards short-term financial assets, such as securitised debt. Income streams based on this interest-accruing activity began to outpace traditional returns from fixed investment (Orhangazi, 2008a). The net result of these developments has been the restructuring of the non-financial corporation from 'an integrated combination of illiquid real assets' to a '"portfolio" of liquid subunits that … management must continually restructure to maximise the stock price' (Crotty, 2003: 2). The coincidence of financial expansion and productive stagnation, then, can be traced to the role of shareholder value in the financialisation of the firm.

Scholars associated with the British social accounting school have advanced a somewhat different interpretation of the relations between shareholder value, corporate strategy, and financialisation. These accounts contrast the era of 'productionism' in the 1980s, characterised by product market competition and lean production processes, with 'financialisation' and the creation of 'coupon pool

capitalism' in the 1990s (Froud et al., 2000; ibid, 2002). Financialised economies are characterised by the existence of shareholder value-driven investors, mechanisms to enforce shareholder value objectives, such as hostile takeovers, and mechanisms that allow managers to quickly shed labour in order to cut costs (Froud et al., 2000: 105). In this context, the trading of bonds and shares in capital markets gains a new significance. Rather than simply acting as intermediaries between saving households and investing firms, capital markets become 'a regulator of firm and household behaviour and a regulator of macro economic trajectory' (Froud et al., 2002: 126). This approach advises scepticism towards the straightforward causal claims of shareholder value accounts that directly link shareholder control with declining long-term investment, instead arguing that coupon pool capitalism does not always result in an 'invariant set of consequences' in all national cases (Froud et al., 2006: 4). Nevertheless, more recently, these scholars have more firmly emphasised the negative effects of financialisation upon corporate investment, citing the perverse implications that shareholder value has had for infrastructural investment in the British telecommunications industry (Bowman et al., 2014: 27).

While *expropriation* explanations share a common identification of the financialised pursuit of shareholder value with falling rates of long-term fixed investment, there is less consensus on the cause of shareholder value's ascendance in the first place. Engelbert Stockhammer (2004; 2016) has conceptualised this transformation in corporate behaviour by drawing on the Post-Keynesian theory of the firm. At the heart of this theory is the notion that corporate accumulation strategies are shaped by a struggle between the managerial and shareholding classes. Corporations are not driven by competition to maximise profits, but rather managers

‘retain a large degree of autonomy’ and thus investment decisions ‘are shaped by social conventions, mass psychology and the historically specific institutional forms of the firm’ (Stockhammer, 2016: 368). While shareholders *do* have a single-minded interest in profits, managers ‘aspire to power and prestige, that might be expressed in high market share and fast growth, luxurious offices and many subordinates’ (ibid, 2004: 724). The balance of power between these two classes determines whether nonfinancial firms will adopt long-term, growth-oriented strategies, or short-term, share price maximising strategies. In the last forty years, the embedded liberal fetters on the shareholding class have been gradually repealed, allowing them to subordinate management’s plurality of interests to financial market-oriented strategies (ibid). The back and forth motion described above almost invokes Polanyi’s double movement, but rather than the market battling society, the rentier’s thirst for profit is pitted against the varied desires of egotistical managers. Stockhammer implicitly adopts Berle and Means’ (1991) classic analysis of the corporation originally published in 1932, while reversing their normative conclusions. It is the concentration of power in the hands of shareholders, not managers, that constitutes the social threat – in this case by depressing growth. While Stockhammer is vague on the precise historical details of this transformation, it is generally associated with institutional firm-level changes that allowed for hostile takeovers and stock market linked pay incentives for managers (2004: 726). Yet the origin of these institutional changes is not explained in turn.

Lazonick and O’Sullivan (2002) have advanced a more historically sensitive explanation of the rise of shareholder value. In the postwar period, US corporations operated on a ‘retain and invest’ basis, whereby profits were retained, instead of

distributed to shareholders, and invested in research and development, fixed capital, and other long-term productive ventures. However, in the 1960s and 1970s, these firms began to grow too large, with the result that management became increasingly divorced from the actual production process and thus lacked the technical know-how to make informed investment decisions. In addition, Japanese competition began to undermine the market positions of these oversized US firms. Japanese firms proved formidable in the field of mass production, due to 'development and utilisation of integrated skill bases that were broader and deeper than those in which their American competitors had invested' (ibid: 13). This factor, combined with the rise of institutional investors and the gnawing effect of inflation on the profits of large financial companies, led to a series of transformations. Corporate strategy shifted from 'retain and invest' to 'downsize and distribute', whereby companies' labour forces were reduced and profits increasingly distributed amongst shareholders. Lazonick (2011: 22) argues that while US firms *could* have responded to Japanese competition by redoubling their efforts to innovate and restructure production, 'there was no commitment on the part of those who managed US industrial corporations or the Republican Administrations that ruled in the 1980s to invest in the new capabilities and opportunities required… to reestablish a regime of reasonably equitable and stable economic growth'. Thus, we are left with a tautology: preferences for long-term investment fell by the wayside because of the lack of commitment to long-term investment. Shareholder value is both the *explicandum* and *explicans*.

Finally, several Marxist and Post-Keynesian economists have examined the rise of shareholder value and the financialisation of nonfinancial firms as

inextricably linked to the onset of neoliberalism. Gérald Duménil and Dominique Lévy (2004) begin their narrative with the structural crisis of the 1970s, which was characterised by perilously falling rates of profit. This crisis was rectified, they insist, by a combination of capital strategies, including wage cuts, decreases in state social spending, and technological improvements. However, despite a recovery in the rate of profit, investment and capital accumulation remained depressed. This, Duménil and Lévy argue, is due to a lack of retained profits. The case of the missing retained profits is solved by highlighting the role of financiers in extracting rents from productive capital in the form of interest payments and dividends: 'No other feature of neoliberalism shows so clearly that its ruling classes are parasitic' (Duménil & Lévy, 2002: 62). Finance – defined as 'major financial institutions and the superior and active segments of the dominant classes' (Duménil & Lévy, 2004: 208) – 'used the crisis of the 1970s on an ideological and political level to launch a kind of society reflecting its image' (ibid: 17). The neoliberal revolution, as such, was constituted by a parasitic financial coup against 'workers, company managers, those responsible for economic and social policies in governments, and public and semipublic institutions, both national and international' (ibid: 9). Similarly, Thomas Palley (2013: 1) claims that financialisation is a form of neoliberalism, characterised by the 'domination of the macro economy and economic policy by financial sector interests'. Yet, in contrast to Duménil and Lévy, Palley does not simply associate financialisation with the material interests of financial capital, but rather conceives of '*laissez-faire* financial ideology' as an enduring norm that is relatively autonomous from particular financial actors (ibid: 7). The rise of financialisation, then, must be understood as an ideational shift amongst economists and policy-

makers – a shift provoked by the dislocations of the 1970’s inflation crisis. These accounts, as such, insist that the present financial expropriation of productive capital was arrived at through two mechanisms essential to neoliberal restructuring: the material and political struggle by financial rentiers for hegemony, and the diffusion of ideological norms that favour financial over productive capital.

Expropriation explanations emphasise that financial capital has systematically expropriated the wealth produced by productive capital through mechanisms related to shareholder value and rent-seeking. The origins of this parasitic state of affairs have been explained in a variety of ways, from a focus on firm-level struggles between managers and shareholders (Stockhammer, 2004), to the inability of US firms to compete with Japanese rivals (Lazonick and O’Sullivan, 2002), to the global capture of power by financial elites and the diffusion of pro-finance economic norms (Duménil and Lévy, 2002; Palley, 2013). The crisis of the 1970s plays a role in certain *expropriation* accounts, chiefly as a moment of severe economic, political, and ideological dislocation, after which a new coherent material and ideational framework of power relations was reconstructed – namely, one dominated by financial capital. Yet the following explanations, termed *crisis resolution*, have a different conception of the role of crisis in the relationship between financial growth and productive atrophy. The crisis of the postwar period, these accounts insist, was not simply a contingent event or exogenous shock, but was rooted in a deep contradiction in the prevailing form of capital accumulation. This contradiction was resolved, in either a lasting or fleeting manner according to different perspectives, precisely through the expansion of the financial sector.

Crisis resolution

In their simplest form, *crisis resolution* explanations are diametrically opposed to *expropriation* accounts. Rather than financial expansion hindering productive capital accumulation, underlying problems with productive capital accumulation have given rise to spiralling financial growth. This latter explanation has rather unsettling political consequences, as it suggests that attempts to quash contemporary financial excesses – through, for example, a shift in corporate ideology away from shareholder value, or the imposition of a strict regime of financial regulations – would not necessarily reignite productive investment and accumulation, but instead reveal the unresolved contradictions in the productive sector, which in turn must be addressed. For this reason, *crisis resolution* explanations have achieved considerably less cachet amongst progressive social and political campaigns in the wake of the 2008 financial crisis. While such explanations share a common causal narrative, there is significant divergence regarding the definition of the underlying crisis, and the sustainability of financial expansion as a resolution.

Arrighi (1994) was amongst the first political economists to employ the term 'financialisation'. Concerned with capitalism's '*longue durée*', Arrighi attempted to grasp the macro-historical cycles that characterised capitalist development from the early modern period on. Far from constituting an anomalous phenomenon, financialisation should be understood as a recurring process that coincides with the decline of a hegemonic capitalist power. In fact, four cycles of capitalist hegemony, decline, and financialisation have occurred thus far, namely the Genoese, Dutch, British, and US cycles (ibid: 6). During periods of hegemonic decline, the world

capitalist system is cast into crisis, due to the overaccumulation of capital and 'intense interstate competition for mobile capital' (Arrighi and Silver, 1999: 31). Drawing on Ferdinand Braudel, Arrighi and Beverly Silver (1999: 32) argue that capital reacts by 'shedding its commodity form in favor of its money form': nonfinancial corporations respond to the dearth of profitable productive investment opportunities by investing in financial assets, which offer higher rates of return (Orhangazi, 2008b). This results in a system-wide growth of financial markets, beyond the borders of the declining hegemon. While financialisation appears to resolve the crisis by 'temporarily inflating the power of the declining hegemonic state', it also creates new instabilities, as hoarding and speculation increase the likelihood of financial crises, and rising inequality sets the stage for political resistance and social upheaval (Arrighi and Silver, 1999: 33). Ultimately, financialisation marks the 'autumn' of a hegemonic cycle, and coincides with the transfer of hegemony to a new state or alliance of states. Thus, according to Arrighi, financial expansion is a systemic mechanism that results from the cyclical and recurrent hegemonic crises that are hardwired into capitalist development. The crisis emphatically originates in the productive sector and in turn provokes a flight of capital to the financial sector, stimulating the latter's growth.

Building upon Arrighi's insights, regulation theory and the Social Structures of Accumulation (SSA) approach have attempted to conceptualise financialisation as part of a new regime of accumulation that emerged to resolve the crisis of Fordism. Regulation approaches examine the 'ensembles of complementary economic and extra-economic mechanisms and practices which enable relatively stable accumulation to occur over relatively long periods' (Jessop, 1997: 503). Such

ensembles constitute ‘regimes of accumulation’ or SSAs – coherent economic, legal, institutional, and cultural frameworks within which capital accumulation can proceed. However, despite the relative durability of such regimes, they suffer from internal contradictions, which lead to generalised crises and their supersession by a new accumulation regime. For these approaches, the expansion of the financial sector in the 1970s constituted one aspect of the resolution of the crisis of the Fordist accumulation regime, characterised by slowing productivity and accelerating inflation (Boyer, 2000: 112). As William K. Tabb (2010: 148) argues, the breakdown of Fordist productive accumulation pushed investors ‘deeper into an array of financial speculations made potentially quite profitable by such departures as floating exchange rates and rapid growth in new centers of the semi-periphery’. Indeed ‘confronted with limited investment opportunities that are viewed as being sufficiently profitable … capital looks for highly liquid capital placements’ (Becker et al., 2010: 227). Such financial developments, David Kotz (2011) insists, constitute one dimension of the contemporary ‘neoliberal SSA’, which is also marked by free trade, economic deregulation, privatisation, regressive taxation, and labour flexibilisation. Against Duménil and Lévy (2002), Kotz (2011) argues that neoliberalism was not provoked by a coup by financial elites, but rather neoliberalism – itself an attempt to fix the crisis of Fordism – unleashed the financial growth that had previously been held in check by postwar regulations. While regulationist and SSA accounts do highlight the contradictions inherent to the contemporary financialised neoliberal regime, by pointing in particular to financial instability (Boyer, 2000: 112), they emphasise the overall coherence and durability of financialisation as a resolution to the crisis of the preceding regime.

A third collection of approaches, employing the terms 'privatised Keynesianism' or 'house price Keynesianism', similarly identify financial expansion as a remedy to the breakdown of the postwar growth model (Crouch, 2009; Hay et al., 2008; Watson, 2010). Yet rather than emphasising capital's escape to the realm of financial assets in lieu of profitable productive investment opportunities, such accounts instead focus on consumption and aggregate demand. The central contradiction of capitalist economies, according to Colin Crouch (2009: 320), is the need to reconcile 'the uncertainties and instabilities of a capitalist economy with… [the] need for confident mass consumers'. During the postwar era, the Keynesian model emerged to suspend this contradiction 'through demand management processes activated via the transfer payments system of the welfare state … The Foucauldian 'fear of the future' was therefore mitigated' (Watson, 2010: 419). This consensus broke down with the inflationary crisis of the 1970s and was replaced by an increasingly fragile political economy, in which capital mobility and anti-inflationary measures were sacrosanct. In this context, a new policy framework emerged to provide stable consumption, which Crouch labels privatised Keynesianism. This consisted chiefly of the extension of credit instruments to working people and the extension of derivatives to elites (Crouch, 2009: 390). The stimulation of demand through debt (hence *Keynesianism*) was carried out not by the state, but by private individuals (hence *privatised*). Watson (2010), alternatively, places specific emphasis on the role of homes as assets in stimulating demand. House price Keynesianism signifies the growth model whereby rising loan-to-value mortgages boosted consumptive demand, premised on the assumption of rising house prices resulting in capital gains for homeowners. Such a growth strategy was

actively encouraged by New Labour, who attempted to construct a new form of economic subjectivity that prioritised home ownership, resulting in a 'reinvent[ion of] the private space of the home as part of the public space of the national economy' (Watson, 2009a; Watson, 2010: 420). These approaches eschew the grand historical claims of Arrighi and the emphasis on structural coherence typical of regulation and SSA approaches, instead contending that the expansion of lending to households constituted an imperfect and fragile resolution to the crisis of postwar Keynesianism.

A last set of *crisis resolution* explanations place even less emphasis on the coherence and general functionality of financialisation. Redefining 'resolution' as 'postponement', such approaches insist that while financial expansion was stimulated by productive stagnation, such financial growth has only temporarily alleviated the enduring crisis facing productive capital, rather than stabilising or fixing it. Within the Marxist-Kaleckian tradition, Paul Baran and Paul Sweezy (1966) developed the theory of monopoly capitalism – a phase of capitalist development in which production becomes dominated by a few massive firms. Such is the extraordinary output by these economies of scale that demand struggles to match supply, creating a tendency towards capacity underutilisation. Vast swathes of fixed capital lie unused, which constructs powerful barriers to market entry and new investment, resulting in both massive profits (for the monopolies) and general stagnation (Sweezy, 1997). In the face of dwindling investment opportunities, capitalists began to shift their 'immense surpluses' into financial assets, while financial institutions responded with myriad new financial instruments (Bellamy

Foster, 2007). As Harry Magdoff & Sweezy (1985) write, in a bold statement of the causal relationship between financial expansion and productive stagnation:

> There is no reason whatever to assume that if you could deflate the financial structure, the talent and energy now employed there would move into productive pursuits. They would simply become unemployed and add to the country's already huge reservoir of idle human and material resources... What growth the economy has experienced in recent years … has been almost entirely due to the financial explosion (quoted in Bellamy Foster, 2007: 4).

Against the monopoly capital thesis, a number of approaches insist that the crisis of the 1970s was provoked not by too much profit, but rather by too little. Advancing an idiosyncratic theory of crisis, Robert Brenner (2006) argues that intense competition between the US, Japan, and West Germany in the postwar period, combined with massive industrial excess capacity that deterred new investments, brought down the average profit rate. In opposition, orthodox Marxist economists have instead explained dwindling prosperity with reference to the 'law of the tendency of the rate of profit to fall' that is outlined in volume three of Marx's *Capital*. According to this reading, falling profitability is the result of a rise in the value of fixed capital compared to labour power, which created a downward pressure on commodity prices (Kliman, 2012; Shaikh, 2011). Faced with a declining profit rate on real investments, capital reacted by fleeing to the realm of financial speculation (Kliman, 2012: 21-22). This results in what Samir Amin (2003: 43) terms 'financial hypertrophy', whereby capital markets inflate, there is a

proliferation of financial instruments, a growing financial influence over corporate decision-making, and the simultaneous globalisation of these processes. Furthermore, Anwar Shaikh (2011) argues that not only did capital gravitate towards the financial sector due to its higher profitability, but the state actively exacerbated this process. By continually lowering interest rates after the Volcker shocks, the US Federal Reserve expected to discourage the hoarding of money on which to earn interest, and to boost active investment. As such, they increased the difference between the rate of profit and the rate of interest – what Marx called the 'rate of profit of enterprise' – fuelling the credit boom (ibid: 46). Fundamentally, and common to all the aforementioned approaches, this financial expansion simply papers over the cracks in the underlying productive structure, without offering a lasting solution.

Within the 'postponement' subsection of *crisis resolution* literature, there is a final strand. This consists of approaches that conceptualise financial growth as a mechanism to postpone not just the economic symptoms of the underlying crisis, but also to assuage the social conflict and political upheaval arising from the breakdown of capital accumulation. Streeck (2011; 2014) suggests that 'democratic capitalism' – the attempt to reconcile the governing principles of marginal productivity and social need – is a contradiction in terms. Yet it is a contradiction that can be postponed temporarily. For Streeck, inflation, public indebtedness, and private credit expansion are not simply the *results* of crisis, but also constitute political strategies to alleviate crises by 'pulling forward future resources into [the] present' (ibid, 2011: 12). Financial expansion is thus not conceived of as a solely functional response to productive stagnation, but also as a mechanism to assuage

the social conflict arising from this crisis. Similarly, Krippner (2011) has analysed US financial expansion precisely as a political strategy to allay social unrest. Focusing primarily on the development of the US Federal Reserve's monetary policy and financial deregulation from the 1970s to the 2000s, she explores the motives behind the US state's fostering of financial growth. Rather than highlighting a coherent ideology of 'Reaganomics', Krippner insists that state actors only arrived at monetarism and deregulation after a long period of trial and error. She concludes that policy-makers were motivated by two overriding (and linked) concerns: firstly, to suspend the impact of long-term economic stagnation by temporarily alleviating the struggle for increasingly scarce resources through credit expansion; and secondly, to do so in as covert and depoliticised a manner as possible. This approach is perhaps the most nuanced form of *crisis resolution* explanation: history is not neatly segmented into ideal-type regimes of accumulation or SSAs, nor is financial expansion merely an automatic mechanism triggered by economic crisis. Instead, financial expansion is conceived of as a political strategy, without being necessarily coherent, to delay the myriad problems arising from stagnating capital accumulation.

Crisis resolution explanations insist that productive stagnation has resulted in financial expansion, not vice versa. Beyond this basic premise, there is a significant degree of variation. While Arrighi and regulationist and SSA scholars point to financialisation as heralding a new structured form of accumulation, provoked by the breakdown of postwar Fordism, privatised and house price Keynesianism approaches focus on the role of private debt-fuelled demand stimulus in constituting a unique growth model. In contrast, several accounts characterise the

aforementioned explanations as wishful thinking, by arguing that what appears to be a functioning (albeit fragile) financialised accumulation regime is merely a delaying mechanism to postpone the underlying crisis of productive capital – and, others insist, the social and political fallout that such a crisis entails. Nevertheless, despite the various important insights provided by both *expropriation* and *crisis resolution* explanations of financialisation, understood as the relationship between financial expansion and productive stagnation, they share one common shortcoming: a systematic neglect of the constitutive role of states in this process. The following section will demonstrate the extent of this foundational deficiency as it exists in various strands of financialisation literature.

Financialisation and the state

Van der Zwan's criticism of the everyday finance approach's conceptualisation of the state also applies to both the *expropriation* and *crisis resolution* explanations detailed above. While these accounts 'consider the state complicit in financialization processes … their work lacks an analysis of the different interests, motivations and strategies behind this political agenda' (van der Zwan, 2014: 114). The state does not simply need to be 'brought back in' (Evans et al., 1985; Helleiner, 1995). In fact, these explanations consider state action to be a crucial mechanism through which financial expansion and productive stagnation are causally related; either via financial de- and reregulation, monetary policy, or as a lender of last resort to the banking sector. Rather, the role of the state in financialisation is implicit but

under-theorised. State action in furthering the ballooning of the financial sector is explained in either pluralist or functionalist terms; that is, the state is conceived of as either a mere conduit for different elite factions, or as a reflexive, automatic regulator of capital accumulation. In both cases, little space is left for an analysis of the *political* and *strategic* dimensions of state behaviour in relation to financialisation.

Expropriation explanations of the state's role in financialisation have been resoundingly pluralist and instrumentalist. This theoretical tendency appears to derive from this approach's understanding of financialisation as a process driven primarily by finance capitalists. The state is understood as another instrument wielded by these financial elites in their expropriation of productive capital in the neoliberal period. This 'capture' of the reins of state power was effected in two ways: directly, through political lobbying; and indirectly, through the propagation of pro-finance ideas. The 'radical deregulation' of the 1970s and 1980s, Crotty (2009: 564) argues, was 'pushed by financial institutions and justified by efficient financial market theory'. Duménil and Lévy (2004: 69) are even more explicit, labelling US Federal Reserve Chairman Paul Volcker's 1979 drastic interest rate increase as a 'coup' to restore 'the hegemony of finance': 'One should not see here the hand of a mysterious market, but, in fact, a centralized decision, a deliberate policy'. Palley (2013: 7) differs from Duménil and Lévy in this respect, insisting that financial deregulation 'was not part of a grand plan'. Instead, it was the '*laissez-faire* financial ideology' associated with the ascendant financial elite that created a political climate favourable to deregulation (ibid: 8). The state, as such, is conceived of as a more or less passive vehicle for specific elite interests, depending on the

balance of class forces, or as a receptacle for economic ideologies. Despite the boldness of these claims of state capture, there has been a dearth of empirical evidence provided in support.

Several accounts have taken steps to bolster these claims with historical argumentation, with specific attention paid to the UK case. An important early intervention, in this regard, was made by Frank Longstreth (1979), who argued that it was important to decompose the capitalist class into its component fractions when examining state behaviour. '[T]he state can be, and in the case of Britain has been, dominated by a particular fraction of the dominant class', Longstreth (ibid: 160) proposed, 'which by no means exercises power consistently in the *general* interest of the dominant class taken as a whole'. This fraction was identified generally as financial capital, and specifically the City. Explicitly drawing from Longstreth's work, Leila Talani (2012) advances a more historically informed *expropriation* account of the British state's role in financialisation. The City's 'institutional nexus with the Bank of England and the Treasury', Talani (2012: 65-6) claims, has resulted in state policy that favours the British financial sector, resulting in 'the definitive submission of productive capital to financial capital'. Similarly, Andrew Baker (1999) attempts to lend more precision to neo-Gramscian theories of state transformation through an analysis of the British Treasury's and Bank's penetration by internationally mobile capital. The British state's deregulatory agenda, Baker (ibid: 84-6) argues, is best explained by reference to the 'reconfiguration of the social basis of the state', whereby groups such as the CBI were 'increasingly excluded from policy discussions' at the expense of City institutions. Perhaps the most detailed analysis of the manner through which financial capital has come to

expropriate productive capital through the mechanism of British state policy has been provided by Aaron Davis and Catherine Walsh (2016; 2017). Drawing on interview and archival data, they argue that the state's pro-finance stance in the 1980s was a constitutive element of the City's 'slow, staged coup' against domestic industry (Davis and Walsh, 2016: 679). The 'exogenous shocks' of the 1976 IMF bailout and 1979 Conservative victory led to a change in both the Treasury and DTI: 'senior ministerial positions in the Treasury were taken by a succession of politicians with City backgrounds and/or networks', while the DTI was essentially demoted within macroeconomic policy-making (ibid: 36). The result was that the state 'actively organized the economy according to a particular financialized economic epistemological framework', and thus 'its interventions were in favour of global finance and financial elites and against national industry and industrial elites' (ibid: 45).

If *expropriation* explanations have smuggled messy state strategising out of the analysis through a pluralistic vision of policy-making, *crisis resolution* explanations have done so by emphasising the functional role of the state in automatically facilitating capital accumulation. Just as these approaches tend to view capitalist order as a jigsaw puzzle in which different pieces fit more or less snugly, the state is understood as the rational referee of this game, intervening to erase obstacles to capitalist reproduction. In the face of the crisis of productive capital, capitalist states acted instinctively to provide escape routes to more profitable investment opportunities through financial deregulation, favourable monetary policy, and measures that would unleash financial capital more broadly. In the process, states themselves have been transformed, with their various agencies

and functions becoming streamlined to the needs of the new pattern of financial capital accumulation. Bellamy Foster (2007: 6) articulates this position in clear terms, by arguing that the ‘role of the capitalist state was transformed to meet the new imperative of financialization’. Similarly, Tabb (2010) argues that states have automatically morphed to form one piece of the broader financialised SSA jigsaw: ‘Neoliberalism is globally coherent … [T]he new dispensation rejected previous entitlement presumptions of welfare state provisioning and the regulatory role and participation of the state in favor of deregulation, contracting out and privatization’. For Crouch (2009: 388) too, advanced capitalist states deregulated finance because it was functional to the formation of a new privatised Keynesian model; and those peripheral states that resisted had such policies ‘imposed as conditions for assistance from or membership of such international bodies as the International Monetary Fund, the World Bank, the Organisation for Economic Co-operation and Development (OECD) or the European Union’. Again, such claims are supported with relatively little historical evidence.

Nevertheless, certain *crisis resolution* explanations have put forth significant historical accounts of the state’s role in financialisation, with a particular focus on the US. Arrighi (1994: 326) argues that the Reagan administration sought to respond to its declining productive hegemony by establishing the US as the global centre for ‘privately controlled world money’, through a variety of policy measures. These included the ‘Volcker shock’ interest rate hike combined with a spate of financial deregulations, designed to attract mobile capital, and the expansion of government debt, linked to an escalation of the Cold War with the USSR (ibid: 326-

8). Brenner (2006: 276) too argues that as the US manufacturing sector continued to founder in the 1970s:

> the late Carter and especially the Reagan administrations sought to make up for lost time. They moved decisively toward financial deregulation, breaking down hitherto existing barriers that confined financial institutions to specialized functional and geographic spheres. They also adopted a series of policies designed to raise the rate of return on financial activity … The Reagan regime, in its early years, could hardly have catered more directly to the needs of financiers.

More specifically, Volcker's monetarist experiment in the early 1980s, alongside financial liberalisation and corporate tax breaks, constituted part of an intentional policy 'to detonate a major restructuring of the US economy' that would lead to 'a reallocation of means of production out of industry into financial services', among other things (ibid: 271). The state, according to this interpretation, is a cold, rational watchdog of capital accumulation, which acted mechanically to rescue the ailing productive sector through the facilitation of financial largess.

Nevertheless, the final variety of *crisis resolution* explanations – exemplified by Krippner (2011) and Streeck (2011; 2014) – has eschewed both the pluralist and functionalist traps by advancing an account of the state's role in financialisation that brings political struggle and strategic considerations to the fore. Streeck (2011: 10) argues that the 'post-war settlement between labour and capital', constituted by a growing welfare state, free collective bargaining, and Keynesian demand management, began to fall apart at the seams in the late 1960s due to the

irreconcilable contradiction between the profit motive and democracy. States in capitalist democracies found it politically impossible to contain rising wage demands by allowing unemployment to rise, and thus instead crafted monetary policy so as to allow accelerating inflation to artificially inflate corporate profits and thus delay the necessary restructuring. Yet this pacification strategy became unsustainable as inflation spiralled out of control, provoking the monetarist penance unleashed by Volcker and Thatcher in the early 1980s. In place of inflation, states expanded public debt as a strategy to reconcile the social conflict arising from productive stagnation by 'introduc[ing] resources into the distributional conflicts of the time that had not yet in fact been produced' (ibid: 14). Finally, following the exhaustion of the strategy of rising public indebtedness, states boosted *private* credit and debt through policies of financial deregulation, in order to 'make future resources available for securing present social peace' (ibid: 20). In a similar manner, Krippner (2011: 140) insists that US state action lay at the heart of the process of financialisation:

> The state faced three interrelated difficulties as the era of post-war abundance came to an end: a social crisis associated with increased distributional conflict as growth slowed, a fiscal crisis that resulted from policymakers' attempts to meet proliferating demands with ever more limited resources, and a legitimation crisis that reflected sinking public confidence.

The US state strategised to delay this unfolding crisis by pursuing domestic financialisation and a transformation in monetary policy, which 'removed internal

and external constraints on the expansion of credit in the US economy' (ibid: 139). Facing demands from various sectors of society for increasingly scarce resources, this strategy of boosting credit expansion appeared to policy-makers as a depoliticised mechanism that could postpone economic catastrophe while protecting state legitimacy.

In sum, both *expropriation* and (the majority of) *crisis resolution* explanations of the state's involvement in financialisation suffer from fundamental shortcomings. The former advances a pluralist approach to the state, which conceptualises policy outcomes as a reflection of the warring social factions attempting to capture state power. The latter understands state behaviour as a functional, automatic response to blockages in the accumulation of capital, thus conceptualising the state as a superstructural functionary of the capitalist system. Yet a small number of *crisis resolution* approaches – exemplified by Streeck and Krippner – fundamentally reconceptualise the role of the state in mediating the dynamics of productive stagnation and financial expansion. Rather than acting as an empty vessel steered by class fractions or an unthinking regulator of capital accumulation, the state is acknowledged as a fundamentally political body that must balance both economic imperatives and legitimacy considerations – resulting in various strategies aimed at reconciling these often contradictory objectives.

Towards a new reading

This thesis will seek to contribute to Streeck's and Krippner's innovative accounts by further exploring the role of the state in mediating the dual processes of financial

expansion and productive stagnation. This will be achieved by addressing two key gaps – methodological and theoretical – in the existing literature.

Regarding the role of the state in financialisation, this literature suffers from a methodological shortcoming, namely a lack of detailed historiography. The majority of scholars writing on this topic – from both *expropriation* and *crisis resolution* perspectives – have relied on simplified theoretical schemas, for example Stockhammer's account of the manager versus shareholder tug-of-war, statistical correlations, say between profit rates and rates of fixed investment (Duménil and Lévy, 2002), and macro-historical analyses that draw chiefly from secondary sources (Arrighi, 1994; Brenner, 2006). With regards to individual accounts, this methodological one-sidedness is curious but understandable: no single intervention can cover all ground. Yet regarding the literature as a whole, it is a debilitating shortcoming that has left the literature at somewhat of an *impasse*, as none of the approaches have been able to conclusively support their argument with detailed historiography. This is partly why the state's role in financialisation has been theorised in simple pluralist or functionalist terms: the intricacies of the policy-making process have been obscured by the bird's eye analysis. As such, this thesis' first contribution to the literature is chiefly methodological. By providing a forensic archival analysis of the decision-making processes that resulted in key British financial de- and reregulations, this thesis will follow Krippner's lead in shedding new historical light on the state mechanisms that mediated the processes of financial expansion and productive stagnation. This in turn will provide a clearer picture of the direction of causality between these twin phenomena.

Theoretically, this thesis will build on the exceptional research put forward by Streeck and Krippner on the contested, political, and strategic nature of the state's role in financialisation, and thus contribute to the transcendence of the pluralist/functionalist binary that marks the existing literature. Yet, crucially, this thesis will also seek to correct for Streeck's and Krippner's unsatisfactory theoretical grounding. In addition to their sensitivity to political strategy and their refusal to write struggle out of the history of financialisation, these works are also fundamentally characterised by their theoretical eclecticism. Streeck (2014: xv) admittedly 'travel[s] light in terms of theory', yet nevertheless draws inspiration from a variety of approaches. In *Buying Time*, his argument begins by way of a sympathetic critique of Frankfurt School theories of legitimation crises, particularly those put forth by Jürgen Habermas and Claus Offe. Capitalism indeed entered a legitimation crisis in the 1970s, Streeck argues, yet it was capital and not the working class that ceased to conceive of the postwar compromise as legitimate (ibid: 21). Capital, for Streeck, is not a social relation, but is instead a concrete class made up of agents defined by their source of income. Drawing next from Michał Kalecki's theory of political business cycles, Streeck (2014: 21) claims it was capital that registered its dissatisfaction with the postwar encroachment of democratic mechanisms into the private, profit-making sphere. Crises, as such, can be explained without reference to the inner workings of capital accumulation itself, but rather by pointing to the back and forth struggle between the profit motive and its nemesis: democracy. Despite his attempt to move away from economistic crisis explanations, Streeck reproduces mainstream economics' definition of crises as essentially exogenous to capital itself, in a similar manner to Ellen Meiksins Wood (1995).

The broad thrust of Krippner's argument, on the other hand, takes inspiration from Karl Polanyi's widely cited dictum 'laissez-faire was planned' (2001: 147), in that she too insists that financialisation was in many respects a state-facilitated project. Yet Krippner is even more ambivalent than Streeck about the precise nature of the crisis that financialisation was a reaction too. The crisis of the late postwar period, she insists, was characterised by 'declining affluence', which manifested itself as a social, fiscal, and legitimation crisis (2011: 104). Such dwindling affluence is in turn explained by reference to Glyn et al.'s 'profit squeeze' thesis (1990), whereby the growing bargaining power of workers undermined the profit margins of corporations, and Brenner's 'investment overhang' thesis detailed earlier in this chapter (2006). Such explanations are mutually incompatible, as Brenner (2006) himself points out, yet Krippner does not explore this. Moreover, in setting up a framework through which to examine the state's role in financialisation, Krippner displays further ambivalence towards the nuances of the literature. In utilising the concept of depoliticisation to explain financial deregulation, she fails to differentiate between the broader depoliticisation literature (Flinders and Buller, 2006; Kuzemko, 2016) and the specific strand that roots the concept in Open Marxist state theory (Burnham, 2001; Rogers, 2009). In fact, neither Krippner nor Streeck attempt to advance a theory of the state, settling instead for circumstantial explanations for state behaviour in particular instances, which are nevertheless very compelling.

In contrast, this thesis will outline an internally consistent and conceptually rich state theory through which to understand the archival findings on the British state's role in propelling financialisation. By drawing from the value-form

interpretation of Marx's mature writings, this thesis will examine the strategic character of state action within a series of objective limitations – limitations that are constituted not simply by the power of different sociological groupings within society, but by the peculiar form that wealth assumes in capitalist society, namely value. This thesis will thus ground the nuanced empirical analysis in a conceptualisation of capitalism that neither relies on appeals to exogenous factors nor bases itself upon contradictory theories.

In addition to addressing interdisciplinary work on financialisation, this thesis' theoretical and empirical contributions will have direct relevance for IPE literature on state/market relations and neoliberal financial regulatory change, as explained in Chapter 1. While the notion that states and markets are mutually-constitutive spheres of social activity has become quite commonplace in IPE, the value-form approach pushes this insight further. While both state and market activities together constitute the full structure of capitalist social relations, these same relations take on a rhythmic development pattern that is independent from the conscious actions of any actors. Due to this autonomisation of the social structure from the active participants that reproduce it, the capitalist economy *appears* external to the system of states – as a quasi-natural or transhistorical realm – which in turn gives rise to the incorrect IPE conception of states and markets as engaged in a perpetual power struggle. Furthermore, this thesis challenges the IPE consensus on the causes of neoliberal financial regulatory change, which stresses the importance of dynamics of competitive deregulation and laissez-faire ideology. This thesis, in contrast, stresses that financial regulatory policies should be understood as statecraft strategies – whether palliative, depoliticised disciplining, or a hybrid of

these two – designed to navigate the contradictory forces churned up by global crises. Neoliberal financial liberalisation, as such, is reconceptualised in a distinctly strategic light.

Conclusion

Literature dealing with financialisation, while containing numerous important insights, is in danger of expanding to the point of becoming amorphous, and thus sacrificing the analytical clarity of the term itself (see Christophers, 2015 for a thorough critique). Yet this chapter argued that certain approaches have retained a degree of specificity by conceptualising financialisation as the causal relationship between financial expansion and productive stagnation. It is this analytically precise reading of financialisation that this thesis will address. This literature can be broadly divided into two categories, which posit causality in opposite directions: *expropriation*, which insists that financial expansion has undermined the productive economy; and *crisis resolution*, which claims that financial expansion is itself a result of failures in the productive economy.

The key shortcoming of both sides of this literature is their treatment of the role of the state in financialisation. *Expropriation* explanations consider the state to be a neutral tool, wielded by specific fractions of the ruling class, and are thus fundamentally pluralist/instrumentalist. State policy is understood as just one of a variety of mechanisms through which financial elites exerted their power over industrial capital in the neoliberal period. Governments' pro-finance and

deregulatory agendas, as such, are explained by reference to the balance of forces amongst ruling class fractions. *Crisis resolution* explanations, on the other hand, replace this pluralist vision with a functionalist one. States in capitalist society need not be directly lobbied or captured by the capitalist class, but instead automatically act in the interests of capital in general. Facing the crisis of productive stagnation, states thus reacted mechanically by deregulating the financial sector in order to both provide profitable investment opportunities for struggling capitals and free up extra credit for failing firms. *Expropriation* and *crisis resolution* explanations both neglect the state as a strategic actor with its own agency, so to speak, but rather the state is generally conceptualised as a weathervane, with policy automatically changing direction in response to changing factional forces or economic imperatives. Furthermore, by considering the state to be an empty vessel, buffeted by external forces, both approaches render in-depth historical research into the decision-making processes behind financial de- and reregulation redundant.

A small but important exception to this trend can be found in the work of Streeck and Krippner, both of whom advance *crisis resolution* explanations that reassert the state as a fundamental actor in the process of mediating productive stagnation and financial expansion. In addition, these authors consider state policy in this regard not as a simple reflection of fractional economic interests, nor as an automatic stabilising mechanism for capital accumulation, but rather as a political strategy to reconcile the need to both prevent economic catastrophe and maintain the state's legitimacy in the eyes of the electorate. This thesis will contribute to this strategic reading of the state's role in financialisation through an archival examination of the British state's policies of financial regulatory restructuring in the

1970s and 1980s. In doing so, this thesis will also overcome the theoretical shortcomings of Streeck and Krippner by advancing a comprehensive and internally consistent theory of capitalist domination rooted in value-form Marxism. The following two chapters will introduce this theoretical framework.

CHAPTER THREE

Framing financialisation I: wealth, value, and domination

> It is my view that, instead of always trying to cut off every individual head of the hydra, we should pay heed to the general principle at work.
>
> Theodor Adorno (2006: 141).

Introduction

To live in the era of financialisation is to feel palpably subject to a kind of domination. People are pressured into shouldering unbearable debt burdens, sovereign nations in Latin America and the European periphery are plunged into poverty by credit markets, and states appear unwilling or unable to significantly reregulate financial markets despite the patent madness of the status quo. Unsurprisingly, then, domination is a consistent theme in the existing literature, either explicitly or implicitly. Palley's 2013 book, for example, is overtly titled *Financialization: The Economics of Finance Capital Domination*; while Arrighi (2005: 85), a progenitor of the term, draws on Fernand Braudel to define

financialisation as the capacity of finance to 'dominate' all business activity. Martin et al. (2008), on the other hand, hint at the almost parasitic control of financial logics over the host society: '[T]wenty-four-seven news broadcasts run a visual ticker-tape of stock prices at the bottom of their broadcast screens as if the modulations of equity prices were an EKG to the global body'. Watson (2007: 183) captures this creeping domination well through the example of Enron: 'minute-by-minute update[s] on the market price of Enron common stock' were 'relayed through the computers that sat on each employees desk', stalking their every decision. From the wholesale immiseration of nations to the micro-humiliations of impersonal credit scores, financialisation denotes a society that appears more than ever subordinated to 'the rule of the number' (Caffentzis, 2005: 100).

For accounts that understand financialisation to mean the causal relationship between financial expansion and productive stagnation, the state is a *subject* of domination. For *expropriation* explanations, state managers became politically subordinated to the ascendant class of financiers and ideologically subordinated to the policy-making norms that serve their interests. As Davis and Walsh (2017: 40) write, 'City personnel, norms and practices came to dominate the main UK departments of economic management at every level'. For *crisis resolution* accounts, state managers became subjugated to the material interests of capitalists in general. In the context of economic crisis, policy-makers automatically liberalised their financial sectors in order to increase short-term profitability and thus ward off an investment strike or capital flight coordinated by dissatisfied capitalists. Streeck (2014), to his credit, broadened the analytical horizon, arguing that state managers became dominated by economic *and political* imperatives. Torn

between the demands of profit-seeking capitalists and the claims of an enfranchised democratic polity, policy-makers attempted to postpone the day of reckoning through credit expansion. As such, according to these different explanations, states' roles in propelling financialisation resulted from their domination by finance capitalists, capitalists more broadly, or the counterposed demands of capitalists and entitled citizens. Power, in all cases, lies with empirically observable sociological groups and is exerted upon the state.

This thesis' archival analysis of the British state's part in supporting financialisation does not lend support to any of the three accounts described above. In fact, pulling back the veil on state managers' decision-making processes is startling in what it *does not* reveal. The documentary evidence does not reveal the cunning power of financial elites, the overwhelming influence of social norms like 'shareholder value', the coordinated strength of the capitalist class, nor the functional coherence of neoliberal strategies. Instead, the state appears as an ensemble of actors desperately responding to a series of real dilemmas through haphazard and often consciously contradictory strategic initiatives. This is also the impression given by Krippner's archival research on US financialisation (2012). The concept of domination, as such, appears to be an unsuitable analytical tool. If we can speak of it at all, then the state appears dominated, simply put, by the chaos of modern economic life.

As such, a forensic historical examination of the state's role in financialisation runs the risk of banishing the question of domination altogether, and instead retreating into empiricist particularism. Yet this need not be the case, so long as domination is understood, not as *direct* relations of coercion between

superordinate and subordinate actors, classes, or institutions, but as *abstract* and *impersonal* relations of coercion wielded unconsciously by society against itself. Michel Foucault's critique of instrumental theories of power is instructive here. Rather than focusing on relations of direct constraint, Foucault analyses a form of power that is 'exercised only over free subjects, and only insofar as they are "free"' (2001: 342). Such power (which he interchangeably substitutes with domination) does not derive from particular sociological groups, but is rather 'rooted deep in the social nexus' (ibid: 343) and whose disciplining effects circulate through society in a horizontal, 'capillary' manner, rather than being imposed from above (1995: 198). Clarissa Hayward brilliantly draws a link between Foucault's theory and the faceless oppression that suffocates the characters of John Steinbeck's *Grapes of Wrath* (Hayward and Lukes, 2008). A tenant farmer, facing the bulldozing of his house, demands to know who he must shoot to end this tyranny. After exhausting the list of seemingly responsible but ultimately non-culpable people – from the tractor driver to the bank manager to the board of directors – the tenant confronts the possibility that 'Maybe there's nobody to shoot. Maybe the thing isn't men at all' (Steinbeck, 1992: 41). A similar possibility confronts those who search for a concrete source of financial domination in the official archives.

Yet Foucault's grasping towards a notion of impersonal rule is only productive if it leads us not towards a transhistorical metatheory of power, but towards a radical historicisation and systematisation of this type of domination. As Moishe Postone (2003: 159) has suggested, this project found its highest expression in Marx's mature works. While Foucault associates 'impersonal, intrinsic, and pervasive' power somewhat ambiguously with Western modernity, Marx instead

grounds such domination in 'the social forms of commodity and capital' (ibid). Marx's theory of value is not a theory of wealth in general, but rather a theory of a historically-specific form of wealth that is simultaneously a system of impersonal domination. By interacting with one another through money relations, Marx argued that people's everyday practices accidentally give rise to a system of crushing social constraints. Attempts to reveal the source of such tyranny by seizing hold of the industrialist, the banker, or the politician reveal these people to be mere 'personifications' of an abstract social force (Marx, 1976: 92); 'character masks' that are worn and discarded by an impersonal form of social power (ibid: 757). Instead, this domination derives from what Foucault (2001: 345) termed 'the whole network of the social' or, in Marx's Hegelian language, the totality.

This thesis argues that the existing literature's shortcomings can be overcome through an engagement with Marx's theory of impersonal domination as it is expounded in the value-form tradition. According to this reading, the British state was not captured by financial elites, and thus acted to deregulate finance to the detriment of industry. Nor was the state simply disciplined by the behaviour of profit-seeking industrial capitalists, and consequently liberalised finance to satisfy this thirst for monetary surpluses. Instead, states themselves unconsciously contribute to a system of wealth that in turn dominates them by pressuring market participants to compete over labour productivity – a system that periodically lurches into severe crises due to its internal contradictions. In opposition to Streeck (2014), then, the crisis of the 1970s did not emanate from capitalism's clash with democracy, but rather from the inherent paradoxes of the capitalist form of wealth. In the context of such crises, policies of financial de- and reregulation should be

understood as strategies to reconcile the material imperative to reproduce this system of wealth through painful restructuring and the political imperative to maintain state legitimacy in the eyes of the electorate. As such, by drawing from Marx's critical theory, the state's role in financialisation is reconceptualised as a strategy to manage the social dilemmas arising from a dominating, crisis-ridden form of wealth.

This thesis' theoretical framework is split across two chapters. This first theoretical chapter will examine Marx's theory of impersonal domination in general terms, by examining the relationship between the categories of wealth, value, and domination. Drawing from the value-form reading of Marx's work[6], this chapter first examines how commodity exchange relations give rise to a historically-specific form of wealth that is simultaneously a form of temporal domination. Secondly, it will be argued that this form of wealth generates tendencies towards the classification of society and the formation of capital. Thirdly, the analysis will demonstrate that this form of wealth generates recurrent crises that can only be rectified through deep restructuring. Finally, it will be argued that this form of wealth is continually resisted and shrugged off by society due to its inherent

[6] This thesis uses the term 'value-form' to refer to a diverse body of literature, including Isaak Rubin's early exegesis of Marx's theory of value and fetishism; certain scholars associated with the Frankfurt School, particularly Alfred Sohn-Rethel and Theodor Adorno; the German New Reading of Marx (Neue Marx-Lektüre), which saw Hans-Georg Backhaus and Helmut Reichelt seek in Adorno's writings a reinvigorated critique of political economy; certain thinkers linked to the German Value Criticism (Wertkritik) group; particular authors associated with Open Marxism, such as Richard Gunn, Simon Clarke, Werner Bonefeld, and John Holloway; and scholars less easy to place within any of the above categories, like Moishe Postone and Michael Heinrich. To gather all of these writers under the umbrella of value-form theory is certainly a violent simplification, yet it will have to suffice due to the space limits of this chapter.

inability to satisfy social needs. While this level of abstraction cannot be directly observed in the archives, it nevertheless acts as an important explanatory framework that gives this thesis' empirical discussion greater meaning. The following chapter will build upon this general conceptualisation of capitalist society by integrating the state in a theoretically coherent manner, and thus providing a framework for understanding financial de- and reregulation in the context of crisis. Chapter 4 thus provides a mediating level of abstraction that bridges the intangible value-theoretical discussion with the directly observable categories of statecraft strategies.

Value and wealth

There is a self-congratulatory tendency in the so-called 'British' variant of IPE to note that the discipline has advanced beyond the theoretical and methodological shortcomings of mainstream economics. As Nicola Phillips (2002: 66) argues, IPE scholars have challenged neoclassical economists' 'stubborn refusal to treat social and political variables as anything other than exogenous to the mainstream of market activity'. While this is true, IPE's philosophy of science superiority can be easily overstated. Despite regularly employing terms such as value and capital, IPE scholars have generally sidestepped the debates – ranging from classical political economy to the marginalist revolution to the 'Cambridge capital controversy' – on what exactly these words mean. Such definitional issues are often considered anachronistic to contemporary IPE analysis, with certain important exceptions (see, for example, Burnham, 1994, Nitzan and Bichler, 2009, and Watson, 2017). One is

reminded of Friedrich Nietzsche's indictment of the Enlightenment's reliance on Christian morality, despite its disavowal of religion (1974). If the labour theory of value and the theory of marginal utility are dead, then on what grounds do we employ the term value, or its derivative – capital? IPE analyses of *value* chains, *capital* mobility, real versus financial *capital* etc. that do not interrogate the substance of what they are dealing with invite the same criticism that Joan Robinson (1962: 68) once levelled at the discipline of economics:

> K is capital, ΔK is investment. Then what is K? Why, capital of course. It must mean something, so let us get on with the analysis, and do not bother about these officious prigs who ask us to say what it means.[7]

In contrast, Marx's critical theory directly tackles the question of value. Furthermore, according to the value-form approach, Marx grounds his theory of impersonal domination precisely in the elementary concept of value. This interpretation rests on a crucial distinction between wealth and value. Yet, as we will see below, this is a key point of contention in Marxist scholarship.

With the exception of certain subterranean traditions, particularly those associated with the value-form approach, most Marxists have understood the concepts of value and wealth to be essentially synonymous. Labour is the source of value, according to the orthodox reading, for the simple reason that 'historically in

[7] Hans-Georg Backhaus similarly pointed out the paradoxical nature of modern economics, which 'on the one hand, develops complicated mathematical methods to calculate the movements of prices and of money and on the other, has forgotten to reflect on what could possibly constitute the object of its calculations' (1980: 114).

all forms of society it is labour that is the active creator of wealth' (Gamble and Walton, 1976: 113). The fact that Marx differentiates between what he calls 'concrete' and 'abstract' labour, and that he points to the latter as the sole source of value, is not seen as necessitating any deep theoretical reflection. Instead, Marx's peculiar term 'abstract labour' is understood to mean a *mental* abstraction from the particularities of different types of labour and a reduction to the basic biological metabolism common to all: 'The observation of the expenditure of calories during production is the observation of abstract labour' (Carchedi, 2009: 150). As abstract labour and value are thus conceived of as transhistorical categories rooted in human physiology, this orthodox approach argues that they cannot be the source of domination in capitalism; rather, it is the existence of the capitalist class that perverts these politically neutral categories by wringing *surplus* value from the working class. As Postone (2003: 50) correctly observes, these readings interpret Marx's theory to be a logical extension of David Ricardo's political economy, whereby Ricardo's insight that labour is the source of value is 'refined' and 'turned against the bourgeoisie' through an examination of exploitation. This physiological and transhistorical reading transforms Marx's value theory into a political slogan to demand the redistribution of wealth back to those who produced it – a slogan equally suited to all points in history.[8]

Yet if value and wealth are synonymous – as the orthodox interpretation insists – then the following quotes, from volume I of *Capital* and the *Critique of the Gotha Programme* respectively, appear utterly contradictory:

[8] The prevalence of this interpretation allowed Joan Robinson (1960: 23) to make the confused claim: 'Marx believed that, under socialism, the labour theory of value would come into its own'.

[W]e know the *substance* of value. It is *labour* (Marx, 1976: 131).

Labour is *not the source* of all wealth (Marx, 1994: 316).

Marx here clearly states that labour is the content of value, but *not* of wealth more broadly. Instead of reducing this apparent contradiction to an inconsistency in Marx's writings, the value-form tradition insists that Marx's theory of value is not a theory of wealth in general, but a theory of one historically-specific form of wealth. Rather than being conceptualised as a *physical* substance that emerges from human toil, wealth generally should be understood as a *social* category that encompasses a great array of different objects, attributes, and practices that are validated as 'wealth' by specific social conventions. Thus, for the Ancient Egyptians, gold gained the status of wealth due its recognition as the flesh of the sun god Ra; while in Thorsten Veblen's analysis of conspicuous consumption it is other people's observation of an individual's consumption that attributes cultural wealth to that individual. Value too is a form of socially validated wealth. However, the social validation that creates value is not conscious and purposeful, but unconscious and accidental. For Marx, the moment of this validation is the act of commodity exchange: 'It is only by being exchanged that the products of labour acquire a socially uniform objectivity as values' (Marx, 1976: 166).

In commodity exchange, qualitatively different products are equated with a certain quantity of money. This process signifies a 'real abstraction' from the concrete, sensuous characteristics of the goods being exchanged (use-values) and thus from the concrete, sensuous characteristics of the labour that produced them

(concrete labour) (Sohn-Rethel, 1978). By characterising these goods as worth different quantities of the same homogeneous substance – money – the participants in exchange accidentally undertake a radical equalisation of the diverse kinds of labour expended to create these goods. A ten-pound note does not purchase the products of specific labouring activities – say the labour of the carpenter or the masseuse – but rather £10 commands a certain quantity of *any* commodity-producing labour. Money becomes the embodiment of non-specific, abstract labour. More accurately, the mediation of human interactions by money *creates* abstract labour (Rubin, 1978: 199; Heinrich, 2012).[9] As Georg Simmel (1971: 330) observed, money 'hollows out the core of things, their peculiarities, their specific values and their uniqueness and incomparability … They all rest on the same level and are distinguished only by their amounts'. Marx's concept of abstract labour is thus neither a mental abstraction from the particular characteristics of concrete labour, nor is it abstract in terms of general human metabolism; rather, labour becomes *practically* abstract through the monetary exchange of commodities (Murray, 2000). A peculiar form of wealth thus emerges that is expressed in commodified goods but is irreducible to their physical properties – a type of wealth that only exists through heterogeneous, tangible types of wealth but is itself uniform and intangible. This form of wealth does not discriminate between the concrete

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[9] Marx is at pains to emphasise that abstract labour is not a conscious accounting tool used by market participants, but an accidental, objective social reality:

> Men do not therefore bring the products of their labour into relation with each other as values because they see these objects merely as the material integuments of homogenous human labour. The reverse is true: by equating their different products to each other in exchange as values, they equate their different kinds of labour as human labour. They do this without being aware of it. (1976: 166-7)

characteristics nor social purposes of particular goods: they are products of generic human labour, distinguishable only by their prices. Marx calls this type of insurgent wealth value.

While in *qualitative* terms value is a relationship of commensurability between diverse kinds of human labour brought about by money-mediated exchange – abstract labour; it also has a *quantitative* dimension – socially-necessary labour time. The value of any given commodity equals the mean labour time necessary for its production within the web of commodity exchange – an average that is constantly in flux due to changes in labour productivity (Marx, 1976: 129). The individual commodity producer experiences increases in average productivity as a 'whip of external necessity' (to misuse Trotsky's phrase) that forces them to produce more in less time – or else find that their commodities appear overpriced on the market. Prices thus express an unusual social wealth that changes in proportion to the quantity of labour required for a commodity's production. This quantitative dimension means that value is not a static or inert social relationship, but one that is dynamic, directional, and dominating. By satisfying their qualitative needs and wants through the market, people subject themselves to the rule of abstract quantities that threaten them with financial ruin if they do not obey. As Isaak Rubin (2010: 81) argued: 'Value is the transmission belt which transfers the movement of working processes from one part of society to another, making that society a functioning whole' – a functioning whole, he neglected to mention, in which the unending drive to produce faster than one's competitors becomes the basis of survival. Commodity exchange gives rise to a system in which societal averages of labour time become the content of social wealth, and this form of wealth itself

becomes a source of decentred social domination. This system of socially validated wealth makes true in practice Benjamin Franklin's observation that '*time* is money' (quoted in Weber, 2003: 48).

In sum, domination in capitalist society, according to the value-form reading of Marx, derives from the peculiar form that wealth assumes in this society: value. Neither a physical substance nor a purely mental category, value is a *relationship* of radical equality between diverse types of human labour, which emerges when the products of labour are exchanged for money. By comparing tangible goods as merely different quantities of human labour in general, commodity exchange creates averages of labour productivity that impose themselves upon individual market participants as a seemingly external necessity to produce more in less time. This overwhelming pressure to compete emanates not from any particular agent, institution, or class, but from the totality of monetary exchange relations. This form of temporal domination is thus accidentally imposed by society upon itself. In this way, Marx roots his theory of impersonal rule in the category of value.

Classification and capitalisation

It should be clear from the preceding presentation that the value-form reading insists that Marx's theory of self-imposed domination stands on its own *before* the introduction of 'the two great classes directly facing each other – bourgeoisie and proletariat' (Marx and Engels, 2008: 34). This notion is anathema to most interpretations of Marx, whereby domination in capitalism results from the direct

exploitation of the proletariat by the bourgeoisie. For orthodox accounts, such exploitation is homologous with the relationship between the peasant and lord, the difference being that the bourgeoisie instrumentalises the market as a form of coercion with which to entangle the proletariat in relations of domination (Sweezy, 1981: 30). '*Surplus value*', Ernest Mandel (2002: 7) insists, 'is simply the monetary form of the social surplus product', which is pocketed by the capitalist class. Within this traditional understanding, value itself is seen to be a benign social form that is perverted by capitalists: the extraction of *surplus* value transforms capitalism into a system of social domination.[10] A similar notion is even present in certain Open Marxist readings, which begin from the transhistorical proposition in Marx's propagandistic work that all history is the history of class struggle, before arguing that this universal struggle takes on specific forms (wages, surplus value, etc.) in the capitalist epoch (Holloway and Picciotto, 1991: 112; Kettell, 2004: 15; Sutton, 2015: 19). Class struggle in capitalism becomes one historical expression of a transhistorical necessity.

In contrast, this thesis' reading insists that the categories of capital and proletariat do not corrupt commodity exchange, but are rather the realisation of both the incentive and necessity of value as a form of wealth. The existence of wealth in the form of money creates both the dazzling *incentive* of potentially limitless accumulation, which is impossible when wealth takes the form of directly useful goods, and the objective *necessity* to match one's competitors in order to stave off financial ruin. Value thus presupposes, and creates immense pressures towards, the

[10] See Kurz and Lohoff (1989) for a polemical critique of such traditional readings of class.

emergence of capital – that is, the expansion of value based upon the systematic exploitation of labour. These imperatives press the 'personifications' of capital to attempt to mould people into malleable labouring subjects, which is pursued through the disruption of non-waged forms of subsistence, the extension of zones of commodity exchange, the imposition of competitive wages and terms of employment, and manifold other mechanisms. This process is what John Holloway (2002: 42) terms the 'class-ification' of society into blind producers of ever more profit. This reading of class as a process of continuous 'forming' stands opposed to what Richard Gunn (1987) calls 'sociological' Marxism, whereby classes are defined by certain empirical characteristics (say, forms of income or subjectivity), understood as fully constituted at the historical outset of capitalism, and conceptualised as opposed to one another in a pitched battle of economic interests. Instead, this thesis insists that the imposition of the imperatives of surplus value production structure people's lives in different ways, giving rise not to two empirically verifiable classes, but to the constantly shifting sands of youth precariat, industrial proletariat, white collar lower middle class, professional middle class, managerial class with stock options, and so on *ad infinitum.* No individual falls completely into the category of pure capitalist or worker. Instead, capitalist and worker represent two poles of capitalist society, between which real people lie on a spectrum that is always changing as a result of the battle over the maximisation of surplus value production.

The key insight of this interpretation is that domination in capitalist society does not spring from the manner in which wealth is administered and sequestered by one class at the expense of another. Instead, domination is rooted in the

apparently innocuous fact that wealth takes the form of value – a relation of radical commensurability and temporal competition between market participants. This in turn creates pressures for the classification of society into labouring subjects and the formation of capital. This casts the first chapter of *Capital* in a new light: Marx begins with an analysis of simple commodity exchange, not as an historical examination of a pre-capitalist society (as Mandel 1976 insists), but as a way to demonstrate that the most complex and monstrous forms of capitalist domination are rooted in the seemingly innocent categories of money, commodity, and exchange. '[A]lready the simplest forms of exchange-value and of money', Marx (1993: 248) writes, 'latently contain the opposition between labour and capital'.

Crises of value

Just as the tendential classification of society into wage-labourers and the emergence of capital logically derive from value relations, rather than being a perversion of it, so too is the periodic breakdown of this system of wealth inherent to its very nature. When goods are brought into relation with one another through monetary exchange, a new form of wealth emerges that exists through these goods but is irreducible to their sensuous qualities. The tension between the tangible qualities of these goods and the abstract wealth attributed to them is the basis of capitalist crises.

Yet the precise manner in which this contradiction comes to be expressed in periodic crises is a matter of intense and often needlessly vitriolic debate (see

Kliman et al., 2013). Within Marx's own writings an array of crisis theories can be found, from the overproduction/underconsumption thesis outlined in *The Communist Manifesto*, to the final collapse scenario depicted in the *Grundrisse*, to the disproportionality crises depicted in volume II of *Capital*, to the cyclically declining profitability detailed in volume III (Reuten and Thomas, 2013). Each of these explanations have in turn been elaborated by various scholars, including, respectively, Rosa Luxembourg, Henryk Grossman, Simon Clarke, and Paul Mattick. Instead of conducting a broad survey of these approaches, this section will advance a reading of Marx's 'law of the tendency of the rate of profit to fall' (LTRPF), as outlined in volume III of *Capital*, as the general tendency of capitalist development and as a meta-theory of crisis.

It has already been established that the form of social validation that creates value – money-mediated commodity exchange – sets producers against one another in a battle over labour productivity. On the one hand, those enterprises that produce at above average speed can sell their commodities at or below the going market rate, while reaping 'super profits' due to their reduced overheads. On the other hand, slower producers are also pressured into selling their commodities at the going price, or else risk declining market share, while facing falling profit rates due to their higher cost levels. While productivity increases can be secured through the intensification of the work process, this strategy runs up against the physical limit of human exhaustion. Technological innovation, however, can unleash potentially limitless productivity gains. For this reason, the general trajectory of capitalist production entails an increase in the value of fixed capital and material inputs relative to the value of wages – what Marx terms a rising 'organic composition of

capital' (Marx, 1976: 762). In terms of the technical conditions of production, capitalist development is synonymous with automation.

However, Marx argued that while automation can increase the profit rate of the market leaders who first introduce new technologies, once such productivity gains are generalised, the result is a depression in the average profit rate across all capitals. In a classic fallacy of composition, what is beneficial for individual businesses undermines the profitability of business in general. As general labour productivity rises, the same monetary investment yields a greater output of commodities, which, through the mechanism of market competition, leads to falling commodity prices. Due to this deflationary or disinflationary trajectory, if enterprises invest in machinery, raw material, and labour at the 2015 price level and sell their commodities at the 2017 price level (a time gap of some length is inherent to all industries that do not realise profit at the exact moment of investment) they will experience a falling rate of profit. Ultimately, this depression in the average profit rate reflects a decline in the labour time expended within the economy as a whole. The 'tendency of the general rate of profit to fall is thus simply *the expression* … of the progressive development of the social productivity of labour' (Marx, 1981: 319), by way of a 'continual cheapening of the product[s]' (ibid: 318). Nevertheless, the same mechanism that delivers a falling *rate* of profit – namely, automation – also produces a rising *mass* of profit. Due to the fact that labour-saving technology both increases output and cheapens individual commodities, capitalists can realise a greater volume of profits despite the rate of profit on each sale declining (ibid: 332). In order to realise stable or rising profits in the context of falling

profitability, businesses must continually increase the scale of their operations, which tends to test the limits of aggregate demand.

Several counter-tendencies can arrest the downward pressure on the average profit rate caused by generalised productivity gains. These include increases in unemployment, due to labour-saving technology, which depress wages; the extension of foreign trade, which provides access to cheaper resources; and increases in turnover time, which shorten the time span between investment and profit realisation. Yet two counter-tendencies have chiefly occupied proponents and critics of this theory alike. Firstly, an increasing rate of exploitation – either through the unremunerated extension of working hours or intensification of labour – can offset declining profitability by increasing the gap between the aggregate labour time necessary for the workers' reproduction and the aggregate labour time expended by workers on commodity production (ibid: 339-42). However, this countertendency cannot negate the tendency altogether, due to the political, social, and absolute limits of the human body to be exploited at a perpetually rising rate. Secondly, while increasing productivity tends to depress prices and thus profitability, this also cheapens fixed capital and material inputs, which boosts profitability (ibid: 342-3). For example, while the generalised implementation of containerisation may deflate shipping prices and thus reduce the rate of profit within the shipping industry as a whole, the reduced costs of importing raw materials from abroad may boost the profitability of the auto industry as a whole. When these two industries are considered together, the overall rate of profit thus appears stable. Nevertheless, the fact that a time gap exists between monetary investment and realisation of profit means that this counteracting tendency cannot completely check

the fall in profitability. While productivity gains may cheapen machinery and raw materials, this is of no consolation to the enterprise that has already invested in machinery and materials at pre-existing prices. As Chris Harman (2007) points out, in an otherwise orthodox account, one cannot build the houses of today with the bricks of tomorrow.[11]

The interaction of the tendency and counter-tendencies thus disqualifies the LTRPF as an absolute, always empirically observable 'law' in the traditional understanding of the word. The inverse relationship between labour-saving productivity gains and profitability is felt as a crushing external pressure on particular capitals, which must be countered in myriad ways. Whether these countervailing factors are sufficient to offset this downward tendency for a time does not negate the existence of this inverse relationship, but instead the frenzied struggle of firms to simply tread water cannot be explained without an understanding of this underlying tendency. In an analogous manner, the law of gravity is not disproven by the existence of flight, but rather aeronautics cannot be understood without grasping the law of gravity.

[11] Essentially the same objection can be made to Heinrich's criticism of the LTRPF (2013), which Frederick Harry Pitts (2017) adopts. Heinrich points out that labour-saving technology has a dual impact on the profit rate: it decreases the values of individual commodities and thus depresses profitability, while decreasing the value of labour-power through the falling costs of wage goods (which Marx refers to as an increase in *relative* surplus value). No general tendency can be posited as such – whether profitability falls or rises depends on whether productivity gains decrease general commodity prices faster than labour-power, or vice versa. Yet this disregards the essential time lapse between investment and realisation. For example, when the newspaper industry introduced labour-saving computer systems, which began to exert downward, competitive pressure on newspaper prices, these firms nevertheless had to employ the remaining staff at *prevailing* wage rates.

In circumstances in which the counter-tendencies are insufficient to maintain profitability, and the profit rate tends closer to zero, conditions of generalised stagnation prevail. This can result in some or all of the following outcomes: the heightened productivity results in an oversupply of commodities that threaten to exceed market demand; all except the most competitive firms are deterred from making new investments; market laggards are pushed into bankruptcy; struggling firms take on mounting debt burdens to stay afloat; and less competitive producers are forced to increase their prices to stave off catastrophe, thus creating a paradoxical situation in which the productive potential for general price deflation leads to growing inflationary pressures. These results of declining profitability do not explain the rapid contractions in credit markets that signify moments of acute financial crises, and thus Clarke (1994: 59) is correct to point out that the tendency of the rate of profit to fall is not a complete crisis theory. Such a theory would need, as Michael Heinrich (2013) explains, to take full account of the dynamics of the credit system, which produce sudden ruptures in capital accumulation. Instead, this tendency should be conceptualised as the general trajectory of capitalist development, which – if unchecked – leads to growing economic stagnation, and increases the likelihood and destructiveness of financial crises. Ultimately, the downward pressure on the profit rate can only be 'reset', for a time, by the large-scale devaluation of wages, fixed capital, and material inputs through crises, 'in which momentary suspension of all labour and annihilation of a great part of the capital violently lead [capitalism] back to the point where it is enabled [to go on] fully employing its productive powers without committing suicide' (Marx, 1993: 750).

Marx's crisis theory is idiosyncratic in that it neither conceptualises crises as exogenous shocks nor attempts to predict their timing. Instead, the LTRPF is ultimately a theory of the irreconcilable contradiction between tangible goods and the abstract social wealth for which the former becomes a mere vessel. It is a theory of the self-generating centrifugal force that tears value apart at the seams. The fact that there exists a tendentially inverse relationship between general productivity and general profitability hints at a deep social paradox: tremendous increases in human ingenuity, productive potential, and material goods result in a decline in social wealth (Postone, 2003). Value, as a principle of social organisation, becomes increasingly inadequate to the world of tremendous abundance that it has produced. This system 'presses to reduce labour time to a minimum, while it posits labour time, on the other side, as sole measure and source of wealth' (Marx, 1993: 706).

The antagonism of value

Value is a form of social wealth and self-imposed domination arising from a particular type of social validation: money-mediated commodity exchange. This generates dynamics of capitalisation and classification, and gives rise to a social system that plunges into crisis due to its own inherent contradictions. However, by pointing to the rationality of value and its derivative forms, there is a danger of producing a functionalist theory that characterises all social phenomena as obedient expressions of value-logic. If the working class is a category derived from value relations and has no inherently revolutionary character, and if crises are not a result

of working-class resistance, but instead result from the normal functioning of capitalist development, then does this mean the agency of everyday actors plays no role in contemporary capitalism? This approach runs the risk of reproducing, albeit in more nuanced theoretical terms, Louis Althusser's observation that we need only speak of people insofar as they are 'bearers' of structures (Althusser and Balibar, 1970: 321).

While it is crucial to integrate struggle into the value-form account of social domination, there are several theoretical weaknesses that must be avoided. The first pitfall is that which conceptualises struggle in capitalism as one specific type of class struggle in general. For Maurice Dobb (2001), class struggle is the general motor of history – it can account for the breakdown of feudalism just as well as it can explain modern struggles over the length of the working day. No fundamental revision of categories is needed when we move from one mode of production to another, simply greater specification. Transhistorically, struggle remains a battle between concrete, empirically defined subordinate and superordinate classes over the production and distribution of wealth. As discussed in the section on capitalisation and classification, this fundamentally misses the impersonal and self-imposed nature of capitalist domination. Secondly, for the tradition of autonomist Marxism, which also conceives of struggle as an essential characteristic of capitalism, the role of the labouring class is prioritised (Bailey et al., 2017). Capital does not *lead* history, they insist, but rather capitalist strategies must be understood as reactions to workers' resistance (Toscano, 2009). Ultimately, the dynamics of capitalist development can be explained by labourers' opposition to the imposition of work by capitalists. The autonomist approach simply shifts emphasis from one

side of the traditional sociological class binary to the other, without fundamentally reconceptualising the nature of domination in capitalist society.

Postone (2003) mounts a devastating critique of such accounts: the very category of (abstract) labour, which is the supposed revolutionary subject for both Dobb and the autonomists, is itself the content of decentred social domination, as it constitutes a form of wealth that sets people against one another in relentless temporal competition. Domination does not emanate from the capitalist class, but rather from the principle of value as wealth, around which society is organised. Labour is thus as corrupted a category as capital. From this, Postone concludes that workers' struggles are totally constitutive of capitalist social relations, rather than a threat to their normal functioning. In this sense, Postone presents a troublingly structural-functionalist value-form approach, whereby social antagonism is understood as a scripted tug-of-war between capitalists and workers that simply reconstitutes capitalism as a whole. Against what this thesis terms Postone's 'closed' value-form approach, Werner Bonefeld and Holloway advance an 'open' value-form account. While emphasising that capitalism's peculiar form of domination stems from monetised exchange relations, these accounts insist that people's struggles do not simply reproduce capitalism, but challenge it too. Antagonism, in this sense, is not conceived *only* as a back and forth battle between empirically defined classes (although this is one manifestation of it), but also as a struggle over the social forms that constitute capitalist life. Human agency operates both 'in and against' value (Bonefeld, 1993: 27). This open approach is the point of departure for this thesis' interpretation of the antagonisms of value as wealth.

The basic premise of struggle in capitalist society is not that value is unfairly distributed, but that value itself is a fundamentally inadequate form of wealth. In Holloway's words: 'Wealth does not fit into the commodity without a remainder' (2015: 13). Value cannot satisfy people's heterogeneous needs, wants, or desires – it is an ill-fitting form of wealth. Human needs can only be satisfied to the extent that they can be met *for a profit*: that is, to the extent that the necessary goods can be produced at the average speed or above and sold on competitive markets. The rational irrationality of this system of wealth is evidenced, for example, by the abandoned factories that litter Britain's West Midlands, adjacent to communities wracked by unemployment and need. The latent wealth embodied in this dormant infrastructure and these idle people is value-less, for the simple reason that it cannot be set in motion at a speed that matches other market participants. Where human needs *can* be met for a profit, heterogeneous forms of wealth become mere vessels for homogeneous value as wealth. Such a dynamic is visible in the academic sphere, where the creation of knowledge becomes transformed into a means to outcompete one's colleagues and advance one's desirability as a source of profit for corporate universities. The ideal of a global academic community is increasingly realised, but as a community of mutual anxiety and solipsism, especially for untenured researchers.[12] The author becomes self-divided as she is forced to compromise between the potential of her words to grasp towards truth versus the need for these same words to ultimately embody market value through the derived indices of 'research excellence'. Human aspiration must be tempered to suit the demands of this abstract social force.

[12] On the 'practical solipsism' of commodity exchange, see Sohn-Rethel (1978: 42).

Yet this demands the impossible. Human aspiration cannot be tempered in this manner, and value is thus regularly shrugged off – at all levels of social reproduction – as people assert other forms of socially validated wealth. Faced with the unsuitability of value as the key principle of social organisation, people refuse to be classified into mere producers of profit for a blind social imperative, and more generally refuse the transformation of various social goods into vessels for the realisation of monetary surpluses. Crucially, people do not rebel *as labour* or *as members of the working class*, but rather they rebel against these categorisations, knowingly or not. As Bonefeld (2004: 121) drily observes, people do not go on strike because they are 'wage-labouring personifications of variable capital'; they strike because they are not and can never be reduced to this inhuman designation. This struggle against the imperatives of value can take both progressive and regressive forms. In keeping with the previous example, the imposed indices of academic (e)valuation are resisted and boycotted, while non-commodified forms of academic cooperation and communal knowledge production are continually forged. On the other hand, many advanced capitalist countries are currently witnessing the assertion of chauvinistic principles of racial supremacy, which are counterposed to the impersonal dictates of capitalist globalisation. Anti-value is thus not the monopoly of the political left; rather, struggles against the abstract domination of value have a fundamentally ambivalent relationship with forms of direct oppression such as patriarchy and white supremacy. This form of antagonism represents the struggle of human heterogeneity against a historically-specific, self-imposed homogeneity. This is what Theodor Adorno (1973) referred to as the rebellion of

non-identity against identity – the particular's resistance to its subjugation by the universal.

This dynamic of struggle rears its head at every level and every moment of the reproduction of value. Yet periods of crisis intensify this antagonism. As crises accelerate, the contradiction of value is expressed on the surface of society as a series of paradoxes: the need for mass redundancies counterposed to the intensification of labour for those who keep their jobs; dwindling profits counterposed to enormous productive capacities; homelessness counterposed to empty, unsaleable housing stock; hunger counterposed to the *over*production, *over*abundance of material goods. Ironically, value demonstrates its insufficiency for society most clearly when it is in short supply. Pressures to discipline and reclassify society, so as to raise the rate of profit and thus rekindle investment, run up against the real needs and aspirations of society in all its diversity – aspirations that cannot be synchronised with the booms and busts of capitalist development. A struggle ensues over every aspect of restructuring and reclassification, from wage reductions to privatisations to social spending cuts; and this contestation means that no crisis has a guaranteed solution.

Antagonism is a defining characteristic of capitalist society. Yet it cannot be adequately conceptualised as a struggle between sociological classes over the distribution of wealth or the imposition of work. Neither can it be understood as entirely unthreatening to the normal functioning of capitalist development. Instead, the antagonism that marks the capitalist epoch is a struggle against a *form* of social wealth that is unable to satisfy the diversity of human needs and wants. Value is not imposed upon society by one institution or class – in the final instance, at least – but

rather emerges accidentally from monetised commodity exchange. As Max Horkheimer (cited in Bonefeld, 2016: 60) wrote, 'human beings produce, through their own labour, a reality that increasingly enslaves them'. The peculiarity of social antagonism in capitalist society is therefore that people struggle against bonds that are unconsciously self-imposed.

Conclusion

Domination is a central concern in the existing literature on the role of states in mediating the processes of financial expansion and productive stagnation. These accounts insist that state managers have been subjugated by particular sociological groups, whether rentiers, industrial capitalists, or vocal citizens. Such an understanding of domination – that is, as direct relations of constraint imposed by one group over another – is not corroborated by the historical evidence provided in this thesis. This thesis' archival analysis demonstrates that policy-makers appeared to be subordinated not to particular actors or classes, but to imperatives that seemed to have escaped the control of even society's most powerful groups. Such a form of domination, this chapter argued, can only be adequately grasped through an examination of Marx's theory of impersonal domination. The purpose of this chapter was thus to set out a general explanation of how Marx grounds this conceptualisation of abstract, self-imposed domination in his theory of value. This was done by analysing a) the distinction between wealth and value, b) the logical

derivation of class and capital from value relations, c) the crisis tendencies inherent to these relations, and d) the social antagonism integral to value as a form of wealth.

Marx's writings on value should be understood as a theory of a type of wealth that is also a form of domination. This domination emerges accidentally from the subjective, purposeful action of humans when this action is mediated through monetary relations of commodity exchange: 'Their own collisions with one another produce an *alien* social power standing above them, produce their mutual interaction as a process and power independent of them' (Marx, 1993: 197). This theory roots Foucault's notion of decentred power in a historically-specific form of practice. Just as Foucault (2001: 342) insists that power is only truly exercised in conditions of formal freedom, Marx argues that the profoundly dominating nature of capitalism emerges precisely from the radical equality of exchange: 'the money system is in fact the system of equality and freedom… which prove[s] to be inequality and unfreedom' (1993: 248).

The temporally competitive dynamics that emerge from the value-form create tendencies towards the classification of society into flexible, dependent labourers and thus towards the expanded reproduction of value: capital. Yet these same competitive dynamics also plunge this form of wealth into regular crises, as rising productivity results paradoxically in a proportionate diminution of social wealth, expressed as a falling average rate of profit. Value, especially during these periods of crisis, confronts society as simply unfit for purpose. To advance their real aspirations, preserve their mental wellbeing, and often simply survive, people continually refuse value's dictates, and instead assert different forms of social wealth (progressive and reactionary). This form of antagonism characterises a

society that cannot transform all material and cultural goods into a means to accumulate other means: money (Postone, 2003: 181). Unending turmoil marks this society in which people are required, yet refuse all the same, to be mere carcasses of time.[13]

This chapter has thus laid the groundwork for understanding how domination in capitalist society emerges not from particular sociological groups, but from the very monetised relations that make up this society. The following chapter will integrate the state into this theoretical framework and examine how policies of financial de- and reregulation can be understood as statecraft strategies designed to ameliorate the contradictions emerging from this dominating, crisis-ridden, and socially fractious form of wealth.

[13] 'Time is everything, man is nothing; he is no more than the carcase of time. There is no more question of quality. Quantity alone decides everything' (Marx, 2008: 57).

CHAPTER FOUR

Framing financialisation II: currencies, states, and statecraft

> One sure sign of an ill-conducted state is the propensity of the people to resort to theories.
>
> Edmund Burke (quoted in Gamble, 1990: 404).

Introduction

To the extent that the financialisation literature engages with states at all, they appear as the subjects of domination. Policy-makers are either hemmed in by the power of financial elites (*expropriation*), react automatically to the needs of capitalists more generally (*crisis resolution*), or are torn between the demands of capitalists and citizens (Streeck's *crisis resolution* variant). States, as such, are either class instruments or automatic stabilisation mechanisms. This discussion mirrors a debate that took place in Marxist state theory in the mid- to late 20th century, between instrumentalist and structuralist accounts (see Clarke, 1991a and O'Kane, 2014).

The quintessential instrumentalist, Ralph Miliband (2009) argued that the capitalist character of the modern state was a result of its direct domination by the bourgeoisie. Against Robert Dahl's polyarchy thesis, Miliband attempted to demonstrate in demographic terms that the political elite in Britain was largely drawn from the same social circles as the business elite. While largely discredited for its crude empiricism, the basic pluralist and instrumentalist nature of this state theory lives on in contemporary approaches. For example, neo-Gramscianism, one of the most important strands of critical IPE (Cohen, 2007), effectively reduces the state to an expression of the fractional struggles within the capitalist class (van der Pijl, 1989; Burnham, 1991).

Structuralist accounts, on the other hand, insist that the state need not be directly dominated by particular capitalists because it is indirectly dominated by capital in general. For Nicos Poulantzas, the state is 'relatively autonomous' from capitalist society, bequeathing it both the ability and responsibility to functionally reproduce capitalism in all its economic, political, and ideological dimensions (Clarke, 1991a: 16-20). Fred Block, on the other hand, put forth a structuralist state theory that emphasises the collective power of the capitalist class to shape state policy. The 'major structural mechanism' determining state action is the fact that capitalists have an effective 'veto over state policies in that their failure to invest at adequate levels can create major political problems for the state managers' (Block, 1987: 58). One can extrapolate that finance capitalists, whose assets are both highly mobile and fungible, have a kind of super-veto. However, despite the intensity of the instrumentalist/structuralist debate, both positions share a common identification of the forces of domination as lying *outside* of the state. For Althusser-

inspired functionalists like Poulantzas, on the one hand, domination emanates from the transhistorical notion of ‘mode of production’, from which the state is relatively detached. For both Miliband and Block, on the other hand, power lies with a capitalist class that in turn subjugates the state to its interests, and thus both theorists paradoxically share an agential ontology of domination.

In contrast, this thesis seeks to conceptualise the state’s role in financialisation through a theory of impersonal, self-imposed domination. Rather than states becoming subordinated by discrete social actors, states are dominated by the imperatives of the monetised social relations that they themselves help to forge and maintain. As the last chapter argued, domination emanates from value itself – the form that wealth assumes in capitalist society. This chapter will build on the preceding analysis by drawing from Open Marxist state theory to devise a framework for understanding financial de- and reregulation in times of crisis. Open Marxist approaches do not consider the state to be relatively autonomous from capitalism, nor dominated by particular fractions of society. Instead, the state produces capitalist social relations ‘as a practice of government’ (Bonefeld, 2014: 183), while in turn becoming ‘subordinated to the need to secure the expanded reproduction’ of these same relations or else face disaster (Clarke, 1991b: 193). The state, as such, plays a crucial role in giving rise to a form of wealth that in turn dominates it. Yet, fundamentally, the state is also a political form of the struggle that characterises capitalist society: its form and functions are the object of contestation, ruling out functionalist interpretations.

This chapter will begin by discussing the limits to state action imposed by value as the dominant form of wealth. Through the interrelation of state-backed

currencies, value emerges as a global system of averages that imposes itself upon individual states through the exchange rate mechanism. States are forced to meet global profitability averages or face a range of sanctions. In times of crisis, these pressures intensify, and states are torn between the imperatives of bringing productivity in line with global averages and responding to the tangible demands of their electorates. Faced with such a dilemma, this chapter argues, policy-makers forge statecraft strategies. Statecraft strategies attempt to ameliorate the contradiction between accumulation and legitimation that is inherent in capitalist policy-making, but which becomes especially important in times of crisis. This thesis will argue that financial de- and reregulation can be theorised by examining two forms of crisis statecraft: palliation and depoliticised discipline. While palliation strategies seek to postpone the 'day of reckoning' and thus delay restructuring domestic social relations in line with global value imperatives, strategies of depoliticised discipline directly confront the crisis by enforcing the dictates of value, yet they do so in a covert manner that shields state managers from blame. The first three restructurings of financial regulations examined in this thesis – CCC, the abolition of exchange controls, and the Big Bang – must be understood as elements of statecraft strategies that fall on a policy spectrum between palliation and depoliticised discipline, sometimes constituting hybrids of both strategies. The final regulatory change – FSA – constituted an attempt to create a system of financial governance appropriate to the preceding fifteen years of liberalisation, in a manner that would shield policy-makers from political backlash over future financial crises.

The limits of state action

Domination and the system of currencies

The previous chapter explained that value is a form of wealth and a system of accidental self-domination that is constituted by the totality of monetary exchange relations across the globe. Yet it is now necessary to specify that these exchange relations are themselves constituted by the intercourse of different state-backed national and regional currencies, linked through various types of exchange rate mechanism (Burnham, 1990: 1).

Through the mutual exchangeability of the Renminbi and the Real, the labour of an electronics manufacturing worker in Guangdong, China and the labour of a combine harvester operator in Mato Grasso, Brazil become instantly comparable in purely quantitative terms. By equating these two currencies (at a specific ratio), the computer hard drive and the bushel of soybeans become equated as different quantities of generic wealth, and the diverse types of labour that produced them are equated as merely different amounts of abstract labour. Such equality brings about a radical socialisation of people at opposite ends of the globe, resulting in a 'butterfly effect' of sorts, as an increase in labour productivity in one Chinese factory exerts pressures (however small) upon all other market participants to boost their own productivity. People become socialised under conditions of desperate competition – a kind of antisocial socialisation. Currency intercourse gives rise to *global* productivity and profitability averages, which are expressed unevenly in space as various *national* productivity and profitability performances

(see Smith, 2010), and which in turn manifest empirically as balance of payments disequilibria, exchange rate diversity, and an international 'hierarchy' or 'pyramid' of currencies (Paula et al., 2017: 187-8; Cohen, 2015: 15). Value, as such, cannot be understood either as a national phenomenon nor an extra-national force that impinges upon national economies from the outside (Bonefeld, 1993: 58). Instead, it is precisely the interconnection of discrete political territories through their respective currencies that gives rise to value as *world* wealth, and which subjects particular territories to the domination of global averages.[14] This runs counter to IPE accounts that point to the antagonistic relations between states and markets (Gilpin, 1987; Strange, 1996), and adds a layer of complexity to IPE theories that stress state/market mutual constitution (Underhill, 2000; Block and Evans, 2005). Indeed, as the creation and management of currencies and exchange rate regimes are matters of state and of state-delegated political authority – a point that this thesis shares with Chartalist theories of money (Knapp, 1924; Bell, 2001; Desan, 2014) – it can be said that states themselves produce the ties that ultimately bind them, and thus that the dominating pressures exerted upon policy-makers are unconsciously self-imposed.

Through the exchange rate, the weight of global averages directly presses down upon national economies: 'just as the value form transmits the competitive discipline of capitalist relations to individual capitals through the role of money, it also transmits global capitalist discipline to national states through the international system of exchange rates' (Kettell, 2004: 23). If a national economy can maintain

[14] '[T]he abstraction implicit in the market system represents the domination of the general over the particular, of society over its captive membership' (Adorno, 1970: 148).

high rates of profit, there is a higher likelihood of strong foreign direct and portfolio investment inflows, exports can be competitively priced, the balance of payments can move into surplus, and foreign currency reserves can expand. Below average profitability, on the other hand, can provoke investment outflows, exports become less competitive and thus the balance of payments can fall into serious arrears, and foreign currency reserves can fall to dangerously low levels (Alami, 2018: 24). The manner in which global averages sanction particular territories depends on the type of exchange rate regime that prevails. This thesis is concerned with two particular regimes: the Bretton Woods system of adjustable pegged currencies, and the system of floating currencies that followed it.

Under Bretton Woods, weak national economic performance tended to be expressed as a growing gap between the official value of the currency and its suspected true value. Currencies were pegged to the dollar at specific ratios, which was in turn pegged to gold. This meant that if the performance of a particular economy worsened, it would not automatically result in a depreciation of the currency that could help boost export competitiveness. Although an abrupt devaluation was allowed under Bretton Woods rules, it was interpreted by financial markets as an admission of failure to stick to a particular course of development, which could 'unleash a torrent of capital outflows' (Eichengreen, 2008: 120). As a result, a nation's poor economic performance generally led to its currency becoming increasingly overvalued. This tended to encourage speculation against the proclaimed value of the currency, which could only be effectively offset if the central bank could marshal significant foreign currency reserves to purchase their own currency (Thomas, 1992: 54). Yet in order for central banks to have a large

reserve of foreign exchange to see off this threat, the economy needed to maintain an export surplus. Therefore, worsening profitability created a vicious circle of falling exports, speculative attacks, and declining foreign currency reserves to counter these attacks.

The floating exchange rate system, instituted in 1973, did not release states from the external constraints of Bretton Woods, but rather articulated the sanctioning power of global averages in a different way. The floating system did not recreate the Gold Standard's supposed automaticity, whereby balance of payments problems would be automatically rectified by allowing the currency to settle at the level appropriate for the national economy's export performance (Wass, 2008: 333). Rather than a nation's balance of payments deficit leading to the growing overvaluation of their currency, as during the Bretton Woods era, deficits in the context of floating currencies instead gave rise to increasing speculation that resulted in exchange rate volatility (IMF, 1984: 12). In addition to such volatility, which disrupted trade and thus further worsened export performance, there was the danger that speculation could result in a devastating run on the national currency. The danger of poor trade performance provoking such speculative pressures could be offset by financial inflows from newly deregulated and decentralised credit markets (see Clift and Tomlinson, 2008), yet this in turn raised problems of growing indebtedness and the necessity to demonstrate national creditworthiness through other metrics of economic performance. Regardless of the type of exchange rate regime, then, the interconnection of distinct currencies creates a global system of abstract wealth that demands obedience to its temporal imperatives, with formidable sanctions for economies that fall behind.

The government of the day comes under tremendous pressure to wield the state apparatus to ensure average profitability within their territory on ‘pain of ruin’ (Bonefeld, 2014: 5). Failure to do so can result in the discrediting and collapse of the particular government, or a deeper crisis of the state’s ability to ‘define and enforce collectively binding decisions on the members of a society in the name of their common interest’ (Jessop, 1990: 341). There are a variety of instruments which governments utilise to pursue this necessary objective. These include, but are not limited to, attempts to disorganise and cheapen labour, such as anti-union legislation, incomes policy, or the erosion of the social safety net; the creation of economies of scale through state-facilitated mergers; the channelling of money into areas that will benefit the national economy’s external position, by, for example, extending special credit facilities to exporting companies or prioritising the disciplines within higher education that may boost productivity; the plundering of natural resources for national economic gain; the artificial raising of export profitability through currency manipulation; the fostering of a deflationary domestic climate by raising interest rates so as to force companies to practice wage restraint and rationalise their production methods; or the attempt to produce a form of civic responsibility premised upon immediate material sacrifice for the purpose of meeting long-term national goals. These various mechanisms are implemented by a host of governing bodies, from the treasury and central bank to departments of technology, labour, industry, and education. As such ‘the state’ appears as a host of different agencies, backed by the force of law, each attempting to pragmatically resolve problems within their designated fields and each subject to capture by particular social groups. This impression lends support to pluralist understandings

of financialisation. However, this appearance of a series of isolated policy problematics to be addressed by discrete agencies is in fact a manifestation of the general pressures unleashed by the integration of the national economy into an unconscious system of global competition over labour time.

Crisis and struggle

The pressures exerted upon states that cannot match global profitability averages are not extraordinary occurrences, but constitute the normal functioning of a system of impersonal domination that develops unevenly in space. Nevertheless, in periods of generalised crisis, such pressures intensify: the costs of inefficiency rise; the necessity for the state to discipline society according to the imperatives of value becomes more desperate; and the state consequently risks shattering the illusionary basis of its own ideological reproduction, namely that it is a malleable reflection of the democratic will of society.

The previous chapter discussed the LTRPF as an expression of the contradiction inherent to capitalist society between productivity and profitability: while the introduction of labour-saving technology improves the profit rate of individual firms, it has a deflationary effect on the general price level and thus on the average rate of profit, which serves to generate conditions of general stagnation. This tendency should not be understood as an 'economic' phenomenon that states experience, but rather this contradiction plays out through state actions (see Hirsch, 1978). Just as individual firms are under competitive pressure to increase productivity through labour-saving automation, state managers strategise to boost

national productivity through various mechanisms, including the forced closure of unproductive nationalised industries, the withdrawal of financial support for low productivity firms or sectors, the increased financial support for high productivity sectors, and the development of industrial technology through the public education system. While this may succeed in boosting the productivity of a particular economic territory, the general result for the state system as a whole is a downward pressure on average profitability. In turn, states aid firms in countering this tendency through efforts to increase the rate of exploitation (anti-union legislation, incomes policy, etc.), or cheapen the costs of fixed capital (imperial strategies to access untapped resources and markets), for example.

Nevertheless, when the counteracting factors are insufficient to offset the deflationary impacts of rising productivity, stagnation prevails. Such conditions are not spatially uniform, but rather the falling average rate of profit is expressed as relatively high profitability in some national economies and null or negative profitability in others – evidenced by the different experiences of West Germany and the US in the 1970s (Brenner, 2006). Accelerating global price competition results in laggard firms facing declining retained earnings, leading them to prune investment plans and raise the prices of their commodities. State managers in poorly performing national economies experience this as the contradictory phenomenon of stagflation: rates of investment decline as inflationary pressure rises. As claims on declining social wealth intensify, via rising prices, increased lending, and growing state indebtedness, the money supply inflates out of proportion to the productive capacities of the national economy. The worsening export performance, combined with these distortions in the money supply, provoke speculative pressure against the

national currency. With falling foreign currency reserves, speculative attacks can force states to seek rescue (from, for example, the IMF) or face severe financial difficulties. As Andrew Gamble and Paul Walton (1973: 16) insisted, '[t]hese three phenomena, inflation, credit finance, and the monetary crisis are all part of the crisis of profitability'.

In such conditions, states' existing macroeconomic toolkits become rapidly antiquated. In the case of the late postwar crisis, the traditional tools of demand management became increasingly redundant as the crisis intensified. Rather than boosting another expansionary period, demand stimulus provoked prices hikes without a commensurate increase in output, because capital's rate of return was too low to justify meeting increases in aggregate demand (Brenner, 2006: 159; Moseley, 1997: 26; Carchedi, 1991: 169-74). The external effect was a further worsening of the balance of payments and currency reserves, as rising demand was met by an increase in imports, with still further speculation against the national currency. The crisis of the capitalist form of wealth becomes expressed, to invoke Claus Offe's useful term, as a 'crisis of crisis management' (1976).

However, states are not simply hemmed in by the global imperatives of value; they must also respond to (or at least be seen to consider) the wishes of their legal subjects. This is the formal political expression of the deeper contradiction between value and heterogeneous forms of social wealth. Whether by direct or indirect sanction – electoral defeat or riot – the contemporary state is pressed to live up to its image as 'the embodiment of the general interest of society and as the neutral arbiter of all particularistic claims' (Clarke, 1988: 128). Although the material reproduction of the state requires its subordination to one particular form

of wealth – value – its political reproduction relies on it *appearing* to pluralistically embrace a variety of social wealths. Attempts to bring national economic activity in line with global averages, expressed through the exchange rate, tend to jeopardise the meeting of people's heterogeneous demands, and vice versa (Broz and Frieden, 2006: 590). For example, the achievement of high national profitability may require the state to sacrifice the meeting of people's needs through the disciplining of labour markets, underfunding of public services, and regressive restructuring of the tax code. On the other hand, the prioritisation of human needs and aspirations through an expansive social programme risks damaging national profitability and thus undermining the material basis of the intended redistribution. This contradiction is exacerbated during crises of general profitability. As states struggle to rationalise domestic capitals, discipline domestic labour markets, and retrench their own expenditure, society attempts to evade this counterintuitive 'belt-tightening' by asserting heterogeneous needs – expressed as growing industrial unrest, protest, political support for populist parties, increasing demand for consumer credit, etc. The need for the state to confine 'the production of use values within the bounds of profitability' is simply irreconcilable with its ostensible role as the political medium through which society advances its real aspirations and needs (Burnham, 2006: 75).

To individual states, the world economy appears as something external, something that impinges upon states from without. This misapprehension is reflected in the traditional IPE literature, which emphasises the antagonistic relationship between states and markets (Gilpin, 1987; Strange, 1996). Yet, rather than being imposed from without, this form of domination is in fact constituted by the totality of monetised relations expressed through the interlocking of particular

territorial currencies. By plugging their national economies into the grid of global value relations through the convertibility of their currency, individual states subordinate themselves to the pressures of world averages. Against traditional IPE accounts of state/market relations, the appearance of external domination thus masks what is in fact accidental self-domination. In normal circumstances, states are pressured to meet average rates of profit or face growing external imbalances; yet during crises, such pressures assert themselves as crushing imperatives. Policy-makers are thus necessitated to attempt to restructure domestic social relations in line with the temporal demands of the global value principle. Nevertheless, the government occupying state power must also 'display at least a semblant of a connection to the views and wishes of the electorate', or face various political sanctions that ultimately derive from people's assertion of their heterogeneous social needs (Kettell, 2008: 631). This mismatch between states' material and political reproduction has been conceptualised as the contradiction between 'accumulation' and 'legitimation' imperatives (Offe, 1984; Watson, 2009b). The smooth reconciliation of these imperatives is ever elusive, not due to the personal faults of particular policy-makers nor the logical faults of economic theory, but because the state is forced to manage a form of wealth that is fundamentally inadequate to its subjects – a form of wealth that demands the total subjection of the heterogeneous variety of life to the homogenous imperative of monetary accumulation. In place of a genuine accommodation of the demands of value and need, states develop *statecraft strategies* that allow them to construct a façade of reconciliation, which will be examined next.

Statecraft strategies during crisis

Thatcher's first Chancellor of the Exchequer, Geoffrey Howe, wrote in his autobiography that the job of policy-makers resembled a 'trudge through a seemingly endless series of multiple choice exam questions' (1994: 191-2). The examiner in this metaphor, this thesis argues, should be understood as value: a global system of radical commensurability and productivity competition. In times of crisis, as dwindling abstract wealth provokes growing social upheaval, this metaphorical barrage of questioning intensifies: state managers are torn between imposing the discipline necessary to restart capital accumulation and meeting the tangible needs of their electorate. In this context, political authorities develop statecraft strategies to manage these opposing forces.

Statecraft, a concept most comprehensively outlined by Jim Bulpitt (1986: 21), denotes the strategies through which state managers seek to govern effectively without sacrificing their legitimacy. Bulpitt (ibid: 21-2) limits his conception of statecraft to four governing objectives: maintaining party unity, winning elections, transforming a government's rhetoric into common sense, and achieving competence in the sphere of policy-making. Furthermore, he restricts his analysis to the 'Court', defined as the Prime Minister and their friends and advisors (Buller, 1999: 694). Bulpitt's formulation of statecraft, then, remains quite narrow and phenomenological. Yet it points towards a more fundamental insight, namely that policy-making cannot be understood simply as the implementation of political ideals, as in the 'Westminster model' (Gamble, 1990: 409), nor as the 'shadow cast on society' by lobbying groups (Dewey, 2008: 163). Rather, the political

governance of capitalist society requires the pragmatic, strategic accommodation of the irreconcilable: global and domestic concerns, accumulation and legitimation, and, ultimately, value and human need. In this way, the concept of statecraft has been marshalled as part of a broader Marxist state theory by Peter Burnham (2001), while others have broadened the analytical lens beyond 'the Court' to examine the strategic machinations of less senior politicians and even unelected officials operating within the civil service (Rogers, 2009).

This thesis will attempt to incorporate this Marxist reading of statecraft into a schematic framework for understanding how policy-makers craft financial regulatory policy in times of crisis. It will be argued that as ailing profitability pulls state managers in opposite directions, two possible forms of statecraft strategy present themselves. Firstly, political elites can postpone the necessary state, corporate, and social restructuring by introducing delaying or *palliative* measures. Secondly, state managers can directly confront the crisis by *disciplining* social relations according to the imperatives of value, while *depoliticising* these painful measures so as to avoid political backlash. Particular policies often fall on a spectrum between these two poles, and as such constitute hybrid statecraft strategies.

Between palliation and depoliticised discipline

Palliation strategies can assume a number of different forms. For Streeck (2014), the history of neoliberalism is the history of changing strategies of crisis alleviation. The tolerance of inflation in the 1960s and 1970s, the growing public indebtedness

role in the 1980s, and finally the promotion of rising private debt levels in the 1990s and 2000s constitute attempts to ameliorate the conflicting demands of capital and society (ibid). These claims mirror Krippner's argument that US financial deregulation was rooted in an attempt free up credit for the alleviation of social strife arising from the postwar crisis (2011). In addition to such grand strategies of crisis palliation, policies of currency manipulation, corporate tax cuts, and preferential economic diplomacy are also important in postponing the economic 'day of reckoning'. While such palliative strategies may temporarily reconcile the contradiction between the imperatives of value and human need, they risk damaging the government's economic credibility – with dangerous repercussions regarding speculation against the national currency and the government's access to global credit markets. It is therefore important that crisis delaying measures do not appear as such; that is, that they can be dressed up for global audiences as sober evidence-, theory-, or conviction-based policies (the Thatcher government's public justification of their attempted currency manipulation through exchange control liberalisation is a perfect example of this, as demonstrated in Chapter 7). Palliation, then, is a statecraft strategy that can allow governments to embark on a temporary 'flight from the present' (Bonefeld, 1995: 40). Yet it entails important dangers: by facilitating the expansion of credit, it risks provoking unsustainable debt levels that can cascade into severe financial crises, while also drawing allegations of anti-competitive policy-making and thus endangering national creditworthiness.

In contrast, strategies of disciplining do not shirk from the crisis, but instead attempt to bring about what is termed 'adjustment' in the sterilised language of economics (Agénor, 2004); that is, the restructuring of businesses, labour markets,

and state finances so as to place the national economy in line with global profitability averages and thus reignite capital accumulation. Disciplining measures can assume a variety of forms: the imposition of high interest rates or the facilitation of currency appreciation can put pressure on companies to rationalise production and resist wage inflation; public sector redundancies, strict trade union legislation, and incomes policies attempt to disorganise workers and reduce wage levels; and the privatisation of national assets, the introduction of departmental spending limits, and the creation of public debt targets aim to bring state expenditure in line with the performance of the national economy. However, if these attempts to restructure society in accordance with the temporal demands of value *appear* to be the result of discretionary policy decisions, then the governing administration can expect to pay at the polls or even provoke a more serious crisis of state legitimacy. As such, governments often seek to mask their disciplining measures through strategies of depoliticisation.

Depoliticisation is a concept that has been operationalised to explain a host of different phenomena, from US financial deregulation (Krippner, 2011) to UK energy governance (Kuzemko, 2016); yet common to all is a focus on the process of seemingly removing the politics from a specific sphere of social life. As a statecraft strategy, depoliticisation refers to a form of governance in which state actors seek to reconcile accumulation and legitimacy objectives by seemingly emptying policy of its political content, so that it appears to be a purely technical affair. Bulpitt (1986: 28–32) writes that the discipline of governance requires state authorities to gain a certain autonomy from the pressures of various sections of society by seeking to establish 'automatic rules or pilots' that allow for the

‘euthanasia of politics’. As Flinders and Buller (2006) pointed out, depoliticisation strategies can be categorised into three types: institutional, whereby politicians delegate governance to ostensibly non-political institutions; rules-based, whereby decision-making discretion is curtailed by explicit rules; and preference-shaping, whereby rhetorical strategies are employed that portray specific social issues as outside of the state’s jurisdiction. The goal of depoliticisation is to place ‘at one remove the political character of decision-making’ so as to allow the state to achieve its policy goals in a more insulated and effective manner (Burnham, 2001: 128). These strategies are especially important during periods of crisis, such as the ‘generalized austerity characteristic of the neoliberal era’, because the state must both manage a lacklustre economy and avoid blame for this poor performance in the eyes of the electorate (Krippner, 2007: 479).

This thesis’ conception of depoliticisation moves beyond the somewhat banal association of these strategies with the reconciliation of long-term macroeconomic goals and short-term political business cycles. Instead, this understanding of depoliticisation points to a state in denial of its own nature (Offe, 1975: 127). The contemporary state must be a capitalist state if it is to ensure its material reproduction, yet it must also respond to the wishes of the formally equal citizens that make up bourgeois civil society in order to ensure its political reproduction. This reflects the more fundamental contradiction between value and tangible social wealths that lies at the heart of capitalist society. Such an intractable dilemma finds its party-political expression in the form of policy ‘realism’ – something that Hillary Clinton (2017: 226-7) castigated Bernie Sanders for his lack of in her memoir:

> He didn't seem to mind if his math didn't add up ... No matter how bold and progressive my policy proposals were … Bernie would come out with something even bigger, loftier, and leftier, regardless of whether it was realistic or not. That left me to play the unenviable role of spoilsport schoolmarm, pointing out that there was no way Bernie could keep his promises or deliver real results.

Yet the constraints of political realism are not eternal and natural, but rather historically-specific and socially-synthetic: people's monetised social interactions give rise to a form of wealth that then imposes itself upon them as an apparently immutable reality. Nevertheless, if state operators are to succeed politically in this perverted reality, they must avoid giving the impression that their inability to meet people's demands results from their own 'spoilsport' character. Instead, by pursuing depoliticisation strategies, policy-makers attempt to outsource discipline to extra-governmental mechanisms. Depoliticisation thus denotes a strategy of placing unpopular but materially necessary decisions beyond the bounds of what constitutes the state, so as to maintain the illusion of the state as a genuinely pluralist body.

While palliation and depoliticised discipline represent opposing strategies for responding to crises, they should be conceptualised as two ends of a spectrum. A particular policy may lie somewhere in the middle of this spectrum, thus constituting a hybrid statecraft strategy, if it contains measures that embody both the former and latter strategies. For example, a policy of targeted industrial subsidies may, on the one hand, extend palliative credit to politically sensitive industries, while, on the other hand, denying credit to less politically important industries under

the auspices of EU rules and thus force them to enact self-discipline (see Moraitis, 2017 for a discussion of such a policy in 1970s France). Which strategy takes precedence at any given moment is strongly influenced by the limits placed on state action by the imperatives of value and human need. If the weight of the crisis threatens to push the national economy over the brink, and state managers discover a mechanism that can veil the state's hand in the necessary restructuring, then strategies of depoliticised discipline may be pursued. Yet if the political backlash is too strong, if society proves too resistant to its own recreation as an aggregation of single-minded producers, then state managers may be forced to simply 'buy time' (to borrow Streeck's term (2014)) through palliation strategies. The framework of action within which state actors strategise is thus not a structural given, but is rather determined by the antagonistic, unruly assertions of different forms of social wealth.

Financial de- and reregulation

Many accounts of financialisation, particularly *expropriation* explanations, conceptualise specific financial de- and reregulations as policies designed solely to address the financial sector. The literature on the Big Bang, examined in Chapter 8, is a case in point, as it generally explains this liberalisation by reference to increasing financial market innovation and the consequent dynamics of competitive deregulation amongst advanced capitalist economies. This understanding plays into the theoretical parcelisation of the state into discrete agencies concerned with managing particular fields and subject to capture by the relevant lobbying groups. The repeal or transformation of financial regulations, then, tends to be explained

through an analysis of the relationships between state managers and financial capital (both national and global), without recourse to 'external' factors, except as background context. However, this fundamentally misunderstands the role of financial regulations as policy instruments. Such regulations should in fact be conceived of as tools for *macroeconomic* management – as instruments for the regulation, not just of the financial sector, but of the broader, contradictory dynamics of the capitalist system of wealth. Transformations in financial regulation, as such, signify the exhaustion of these regulations as effective tools for managing value, likely due to crisis, and must consequently be understood within the framework of statecraft strategies. This thesis will examine four of the most important changes in British financial regulation, which, taken together, played a crucial part in mediating the dual processes of productive stagnation and financial expansion. Each of these four policies constituted, to different degrees, strategies to respond to both the sputtering, warped performance of the national economy in the context of global crisis and the intensifying demands of British people that their tangible needs should not be sacrificed at the altar of capital accumulation.

Conclusion

Financialisation denotes an epoch of profound domination – an observation that is made repeatedly in the existing literature. States have played a central role in contributing to this situation, through financial de- and reregulation, and thus conventional *expropriation* and *crisis resolution* accounts have insisted that policy-

makers have been dominated by the nefarious lobbying power of financial elites or by external economic structures. This thesis, in contrast, has attempted to understand domination in the era of financialisation as a form of 'self-generated reflexive domination' (Postone, 2003: 159), through an examination of Marx's theory of value. Through the seemingly innocuous practice of money-mediated commodity exchange, people give rise to a dynamic form of wealth – value – that presses each participant to continually raise their productivity. Heterogeneous types of wealth become mere vessels for value – a homogenous, temporally-constituted substance – and human productive activities become geared towards the production of tangible goods *only* insofar as they embody market value. This principle of production as a 'means to a means' (ibid: 181)[15] drives itself into regular crises, and provokes people to continually rebel, shrugging off the imperatives of value and asserting a variety of needs and aspirations in its stead.

States do not stand outside this system of wealth, governing it and smoothing out its wrinkles. Nor are states engaged in a power struggle with these 'market phenomena', as in traditional IPE scholarship (Gilpin, 1987; Strange, 1996). Rather, through the creation and management of territorial currencies and exchange rate regimes, states directly contribute to the formation of value as a global system of radical equality between diverse labours and crushing competitive pressures. As a consequence, policy-makers are forced to maintain above average rates of profit within their national territories or face external imbalances, while simultaneously ensuring the political reproduction of the state by being seen to respond to the

[15] Money is a 'means' (due to its very nature as universal equivalent it has no directly useful purpose) that becomes the 'end' of human activity.

citizenry's demands. Policy-making in times of crises, when these pressures are heightened, should be understood as an attempt to strategically reconcile these contradictory imperatives: capital accumulation and political legitimacy. Depending on the balance of forces at any given moment, state managers may attempt to delay the crisis through palliative measures, directly address the crisis while avoiding political backlash through depoliticised disciplining measures, or pursue a combination of these two statecraft strategies. Financial de- and reregulation must be understood through precisely this lens – as strategies to politically manoeuvre within a system of accidentally self-imposed domination.

This thesis will apply this theory of social self-domination to the analysis of four important changes in British financial regulation: the CCC measures examined in Chapter 6, which saw the repeal of quantitative lending limits; the abolition of exchange controls examined in Chapter 7, which did away with currency limits on inward and outward investment; the Big Bang examined Chapter 8, which revolutionised the practices of the LSE; and the FSA examined in Chapter 9, which created a new system of regulations for the British securities industry. By analysing the political decision-making processes underlying these regulatory changes, through archival analysis, it will become clear that state managers did indeed appear dominated, yet not by particular social groups or fractions of capital. Instead, the state was dominated by the threat of severe external imbalances, ultimately deriving from the crisis of falling profitability, and was in turn forced to reckon with the social conflict arising from this declining social wealth. Transformations in financial regulation were pursued, in the eyes of state managers, as strategies to either delay the impending crisis and assuage social upheaval, or restructure the

economy in line with global averages, while shifting the blame away from the state. The following chapter will provide a broad historical introduction to the period under examination.

CHAPTER FIVE

The political economy of the profitability crisis in Britain, 1967-1983

> [Stagflation] well illustrates the fundamental weakness of conventional economic wisdom. It indubitably cannot explain what has already occurred and therefore we can hardly be expected to have great confidence in its ability to predict what is now likely to happen. Indeed our present situation is one which, almost by definition, conventional measures cannot resolve.
>
> Brian Reading, special adviser to Edward Heath, 10 February 1971.[16]

Introduction

This thesis argues that the policy changes which propelled financialisation should be conceptualised as statecraft strategies for governing in times of crisis. Rather than the state succumbing to the lobbying power of financial capital, as the *expropriation* approach argues, or the capitalist class wielding its structural power over policy-makers, as in *crisis resolution* accounts, financial de- and reregulations

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[16] TNA T 338/39, Comment by Reading, 10 February 1971.

in the waning years of the postwar boom must be understood as strategic responses to the real imperatives arising from a dominating form of social wealth – value – which had become mired in deep crisis and the tangible demands of an enfranchised electorate. Nevertheless, before moving from this level of conceptual abstraction to the empirical examination of the archival record, it is necessary to introduce an intermediary level of historical generality. This chapter will thus present a stylised history of Britain's experience of the profitability crisis that gripped the global capitalist system in the late postwar period. A broad examination will be provided of the statecraft strategies – both palliative and depoliticised disciplining – employed by a variety of Labour and Conservative governments during the stagflation crisis in the years 1967-83. This sweeping historical narrative will in turn form a solid basis for the detailed historiographical analysis of financial regulatory changes in the following chapters.

That the British economy has suffered a prolonged decline in its imperial, economic, and political standing on the world stage since the early 20th century is a relatively uncontroversial fact. Indeed, a great deal of both journalistic and academic ink has been spilled in an attempt to grasp the nature and causes of this economic deterioration. A range of culprits, charged with propelling this phenomenon, have been identified in the literature, including the British aristocracy, trade unions, politicians, and enduring cultural norms. Nevertheless, this chapter argues that it is crucial to conceptually separate the long decline of British might and the British economy's more abrupt dip into severe crisis in the late 1960s. This latter occurrence must be understood as one national manifestation of the global profitability crisis that erupted during this period. While the crisis was characterised

by declining corporate rates of profit, rising inflation, and a number of other economic distortions, this thesis makes a significant innovation by further dividing this period into two distinct phases: the first, from 1967-77, saw stagflation result in an increasingly uncompetitive trade performance, which in turn provoked recurrent currency crises; while the second, from 1977-83, was characterised by a continuation of stagflation, but with a very strong currency, which further exacerbated the recessionary conditions.

The governments in this first period faced a dilemma. Their attempts to postpone the worst effects of the profitability crisis through palliative measures – and thus ensure their continued legitimacy in the eyes of the public – tended to worsen Britain's balance of payments performance and thus increase global pressure on sterling. This would force governments to retreat from palliative measures and instead impose financial discipline, often masked by a range of depoliticisation devices. During the second period, the problem of currency crises was alleviated by the appreciation of sterling, due to North Sea oil and the IMF's seal of approval. Yet policy-makers faced another dilemma: the strong pound helped to discipline British social relations in line with global averages, but threatened to shatter governments' legitimacy because of the ensuing recession. Governments were thus forced to deliberate between strategies that, on the one hand, aided and exacerbated this disciplinary pressure in order to reassert the primacy of value over human need, and, on the other hand, to ease and alleviate this disciplinary pressure through palliative measures that sought to assuage key electoral demographics. This chapter will demonstrate the utility of this theoretical approach by examining how, in the years 1967-77, the governments of Wilson, Edward Heath, and Wilson

(again) fluctuated between palliative and disciplining statecraft strategies, in line with the opposing pressures of external shocks and domestic agitation. Furthermore, it will be shown that both the Callaghan and Thatcher governments operated forms of hybridised statecraft strategies of crisis governance, which simultaneously sought to work *with* the strong pound to purge inflation from the British economy and rekindle profitable capital accumulation, and *against* the strong pound by attempting to provide certain sectors of the population with temporary respite from the worst of the crisis.

This discussion will not simply provide a broad historical basis from which to examine the specificities of discrete financial de- and reregulations. Instead, these regulatory changes must be understood as particular elements of the larger statecraft strategies employed by British governments during the postwar profitability crisis. In this way, this chapter contributes towards situating the policy changes that propelled financialisation within a historical reading of the British state's struggle to manage the political and economic antagonisms arising from the impersonal domination of global value relations during a period of crisis.

Britain's crisis: national, global, or both?

Britain's economic decline has been a topic of concern amongst commentators and policy-makers since the late 19th century, yet this anxiety transformed into an obsession with impending ruin as postwar growth slowed (Supple, 1994: 441). There emerged a proliferation of literature focussing on various aspects of lagging

British performance, from loss of imperial territories and markets, to flagging profitability, to dysfunctional industrial relations, to backwards elite cultures – leading Jim Tomlinson to speak of 'declinology' as an important narrative on Britain's experiences in the twentieth century (2001: 1). This literature has taken on a distinctly partisan dynamic, with competing explanations of Britain's decline emanating from the right and left of the UK's political spectrum. David Coates and John Hillard collected a selection of such explanations in their 1986 book *The Economic Decline of Modern Britain: The Debate Between Left and Right*, which saw Britain's rigid trade union movement, resistant to technological progress, pitted against the parasitic City and the aristocratic, anti-industry political elite as the chief causes of British underperformance.

The debate on British decline, however, has been best captured by Gamble (1994b), who identified four key theses: imperial, cultural, supply-side, and state-based. The first explanation examines a variety of factors relating to Britain's role in the world, including the overextension of British military power, the reliance on imperial export markets for British manufactures and the related lack of competitive pressure on British producers, and the outdated use of sterling as a secondary international reserve currency. The second hypothesis states that 'British culture in its various manifestations and institutions was (and is) anti-industrial and anti-business', as aristocratic elite traditions posited 'business life and the pursuit of profit as vulgar and distasteful activities, unsuitable for the well-bred' (Rubenstein, 1993: 2). Transmitted through the public education system to both government and corporate boards, such an aristocratic elite culture acted to retard Britain's industrial modernisation (see also the Nairn-Anderson thesis on Britain's 'incomplete

bourgeois revolution; Anderson, 1964). The supply-side thesis has focussed on the shortcomings of government policy. On the one hand, successive governments in the postwar period considered full employment to be of equal importance to price stability and global competitiveness, thus allowing Britain's economic performance to atrophy in the name of domestic politicking. On the other hand, it is claimed that the British state, while adopting short-sighted Keynesian policies, failed to create a lasting economic development plan, which could have forged the necessary cooperative relations between the City, industry, and the trade unions to ensure competitive growth and industrial modernisation (Gamble, 1994b: 32-5). Lastly, and relatedly, it has been argued that Britain's political institutions have doomed the UK to economic decline. In addition to the wrong-headed adoption of Keynesian demand management and the failure to create a developmental state, British political elites have also been accused of capitulating to special interests, such that political business cycles began to develop whereby politicians would routinely inflate the economy in the run-up to elections. Such a perception of UK politicians was well expressed by US President Lyndon B. Johnson in 1965 who, in a private message regarding Wilson's unwillingness to exercise domestic economic restraint, compared Wilson to 'a reckless boy that goes off and gets drunk and writes checks on his father' (Schenk, 2010: 162).

While the varied literature on British decline has pointed to important causal factors lying behind the UK's relative underperformance in the 20th century, there is a danger that such a close national focus obscures the broader decline in the world economy in the 1960s, 1970s, and early 1980s. As Gamble (1994b: xix) argued: 'Some observers argued that there was no general crisis of capitalism, only a crisis

of capitalism in Britain. But general crises always take the form of national crises'. Capitalism is a global economic system, but one that develops unevenly in space, due to both the concentration of fixed capital and economies of scale in particular geographical zones (Smith, 2010) and the spatial variation in social struggles and state governance strategies. As such, while crises may impact unevenly upon particular national territories, the fundamental causes of such crises can only be located at the level of the global dynamics of capital accumulation. Indeed, Brenner (2006: 8) has demonstrated that the crisis of falling profitability that began to accelerate in the 1960s was not limited to the UK nor the US, but was also ultimately expressed as declining profit rates in market leaders such as Japan and West Germany. This is not to suggest that Britain's peculiarities, relating to its unique global role, elite culture, and political institutions, did not play a part in arresting its economic performance, but rather it should be stressed that such national factors resulted in Britain experiencing a particularly acute contraction in a context of generalised world crisis. Furthermore, Britain's distinct national characteristics meant that the global profitability crisis manifested itself in a particular, non-generalisable way within the UK's territory, which will be explored next.

Economic development in Britain in the postwar period took on a lurching gait, which came to be referred to as 'stop-go'. The British state acted to inflate the economy through demand stimulus to ensure full employment, up to the point when the balance of payments came under threat, at which time the brakes would be applied, monetary and fiscal policy would be tightened, and contraction would ensue (Cairncross, 1995: 14). As Samuel Brittan (1971: 455) observed, during the boom years, 'Chancellors behaved like simple Pavlovian dogs responding to two

main stimuli: one was "a run on the reserves" and the other was "500,000 unemployed"'. In this thesis' theoretical language, the stop-go pattern of development emerged from policy-makers' attempts to steer between accumulation and legitimation imperatives, which are inherent to the political governance of the value form of social wealth. However, this dynamic became qualitatively and quantitatively more severe from the late 1960s onwards as global capital accumulation faltered and the world economy moved into a state of crisis. As Brenner (2006: 99) argues, the years between 1965 and 1973 saw the advanced capitalist world transition from a period of boom to one of protracted crisis. As the misery index (the sum of inflation and unemployment) rose across the industrialised world in the late 1960s, British policy-makers' tolerance for unemployment was forced to evolve: 'In the early 1970s, the alarm bells rang at one million; in the late 1970s, at one and a half million' (Brittan, 1995: 130).

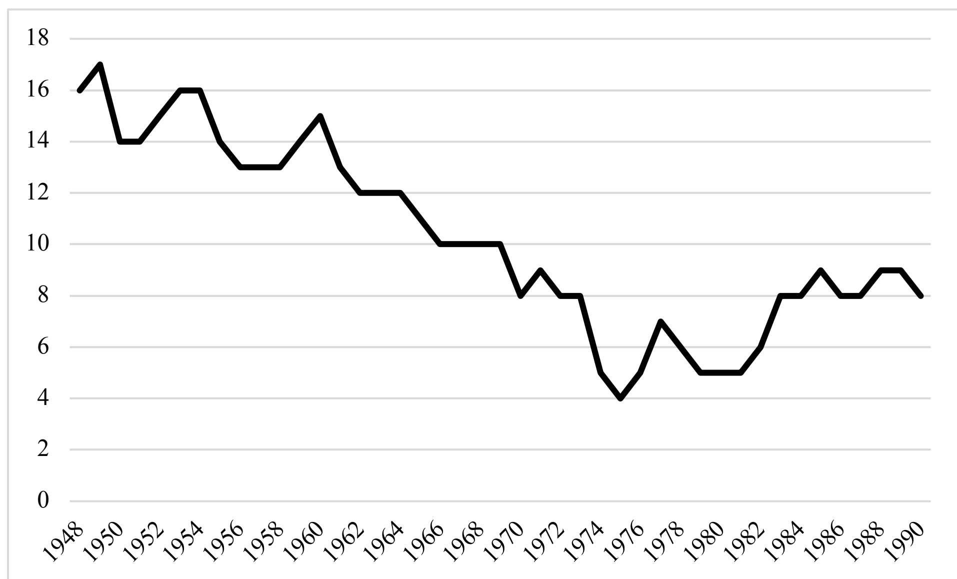

Figure 2. British corporate rate of profit, calculated at current cost (Mouatt, 2016: 290).

Britain's corporate profit rate tumbled from 15 per cent in 1960, to eight per cent in 1970, to four per cent in 1974. Consequently, company liquidity collapsed, hovering around zero in 1965, before plummeting to a deficit of more than £1,000 million in 1970 and £8,000 million in 1974 (CBI, 1977: 15-17).

In response, businesses enacted two strategies to stay afloat. Firstly, companies took on increasing debt burdens. Debt-to-equity ratios began to rise in the 1960s and accelerated towards the end of the decade. Manufacturing companies' debt-to-equity (capital gearing) ratios rose from 20 per cent in 1960, to 49 per cent in 1970, to 59 per cent in 1975 (ibid). Furthermore, between 1956 and 1960, 90 per cent of industrial and commercial companies' funds came from internal sources (chiefly retained profits) and just 10 per cent came from external sources (bank borrowing, government grants etc.). Yet by 1966–70, the ratio had changed to 80 per cent and 20 per cent (Thomas, 1978: 310). Secondly, businesses cut back investment plans and raised prices. Whereas demand stimulus policies had previously heralded a 'go' period, by provoking firms to meet rising demand with increased output, in the late 1960s and 1970s companies increasingly 'responded to the government stimulation of demand by raising their prices at a faster rate in order to reverse the decline in their rate of profit' (Moseley, 1997: 60). This dynamic, combined with rising world prices, resulted in the rate of inflation creeping upwards. While the annual inflation rate had not exceeded 5.2 per cent since the Korean War, it rose to 9.4 per cent in 1971 before skyrocketing to 22.7 per cent following the 1973 oil shocks. These trends began to distort and warp the money supply aggregates – variables that came under increasing scrutiny in policy circles – as M0, M1, M3, and £M3 rose steeply from the mid-1960s and became increasingly

volatile. Finally, this spiralling economic performance resulted in an increasingly precarious external position. The current account of the balance of payments was in deficit for three of the six years from 1964-70, before plummeting to a deficit of more than £1,000 million in 1973 and remaining in deficit for the next five years.

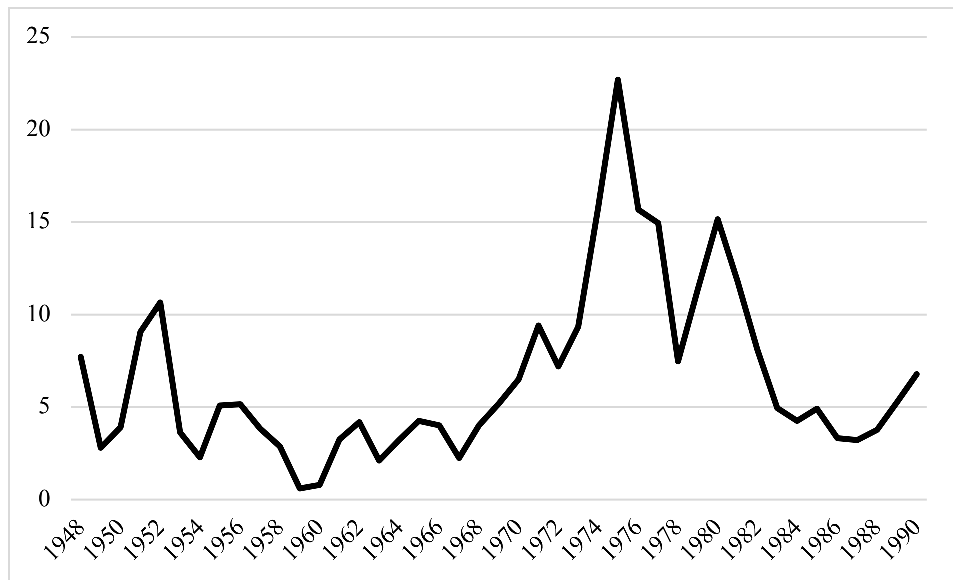

Figure 3. UK Consumer Price Index annual inflation rate, per cent (Bank of England, 2018).

As British policy-makers desperately attempted to restore something like normality to an economy that was shuddering and lurching out of control, their arsenal of received wisdoms and inherited common senses came under growing scrutiny. In 1971, Heath's special advisor, Brian Reading, wrote a fascinating note that captured the intellectual crisis of this period. Reading imagined a hypothetical government meeting that took place in 1968, in which an 'intrepid forecaster' predicted that by 1970 there would be high unemployment, rapidly rising wages and prices, a balance of payments *surplus*, and the bankruptcy of Rolls Royce. 'At the very least', Reading muses, this forecaster 'would have been persuaded to go away

and do his sums again – with a new slide rule. For … it was clearly impossible to combine 2.75 per cent unemployment with 15 per cent wage increases'. Yet this was precisely the economic situation that Britain faced in 1970. This, for Reading, 'illustrate[d] the fundamental weakness of conventional economic wisdom'. '[O]ur present situation', he argued', 'is one which, almost by definition, conventional measures cannot resolve'.[17]

The new economic common sense that is said to have replaced Keynesian demand management during this period was monetarism. As Peter Hall (1993: 279) argues, the period from 1970-89 was 'marked by a radical shift from Keynesian to monetarist modes of macroeconomic regulation, which entailed simultaneous changes in all three components of policy: the instrument settings, the instruments themselves, and the hierarchy of goals behind policy'. However, there is significant debate regarding both the nature and chronology of this ideational shift. Jacqueline Best (2004) points out that the dominant policy paradigm in the postwar boom period was not purely Keynesian, but rather constituted what Paul Samuelson termed the 'neoclassical synthesis' of Keynesian macroeconomics with 'neoclassical microeconomic principles' (Backhouse and Boianovsky, 2013: 41). It was this synthesis that began to cede ground to monetarism in the 1970s. In addition, while certain scholars indicate the Thatcher administration's genuine faith in monetarist doctrine (Jones, 2012), others insist that the Thatcher administration pragmatically adopted monetarism as an intellectual justification for deflation – as Lawson is said to have commented in the 1970s: 'the conditions for monetarism in Britain do not exist. What are they? Water cannon' (quoted in Needham, 2014: 165).

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[17] TNA T 338/39, Comment by Reading, 10 February 1971.

Regarding the temporality of monetarism's ascent, certain scholars have pointed to Thatcher's predecessors, focussing on Healey's 'unbelieving monetarism' (Dow, 2013: 69), or even the early monetary targeting imposed by the IMF in the late 1960s (Clift and Tomlinson, 2008). Common to these varying perspectives, however, is the recognition that the deterioration of Britain's postwar political economy provoked a realignment of policy wisdom and economic orthodoxy, whereby monetary policy came to occupy a much more important position in the regulation of capital accumulation.

The following section will provide a sweeping examination of how the different governments in the period from 1967-83 experienced and responded to the global profitability crisis and its specifically British manifestations. This discussion will in turn provide a solid historical base for the proceeding archival analyses of particular financial de- and reregulations – as these transformations in regulatory policy cannot be understood separately from the broader macroeconomic strategies taking place at the time.

Governing stagflation

The stagflation crisis in Britain was not experienced by policy-makers as a homogenous period; nor was this era simply one of ever deepening economic decay. Instead, this thesis categorises the stagflation crisis in a novel way, by splitting it into two periods, which are unique to the British manifestation of the global profitability crisis. The first, from 1967-77, was characterised by rapidly falling

profitability, careening inflation, and the periodic recurrence of currency crises related to poor export performance. The second, from 1977-83, was characterised by low and stagnant profitability, a strong pound (propped up by North Sea oil and the IMF's seal of approval), high inflation, and depressionary domestic conditions. Thus, while policy-makers in the first period were plagued with concerns over current account deficits, runs on sterling, and the level of the foreign currency reserves, policy-makers in the second period were somewhat insulated from such external crises – creating a superficial air of economic recovery. Nevertheless, the positive external position masked the real emaciation of the non-oil economy and the strong pound further exacerbated the effects of the profitability crisis, plunging the British economy into an unprecedentedly deep recession.

The administrations that governed during this period relied on myriad policy instruments to manage the conflicting imperatives of declining surplus value and stubborn human needs. Yet these various policies should be understood as existing on a spectrum between strategies of palliation and depoliticised discipline. Governments in the period 1967-77 tended to oscillate between these two strategies: the political pressures arising from stagnating living standards and trade union agitation pressed governments to delay the crisis through expansionist policies, until pressures on the currency became so great that governments' popular legitimacy concerns were sacrificed to rescue the immediate external position. In the 1977-83 period, governments were torn between embracing the deeply deflationary effects of the strong pound because of its disciplinary effects on the British economy, and resisting sterling's appreciation due to the ensuing recession's erosion of state legitimacy. In some respects, this mirrors the stop-go development pattern of the

broader post-war boom years, yet it also took on a new dynamic. Policies that would have previously resulted in a 'go' period, increasingly amounted only to a partial easing of the deeply stagnant character of British economic development. By contrast, the 'stop' periods began to result in such economic pain and social strife (while having quite a limited effect in reducing inflation) that policy-makers increasingly attempted to depoliticise these disciplinary measures through a range of mechanisms. As such, this era was characterised by governments' repeated employment of palliative strategies, depoliticised disciplining strategies, or some hybrid of the two, in order to navigate Britain through a system of global value relations in deep crisis.

From one currency crisis to the next, 1967-77

Wilson's government had taken office in 1964 with grand ambitions for British economic development. Labour's 'National Plan' included the creation of the National Board for Prices and Incomes, which attempted to create greater coordination between employers and unions. Meanwhile, the Ministry of Technology, the Industrial Reorganisation Corporation, and the Industrial Expansion Act sought to jump-start the modernisation of British industry and propel higher productivity growth (Cairncross, 1995: 171). This was fundamentally *not* a crisis governing strategy. It was rather an attempt to transcend the tired back and forth of stop-go, and set Britain on a growth-led path of modernisation and global competitiveness. However, instead of dedicating their term to pursuing this proactive scheme, Wilson's administration was rocked by three sterling crises –

November 1964, July 1965, and July 1966 – and spent much of their remaining years entangled in ‘a day-to-day struggle to support the pound’ (ibid: 150).

Labour was determined not to devalue sterling, and thus the government set about deflating domestic demand and seeking financial aid from foreign central banks and the IMF (Schenk, 2010: 155). Nevertheless, in November 1967 Wilson capitulated and announced a downward step-change in the pound’s price from $2.80 to $2.40 (Needham, 2014: 21). In support of devaluation, the government agreed a standby arrangement with the IMF and foreign central banks, and introduced the most deflationary budget since the war, which included tax increases, public expenditure cuts, and a tightening of monetary policy. Furthermore, a series of changes to industrial relations were made. The White Paper *In Place of Strife* was published in 1969, which sought to give the Secretary of State for Employment and Productivity the discretionary powers to require a ballot before any official strike action that would seriously affect the economy, and the power to order a pause to strikes that were unconstitutional or which had not resulted from ‘adequate’ discussions (Blackby, 1979: 50). The Donovan Committee, which had been formed in 1965, also reported in 1968 – recommending a series of measures to disrupt shop floor organising as a way to tackle inflation and restore the profitability of capital (Clarke, 1988: 302).

The ‘immediate task’, former Treasury official Peter Browning wrote, ‘was to deflate home demand to release resources for the growth of the exports which would, in due course, flow from devaluation’ (1986: 20). If successful, it was hoped that these measures could help Britain to break free from the trajectory of worsening competitiveness that was plunging the economy into repeated currency crises. By

enforcing strict financial discipline, somewhat depoliticised by IMF conditionalities and the threat of external crises, the government intended to restructure British social relations in line with slowing global capital accumulation. To a degree, this was successful. Chancellor Roy Jenkins, who had replaced Callaghan following the 1967 devaluation, presided over a £1 billion reversal in the balance of payments between 1967 and 1970 and a Public Sector Borrowing Requirement (PSBR) that went into the negative (ibid: 24).

It was this relatively positive outlook, in the context of a weakening global economy, that Heath's Conservative government inherited in 1970; and it was this firm economic basis from which Heath intended to launch a radical break with his predecessor's struggle to reconcile the pressures of militant domestic unions and external constraints. As Heath himself argued: 'We were returning to office to change the course of history of this nation – nothing less' (Blackby, 1979: 52). The plan was to institute a form of 'liberal Keynesianism', which consisted of abandoning Wilson's industrial policy and turning to the nascent EEC, disengaging from the system of industrial relations while reforming the trade unions, reducing state expenditure, and tightening monetary policy (Clarke, 1988: 307-8). A core tenet of this administration's 'Quiet Revolution', Martin Holmes (1997: 37) has argued, was that 'less government interference with market forces would help to restore competition and profitability to British industry after the years of inefficient socialist planning and indiscriminately wasteful subsidies'. In a sense, this was a project of economic disciplining without a depoliticisation mechanism.

Yet, much like during the Wilson years, such ambition faded in the face of the accelerating stagflation crisis. The passing of the 1971 Industrial Relations Act,

which built upon and strengthened the recommendations of the Donovan Committee, met instant and fierce backlash from the unions. Following the act's attempt to limit wildcat strikes through the creation of the National Industrial Relations Court, the TUC launched the 'Kill the Bill' campaign, the Amalgamated Engineering Union launched a one-day strike, and the Transport and General Workers Union were fined by the Court for their refusal to comply (BBC, 1971; Dorey, 1995: 72). Furthermore, the Heath administration's moderate denationalisations and discontinuations of state support for ailing firms were shaken by legitimacy concerns as the economy entered deeper into crisis. The government responded to the bankruptcy of Rolls Royce with a large package of state subsidies, and despite initially refusing to extend the same support to the foundering Upper Clyde Shipbuilders, a wave of industrial action by shipyard workers forced Heath to rescue the company in February 1972 (Holmes, 1997: 42-44). More important than any particular event, however, was the level of unemployment, which breached one million in January 1972. As a result, Chancellor Anthony Barber's March 1972 budget consisted of the so-called 'dash for growth', whereby a five per cent growth rate was projected, accompanied by an expansionary fiscal policy and a relaxation of monetary policy – despite the 1971 CCC measures that the Bank had hoped would allow for interest rates to be more easily *raised* to combat inflation (Needham, 2014: 50). Demonstrating the government's newfound commitment to postponing the crisis, despite their initially anti-interventionist rhetoric, Barber claimed in a speech to Parliament that he was willing to sacrifice the exchange rate in order to hit the growth targets (Browning, 1986: 35-6).

The result of this shift from *politicised* discipline to an expansionist, palliative programme was the intensification of the dynamics of stagflation. In addition to fuelling a rise in imports and inflation, the 'Barber Boom' provoked a spike in investment in the property market, rather than in export-oriented industries (Scott, 1996: 187). This was aided by the CCC deregulation, which in the absence of high interest rates acted to boost bank lending for property development. In the summer of 1972, as the balance of payments began to deteriorate and inflation continued rising, there was a substantial move out of sterling (Cairncross, 1996: 132). The Bank responded by purchasing sterling, with the aid of foreign central banks (Needham, 2014: 56). Yet this put unsustainable pressure on the international currency reserves, and the pound was ultimately floated in June (Cairncross, 1995: 192). This contributed to the collapse of the Bretton Woods system of adjustable pegged exchange rates, which in turn further added to the speculative forces that exerted pressure on the currencies of deficit economies.

These expansionary policies also did little to dampen wage claims. The attempt to negotiate a voluntary incomes policy was shattered by the February 1972 miners' strike, and by November this had given way to an imposed wage and price freeze, which was itself undermined by the miners' militancy (Britton, 1994: 14-5). The March 1973 budget nonetheless restated the five per cent growth target, and by the middle of the year the balance of payments was £1,500 million in deficit – that is, *before* the oil shocks (Cairncross, 1995: 192). Heath attempted to institute a final incomes policy in November 1973, which promised that earnings would automatically increase to compensate for increases in inflation over seven per cent; yet this too was rejected by the National Union of Miners, who began an overtime

ban. The resulting sharp reduction in coal output, coinciding with the oil price hike and a record trade deficit, led to growing pressure on sterling and ultimately pushed Heath to enact a 'reverse' budget in December, which saw cuts of £1.2 billion in public expenditure (Holmes, 1997: 108). The asset price bubble – which had been developing since 1972 – subsequently burst, leaving the secondary banks highly overexposed to falling property prices and forcing the government to launch a 'lifeboat' operation to rescue them (Needham, 2014: 191). Finally, in early 1974, following another miners' strike during the government's three-day week measures, Heath called a general election on the question of 'Who governs Britain?', failed to get a majority, and consequently resigned.

Heath's government had initially attempted to directly address the snowballing stagflation crisis through a radical disengagement from Keynesian forms of industrial relations and state-industry support: the discipline of the market would be brought to bear upon Britain's rigidified and uncompetitive economic relations. Yet this disciplining project became rapidly politicised, as it was neither justified by an immediately treacherous external position (considering the circumstances inherited from Wilson) nor underpinned by a coherent intellectual defence (as opposed to Thatcher's monetarist experiment) (Hall, 1993). Instead, Heath's economic tightening resulted in bankruptcies and growing unemployment, which directly challenged the government's legitimacy. The resulting policy U-turn consisted of selective palliation measures, designed to assuage the most militant fractions of the working class, while simultaneously attempting to kick-start growth in an uncompetitive national economy within a context of global crisis. Such expansionary measures in the absence of corporate profitability acted to expand

imports faster than exports, thus undermining the balance of payments, boosting inflationary pressures, and contributing to a growing property bubble (Clarke, 1988: 310).

Following Heath's defeat, Wilson returned to office (with a Parliamentary minority), yet without the far-reaching ambitions that had characterised his previous administration's National Plan. Nevertheless, the Wilson government did formulate, through the TUC/Labour Party Liaison Committee, a scheme to create a 'self-reinforcing spiral of disinflation' called the Social Contract (Britton, 1994: 19). Labour attempted to distance themselves from Heath's incomes policy by committing to voluntary collective bargaining and suggesting that the government would enact price controls and expand welfare subsidies in exchange for wage restraint on the part of the unions (Rogers, 2009: 638). This policy quickly ran up against the reality of rapidly rising inflation and a growing external deficit, and the Social Contract transformed into what Britton (1994: 20) has called 'frustrated Keynesianism'.

In 1974, demand remained depressed, investment was slowing, and the current account deficit stood at £3.3 billion (Rogers, 2009: 639). Simultaneously, from July 1974 to July 1975, wages rose by 33 per cent and retail prices by 26 per cent (Cairncross, 1995: 203). The government responded with a mildly contractionary budget that attempted to shift resources from the personal sector to the corporate exporting sector. Yet by December 1974, Permanent Secretary of the Treasury Douglas Wass observed that 'the economic costs of clinging to the existing [Social Contract] policy outweigh the political costs of abandoning it' (quoted in Rogers, 2009: 641). As Chris Rogers (2009) has shown, Denis Healey's Treasury

used the twin 'non-crises' of 1975 – namely the fall in sterling's price and the government's drawing from the IMF credit facility – to justify cuts in public expenditure and a pivot towards a disciplinary incomes policy. Consequently, the Wilson government's pay policy was announced in July 1975, whereby a weekly wage increase ceiling of £6 was implemented, in order to reduce the rate of inflation (Needham, 2014: 88); while in November, following the application to the IMF, Healey announced that 50 per cent of state spending would be subject to cash limits (ibid: 182). Although this succeeded to a certain extent in tackling inflation, which fell from 22.7 per cent in 1975 to 15.7 per cent in 1976, unemployment began to increase to politically difficult levels (Bank of England, 2018). The government's answer was not reflation, but rather to support ailing firms through the establishment of the National Enterprise Board. As Britton (1994: 28) writes, there was a 'political and social need for government to do something about unemployment, even though its hands were tied for the present on macroeconomic policy'.

The Wilson government's reversal, which Peter Jay of *The Times* called one of the most 'painful re-examinations of cherished commitments that any Government has ever undertaken in peacetime', had some success in combatting the worst of the profitability crisis (quoted in Browning, 1986: 71). Inflation fell, investment began to increase, and the balance of payments deficit reduced in size (ibid). In order to further alleviate British exporters' lack of competitiveness, and thus aid the balance of payments recovery, Healey sought a depreciation of sterling. Nevertheless, when sterling indeed began to slide downwards in March 1976, the government used this to create an air of crisis of confidence in the pound, thus justifying £1 billion in public spending cuts in July (Rogers, 2013). In spite of

Wilson's resignation and his succession by Callaghan, this strategy continued throughout 1976, as the government negotiated an IMF bailout that would depoliticise the deflationary measures that the government itself privately acknowledged were necessary (ibid). The resulting $3.9 billion loan, agreed upon in December, was attached to a range of conditionalities, including a two-year ceiling on PSBR, £1 and £1.5 billion in public spending cuts over two years, DCE targets, and the sale of state-owned petroleum shares (Harmon, 1997: 12-3). By appealing to the IMF for conditional assistance, the government sought to limit its own 'freedom of action', and thus reassure global markets of Labour's credibility while simultaneously allowing it to pursue domestic disciplining without shattering its popular legitimacy (Britton, 1994: 32).

Although it was not immediately clear at the time, the Callaghan government's rescue by the IMF would usher in a new phase of the profitability crisis. The periodic oscillation between palliative and disciplining strategies, in rhythm with the recurrent sterling crises, would give way to a different dynamic. With the pound set on a path of continual appreciation, British governments were faced with a dilemma: support the rise in sterling's price due to its deflationary, disciplining effects; or attempt to relieve the pressure of the strong pound on the domestic economy in order to preserve governing legitimacy. The crisis governing strategies that emerged in this period attempted to do both simultaneously.

The strong pound and the lurch into depression, 1977-1983

The British experience of the global profitability crisis had, until 1977, been characterised chiefly by a periodic struggle to defend the price of sterling in the context of a deteriorating balance of payments performance. Foreign currency reserves, as such, were rarely in abundance, and had to be periodically run down in order to prop up the pound. Following the IMF's intervention, however, this situation changed dramatically. The sharp appreciation of sterling allowed the Bank to 'cream off' foreign currency and replenish the reserves, which reached £20.2 billion in November 1977 (Dow, 2013: 281). Furthermore, North Sea oil, which began to flow in 1975, began to constitute a significant proportion of British exports in 1977, which further boosted sterling (Booth, 1995: 78).

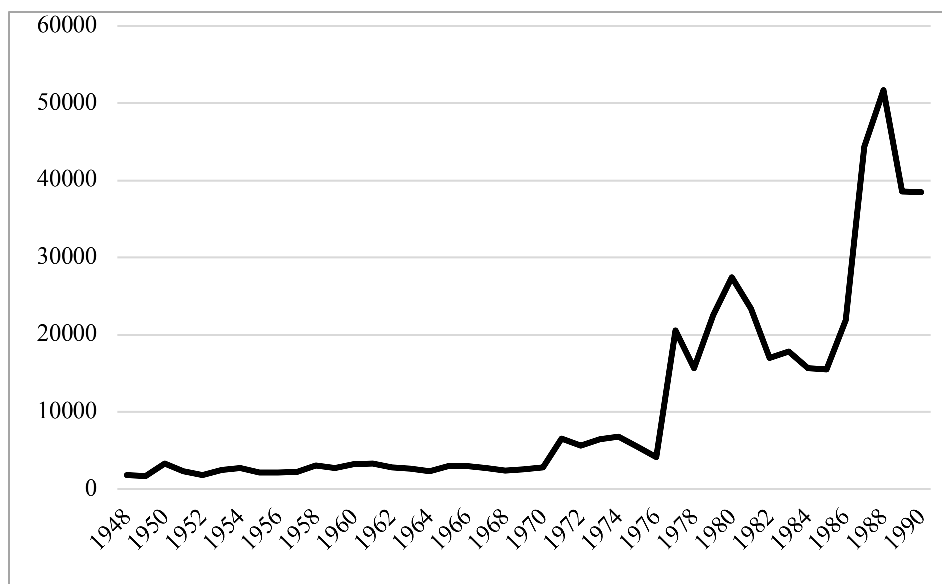

Figure 4. UK official international currency reserves, $US million (Howson, 1994: 232).

Nevertheless, this loosening of the external constraints on British policy-makers did not imply their complete insulation from the global crisis. The strong pound both masked and exacerbated the decimation of non-oil industrial companies' rate of profit, and the rate of inflation remained at historic highs despite the disinflationary pressures of the exchange rate. The dilemmas created by the profitability crisis simply changed form: rather than finding themselves pressed on both sides by the tangible demands of their electorate for the maintenance of living standards, on the one hand, and the threat of currency crisis, on the other; the British state was now forced to reconcile the deflationary, disciplining effects of the strong pound and the growing resistance from various sections of society to the resulting depressionary conditions.

In order to repay the IMF loan, the Callaghan government needed to ensure economic growth. Yet this could not come by way of demand stimulus reflation, without sacrificing the IMF-imposed DCE targets. Export-led growth appeared to be the only solution, but the rising price of sterling was making this increasingly difficult (Britton, 1994: 33). In order to achieve a rise in exports, then, the Callaghan government attempted to purchase the TUC's acquiescence to wage restraint through a series of tax cuts announced in July 1977 (Needham, 2014: 183). An expansionary mini budget was also announced in October, in reaction to the increase of unemployment over 1.2 million. In addition, the government sought to reduce the upward pressure on sterling by lowering interest rates and liberalising exchange controls, which were partially dismantled in December 1977 and January 1978 (ibid). Following the revelation that the PSBR had actually been below the IMF target in 1977, the government launched another moderately expansionary budget

in April 1978, which led to an erosion of the balance of payments recovery as demand increased (ibid).

At this time, fears within the government began to intensify that the recent confidence in sterling may not last, and that by the time the post-IMF boost in sterling wore off, the non-oil exporting sector of the economy would have already been decimated and deindustrialised. In July 1978, Callaghan consequently published a White Paper called *Winning the Battle Against Inflation*, which stated a five per cent guideline for wage increases (Britton, 1994: 319). This strict incomes policy would, it was hoped, allow the government to increase the competitiveness of British industry by combatting inflation, without the need to increase interest rates and thus further exacerbate sterling's rise. This, however, was not to be. The TUC rejected the five per cent guideline in September, and the Labour Party rejected any form of pay restraint at their party conference in October (Needham, 2014: 125). This paved the way for a devastating wave of industrial action, known as the 'Winter of Discontent', which began with Ford workers winning a 17 per cent wage hike in November 1978 and peaked with a one-day strike by 1.5 million public sector workers in January 1979 (Cairncross, 1995: 223). Labour subsequently lost the May General Election to Thatcher's Conservative Party.

The Thatcher governments have been the subject of intense academic scrutiny for decades (Hall, 1988; Kavanagh, 1990; Gamble, 1994a), with at least six key theses on Thatcherism existing within the literature (Jessop, 1988). Perhaps the phase of Thatcher's reign that has provoked the most debate has been the government's 'monetarist experiment' in the early 1980s (Thain, 1985; Bulpitt, 1986; Tomlinson, 2007). The chief point of contention regarding this issue has been

the degree of intentionality behind the Thatcher administration's recessionary policies. While Eric Evans (2004) has argued that the Thatcher government plunged the British economy into a deep recession in order to break the back of the labour movement, Duncan Needham (2014) has insisted that the economic shock was a 'mistake' deriving from the government's unfamiliarity with monetary targeting. Yet rather than relying on this 'intentional versus accidental' schema, this period can be better understood by grasping the contradictory role of recession in the reproduction of capitalist wealth: the Thatcher administration's contractionary policies were intended to purge inflation from the British economy and reinstitute profitable capital accumulation, yet the ensuing depressionary conditions also threatened to undermine the government's legitimacy. The monetarist experiment can thus be understood as a negotiated attempt to reconcile accumulation and legitimation imperatives through a hybrid governing strategy that fused elements of both palliation and depoliticised discipline.

Chancellor Howe's first budget in July 1979 was quite contradictory, as it consisted of deep counter-inflationary expenditure cuts and an interest rate hike, as well as inflationary VAT increases. In addition, the government removed the remaining exchange controls in July and October, in an effort to ease sterling's rise. Howe's second budget, on the other hand, was unambiguously contractionary. In March 1980, the government set out MTFS – a framework of yearly declining targets for the money supply and PSBR. This policy, it was hoped, would lock the government in to a project of severe financial discipline: 'If the targets were not met there would be automatic fiscal or monetary changes in government policy. The

room for discretionary economic management, which was held to have be so destabilising in the past, would be drastically reduced' (Gamble, 1994a: 109).

However, this strategy of depoliticised discipline required a degree of perseverance that Thatcher did not possess, despite popular opinion to the contrary. In 1980, the stagflation crisis reached its most critical stage and the British economy experienced the worst economic downturn since the interwar period. Faced with more than two million unemployed, record levels of bankruptcies, and a collapse in GDP, Thatcher reneged on the MTFS commitments by reducing interest rates – despite the fact that the money supply aggregates were far exceeding the proclaimed targets (Britton, 1994: 53). As Needham (2014: 162) has wryly observed, 'the lady *was* for turning'. The government consequently enacted a hybridised crisis governing strategy. Palliative assistance was extended to the worst affected firms and to homeowners, through a relaxation of interest rates that was intended to ease corporate and mortgage debt repayments, as well as depreciating sterling to the advantage of exporters (Tomlinson, 2007: 9). Simultaneously, the government attempted to stick to its MTFS target commitments by balancing the loosening of monetary discipline with more draconian expenditure cuts and tax increases, as well as by selling massive quantities of government debt to soak up excess liquidity (Dow, 2013: 12; Goodhart, 1995: 106). In order to aid the anti-inflationary push, the government moved forward with restrictive trade union legislation with the 1980 Employment Act, which banned secondary picketing, attempted to disrupt the closed shop, and provided state aid for secret ballots (Dorey, 1995: 116). As such, by the March 1981 budget, the Thatcher administration was operating a deeply

contradictory governing strategy – pressing their feet on both the brake and the accelerator simultaneously.

This hybridised governing strategy continued throughout 1982 and most of 1983. Bank lending continued to grow, making a mockery of the government's MTFS targets; yet unemployment also climbed above three million (Dow, 2013: 290). The government thus continued to rely on fiscal tightening and massive government debt sales to combat monetary growth, while loose monetary policy was intended to keep the worst effects of the recession at bay – particularly in the run-up to the June 1983 general election. Furthermore, additional restrictions on labour organising were introduced with the 1982 Employment Act, which redefined trade disputes (Dorey, 1995: 126). Nevertheless, the worst of the stagflation crisis was over. In 1983, British profitability climbed to eight per cent, the highest level since 1973, and inflation fell below five per cent, the lowest since 1968 (Mouatt, 2016: 290; Bank of England, 2018). Nationally, this recovery was due to the depth of the preceding recession and the consequent fall in wage and capital costs; while globally, the profitability crisis had reached its trough and the world economy began to experience an upturn.

Situating financial de- and reregulation

The above stylised history of the governance of the stagflation crisis does not serve simply as a historical background against which the analysis of financial transformation can be framed. Instead, the discrete regulatory changes that will be analysed in this thesis constituted one aspect of British policy-makers' broader

response to the global profitability crisis and its national manifestations. Financial de- and reregulations during this period served as elements of a strategy to manage both the dominating imperatives of a system of social wealth mired in deep crisis, and the legitimacy imperatives arising from a population that was unwilling to sacrifice its tangible needs and demands in the name of national competitiveness.

The first deregulation analysed in this thesis is the 1971 CCC measures. This was largely the brainchild of the Bank, which pursued this policy for a variety of reasons – both political and technical. Yet CCC's embrace by the Treasury must be understood through the lens of crisis governance. Following the 1967 devaluation, and subsequent contractionary measures, demands by both cash-strapped companies and persons for access to credit placed increasing strain on the British banking system and threatened to further increase inflation. In this context, CCC appeared to constitute a mechanism to extend palliative credit to the industrial export sector, while enforcing financial discipline upon persons – ultimately to improve the balance of payments – and all depoliticised by the cold, rational hand of marketised interest rates. The political support for this policy, as such, cannot be separated from the broader attempt – pursued by both the Wilson and Heath governments – to discipline the British economy in line with global market averages in the aftermath of a series of currency crises, without provoking electoral backlash.

The second policy examined in this thesis is the abolition of exchange controls. This policy was bi-partisan, as it was pursued by both the Callaghan and Thatcher administrations. This deregulation must be understood in the context of the second phase of the British stagflation crisis, as outlined in this chapter. After 1976, the rising price of the pound aided the government in the battle against

inflation, yet threatened to decimate the already unprofitable industrial exporting sector, with politically unacceptable results for employment and living standards. The dismantling of exchange controls, carried out between 1977 and 1979, constituted a palliative measure to bring some relief to exporters by encouraging a depreciation of the pound and thus artificially boosting their competitiveness. Yet in the aftermath of the collapse of Bretton Woods, such an overtly beggar-thy-neighbour policy had the potential to spook financial markets, and thus cause a mass exodus of investment out of sterling. As such, this deregulation was publicly justified by laissez-faire rhetoric that sought to convince markets that this was an ideologically motivated policy. In this sense, exchange control abolition cannot be understood in separation from both the Callaghan and Thatcher governments' attempts to reconcile the disciplining effects of the strong pound with the need to extend some form of palliation to the most economically and politically sensitive constituencies.

The third deregulation analysed in the coming chapters is the Big Bang. This monumental transformation of the LSE formally took place in 1986, yet it had been gestating for a number of years. The evidence provided in this thesis demonstrates that this policy was intimately connected to the Thatcher government's MTFS scheme. As a sort of policy straitjacket, MTFS was designed to allow the government to discipline domestic social relations in line with global averages in a depoliticised manner, without being forced to fold under the pressure of popular resistance. However, as discussed above, this monetary tightening was quickly abandoned in the face of a terrible recession. Nevertheless, in order to preserve any semblance of this policy framework, it was crucial that the government demonstrate

that it could hit the monetary policy objectives set out in MTFS. The key mechanism through which the Thatcher administration was pursuing this was the sale of government debt on the LSE – a mechanism that was severely threatened by the RPC's court case against the LSE. Thus, in order to maintain the perceived coherence of MTFS, the government exempted the LSE from the RPC case in July 1983 – an event that began the countdown to the Big Bang. This deregulation, as such, constituted an attempt to rescue the government's crisis governing strategy of depoliticised discipline, in spite of the weakening of policy-makers' resolve and the consequent resort to palliative monetary policy.

The final regulatory change covered by this thesis is, in some respects, the odd one out. Passed in 1986, and deliberated upon from 1982, the FSA lies almost completely outside of the historical timeframe examined in this chapter. This is because, unlike the other three changes, the FSA was *not* part of a crisis governing statecraft strategy; in fact the British and world economies were already on a cyclical upswing by the time the policy was passed. Rather, this regulatory change should be understood as a strategy to retroactively impart some coherence upon the crisis-era deregulations that had preceded it. The Big Bang had opened up the LSE to global financial actors, and had contributed to a much more fragile and volatile form of British capital accumulation. The FSA was a *re*regulation that attempted to institute a clear and effective legal framework for the City's securities industry. Yet this presented a dilemma for the Thatcher government: while this reregulation was necessary to ensure global capital that the City was a safe place to do business, the increasing state responsibility for the financial sector could undermine the government's legitimacy if there was a serious financial crisis – a likely prospect.

The FSA was consequently recrafted in a depoliticised manner, whereby a 'lightning conductor' agency was inserted between the government and the City, so as to insulate the government from City scandals and insulate the City from political meddling. Thus, while not directly a statecraft strategy of crisis governance – neither palliative nor disciplining – the FSA attempted to tie a bow on the preceding decade and a half of financial deregulations and protect governing legitimacy from any political fallout from the new dynamic of financialised growth.

Chronology

16 October 1964	Wilson elected Prime Minister
16 September 1965	National Plan published
18 November 1967	Sterling devalued from $2.80 to $2.40
19 March 1968	Chancellor Jenkins introduces disciplinary budget
15 April 1969	Jenkins delivers a second disciplinary budget
18 June 1970	Heath elected Prime Minister
16 September 1971	**CCC launched**
21 March 1972	Heath's 'dash for growth' budget is delivered
9 October 1972	Bank Rate replaced by MLR
22 December 1972	UK joins EEC
October 1973	OPEC raises oil prices
21 December 1973	Lifeboat operation launched in reaction to Secondary Banking crisis
4 March 1974	Minority government formed by Wilson

10 October 1974	Wilson wins majority
11 July 1975	Wilson introduces £6 pay policy
4 March 1976	Sterling devaluation
16 March 1976	Wilson succeeded by Callaghan
29 September 1976	Healey announces application to IMF
26 October 1977	**Exchange controls relaxed**
1 January 1978	**Exchange controls further relaxed**
6 September 1978	TUC rejects government's wage guidelines
22 January 1979	Massive public sector strike
February 1979	LSE referred to the RPC
4 May 1979	Thatcher elected Prime Minister
12 June 1979	**Exchange controls relaxed again**
16 October 1979	Thatcher announces that she will not exempt LSE from RPC case
23 October 1979	**Remaining exchange controls abolished**
26 March 1980	MTFS launched in Chancellor Geoffrey Howe's budget
July 1980	MLR reduced despite MTFS commitments
August 1980	Unemployment exceeds two million
10 March 1981	Budget in which Howe both raises taxes and lowers MLR
July 1981	Gower commissioned to review UK securities regulation
January 1982	Gower's Discussion Document is published
9 March 1982	MTFS relaunched
9 June 1983	Thatcher wins General Election

19 July 1983	**Goodison/Parkinson agreement begins countdown to Big Bang**
January 1984	Gower Report is published
January 1985	Financial services White Paper published
27 October 1986	**Big Bang reforms implemented**
7 November 1986	**FSA gains Royal Assent**

Conclusion

While there has been a long-standing tradition of analysing British decline, which stretches back to the late 19th century, it is important to distinguish between the long decline of the British imperial economy, and the more dramatic stagflation crisis that erupted in the late 1960s. British stagflation, one national manifestation of a global phenomenon, can be further divided into two distinct periods. The first, which lasted from 1967-77, was characterised by a declining trade performance and consequently by repeated currency crises. As a result, the governments that ruled during these periods tended to oscillate between two forms of crisis governing strategy. Palliative measures designed to delay the accelerating crisis and preserve the government's legitimacy tended to worsen the balance of payments and spark sterling crises. Policy-makers would consequently impose a programme of financial discipline, to rescue the external position, and often attempt to mask these measures through some form of depoliticisation device. This back and forth pattern from palliation to depoliticised discipline can be clearly seen in Wilson's move from the

ambitious 'National Plan' to the post-devaluation contractionary measures, the transformation of Heath's initially austere and unpopular 'Quiet Revolution' into the economically disastrous 'Dash for Growth', and the abandonment of Wilson's 'Social Contract' in favour of spending cuts and tough incomes policy. Governments during this first period of stagflation were torn between balance of payments pressures and trade union agitation, which were ultimately expressions of the contradiction between accumulation and legitimacy imperatives and, at a more fundamental level, the opposition between value and tangible social needs.

The second period, from 1977-83, took on a different dynamic. The appreciation of the pound, provoked by North Sea oil and the IMF's seal of approval, insulated the British economy from currency crises; yet it brought problems of its own. The strong pound aided the government in its disciplinary battle against inflation, but threatened to plunge the British economy into a politically unacceptable level of recession. As such, the Thatcher government during this period sought to navigate this dilemma by implementing a hybridised crisis statecraft strategy, which combined further disciplining measures with selective forms of palliation designed to assuage important constituencies.

This chapter thus sought to provide a stylised history of the British state's management of the profitability crisis that struck the global economy in the late 1960s. The political governance of the stagflation crisis tended to take the form of a combination of palliation and depoliticised disciplining strategies. These statecraft strategies sought to achieve some reconciliation between the opposing legitimacy and accumulation imperatives generated by the crisis of a dominating system of social wealth. The following chapters will demonstrate how the discrete financial

de- and reregulations that spurred processes of financialisation in Britain must be understood as props of the broader palliation and disciplining strategies examined in this chapter. This will contribute towards this thesis' wider argument that the state's role in propelling financialisation does not derive primarily from financial lobbying nor from the structural power of the capitalist class, but must rather be explained as a political response to the impersonal, crisis-ridden form of social domination that emerges from capitalist social relations.

CHAPTER SIX

Competition and Credit Control

> [Y]ou spoke of consumer horses which could not be reined in by higher interest rates, and of investment horses which could be led to water but not made to drink: I am encouraged to try to flog what I am sure must now be a dead one.
>
> R. G. Smethurst to Michael Posner, 8 March 1971.[18]

Introduction

CCC, introduced in 1971 and effectively abandoned in 1973, marked the biggest change in postwar monetary policy and the British state's first major action in fuelling financialisation. It revolutionised the way in which the authorities sought to control bank lending, the money supply, and inflation, by shifting emphasis away from quantitative restrictions on how much banks could lend and towards the use of interest rates to restrict the flow of credit. The state relinquished its capacity to channel funds towards different strategic priorities and instead delegated this

[18] TNA T 326/1261, Smethurst to Posner, 8 March 1971.

responsibility to the price mechanism. In doing so, many of the key state- and private sector-imposed limits on the expansion of financial activities were dismantled, allowing a bonanza of lending and secondary trading to take place that ultimately resulted in the 1973 Secondary Banking Crisis. CCC, as such, was a fundamental element in the British state's broader propulsion of processes of financial expansion and productive stagnation. It is therefore crucial, in order to understand the state's role in furthering financialisation, to examine the British government's motivation for passing this radical policy change.

It will be demonstrated in this chapter that neither the *expropriation* nor *crisis resolution* explanations are sufficient for understanding CCC. This liberalisation was not enacted due to financial capital's unique access to the levers of political power, nor was it an automatic reaction to the threat of an investment strike by profit-seeking capitalists. Instead, CCC must be understood as a *political* response to a crisis that did not appear to emanate from any particular sociological class, but instead derived from the very form of wealth that emerges from capitalist exchange relations. During the profitability crisis that put paid to the postwar boom, the tensions between value and human need appeared before the state as a contradiction between the necessity to both rekindle profitable capital accumulation and maintain governing legitimacy. The British state, in seeking to reconcile this contradiction, developed statecraft strategies that attempted to either discipline domestic social relations in line with value imperatives, or postpone the crisis through palliative measures and thus ensure political legitimacy. The government's passing of CCC, it will be shown, must be understood as a strategic response to the impersonal, decentered domination of capitalist social relations in a period of crisis.

First, this chapter will examine the governing dilemmas facing the British state. In response to a series of damaging currency crises, which reflected Britain's worsening trade performance in a context of falling global profitability, the Wilson government devalued sterling in 1967 and enacted a series of contractionary measures with the aim of achieving a sustainable balance of payments surplus. In order to support this financial disciplining, the government made efforts to tighten monetary policy through the existing framework of credit controls, which relied heavily on lending ceilings. However, two obstacles to this objective emerged. Firstly, wage earners responded to the economic contraction by increasing their personal borrowing, which tended to inflate consumption and increase imports. Secondly, companies were facing a severe liquidity crisis, largely due to falling profitability, which threatened to depress exports. Both the Wilson and Heath governments therefore needed to simultaneously restrict credit to persons and expand credit for companies, yet this proved nearly impossible with the existing credit control toolkit. In addition, in their attempts to manufacture a redistribution of credit resources from wage earners to companies, the state risked politicising monetary policy and endangering governing legitimacy.

Next, this chapter will argue that, due to the aforementioned shortcomings of the existing system of credit controls – their functional inadequacy and increasingly politicised nature – the Bank's CCC proposals appealed to the Heath government and Treasury officials. While there were concerns about the new scheme's implications for government debt sales and its inability to discriminate between persons and companies, the Bank successfully argued that by relying on higher interest rates, CCC would render credit prohibitively expensive for many

personal borrowers but still accessible to companies – a point that was also emphasised by the CBI. In addition, by allowing the government to seemingly let go of the reins of monetary policy, CCC could allow this regressive redistribution of credit resources to be effected in a depoliticised manner that veiled the state's hand and thus ensure continued governing legitimacy.

This radical financial deregulation was not passed due to the lobbying power of the City or the hegemony of pro-finance ideas; nor was it an automatic response by the state to the economic crisis. Instead, CCC constituted a strategic attempt to balance the intensifying legitimacy and accumulation imperatives that resulted from the accelerating profitability crisis. It was conceived by the government as a tool to reconcile the impersonal domination of global value relations with the tangible demands by people that their material needs be met. By abolishing many of the quantitative limits on bank lending and delegating authority to marketised interest rates, the British state attempted to extend palliative credit to ailing exporters while disciplining wage earners in a depoliticised manner.

CCC and financialisation

CCC was a radical restructuring of the mechanics of British monetary policy and an important policy change in the propulsion of financialisation. Previously, the authorities utilised six key instruments to guide monetary policy: liquidity controls, a weak measure that only applied to the clearing banks and was easy to circumvent; hire purchase controls, which limited the purchase of consumer goods by

instalment; open market operations, which meant the government sold or bought gilt-edged securities to or from the non-bank sector in order to influence the level of bank lending; Bank Rate, the interest rate at which the Bank loaned money to the clearing banks; special deposits, which were deposits that banks would be requested to hold at the Bank in order to reduce their liquid assets and thus their lending capacity; and lending ceilings, a combination of formal and informal requests for banks to keep their total lending below a certain level (see Needham, 2014: 14–18). CCC swept much of this policy toolkit away, leaving a stripped-down system that functioned largely through market mechanisms. Lending ceilings and hire purchase controls were abolished, as was the London clearing bank cartel that had manipulated interest rates. Banks' interest rates were no longer directly linked to Bank Rate, but were instead allowed to move as banks wished, although broadly in line with Bank Rate. Bank Rate itself was soon replaced by the Minimum Lending Rate (MLR) – a partly marketised mechanism that tied the rate at which the Bank lent to the clearing banks to the going market rate for Treasury bills (Moran, 1984). While special deposits were retained for emergency use, it was interest rates that now acted as the central monetary policy instrument. CCC, in short, represented a radical marketisation of monetary policy, whereby credit came to be allocated to whoever could pay the highest interest rate.

By all accounts, this was a disaster: the broad money supply grew by 72 per cent in this period; bank lending to the private sector rose from £1.9 to £6.4 billion in a single year; credit was funnelled *not* to exporting industries, but into an increasingly inflated property market; and finally this property bubble burst with the Secondary Banking Crisis in 1973, heralding an end to a quarter century of

relative financial stability (Needham, 2014: 46; Wilson Committee, 1980: 7). In the four decades since, this pattern of inflating and bursting of asset bubbles has become very familiar. CCC, as such, was one of the earliest deregulations that launched the British economy onto a path of increasingly financialised capital accumulation (Pettifor, 2017: 129).

This radical departure from monetary policy orthodoxy emerged from the increasing economic and political dislocations that arose in the early years of the profitability crisis. As discussed in the previous chapter, Wilson devalued sterling in November 1967, after a severe currency crisis that resulted from Britain's worsening global performance and domestic trade union agitation. This devaluation amounted to, as Clarke and Pulay (2012: 52) put it, 'a recognition that a country's living standards have become too high in relation to its productivity: its price-levels have got out of line with those of other countries. And devaluation is deliberately intended… to lower living standards by raising prices'. In aid of this goal, Labour also introduced a package of contractionary measures, which included tax increases, public expenditure cuts and a tightening of monetary policy. This last policy became the centrepiece of the government's strategy to discipline the domestic political economy and consequently boost Britain's export performance. The puzzle that will be examined in this chapter is: if the government intended to rely heavily on monetary policy to discipline the British economy, why did Britain abandon its comprehensive and multi-faceted monetary policy toolkit in favour of the stripped-down CCC mechanisms?

Existing interpretations

IPE scholarship has paid little attention to CCC, due to both its relative obscurity to non-British politics experts and the fact that it falls outside the generally accepted timeline of neoliberal financial regulatory restructuring. Nevertheless, the existing literature that has focussed on the causes of CCC's introduction has focussed chiefly on the role of the Bank. This is unsurprising, as it was indeed the Bank that formulated the CCC proposals. For such a sharp break from previous monetary governance, it might be expected that the Bank would have laboriously worked through the proposed changes with the Treasury. Yet the Bank first informed the Treasury of its progress in January 1971 and the new regime was up and running by September the same year. Several global and domestic factors have been highlighted in the literature as having contributed to the Bank's decision to propose these changes.

Firstly, as Britain encountered increasing financial troubles during the 1960s, the authorities repeatedly drew from IMF stand-by arrangements with progressively stricter conditionalities (Clift and Tomlinson, 2012). After devaluation in 1967, the government secured a £1.4 billion loan, the most important condition of which was adherence to a monetary aggregate called DCE. A pressured and contested re-education process took place during this period, beginning with an IMF seminar in London in 1968 on the centrality of monetary targets and leading to the formation of the Money Supply Group and the Monetary Policy Group within the Bank (ibid). The Bank began to transform from an institution without a great deal of economic expertise to one that intervened in global debates on monetary

theory. While Gowland (1978) and Needham (2014) disagree on the timing of this development, it is widely accepted that British policy-makers had become increasingly open to monetary targeting in the run-up to CCC – making use of monetary aggregates and econometric evidence. Indeed, after a follow-up seminar in 1970, IMF official Jacques Polak commented: 'There is little difference between us on the importance of the role of money' (Capie, 2010: 459). For this reason, CCC can be understood as a natural outgrowth of the increasing focus on monetary policy within the Bank.

Secondly, there was growing dissatisfaction with lending ceilings within the Bank – a sentiment that was reinforced by City lobbying. As the money supply increased rapidly, it ushered in a transformation in British banking. Clearing banks began to lose market share to institutions offering higher interest rates. There was significant disintermediation, as money flowed into the inter-corporate loan market, money markets, and fringe banks (Gowland, 1978: 84). In this context, lending ceilings became very difficult to impose because they punished the already uncompetitive clearing banks by forcing them to deny overdraft facilities to the corporate sector and invoke possible lawsuits (Goodhart, 2014: 3). On top of the authorities' frustration was added lobbying pressure from the City. In his seminal account, Moran (1984: 44) explains that as clearing banks became in danger of being eclipsed, their 'private complaints [turned] into an unprecedented series of public protests'. The Bank was particularly receptive to this lobbying, especially because they used the clearing cartels as an intermediary through which to transmit monetary policy changes to the banking system as a whole (Needham, 2014: 30-31). The need therefore emerged for a policy that would bolster the institutions,

namely the clearing banks, over which the Bank could best exercise a degree of control. By abolishing the clearing bank cartel, CCC would thus force the clearing banks to compete with the emerging fringe banks.

Thirdly, and relatedly, a desire for greater competition in the banking sector was emerging within policy circles. The Bank Governor voiced his concern in 1971 that 'inhibiting competition between banks can do much damage to the vigour and vitality of the entire banking system' (Gowland, 1978: 84). Similarly, the National Board for Prices and Incomes released a report in 1967 that criticised the uncompetitive clearing banks, and advised that they should expand, diversify, and increase transparency in order to remain viable. Four years later, the Crowther Committee report lent support to this argument, and went further in emphasising that credit should be allocated according to the competitive principles of the market (Capie, 2010: 442). Nevertheless, it is impossible to separate the growing popularity of the competitiveness mantra from the material conditions of a clearing bank system in dire straits. As Moran (1984) argues, it was not so much competitiveness as an abstract principle that became the vogue (although there were certain ideologues who pressed for this regardless of the consequences), but rather a pragmatic kind of competitiveness that would rescue the vessel (clearing banks) through which the authorities' carried out monetary policy. This reading therefore emphasises the practical importance of CCC for the functionality of British monetary policy.

Fourthly, the pace of financial innovation and the Bank's theoretical development was unduly slowed by political roadblocks. Bank working groups amalgamated new monetarist theory and trial-and-error policy experience,

proposing innovative strategies that fell largely on deaf ears within the Wilson administration. In fact, Bank official Kit McMahon argued that one of the reasons the Bank had adopted the IMF's monetary targets was to place an external constraint on government (Capie, 2010: 455). However, with the victory of Heath in 1970, the Bank hoped to find a more receptive audience. As the dual phenomena of stagnating output and monetary expansion intensified during 1970, the Bank called on the new Chancellor Barber to raise interest rates, but was rebuffed (Needham, 2014: 37-39). This stinging rebuke further spurred the Bank's desperation to circumvent the traditional avenues of monetary control. Indeed, Burnham (2007: 413) proposes that CCC represented an opportunity for the Bank to 'shore up its traditional role that had been questioned repeatedly since 1945'. CCC can therefore be understood as a political strategy employed by the Bank to wrestle monetary control away from the government, by placing such a strong emphasis on interest rates.

The aforementioned factors explain the Bank's desire to institute a more laissez-faire system, but the reasons for the Treasury's acceptance of CCC are less clear. While the final CCC paper was drafted in spring 1971, the Bank had informed the Treasury of its progress in January and sent earlier drafts to them in February – rather late in the day, but still enough time for the Treasury to make its influence felt. The Treasury's collective thought process during this period has been explained in a number of ways. Some authors have treated this issue, to a large extent, as a black box. Gowland's (1978) influential account ignores the Treasury's role altogether, while Capie (2010) is decidedly unclear on the Treasury's reasoning. Peden (2004) simply comments that the Treasury was reluctant to agree to the Bank's proposals, before concluding that the Heath government's 'competitiveness'

ideology was enough to push the changes through – a point that Burnham (2011: 465) also emphasises. Margaret Reid (1982), in still the most detailed study of the Secondary Banking Crisis, uses the Treasury's acceptance of CCC to deduce their rationale, rather than the other way around: clearly if the Treasury accepted CCC's departure from credit ceilings then they must have been willing to prioritise interest rates.

Needham (2014), on the other hand, probes deeper, arguing that the Treasury had already developed an affinity with the Bank's approach to credit control, following the IMF-instigated experiments with monetary targeting. Furthermore, the Treasury was misled, along with Ministers, into thinking that CCC was about something that it was not, namely genuine competition. For Moran (1984), who devotes the most space to considering the diverse pressures faced by the Treasury, the Treasury's assent was gained by a combination of the Bank winning the intellectual argument and exploiting the new Chancellor's naivety. Even more importantly, the 'introduction of CCC was a sign that the cheap credit lobby [industry] in Whitehall had been eclipsed' (ibid: 52). Moran (ibid: 51) argues that '[t]hroughout the 1960s' industrial investors had been 'influentially represented' in Whitehall, resulting in a bias towards the provision of affordable credit. CCC's introduction, which heralded an increase in the price of credit, represented a momentary blip in this industrial lobbying power, as City interests temporarily gained pride of place. Yet industry's 'eclipse was brief' (ibid: 52), as the cheap credit lobby suddenly regained influence once CCC was in place, explaining the consequent reluctance of the Heath administration to raise Bank Rate.

This chapter will overcome the lack of clarity on the government's motivations for approving the CCC proposals. The focus on the Treasury in particular derives from the fact that its role in passing CCC has faced little academic scrutiny, unlike the part played by the Bank. This chapter will argue that, following the 1967 devaluation, two important obstacles stood in the way of the government's attempt to mount a sustained balance of payments recovery. Firstly, people reacted to the government's contractionary policies by extending their borrowing, which acted to boost consumption and thus imports. Secondly, the falling rate of profit had seriously eroded corporate liquidity, which threatened to depress exports. The existing system of credit controls proved incapable of both restricting personal borrowing and extending credit to companies; and monetary policy thus became increasingly politicised, threatening government legitimacy. In this context, the government's acceptance of CCC must be understood as an attempt to discipline wage earners, while simultaneously extending palliative aid to exporters, through a depoliticised mechanism of monetary control.

The Treasury's dilemma

As discussed in the previous chapter, Britain's stagflation crisis should be understood not simply as an event with a clear starting point – say, the 1973 oil shocks – but instead as a particular expression of capital's falling profitability, which had begun to gather pace in the 1960s. In turn, this global profitability crisis was itself not chiefly determined by conjunctural factors, but by the inner tensions

of the capitalist form of wealth, whereby individual capitals are forced to compete through labour-saving automation: a process that results in increasing *material* output, but relatively decreasing levels of value – a *social* substance. In Britain, this phenomenon took the form of two distinct crisis phases: 1967-77 was characterised by recurrent currency crises, and 1977-83 by a strong pound and deep recession.

CCC, as stated above, was directly situated in the first period of the profitability crisis. Following the 1967 devaluation, the Wilson government attempted to bring the British economy in line with global averages through a steep contraction. This would rescue Britain's balance of payments position and insure against future speculative attacks on sterling. Monetary tightening was the jewel in the crown of this disciplining project. This strategy, however, quickly ran up against two quite intractable problems. Firstly, people responded to the economic contraction by increasing their borrowing, which in turn boosted consumption and resulted in a commensurate increase in imports. Secondly, companies found themselves facing a liquidity crisis, as the falling rate of corporate profit began to bite upon their internal finances, which damaged Britain's export prospects. It thus appeared that in order to maintain the post-devaluation balance of payments recovery, it was necessary to address the first problem by limiting personal borrowing, and the second problem by extending credit to exporting firms. In other words, the personal sector had to face financial discipline, while palliative measures would be extended to strategic exporters. Yet this proved extremely difficult within the existing system of monetary control. It was this contradiction, combined with the painfully politicised and oppositional nature of the lending ceilings system, that paved the way for the Treasury's acceptance of CCC.

Personal borrowing

A key monetary policy goal, following devaluation, was to reduce lending for personal consumption, constrain consumption, and thus reduce imports. This focus on personal borrowing was just one aspect of a larger package of austerity measures that attacked the living standards of British people, conducted in the name of rescuing the current account. The austerity that accompanied devaluation in 1967 hit wage earners hard, as the wage share of GDP had peaked in the early 1960s and had since begun to decline (Murphy, 2011). In response, people extended their borrowing as a way to bolster their incomes. Lending to persons continued to increase for a full nine months after the monetary tightening that accompanied devaluation.[19] As a result, total consumer spending was running higher in the second half of 1968 than 1967, despite the Budget's aim to reduce it by two per cent. This came as a surprise to Chancellor Jenkins:

> It could not be argued that the Budget had been insufficiently harsh in respect of personal consumption, yet it was clear that people were very resistant to lowering their standard of living. There was little reason to believe that they would not take countervailing action to maintain their standard of living … [I]f additional measures were needed before the Budget he would be inclined to move on monetary policy, for example by lowering the ceiling for bank advances.[20]

[19] TNA T 326/961, Bank lending: Developments up to end-October, 22 November 1968.
[20] TNA T 326/961, Dowler to Hawtin, 25 October 1968.

Thus, in November 1968 the credit ceiling was reduced further to 98 per cent of its 1967 level, with credit for exports and shipbuilding excluded. This approach saw the authorities explicitly politicise monetary policy as a tool to transfer resources away from persons and towards companies. As Treasury economist Arnold Lovell told Armstrong later that year: 'We do not want to inhibit industrial expansion or activity I would have thought … we do want to curb the growth in consumer demand, in the hope that this will encourage the shift of resources into exports'.[21] While this policy was exercised through the clearing banks, who bore the brunt of borrowers' frustration, this conflict was then transmitted through to the authorities, as government relations with the banks became fraught.

Indeed, the banks quickly developed ways to evade the authorities' controls, as they themselves began to lose customers to new secondary banks. The main finance houses started to ignore the government's requests to provide personal loans with terms at least as strict as the hire purchase rules, and even began receiving smaller deposits and granting longer loan repayment periods – all of which boosted the expansion of consumer credit. By April 1971, Barclays had announced the launch of a new personal loans scheme that would compete with those offered by Midland and Natwest. This would extend credit 'from £100 to £1,000, to anyone over 18, whether a customer of Barclays or not, who is credit-worthy and in regular employment'.[22] While the high interest rates on these loans reassured the authorities that their introduction would not lead to a massive aggregate increase in lending,

[21] TNA T 326/961, Lovell to Armstrong, 14 November 1968.
[22] TNA T 326/1352, Note for the Record, 15 April 1971.

they nevertheless represented an 'embarrassing' circumvention of monetary policy.[23] Furthermore, these developments were a worrying indication of what was to come: 'It is clear that the banks see the consumer loan market as the major area for expansion over the years ahead and are preparing themselves for a major assault on that market'.[24] With the lending ceiling proving increasingly unable to meet the Treasury's aim of effecting a shift of resources away from domestic consumption, it appeared that the existing monetary regime was living on borrowed time.

In addition to wielding monetary policy to directly attack personal consumption, the Treasury also did so indirectly by using credit control to reduce consumption through its effects upon industrial relations. Industrial conflict intensified from the mid-1960s, with the number of days lost to strikes rising from 2.8 million in 1967 to 10.9 million in 1970 when the Conservatives arrived in power (Whittingham and Towers, 1977: 77). From the Treasury's perspective, this strife meant that any perceived relaxation of monetary policy could be interpreted by the unions as the beginning of another boom period, fuelling bolder pay demands.[25] In addition, if monetary policy relaxation boosted demand when industrial output was crippled by strikes, the effect on the balance of payments would be damaging. This was a particular concern with regards to the British auto industry: 'There was a distinct chance of industrial unrest and if this transpired it would be dangerous to stimulate demand for cars since the effect would be to increase imports'.[26]

[23] TNA T 326/1352, Cassell to Ryrie, 16 April 1971.
[24] TNA T 326/1352, Cassell to Ryrie, 16 April 1971.
[25] TNA T 326/1109, Note of a Meeting in the Chancellor's Room, 16 January 1970.
[26] TNA T 326/1109, Note of a Meeting in the Chancellor's Room, 16 January 1970.

This goal – to starve the flames of industrial conflict by tightening credit – came into direct conflict with the need to relieve industry's increasing financial difficulties in order to boost exports. Treasury official Wass wrote in June 1971 that credit relaxation would 'enable the [car] industry to sustain their medium term investment plans, and so establish their competitive position vis-a-vis the Common Market producers', and 'if other things were equal, we would I am sure want to support the case for some relaxation on industrial grounds'.[27] Yet this would send the wrong message to car firms with regards to pay settlements:

> Unfortunately other things are not equal. The industry has undoubtedly been the maverick of employers in the private sector so far as incomes restraint is concerned. It has totally disregarded the Government's exhortations to exercise moderation: and although Fords did stand up to strong union pressure for several weeks, in the event they climbed down and conceded a two-year inflationary pay award.[28]

As such, if any monetary relaxation took place 'the industry will I am sure feel that it has nothing to fear from the Government and that much of the talk about punishment for those who transgress in the field of pay negotiations is without substance'.[29] This case highlights the inability of existing monetary controls to adequately address the balance of payments problems. The same action necessary to rescue the financial position and investment plans of exporting companies would

[27] TNA T 326/1263, Wass to Henley, 10 June 1971.
[28] TNA T 326/1263, Wass to Henley, 10 June 1971.
[29] TNA T 326/1263, Wass to Henley, 10 June 1971.

encourage inflationary pay claims that raised the price of British exports and increased the demand for imports.

Following a series of currency crises and the 1967 devaluation, the British state attempted to restructure domestic social relations in line with global value imperatives through economic disciplining. This policy, however, was threatened by the stubborn refusal of British wage earners to accept declining living standards, which led to an increase in personal borrowing and rising wage claims, which in turn threatened to boost imports and jeopardise the balance of payments recovery. Both the Wilson and Heath governments, then, faced pressures to curtail personal borrowing by tightening credit controls. Yet, as will be examined next, this monetary tightening ironically risked damaging the balance of payments in another way, namely by starving cash-strapped industrial exporters of much needed credit.

Corporate liquidity

The crisis in corporate liquidity was recognised by the Treasury later than the personal borrowing boom, yet when it was acknowledged it was regarded as a fundamental challenge to their governing strategy. As detailed in the previous chapter, the falling corporate rate of profit had, by the late 1960s, led to a critical drying up of company liquidity. Such was the deterioration of companies' financial positions that it became increasingly difficult for many of them to fund existing working capital, let alone commit capital to future investments. This was exacerbated by the policy of credit ceilings, which strangled the flow of bank lending that had made up for the decline of companies' internal funds.

Throughout 1969, evidence mounted that suggested the company liquidity shortage was beginning to jeopardise the balance of payments recovery.[30] Statistics showed that between November 1967 and mid-September 1969, London clearing bank lending rose by £563 million – £537 million of which was to manufacturing industry.[31] In a meeting on 18 December, the Bank Governor Leslie O'Brien argued that some monetary easing was now appropriate, although only 'without giving the impression of any general relaxation'.[32] These pressures intensified in 1970. In January, O'Brien informed Jenkins:

> our monetary forecasts project an extremely tight financial position for companies, especially in this current quarter, but also beyond if present policies continue unchanged. So far it appears that companies have coped with the squeeze on them by running down their liquid resources, taking trade credit wherever possible, repatriating funds from abroad and economising on stocks … The question is whether, nevertheless, companies will be forced by the financial stringency to prune their investment plans unless steps are taken to enable them to acquire extra finance from the banks, from the capital market or from the Government.[33]

Statistical analyses from February to May 1970 showed that the majority of bank advances had been to manufacturing industry, particularly engineering, followed by construction and mining. Indeed, when the Chancellor inquired about the causes of

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[30] TNA T 326/962, Control of Bank Lending to the Private Sector, 27 March 1969.
[31] TNA T 326/963, Lovell to Neale, 16 October 1969.
[32] TNA T 326/963, Record of a Meeting, 19 December 1969.
[33] TNA T 326/1109, O'Brien to Jenkins, 9 January 1970.

the rise in bank lending at a meeting on 27 July, the Bank Governor replied that one crucial factor was the ‘difficult liquidity position of the company sector’.[34] Financial forecasting later in the year concluded that corporate liquidity was ‘exceptionally tight by past standards’, such that it was feared companies would try to extend their borrowing at home and abroad or ‘be tempted to cut back or postpone some of their investment’.[35]

A contradiction began to emerge in the Treasury’s handling of monetary policy. On the one hand, the expansion of the money supply, which had gained new importance since the IMF’s latest intervention, suggested that significant tightening was necessary. By reducing personal loans and deterring inflationary pay settlements, this would dampen the demand for imports. On the other hand, the performance of the company sector pointed in the opposite direction. If falling profitability was undermining companies’ investment plans, then Britain could not export its way out of its balance of payments problems unless companies could secure adequate credit. As Treasury official R. J. Painter explained to Second Permanent Secretary Frank Figgures in August 1970:

> the forecast financial position of companies still looked very tight, and this… throws up the question whether continuation of present policies would cause companies to cut back their investment plans. At the same time we have to recognise that action of any kind which facilitated a larger increase in the money supply could tend to affect the reserves adversely.[36]

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[34] TNA T 326/1352, Note for the Record, 27 July 1970.
[35] TNA T 326/1352, Painter to Figgures, 7 August 1970.
[36] TNA T 326/1352, Policy on Bank Lending, 7 August 1970.

Furthermore, if the government did not extend certain palliative measures to companies, then not only would the balance of payments objectives be jeopardised, but it could result in serious legitimacy problems. In July 1970, Wass argued to the Chancellor and Governor that without an effective monetary tightening, it might look as if the government had abandoned its money supply targets. However, '[t]en days ago he would have been in favour of responding to the bank advance figures by means of calling for more special deposits, but he did not feel able to advise this any longer, in view of the latest unemployment figures'.[37] Indeed, this was not simply a technical problem. Despite the significant improvement in the balance of payments in 1969 and 1970, the recessionary effects of the shortage in company liquidity threatened to provoke serious social unrest. The CBI Director-General explained in a 1970 draft letter that too severe a monetary tightening would represent 'what I might call *solution by catastrophe* [which] would be too profound to be acceptable on economic and social grounds'.[38]

By November 1970 – two months *before* the Treasury first saw the Bank's CCC proposals – this conflict between the need to boost general economic performance in the face of the liquidity crisis and the need to maintain monetary credibility was recognised as pushing the government towards a new approach to financial regulation:

> The dilemma facing us therefore is that the prospect presented by current policy statements and assumptions would on balance warrant change in

[37] TNA T 326/1352, Policy on Bank Lending, 7 August 1970.
[38] MRC MSS.200/C/3/ECO/2/29, Whitehorn to Strachen, 20 October 1970.

> some direction to ease monetary tightness, whereas the de facto monetary relaxation occurring is at an excessive rate … At some stage then policy on bank lending will have to be redefined in such a way that it is seen to accord with the Government's view of the total prospect before us and that it sustains credibility in the Government's determination to remain in control of the bank lending situation.[39]

In other words, there was a recognition of the need for an overhaul of a monetary policy framework that was proving itself incapable of addressing the twin phenomena of rising personal borrowing and company liquidity shortage. It was not possible to pursue a reduction in 'bad' personal borrowing *and* ensure an expansion of 'good' corporate borrowing with the blunt monetary instruments at their disposal. As the Prime Minister's Principal Private Secretary and former Radcliffe Committee Secretary Robert Armstrong explained, 'there is no future in retaining the ceiling but exempting "credit for investment" from it. This is simply unworkable: the banks cannot identify credit to particular firms by purpose to the extent that this would indicate'.[40] Furthermore, even if the credit ceiling could discriminate in this way, the Treasury's Permanent Secretary Douglas Allen argued that 'it could not be altered frequently, and it was difficult to enforce effectively'.[41]

The attempt by both the Wilson and Heath governments to discipline British social relations in line with global economic averages – and thus achieve a sustainable current account surplus – was threatened by the contradictory state of

[39] TNA T 326/1352, Policy on Bank Lending, 7 August 1970.
[40] TNA T 326/1109, Armstrong to Figgures, 8 January 1970.
[41] TNA T 326/966, Minutes of a Meeting, 29 October 1969.

domestic credit growth. While the increase in personal borrowing suggested the need for disciplinary credit tightening, in order to reduce imports, the dire state of corporate liquidity suggested that palliative credit should be extended to companies in order to boost exports. This contradiction was pulling the existing system of credit controls in opposing directions. Yet in addition to the functional shortcomings of these credit controls, they were also becoming increasingly politicised, which threatened the government's legitimacy.

The politicisation of monetary policy

Lending ceilings, which had also been used in 1957–8 and 1961–2, were initially considered a depoliticised avenue through which to conduct monetary policy. There were two institutional layers separating the government from direct borrowers, namely the Bank and the clearing banks. This allowed the government to mask its influence on the money supply. As Painter commented:

> The whole apparatus of 'control' is a voluntary arrangement, operated as the City seem to prefer through the Bank of England in the driving seat. As long as the business carries on without too much controversy, there are advantages to Westminster and Whitehall in it being conducted at this remove.[42]

[42] TNA T 326/966, Minutes of a Meeting, 29 October 1969.

Yet, by the end of the 1960s, the intensification of economic stagnation meant that controversy came frequently and in large doses, undermining the Treasury's arm's-length statecraft.

As the government's deflationary measures met growing resistance in the form of personal borrowing, the regressive nature of monetary policy became increasingly difficult to disguise. At the House of Commons in May 1968, Chancellor Jenkins was repeatedly questioned by Conservative MPs about the relationship between the monetary tightening and 'the worst consecutive period of heavy unemployment which we have known since the 1930s'.[43] Furthermore, even the monetary relaxation in July 1971 was seized upon for its pro-business bias, which the *Daily Express* reported with the subheading: 'Not you! … [M]an-in-the-street borrowers can't expect to get anything extra from the new deal' (McKelvie, 1971).

Despite monetary policy acting in industry's favour, the Treasury came under sustained pressure from the CBI to go further. In 1969, the CBI stated that 'a relaxation of the pressure on company liquidity is now called for', which should be achieved by shifting emphasis away from tax manipulation towards monetary policy.[44] In preparation for a CBI-Treasury meeting in January 1970, a brief was circulated which stated that the 'suggestions that we have put forward [to the Treasury] over the last few months for easing the pressure of company liquidity' include '[r]elaxation of the restrictions on bank lending'.[45] The reason the CBI felt

[43] TNA T 326/791, House of Commons, 24 May 1968.
[44] MRC MSS.200/C/3/ECO/2/29, CBI Staff Comment, 4 November 1969.
[45] MRC MSS.200/C/3/ECO/2/29, Brief for CBI/Treasury Meeting, 19 January 1970.

the need to 'repeat our arguments' to the Treasury regarding credit deregulation was that a full 10 per cent of manufacturing firms were expected to restrict output because of a 'shortage of credit or finance'.[46] These objections to government policy were made through official channels and during what Allen called the 'regular CBI/Treasury Tea Parties'.[47]

In addition to facing flak from individual and industrial borrowers, the Treasury's relationships with the clearing banks also began to fray. At a meeting between Bank officials and clearing bank representatives in early 1969, the clearing banks argued that, with deteriorating economic conditions, their customers were growing increasingly desperate for credit: 'Managers were tending to lose heart and the public image of the banks was getting worse and worse…The banks wondered whether H.M.Goverment [sic] fully understood their difficulties. They (the banks) feared that they would have to take the blame for the consequences of credit restriction'.[48] Furthermore, it was not entirely clear whether the government even had the power to enforce their own directives. A Bank solicitor informed Lovell in 1969 that banks' overdraft facilities could not be limited, and furthermore, attempts to punish the banks by lowering the interest rates on special deposits may not be legally enforceable.[49] As such, in pursuing balance of payment objectives through the enforcement of lending ceilings, the authorities risked sparking a very public conflict with the City, which they could not be sure they would win.

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[46] MRC MSS.200/C/3/ECO/2/29, Brief for CBI/Treasury Meeting, 19 January 1970.
[47] MRC MSS.200/C/3/DG/2/22, Note of a Meeting, 25 November 1971.
[48] TNA T 326/962, Note for the Record, 1 April 1969.
[49] TNA T 326/963, Brooke to Lovell, 10 September 1969.

Another source of scrutiny faced by the authorities was from global investors. As the credibility of the Treasury's monetary strategy was called into question by their inability to meet money supply targets, they risked damaging the position of sterling. Regarding DCE targets (a metric advocated by the IMF (Clift and Tomlinson, 2012)), Painter explained to Treasury Deputy Secretary Alan Neale in April 1970 that '[w]e are of course in a dilemma. We have to give a figure of some sort, and yet we all know what a hostage to fortune it may be'.[50] This concern continued after the Conservatives' electoral victory. Bank Governor O'Brien explained to Chancellor Barber at a meeting in July 1970 that if the authorities were not seen to respond to ballooning bank loans 'the Government's monetary policy and policies for management of the economy generally would lose credibility'.[51] The inadequacy of existing controls meant that any stated monetary target could quickly come back to haunt the authorities. With bank lending well above the five to seven per cent target in July and August 1970, the authorities had to respond in order to demonstrate that they had not lost control, without making unachievable commitments: 'The essential task for us is to devise some weasely words which justify whatever signal we give to the clearing banks without pinning ourselves on the 5%/7% hook'.[52]

As the global profitability crisis gained momentum, Britain faced greater external shocks to its stagnating economy, in the form of speculative pressure on sterling. In response, the Wilson government attempted to discipline British social relations through a series of contractionary policies (a strategy that was continued

[50] TNA T 326/1109, Painter to Neale, 2 April 1970.
[51] TNA T 326/1352, Note for the Record, 27 July 1970.
[52] Emphasis added. TNA T 326/1352, Painter to Kelley, 19 August 1970.

in the first years of the Heath government). Yet this strategy ran up against the dual problem of stubbornly high personal borrowing and desperately low corporate liquidity. The existing monetary toolkit proved unable to simultaneously discipline the personal sector and extend palliative credit to the company sector. In addition, as the functional limits of the system of credit control became exposed, monetary policy became increasingly politicised, which threatened to erode the government's legitimacy. This combination of factors ultimately paved the way for the passing of the CCC measures.

Depoliticisation in place of solution

A new policy approach, CCC, landed in the Treasury's lap in January 1971. Yet it did not initially appear to resolve the policy dilemmas that they faced. Firstly, there were concerns in the Treasury that the new approach to monetary control would endanger government funding by disrupting their strategy for selling gilt-edged bonds. The Bank had, until now, acted to stabilise gilt prices by purchasing or selling gilts *en masse* – an objective that was not to be sacrificed to meet immediate monetary targets (Dutta, 2017: 10). Yet under CCC, operations in the gilt market would be directed at controlling the money supply, rather than smoothing out gilt prices. Interest rates would thus be allowed to fluctuate to the level necessary to

curtail monetary growth, without regard to the effect on gilt prices; a prospect which could 'have an undesirable effect on the marketability of Government debt'.[53]

Secondly, and perhaps more importantly, CCC did not appear to address the central problem of post-devaluation monetary policy, namely the necessity to both restrict personal credit and expand credit to exporting companies. Andrew Britton, Senior Economic Advisor, succinctly captured this problem on 5 March: 'The present forecasts show a company sector financial position which is quite possibly critical in the short run and which is certainly not sustainable in the medium term. *The* policy problem is to help companies without an excessive growth of money supply'.[54] CCC, it seemed, was too simplistic an instrument to effect this kind of regressive redistribution.[55] Home Finance Advisor Frank Cassell was tasked with finding a compromise between the new approach and the existing export credit scheme in June, but was forced to conclude that the 'blunt fact is we think they do not tie in together at all well'.[56] These kinds of directional controls on lending clashed with CCC's philosophy of allowing banks to arrange their portfolios however they pleased. Furthermore, as Figgures observed, CCC's emphasis on increases in Bank Rate would be difficult to implement when 'the cost of borrowing money was already close to the return on investment'.[57]

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[53] TNA T 326/1261, Minutes of a meeting, 26 March 1971.
[54] TNA T 326/1261, Britton to Posner, 5 March 1971.
[55] MacDougall was also concerned that the laxity of CCC could allow an explosion in bank lending for consumption during the transition to the new regime, and that the authorities would have insufficient tools to rectify it (TNA T 326/1261, Minutes of a meeting, 18 February 1971; TNA T 326/1261, Note of a Meeting, 3 March 1971). This was a prescient insight, considering the experience of the Secondary Banking Crisis, and one that was shared by other Treasury figures, which Needham (2014: 42) explores.
[56] TNA T 326/1263, Cassell to Henley, 4 June 1971.
[57] TNA T 326/1261, Minutes of a Meeting, 10 March, 1971.

Nevertheless, the chief inadequacy of existing credit controls was judged to be the lending ceilings, *not* the price of credit. Indeed, domestic industry had become increasingly vocal in arguing this point. As early as 1969, the CBI had urged that 'more reliance should be placed on interest rates than restricting the availability of credit'.[58] In 1970, the CBI President advised that, with regards to lobbying strategy, 'the availability of finance was a more serious problem than its cost. These considerations suggest to me than an attack on the credit ceiling, in which we were associated with the Clearing Banks, would be preferable to a request to them to revert to their earlier interest rate structure'.[59] This reasoning from industry was reinforced by the Bank. In response to concerns about higher interest rates hurting industrial investment, Bank Executive Director John Fforde reminded Figgures in March 1971 that 'under the present arrangement some companies were denied credit at any price. The proposed scheme would help the financial position of these businesses'.[60] In July, the CBI reaffirmed their approval of the Bank's plans in an Economic Committee Meeting: 'In general, the analysis and proposals set out in "Competition and Credit Control" are in line with the views of the Committee formulated in 1969, notably the intended change in emphasis from quantitative limits to interest rate policy'.[61] Indeed, as the CBI admitted in 1974, they 'had welcomed the liberalisation of monetary policy late in 1971 as providing a much needed stimulus to industry and to the economy as a whole'.[62] This runs entirely counter to Moran's claim that the 'introduction of CCC was a sign that the cheap

[58] MRC MSS.200/C/3/ECO/2/29, CBI Staff Comment, 4 November 1969.
[59] MRC MSS.200/C/3/ECO/2/29, Anderson to Plumb, 19 May 1970.
[60] TNA T 326/1261, Minutes of a Meeting, 10 March, 1971.
[61] MRC MSS.200/C/3/ECO/2/29, Economic Committee Meeting, 5 July 1971.
[62] MRC MSS.200/C/3/ECO/2/7, Report, 19 September 1974.

credit lobby [industry] in Whitehall had been eclipsed' (1984: 51-52).[63] More broadly, it also contradicts the *expropriation* thesis that financial deregulation resulted from the power of financial elites to impose their agenda at industry's expense.

In addition, CCC offered a way to rediscover a depoliticised monetary policy toolkit. After reading the proposals, Treasury official Michael Posner commented in February 1971 that 'several of us were attracted by the notion that we could escape from ceilings and run an "arms-length" control of the banking system'.[64] With lending ceilings abandoned, much of the tensions with the clearing banks would be alleviated, and the authorities could not be viewed by the public as directly restricting borrowing. Instead, it would be individuals' own financial shortcomings that stopped them from accessing credit at high interest rates, veiling the transfer of credit resources from persons to companies. As Figgures explained in March, CCC 'could be a means of very strict control, but by different methods which could bear more hardly on some than the present system'.[65] This method of policy implementation would, as Barber assured Prime Minister Heath in May, 'allow us to achieve the object of greater flexibility with a fully adequate control over monetary conditions'.[66]

There remained some concern that the 'new approach' would not in fact depoliticise monetary policy enough, due to the greater role that special deposits

[63] Indeed, the CBI admitted in 1974 that they 'had welcomed the liberalisation of monetary policy late in 1971 as providing a much needed stimulus to industry' (MRC MSS.200/C/3/ECO/2/7, Report on the Work of the Financial Policy Committee, 19 September 1974).
[64] TNA T 326/1261, Posner to Cowdy, 18 February 1971.
[65] TNA T 326/1261, Note of a Meeting, 3 March 1971.
[66] TNA T 326/1262, Barber to Heath, 6 May 1971.

would play. Allen argued that special deposits 'had sometimes been turned down on political grounds – an unwillingness to advertise that monetary policy was being tightened'.[67] Yet the Bank insisted that interest rates would be the key tool of monetary policy under the new scheme. To this end, the politically sensitive nature of Bank Rate movements would be 'diffused' by the creation of MLR – a new marketised system for setting interest rates.[68] It was acknowledged by Fforde in November that 'there would be problems for the Bank in operating the new approach if there was a political nervousness about Bank Rate changes'.[69] As the Treasury's Group on Monetary Policy had explained earlier in the year, 'increases in Bank Rate have come to be regarded, not as a signal of the Authorities' views about the appropriate level for interest rates, but rather as signals of economic crisis'.[70] MLR, Treasury officials Painter, Cassell and Michael Hawtin emphasised in a November meeting, would 'reduce the political problems about changes in Bank Rate'.[71] This new system was introduced in 1972, linking Bank Rate to market interest rates and thus freeing it to fluctuate far more. This allowed politicians to no longer be 'seen as directly responsible for movements in the rate', effectively delegating the enforcement of financial discipline to a more nebulous entity: the market (Burnham 2011: 477).

The CCC measures could not solve the contradictions inherent to the British state's post-devaluation disciplining strategy. It was necessary to both restrict credit to personal borrowers, in order to weaken demand and thus reduce imports, while

[67] TNA T 326/1261, Minutes of a Meeting, 1 March 1971.
[68] TNA T 326/1702, Note of a Meeting, 12 November 1971.
[69] TNA T 326/1702, Note of a Meeting, 12 November 1971.
[70] TNA T 338/39, Report of the Group on Monetary Policy, 20 January 1971.
[71] TNA T 326/1702, Note of a Meeting, 12 November 1971.

simultaneously extending palliative credit to exporters. This required a regressive redistribution of credit resources from persons to companies – a policy that could provoke severe popular resistance if it was carried out too publicly. While CCC did not offer a solution to this dilemma, it did appear to provide the authorities with a more depoliticised mechanism through which to effect this strategy of selective monetary disciplining and palliation. By relying chiefly on higher interest rates to adjudicate between borrowing requests, companies would be able to access credit that was unaffordable to persons – all while the government appeared to let go of the reins of monetary policy. This, it was hoped, would insulate the government's legitimacy as they struggled to restructure British social relations in line with global value averages, in the context of a nascent global profitability crisis.

Conclusion

The existing literature on states' roles in propelling financialisation, understood as the dual processes of financial expansion and productive stagnation, have relied on two explanations. The *expropriation* approach has argued that states have favoured the financial sector over industry due to the lobbying power of financial elites and the growing influence of pro-finance ideology. The *crisis resolution* approach has argued that states reacted quite reflexively to the onset of economic crisis in the 1970s by automatically deregulating finance so as to assuage mobile capitalists. This thesis, however, advances a different explanation. The dominating imperatives that press states to reproduce conditions for profitable capital accumulation do not

derive from particular sociological groupings within capitalist society, but from the very form of wealth itself that emerges from capitalist exchange relations – relations that the state itself continually reaffirms. During times of crisis, as the competitive drive to increase productivity paradoxically undermines the profitability of capital in general, states are increasingly torn between the need to reproduce the basis of capitalist wealth through disciplining measures and the need to reproduce the basis of the state's political legitimacy through crisis-delaying palliative measures. It is through this analytical lens that the CCC deregulation can best be understood.

In the aftermath of a series of sterling crises, the Wilson government devalued the pound and enacted contractionary measures with the purpose of mounting a sustained recovery in the balance of payments. However, this disciplining strategy encountered two problems: a personal borrowing boom and a company liquidity crisis. Wage earners reacted to the governments contractionary measures by increasing their borrowing, which had the effect of increasing imports, while companies' weak liquidity position endangered Britain's export performance. It was thus necessary to simultaneously restrict credit to persons and extend credit to companies, in order to meet the balance of payments target. Yet the existing system of credit controls could not effectively repress personal borrowing without further starving companies of much needed funds. Furthermore, the post-devaluation controls became too politicised to allow the government the leeway to carry out this regressive redistribution of credit resources. In contrast, the Banks's CCC proposals appeared to offer an imperfect solution, by removing all formal limits on the availability of credit and instead allowing high interest rates to adjudicate between borrowing requests. This principle was lobbied for heavily by

the CBI, which – with the Bank – convinced the Treasury that CCC had the potential to reduce consumer borrowing while allowing large exporting firms access to previously unavailable credit. In addition, the hands-off nature of CCC was welcomed because it would allow these policy objectives to be met in a depoliticised manner. The CCC deregulation – the first major policy change by the British state that propelled processes of financialisation – must therefore be understood as a hybrid statecraft strategy intended to reconcile the contradictory imperatives generated by the global profitability crisis: financial discipline was to be enforced upon persons and palliative aid extended to capital, all disciplined by the delegation of authority to the market mechanism.

CHAPTER SEVEN

The abolition of exchange controls

Exchange control abolition was bound to be a leap in the dark.

Nigel Lawson, 4 October 1979.[72]

Introduction

The UK's abolition of exchange controls has a special status within accounts of British financialisation as well as IPE literature on the global shift towards international capital mobility and financial accumulation. Alongside the scrapping of capital controls in the US in 1974, this event is seen as one of the 'crucial turning points' in the history of capital control liberalisation (Best, 2005: 126). As Paul Langley (2002: 112-3) argues, the 'zeal' with which the Thatcher government pursued this deregulation 'had considerable ramifications for the making of the contemporary financial order'. By abolishing rules on the use of sterling for overseas investment and the repatriation of foreign-earned profits, the dismantling

[72] TNA T 388/207, Note for the Record, 4 October 1979.

of exchange controls both increased the horizon of capital accumulation beyond the national stage and allowed for an enormous shift of investment from industrial to financial assets. Perhaps more than CCC, this deregulation had enormous implications for the financialisation of both the British and world economies.

The dominant explanatory frameworks for conceptualising the state's propulsion of financialisation – the *expropriation* and *crisis resolution* lenses – are insufficient for understanding the abolition of exchange controls. The evidence presented in this chapter demonstrates that, despite this liberalisation being passed in the first year of the Thatcher government, this administration's laissez-faire ideology and close connections with the City were not the primary impetuses for this policy change. Neither did the government dismantle these controls as a direct reaction to the pressure by desperate capitalists to escape British territory for more profitable climes. Instead, the abolition of exchange controls constituted a pragmatic political strategy to navigate the contradictions arising from a crisis of society itself: that is, the pressures to deregulate emanated not from particular lobbying groups, but from the very form of wealth that emerges from capitalist social relations. This liberalisation must therefore be understood as an attempt to strategically reconcile the impersonal domination of value relations in crisis and the tangible demands of civil society.

This chapter will first examine the political quandaries that both the Callaghan and Thatcher governments faced. In the context of an appreciating pound, following the 1976 IMF bailout and rising revenues from North Sea oil, the British state was confronted with a governing dilemma: the strong pound acted as an automatic disciplining mechanism that aided in combatting inflation, yet it

simultaneously pushed the competitiveness of the struggling industrial export sector to dangerous lows and thus risked provoking a politically unacceptable recession. The political choice was whether to embrace the disciplining effects of sterling appreciation, or resist it through palliation measures. The evidence presented in this chapter will show that the governments of Callaghan and Thatcher prioritised political legitimacy and thus sought to depreciate sterling by relaxing exchange controls and encouraging an investment outflow.

However, two obstacles stood in the way of this palliation strategy. Firstly, the trade union movement was opposed to exchange control liberalisation, and the Labour government was wary of further alienating union leadership as they attempted to gain union acquiescence to an unpopular incomes policy. Secondly, in a context of floating exchange rates, any attempt to manufacture a currency depreciation could spook currency markets and provoke a sterling crisis. This chapter will demonstrate that these hurdles ultimately impeded the Callaghan administration from pursuing full exchange control liberalisation. After reneging on the Social Contract, imposing a harsh incomes policy on the trade unions, and becoming a minority government, Callaghan lacked the political leeway to directly confront the unions on the issue of exchange controls. Furthermore, no strategy had been devised which would allow them to effect a devaluation via exchange control deregulation without spooking global financial markets. The Thatcher government, on the other hand, faced a weakened union movement following the 'Winter of Discontent' and managed to construct a rhetorical strategy that attempted to placate global currency markets by emphasising that exchange control abolition was a responsible and internationally credible policy driven by laissez-faire ideology. This

provided the Thatcher administration with the confidence to abolish exchange controls completely in October 1979 and thus provide palliative relief to the British economy.

The dismantling of exchange controls was a crucial policy step in the financialisation of the British economy and the forging of a new global financial order. Yet this measure cannot be explained by the lobbying power of the City, the pro-finance stance of the British government, or the immediate threat of investment strike by flighty capitalists. Instead, this deregulation was an attempt to reconcile the contradictory imperatives generated by the global profitability crisis. The Callaghan and Thatcher governments intended to lower the price of sterling through exchange control relaxation and thus ensure their governing legitimacy by temporarily boosting the competitiveness of British exports. Yet only the Thatcher administration felt able to pursue this palliation strategy without damaging British economic credibility in the eyes of global currency markets.

Exchange controls and financialisation

In 1941, Keynes commented: ‘I share the view that central control of capital movements, both inward and outward, should be a permanent feature of the post-war system’ (Crotty, 1983: 62). As such, Britain’s abolition of exchange controls between 1977 and 1979 represented a dramatic abandonment of the instruments of Keynesian demand management, and a significant step towards the financialisation of the British economy. In Britain, the most historically important subset of capital

controls was exchange controls. These controls constituted a system of limits on the use of UK funds for overseas investment and rules for the repatriation of profits earned overseas (Shepherd et al., 1985: 156). They did not directly restrict overseas investment, but rather affected the currency with which these investments were financed. The overarching goal of this system was, in the words of former Treasury Under Secretary Britton, to 'conserve the UK's holdings of gold and foreign currency' and as such 'assist the balance of payments'.[73] These controls came into being in 1939 for emergency use during the war and were given a statutory basis with the 1947 Exchange Control Act (Cairncross and Sinclair, 1982: 403). Exchange controls were removed in four stages by the Callaghan and Thatcher governments: October 1977, January 1978, July 1979, and October 1979.

The scrapping of this system of controls acted as a dramatic impetus to processes of financialisation. Watson (1999: 61) writes that as a result of 'the indiscriminate relaxation of capital controls following the demise of the Bretton Woods settlement … financial markets have become increasingly dissociated from the productive realm'. In the first half of 1980, insurance companies and pension funds channelled four times as much investment into overseas equities than they had in the first half of 1979 (Coakley and Harris, 1992: 43). Indeed, the yearly flow of investment overseas increased from £1 billion in 1979 to £18 billion in 1985 (Bellringer and Michie, 2014: 119). Furthermore, this deregulation accelerated the transformation of British investment holdings away from long-term industrial assets. Overseas direct investment in assets *other than* oil, banking and insurance rose by 49 per cent between 1978 and 1981, while overseas portfolio investment

[73] TNA T 381/145, Paper by Britton, May 1978

rose by 142 per cent (Shepherd et al., 1985: 7). In allowing the City to compete on a level playing field with the New York Stock Exchange, this deregulation became perhaps the most important financial measure by the British government until Gordon Brown's 1997 announcement of Bank independence (Roberts and Kynaston, 2002: 129).

Existing interpretations

In order to understand the decision to scrap exchange controls, the existing IPE literature has chiefly relied on two explanations: the Thatcher administration's neoliberal ideology and commitment to boosting the City's global competitiveness. In his landmark IPE work, *States and the Reemergence of Global Finance*, Helleiner (1994: 150) argued that the 'key explanation' for exchange control abolition 'was the neoliberal orientation of the new Thatcher government, which perceived exchange controls as preserving outdated Keynesian strategies'. This echoed the claim by Henk Overbeek (1990: 196) that this deregulation was the 'first act of the Thatcher government that made clear its dedication to the "free market"'. In the same vein, Keegan (1984: 149) explained that while exchange control abolition was expected to help reduce the pound's high price, the 'main political motive for this relaxation was not the height of the exchange rate … it was the basic economic philosophy, and the desire to give as free a rein as possible to market forces'. Advancing a more political account, Christopher Bellringer and Ranald Michie (2014) claim that the Thatcher government was constrained by laissez-faire commitments made while the Conservatives were in opposition, and thus once they

came to power, the government found itself forced to go through with exchange control abolition in order to maintain ideological consistency. Scott Newton and Dilwyn Porter (1988) have argued that there was a gap between the rhetoric and reality of the Thatcher administration's motivation for abolishing controls. While 'government spokesmen argued that it would help exporters by restraining the rise in the exchange rate', this justification 'was entirely bogus' (ibid: 200). Instead, 'the abandonment of controls was a symbol of the government's conviction that given the rejection of *dirigisme* only the full integration of the British into the international economy would lead to the degree of restructuring which would make the country competitive' (ibid). This key deregulation, then, was not a product of pragmatism or of immediate concerns about economic management, but rather it resulted from the Thatcher government's commitment to the principles of laissez-faire.

Helleiner (1994: 151) also gave credence to the idea that lobbying by City institutions was important in motivating this deregulation, as financial companies wished to 'diversify their portfolios in the new floating exchange rate system'. Even more important, though, according to Helleiner (ibid), was the fact that 'the Bank of England saw the abolition of exchange controls as a way of attracting more financial business to London' – a point that Jeremy Green (2016: 447) has recently reiterated. While the City had boasted the Euromarket in the 1960s, when many other financial centres were laden with stricter regulations, this novelty was undermined by the US' abandonment of capital controls in 1974 (ibid). The City thus risked marginalisation if it did not undergo a commensurate deregulation, prompting the Thatcher government to act in its favour (Palan et al., 1996: 52). For Alexander Gallas (2015: 135, 209), exchange control abolition was a reflection of a

more coherent commitment to a 'neo-Ricardian accumulation strategy', based on transnational competition and financial dominance over other sectors of the economy. This argument was taken further by Jerry Coakley and Laurence Harris (1992: 37), who claimed that 'a central pillar of the whole Thatcher enterprise was action to change the role of money and finance and to strengthen the position of the financial sector; whatever happened to manufacturing, the City was intended to flourish'. They pointed to the relative decline of the 'arcane … gentleman's club' that was the LSE, as business flowed towards more competitive and less heavily regulated financial centres (ibid: 40). Coakley and Harris (ibid) muse that 'it is doubtful whether a Labour administration could have ignored the pressure from the City, reinforced by the structural changes underway internationally, unless it were prepared to change the City by forcing a historical turn towards supporting industrial regeneration'. In other words, if Labour had won the May 1979 election, they would have faced a stark choice between abolishing exchange controls and supporting domestic industry. The importance of the Thatcher administration, then, was not the act of deregulation itself, but 'the timing of the policy', the 'laissez-faire stamp on its form', and the promotion of 'the continued international ambitions of the City at the expense of industry' (ibid). As such, exchange control abolition, in the words of Moran (1991: 74), was a positive and distinctly pro-City 'response to the increasingly global character of markets'. Capturing the existing literature's emphasis on the role of neoliberal ideology and financial competitiveness, Randall Germain (1997: 147) summarised the causes of UK exchange control abolition as 'the ideological predispositions of the newly elected Thatcher government and the

clear desire to maintain London's position at the center of the Eurocurrency market and European finance'.

In contrast to the majority of the literature's claims about the centrality of Thatcher's neoliberal ideology and finance-oriented accumulation strategy, a limited number of accounts draw attention to more pragmatic policy considerations. Age Bakker (1996) highlights the government's concerns about the position of domestic exporters in motivating deregulation. The Thatcher administration, he argues, feared that 'a disproportionate appreciation of the pound … would further hurt the weak non-oil industrial base in the United Kingdom. A relaxation of exchange controls was expected to cause capital outflows', which would 'help dampen the upward pressure on the exchange rate' (ibid: 139). In a similar but more nuanced account, Needham (2014) frames the abolition of exchange controls through the lens of the Thatcher administration's obsession with controlling the money supply. When the exchange rate rose through 1979, the 'deleterious effect of the strong pound on British exports' indicated that some depreciation was necessary (ibid: 142). As investment flowed into sterling, the government was forced to sell gilt-edged bonds in order to soak up excess liquidity in the financial system and thus stop the money supply increasing too much. Yet the sheer volume of inward flows meant that the government would have to sell an enormous amount of debt, which would in turn have required very high interest rates that were unpalatable for mortgage market reasons. On the other hand, '[l]owering interest rates to make sterling less attractive to foreign capital … would have interfered with the government's objective of running a tight monetary policy' (ibid). As such, 'there was very little the authorities could do *other* than dismantle exchange controls

to encourage capital to flow overseas' (emphasis in original; ibid). These revisionist accounts have the novelty of both highlighting the messy, pragmatic politics behind this deregulation and pointing to the government's concerns with the plight of exporting industry – an argument that contradicts much of the existing literature's claims about the Thatcher administration's industrial neglect. The problem is that both Bakker and Needham deal with exchange controls abandonment in a relatively fleeting manner, such that their insights remain undeveloped and they tend to become lost in the minutiae rather than connecting these developments to the ongoing stagflation crisis.

This chapter will advance an account of the UK's exchange control abolition that both demonstrates the inadequacy of the existing IPE literature's emphasis on the Thatcher government's laissez-faire ideology and their pro-finance stance, and provides a more systematic explanation of this deregulation than the existing revisionist accounts. It will be argued that this liberalisation must be understood in the context of a global profitability crisis – self-generated by the contradictory nature of the capitalist form of wealth – and the governing dilemmas that it gave rise to. Trapped between the disciplining effects of the strong pound, and the political need to ease the ensuing recession, the Callaghan and Thatcher governments sought to relax exchange controls so as to depreciate sterling and provide relief to exporters. Yet in order to pursue this palliation strategy successfully, policy-makers needed to both disarm an opposed union movement and avoid spooking global financial markets. This chapter will demonstrate that the Thatcher government developed a rhetorical strategy that they felt would allow them to convince financial markets that this deregulation was not a pragmatic

strategy to boost exports, but was rather driven by a deep-seated commitment to free markets. This deregulation, which was fundamental in propelling processes of financialisation both in Britain and globally, must be understood as a palliative statecraft strategy, designed to pragmatically navigate the contradictory economic and political imperatives engendered by the value form of wealth and heightened by the profitability crisis.

The sterling dilemma

While the CCC deregulation examined in the preceding chapter took place in the early years of the global profitability crisis, by the time of the first moves towards exchange control dismantlement, the British economy was deeply riven by the twin phenomena of extremely stagnant economic performance and record-high inflation. In a more schematic sense, these two deregulations took place in different phases of the British experience of the profitability crisis. The first, from 1967-77, saw governments hemmed in by recurrent sterling crises and domestic popular agitation; and the second, from 1977-83, saw governments torn between the disciplining impact of the strong pound and its deeply unpopular recessionary effects. The abolition of exchange controls, between 1977 and 1979, fell squarely in this latter phase.

Figure 5. The sterling exchange rate (spot exchange rate, US dollars into sterling), 1976-1979 (Bank of England, Interactive Database).

As explained in Chapter 5, policy-makers in this period faced a governing dilemma. The effect of the IMF's seal of approval and the flow of North Sea oil had driven up the price of sterling, which both insulated the pound from speculation crises and acted as a form of automatic disciplining mechanism upon the British economy. The strong pound helped to combat inflation, by both decreasing the price of imports and punishing exporting firms such that they were discouraged from paying large wage settlements to their workers. Yet it did so at the cost of plunging the economy into a politically unacceptable recession. British non-oil industrial and commercial companies' rate of profit had fallen to four per cent in 1977, down from

8.6 per cent in 1971,[74] while earnings were increasing much slower than the rate of inflation (Britton, 1991: 251). As such, governments in this period faced a new manifestation of the accumulation/legitimation contradiction inherent to the political governance of capitalist social relations. The dilemma was whether to support the strong pound's disciplining effects, or act to depreciate sterling as a palliative strategy to delay the pain of crisis and protect governing legitimacy.

This chapter will demonstrate that both the Callaghan and Thatcher governments prioritised the latter objective, and thus sought to depreciate the pound through the abolition of exchange controls. However, there were two important obstacles that had to be overcome before this strategy could be pursued: it was not at all clear how exchange control relaxation could be sold to an opposed trade union movement, nor how an orderly depreciation of sterling could be brought about in the context of volatile floating exchange rates. The first problem arose from the fact that the TUC favoured a strong pound because of its downward pressure on the cost of living and supported the *extension* of exchange controls as part of a proactive industrial strategy. As the unions were bearing the brunt of Callaghan's anti-inflation incomes policy, Labour policy-makers were wary of further incensing them. The second problem was a direct result of the move to floating exchange rates in 1973. The onset of this currency regime entailed an increase in speculative activity and a consequent rise in exchange rate volatility. As a result, governments struggled to reconcile their political and economic objectives with the 'imperatives of exchange rate stabilization' (Eichengreen, 2008: 142). This was amplified in the case of Britain due to the massive overseas holdings of sterling. As former Treasury

[74] MRC MSS.200/c/3/dg2/23, *Trade and Industry* magazine, 22 September 1978.

Permanent Secretary Wass observed, an immediate 'step-change in a floating environment would have been a policy without precedent', and one which threatened to 'shatter' confidence in sterling altogether (2008: 336-338). Yet the alternative – a gradual depreciation – was also 'without precedent', 'uncertain and indeed potentially dangerous' (ibid: 336). Thus, any attempt to manipulate the price of sterling required extremely careful public presentation, so as to avoid provoking speculative attacks against the pound. In order to boost the competitiveness of UK exporters through exchange control relaxation, then, politicians required an appropriate strategy that would both disarm the unions' opposition and avoid spooking global financial markets.

This chapter will argue that the Callaghan and Thatcher governments' different degrees of success in developing such a strategy is what best explains the dynamics of exchange control liberalisation in the years 1977-9. The Labour administration was ultimately constrained by its tense relations with the unions and its unfamiliarity with exchange rate policy in a system of floating rates, resulting in its moderate easing of exchange controls. On the other hand, the Conservatives not only faced a much weakened labour movement, but they were also able to craft a rhetorical strategy that would convince financial markets that their policy of competitive currency devaluation was in fact an expression of their laissez-faire beliefs. The Thatcher administration believed that this discursive strategy would allow it to bring about a managed sterling depreciation through complete exchange control abolition without provoking a collapse in the pound. In sum, in the context of a global profitability crisis and severe domestic financial discipline imposed by the strong pound, the liberalisation of exchange controls constituted a pragmatic

attempt to extend palliative aid to exporters so as to maintain governing legitimacy, yet without spooking global financial markets.

I. The Callaghan administration

On 26 October 1977, Labour Chancellor Healey announced the relaxation of exchange controls affecting inward direct investment, travel, cash gifts, and emigration. Then, on 1 January 1978, the government relaxed controls on outward direct and portfolio investment in the EEC, by abolishing the rule whereby British investors had to surrender 25 per cent of proceeds from foreign currency sales to the Bank for conversion into sterling.

The pressure that motivated a Labour government to enact the most significant dismantling of exchange controls in nearly 40 years was not immediately apparent. At first glance, it appeared that in 1977 Healey could ‘boast that he was one of the few post-war Chancellors to preside over a growing economy, falling inflation, falling unemployment, and a balance of payments surplus’ (Needham, 2014: 109). Yet in private discussions, government officials had a greater awareness of the underlying problems veiled by the IMF’s endorsement and North Sea oil. An inward surge of capital was causing sterling to appreciate steeply, thus aiding the government’s attack on inflation but exacerbating the dire circumstances faced by non-oil exporters. It was against this background that the dismantling of exchange controls became a topic of interest, as it could create an outflow of investment that would weaken sterling’s appreciation.

On 19 October, Healey circulated a proposal that outlined various possible exchange control relaxations. His motivations for proposing the consideration of these changes, he explained, were threefold: the difficulty in justifying exchange controls during a period of sustained current account surplus; the need to give some indication to the EEC that the government took seriously their stance on free capital mobility; and the more immediate need to offset inflows of capital that were destabilising the exchange rate and money supply. [75] The responses Healey received from various government departments generally focused on his third concern as the most important. Labour's Roy Hattersley, Secretary of State for Prices and Consumer Protection, (unsurprisingly considering his remit) urged Healey against taking the measures. Hattersley argued:

> For exporting industries, a policy of depreciation would represent the abandonment by Government of an important sanction in our fight against inflation. Firms in these industries would be free to enter into excessive wage settlements, secure in the knowledge that the Government would mitigate their effects on profitability by allowing the exchange rate to slide.[76]

However, Hattersley was in the minority. DoT, DoI, and the Bank all clearly favoured some depreciation of the exchange rate in order to ease the pressure on exports. DoT official Hans Liesner wrote to his Secretary of State, Edmund Dell, that the 'the UK's long-run trade and hence industrial performance will be threatened by a worsening of competitiveness, and that exchange rate policy should

[75] TNA FV 89/2, Healey to Callaghan, 19 October 1977
[76] TNA FV 89/2, Hattersley to Healey, 19 October 1977

be conducted accordingly … [This] is where the exchange control relaxations should help'.[77] In turn, Dell emphasised the severity of the problem to Callaghan, Healey, and Bank Governor Gordon Richardson at a meeting the following week. He argued that further sterling appreciation 'would be deleterious to investment, to employment, and to the industrial strategy', and thus recommended a close examination of exchange control relaxation, which would allow 'money to flow out of the country as freely as it could now flow in'.[78]

Similarly, the DoI informed Callaghan that it 'very much welcome[d]' Healey's proposed deregulation, on the grounds that 'there is scope for certain selective relaxations of controls on outward investment that could benefit UK industry directly in the medium term'.[79] The Secretary of State for Industry, Eric Varley, further emphasised the gravity of the situation at the meeting with Callaghan, Healey, and Richardson, when he explained that while he understood the counter-inflationary benefits of the strong pound, 'the effects on manufacturing industry could not be ignored':

> Some of our industry was barely competitive at the present exchange rate. The textile and clothing sectors, for example, employing 850,000 people, would be severely hit, with serious political consequences … The prospect for export-led growth, on which the industrial strategy rested, could be greatly reduced by too rapid an appreciation of the exchange rate.[80]

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[77] TNA FV 89/2, Liesner to Secretary of State, 20 October 1977
[78] TNA PREM 16/2108, Note of a Meeting, 28 October 1977
[79] TNA FV 89/2, EGV to Callaghan, 24 October 1977
[80] TNA PREM 16/2108, Note of a Meeting, 28 October 1977.

Sir Kenneth Berrill, head of the Central Policy Staff Review of the Cabinet Office, echoed this sentiment to Callaghan in November, when he insisted that the 'United Kingdom's high exchange rate reduces our export prospects in this gloomier market. Domestically, there is no sign of a great revival in the United Kingdom industrial investment which the IMF team told us would come if we took the measures they advocated'.[81]

The Bank too positioned itself against the existing controls. The Bank had been traditionally hostile towards exchange controls, yet this sentiment increased following the abandonment of fixed exchange rates (Dow, 2013: 143). By the middle of 1977, Bank advisor Charles Goodhart was advocating the greatest relaxation possible, while Executive Director McMahon and First Deputy Chief of Exchange Control Douglas Dawkins also favoured relaxation but were more concerned about the timing (Capie, 2010: 766-67).

With regards to lobbying pressure, there is much more evidence of pressure from domestic industry than the financial sector, in marked contrast to the assumptions of much of the existing literature on exchange controls abolition and financialisation more generally. From at least the early 1970s, the CBI had lobbied against exchange controls – arguing to Heath's Financial Secretary Patrick Jenkin in 1971 that 'the CBI has long urged the Treasury to ease and then remove exchange controls on outward investment as soon as the balance of payments permits'.[82] As industry's rate of return continued to fall, compounded by the oil shocks and then the appreciation of sterling, the CBI's pressure on the government intensified.

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[81] TNA PREM 16/2108, Berrill to Callaghan, 18 November 1977.
[82] MRC MSS.200/C/3/DG2/22, Campbell Anderson to Patrick Jenkin, 23 September 1971.

Through its Overseas Investment Committee, the CBI launched a renewed campaign in 1976 to convince the government of the benign effects of overseas investment, so as to hasten the removal of exchange controls. This included commissioning the Metra Consulting Group to produce a favourable report on overseas investment, as well as lobbying the government through the NEDC and directly through meetings with the Treasury.[83]

The City's lobbying efforts were much more limited. In July 1977, Treasury Permanent Secretary Leo Pliatzky went for dinner with LSE Chairman Goodison. Goodison thought that a relaxation of exchange controls could help the City become the centre of securities in Europe, but feared (quite melodramatically) that 'Treasury people at Ministerial and official level' were 'uninterested in anything except the manufacturing sector'. [84] Yet he displayed none of the fervent hurry or systematic strategising of CBI lobbyists, claiming that he would be satisfied to see some action on exchange controls within a timeframe of three years. Nevertheless, certain officials did support exchange control relaxations due to the advantages for the City and Britain's invisible earnings. The Treasury's Deputy Secretary, F. Russell Barratt, argued in May 1977 that it was 'very much in the national interest that the general capacity of the City to engage profitably in international financial business should be sustained and enhanced', which was in turn dependent on the ability to operate freely in foreign currencies.[85] This sentiment was echoed by the DoT's Dell,

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[83]MRC MSS.200/C/3/ECO/11/24, Memorandum, 1 February 1978; MRC MSS.200/c/3/eco/11/25, Minutes of Meeting at National Economic Development Office, 6 July 1977; MRC MSS.200/C/3/ECO/11/26, Memorandum, 11 October 1977

[84] TNA PJ 1/91, Pliatzky to Wass, 6 July 1977.

[85] TNA T 388/154, Barratt to Payton, 27 May 1977.

who, as sponsoring Minister for the Stock Exchange and insurance industry, 'welcome[d] the prospect of further strengthening of the overseas position of UK insurance companies and of the relaxation on overseas portfolio investment respectively'.[86]

The creation of a consensus within the Callaghan government and the Bank in favour of some degree of exchange control liberalisation was primarily the result of political concerns over the dangerously low competitiveness of British industrial exports. While there is some evidence as to the need to comply with EEC guidelines on capital controls, the presentational discrepancy of maintaining controls despite the positive balance of payments outlook, and a desire to boost the City's global prospects, the overwhelming motivation for pursuing exchange control relaxation was to provide a palliative response to exporters' woes by depreciating sterling. The next section will examine why, despite the legitimacy concerns over the pressures of the strong pound, the Callaghan administration did not go further in liberalising exchange controls.

II. Market uncertainty and union militancy

There is no single reason why the Callaghan government did not completely abolish exchange controls. One important factor was that the deregulation of controls on investment was counterintuitive to a Labour government that had come to power promising an interventionist industrial strategy. Indeed, Healey explained to

[86] TNA FV 89/2, Draft Minute from ED to Callaghan, 21 October 1977.

Callaghan that he did not intend to go too far with exchange control relaxation because it was 'much more consistent with the industrial strategy to find ways' to use the benefits of North Sea oil 'more directly to build up the UK industrial base'.[87] Yet of greater importance were two more immediate problems: the difficulties of managing currency depreciation and the political constraints upon the Chancellor and Treasury ministers exerted by their fractious relations with the trade unions. The Callaghan administration was unable to craft a strategy to assuage financial markets through declarative signals, nor disarm the labour movement, resulting in the moderate exchange control liberalisations of 1977-8.

In May 1977, when talks about exchange control relaxation began in earnest, the Bank was split on the issue of the best way to devalue sterling. Bank advisor McMahon thought a step-change was the least risky option, while officials David Holland and John Sangster preferred to move gradually.[88] The Treasury was also divided, with some pushing for overnight devaluations and others, most notably Treasury Under Secretary Peter Middleton, arguing that a gradual depreciation would be least damaging.[89] This disagreement was symptomatic of an institutional unfamiliarity with exchange rate policy in the context of floating rates. By October, on the eve of Healey's first exchange control relaxation, Treasury Permanent Secretary Wass admitted that there was still 'no effective means for bringing the rate down in the current situation. A step devaluation, always difficult in a floating-rate regime, would in the current circumstances lead to a chaotic market'.[90] Yet a

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[87] TNA FV 89/2, Healey to Callaghan, 19 October 1977.
[88] TNA T 388/154, Note of a Meeting, 31 May 1977.
[89] Ibid.
[90] TNA FV 89/2, Note of a Meeting, 21 October 1977.

gradual 'engineered slide would require a change in market sentiment' with regards to sterling that was equally difficult to manufacture without causing outright panic.[91] After meeting Treasury officials in October to discuss exchange control relaxations, Graham Mason, the CBI's Deputy Overseas Director, explained: 'I can characterise the attitude of the Treasury officials as exceedingly cautious … They were clearly not confident that the large inflow of currency into our reserves of late is here to stay'.[92] This deep uncertainty as to the side effects of sterling depreciation contributed to the general apprehension amongst the Callaghan administration towards exchange control relaxations, as these relaxations were designed precisely to exert a downward pressure on the pound.

The government was also impeded by its tense relations with the unions. Labour had come to power in 1974 promising a Social Contract, in which the unions would voluntarily moderate their wage demands in return for greater welfare provisions and a favourable industrial policy, creating a 'self-reinforcing spiral of disinflation' (Britton, 1994: 19). While Phases I and II of the government's incomes policy were quite successful in balancing strict wage restraint with social expenditure, this compromise came under increasing strain due to the public spending cuts necessitated by the IMF bailout. This marked the unofficial end of the Social Contract, engendering a 'strong undertow of tension and resentment' within the union movement (Thorpe, 1999: 144). Phase III began in August 1977 without formal TUC backing, as union leaders struggled to impose the government's requests on their increasingly dissatisfied membership – a membership that voted

[91] Ibid.
[92] MRC MSS.200/C/3/ECO/11/26, Memorandum, 11 October 1977.

overwhelmingly for an immediate return to free collective bargaining at the 1977 TUC conference (ibid: 144-5). As Jack Jones (head of the Transport and General Workers' Union) argued in May 1977, for the unions to gain grassroots backing for the government's incomes policy, the government needed to present an 'an alternative economic policy', which – importantly for the purposes of this article – would include 'import deposits or controls' (Coates, 1980: 73).

Thus, an extensive relaxation of exchange controls, during a period in which the government was attempting to impose Phase III of its incomes policy on a disillusioned union movement, appeared politically very risky. Not only were important union officials like Jones calling for greater import controls, but the TUC was in fact lobbying the government in 1977 for the creation of a new 'tripartite' agency that would 'examine all applications for outward investment' on a case-by-case basis.[93] 'The exchange control system', the TUC argued, 'should be supplemented to consider these wider questions' of domestic job creation.[94] To entirely disregard the TUC's concerns by abolishing controls ran the risk of undermining union acquiescence to the government's already embattled incomes policy As Barratt argued in a meeting with Treasury and Bank representatives in May 1977, 'the need to move gently in such a politically sensitive area … had deterred the Treasury from putting forward definite proposals for relaxation at this stage'.[95] Indeed, Joel Barnett, Chief Secretary to the Treasury, explained to Callaghan's Principal Private Secretary, Kenneth Stowe, in September 1977 that

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[93] MRC MSS.292D/462/3, TUC Comment on NEDC Paper, 1 July 1977.
[94] MRC MSS.292D/462/3, TUC Comment on NEDC Paper, 1 July 1977; MRC MSS.292D/40.2LPMR/2, Report of TUC-Labour Party Liaison Committee Meeting, 25 April 1978.
[95] TNA T 388/154, Note of a Meeting, 31 May 1977.

‘political considerations apart … [a] small relaxation would be a sensible proposal. But we cannot ignore political considerations, and in my judgement the inevitable (if ill-informed) outcry there would be is not worth provoking for a comparatively modest relaxation’.[96] Thus when Healey finally announced his exchange control proposal in October, he acknowledged that the more radical measures like abolishing the 25 per cent surrender rule ‘might cause some political difficulty, especially with the TUC’.[97] Callaghan echoed this concern, insisting on delaying any extensive relaxations ‘until there has been the discussion in the TUC/Labour Party Liaison Committee’.[98]

Furthermore, despite essentially constituting a reflationary measure, due to its stimulating effect on exporting industries, dismantling exchange controls could potentially have the doubly negative effect of alienating the TUC *and* the general electorate by exacerbating inflation. As Hattersley emphasised to Healey in December 1977: ‘Our economic progress and our political success will in very large part be judged on our success or otherwise in avoiding a return to inflation at or above 10 per cent. The Conservatives are already making it clear that they do not believe that we shall succeed’.[99] In addition, the high pound automatically reduced inflation without the need for direct government intervention, which had significant political advantages. Healey explained to an audience that included Callaghan and Richardson in November 1977 that if exchange control relaxations resulted in some

[96] TNA T 364/211, Smith to Stowe, 30 September 1977.
[97] TNA FV 89/2, Healey to Callaghan, 19 October 1977.
[98] TNA FV 89/2, Owen to Callaghan, 24 October 1977; TNA PJ 1/92, Stowe to Battishill, 26 October 1977.
[99] TNA FV 89/2, Hattersley to Healey, 20 December 1977.

depreciation, the ‘alternative would be a very restrictive fiscal and monetary regime which would probably be just as damaging’.[100]

There undoubtedly existed a consensus in favour of a significant degree of exchange control relaxation, primarily to check sterling’s appreciation and consequently avert disaster for British exporters – thus constituting a palliative statecraft strategy to protect governing legitimacy by postponing the effects of the crisis of value relations. Yet there was also considerable apprehension within the Treasury as to the external economic and domestic political consequences. Labour, weakened by their minority status and their clashes with the unions over incomes policy, lacked a strategy that would convince markets that exchange control abolition was *not* a cynical strategy to boost exports and would disarm the opposed trade union movement. This confluence of pressures for and against the dismantling of exchange control resulted in the moderate relaxations of October 1977 and January 1978.

III. The Thatcher administration

On 12 July 1979, Conservative Chancellor Howe announced extensive relaxations of exchange controls on outward direct investment and minor relaxations on outward portfolio investment. The remaining controls were completely abolished on 23 October. This bold move did not result from a clique of ideologues forcing their plans upon the civil service, as much of the existing literature on exchange

[100] TNA PREM 16/2108, Note of a Meeting, 28 October 1977.

control abolition suggests (Helleiner, 1994; Newton and Porter, 1988). Instead, the Conservatives' proposals – which were no doubt motivated by a radical political vision – found a receptive and prepared audience in the Treasury, Bank, and various government departments. Much like the Callaghan administration, the Thatcher government's desire to dismantle exchange controls was driven chiefly by the political necessity to ease the pressure on British exporters and thus on the British economy by putting downward pressure on the pound.

In spite of the Callaghan administration's inability to implement further measures on exchange controls following the Winter of Discontent, preparations for further relaxations carried on in Whitehall. In early March 1979, the Cabinet's Official Committee on External Economic Affairs advised 'supporting the idea of a gradual relaxation of exchange control for outward investment'.[101] They wrote: '[D]espite our common concern about inflation, we are beginning to be worried about the effect of the continued strength of sterling on manufacturing industry competitiveness and that some relaxation may help to ease the rate down a little'[102]. In April, the Overseas Trade Board expressed similar concerns, arguing that 'the present rate imposed a severe strain on some export activity' due to the poor state of domestic profitability, which could be alleviated by some exchange control relaxations.[103] A week before the May general election, Treasury Under Secretary David Hancock, anticipating further exchange control measures in the case of a

[101] TNA PJ 1/92, Note of a Meeting, 2 March 1979.
[102] Ibid.
[103] Ibid.

Thatcher win, drafted a proposal of relaxations 'for a Conservative Chancellor only'.[104]

Once in office, Financial Secretary Nigel Lawson – driven by a deep-seated ideological opposition to exchange controls – set up a team to investigate the possibility of further exchange control relaxations, which was led by Hancock and Dawkins, the Bank's Chief of Exchange Controls (Capie, 2010: 769). This team in turn set about consulting the relevant departments. Similar to the Callaghan years, there was some division as to which policy goal should be prioritised: inflation targeting or rescuing export competitiveness. As Hancock succinctly explained, albeit in the patronising language of the time, officials would of course prefer to increase competitiveness by reducing inflation below that of Britain's competitors, yet in current circumstances this was wishful thinking:

> Like the Irishman, we would prefer not to start from where we find ourselves. The controversial question is what we should do given our present situation. In particular, given that we significantly lost competitiveness over the past winter, is it better: (i) to pursue policies which help to get our rate of inflation down and thus keep the rate high; or (ii) to encourage the nominal exchange rate to fall (if we can) in the hope that this will increase output in the short term and thus possibly mitigate the damage that is being done to our industrial base.[105]

Wass believed that the balance of opinion might lean towards focussing on the former goal, especially amongst radical Conservative politicians: '[i]t may well be

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[104] TNA T 388/202, Hancock to Sallow-Smith, 26 April 1979.
[105] TNA T 388/203, Hancock to Butler, 23 May 1979.

the case also that Ministers are rather pleased about the exchange rate, partly because of the beneficial price effects it will have and partly because, by reducing corporate profit margins, it will put increasing pressure on private employers to bargain toughly in the next pay round'.[106] This line of reasoning was adopted by P. V. Dixon of the Treasury's Industrial Economic Division. Industry, he explained, was 'caught between the upper millstone of monetary policies/exchange rate and the lower millstone of wage costs'.[107] This was something to be encouraged, not alleviated: 'Industry has to realise that the climate for profits is potentially very unpropitious; firms will go bust if there is not a very substantial deceleration of wage costs'.[108] For this reason, Dixon urged Lawson not 'to move too quickly to industry's rescue' regarding exchange controls.[109] He wrote that the 'way industrialists are talking about pay does not suggest that they are yet seeing their financial position as the constraint which will cause the rate of pay settlements to decelerate sharply. The Budget cannot succeed unless this is perceived'.[110] The ultimate goal of this approach, as outlined in a DoT paper in July, was to facilitate a 'deterioration in the prospects for the traded goods and services sector, both in terms of output and profitability' so as 'to stiffen employer resistance to pay claims, and once again to moderate wage demands'.[111]

However, the majority of opinion within the government viewed this disciplining strategy as too risky, which casts doubt on accounts that emphasise the

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[106] TNA T 388/154, Wass to Couzens, 19 July 1979.
[107] TNA T 381/145, Dixon to Airey, 31 May 1979.
[108] Ibid.
[109] TNA T 381/143, Dixon to Lawson, 29 July 1979.
[110] Ibid.
[111] TNA PJ 1/95, Department of Trade Paper, 31 July 1979.

Thatcher government's disregard for the fate of domestic industry (Coakley and Harris, 1992; Talani, 2012). British industry's profits had fallen by 13.5 per cent in the first three months of 1979, which became a central concern for the Treasury (Riddell, 1979a). When Howe arrived in office in May, Bank Governor Richardson advised him that the government should respond to the overvaluation of sterling with 'significant relaxation of exchange control'.[112] A few days later, Hancock was informed that *post*-tax returns on overseas investment may be higher than *pre*-tax returns on domestic investment.[113] Indeed, at a CBI-Treasury meeting the same month, the CBI recommended 'measures aimed at restoring competitiveness and adequate levels of profitability', which included the 'abolition of exchange controls'.[114] The nature of the dilemma was captured best by Treasury official GM Gill, who explained to Hancock in late June that 'we may well be moving into an area now where the benefits to inflation from a higher rate may be obtained at too great a cost in terms of output and the current account of the balance of payment'.[115] There was a great difference, Gill argued, between an 'organically' high rate based on a strong economic performance, and a high rate 'imposed on industries which were inherently weak'.[116] Britain faced an *inorganically* strong pound, such that 'too fast a rise in the rate will cause immediate damage to the viability of these industries before the counter-inflation benefits have had time to come through'.[117] For this reason he encouraged Lawson to proceed with exchange control abolition.

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[112] BOE G3 F.1, Richardson to Howe, 4 May 1979, accessed: https://www.margaretthatcher.org/document/113156.
[113] TNA T 381/145, Butt to Hancock, 3 May 1979.
[114] TNA PREM 19/29, Record of a Meeting, 23 May 1979.
[115] TNA T 388/204, Gill to Hancock, 25 June 1979.
[116] Ibid.
[117] Ibid.

The DoT and DoI also positioned themselves against exchange controls for this reason. The Under Secretary for the DoT explained in early May that 'we have been losing competitiveness and there is nothing much in prospect to suggest a rapid change in trend is likely … Despite the inflationary disadvantages I think from the Department's point of view there is a strong case for supporting *some* relaxation'.[118] This same message was put in starker language in July, when a Trade official informed Treasury Minister of State Peter Rees that 'with shipping in worldwide recession … the profits of UK shipping companies [are] decreasing or non-existent', further necessitating the 'commercial flexibility' that would accompany exchange control relaxations.[119] Hancock was also contacted by a top DoI official in early May, who urged the Treasury to address the 'serious and general lack of competitiveness … in British industry'.[120] The kind of monetarist penance advocated by some in the Thatcher administration, he wrote, was wrong headed: 'I do not believe that the adjustment that is necessary in our economy will come about through an overvalued pound, Germany and Japan did *not* attain their virtuous circles in that fashion'.[121]

A different argument, albeit with the same policy prescription, was put directly to Howe by Secretary of State for Industry Keith Joseph on 1 June. Joseph argued that 'restrictions on portfolio investment overseas reduce the return on investment in the UK, since by restricting international capital movements we reduce the pressure on British management to increase profitability'.[122] Exposing

[118] Emphasis in original; TNA PJ 1/93, Lanchin to Gray, 8 May 1979.
[119] TNA PJ 1/94, Darrell to Rees, 29 June 1979.
[120] TNA PJ1/93, Lippett to Hancock, 3 May 1979.
[121] Emphasis in original; Ibid.
[122] TNA PJ 1/93, Joseph to Howe, 1 June 1979.

British capital to global competition via exchange control relaxation could reinforce the need for companies to economise on labour costs and counteract the inflationary effects of exchange control abolition. Finally, the Foreign Office too made their position clear. At a May meeting with officials from the Treasury (including Hancock), Bank (Dawkins), Trade and Industry, the Foreign Office representative, M. D. Butler, explained with great clarity that there was a 'case for relaxing exchange controls completely over the next three years, in order to stimulate large outflows to balance the large increments to the balance of payments from North Sea oil, and thus to keep the exchange rate competitive'.[123] Summarising the various discussions taking place on this topic, Hancock wrote to Lawson that, while depreciating sterling through exchange control abolition could damage the fight against inflation, it was likely a less inflationary strategy for effecting a competitive depreciation than direct intervention in the exchange rate.[124]

The greatest disagreement was not whether or not to relax exchange controls, but which controls to relax first. Against claims that this deregulation was intended to boost the global prospects of the City, the Bank, DoT, and Lawson were pushing for portfolio controls – which most frustrated the City's activities – to be maintained.[125] This was due to fear of a massive diversification by overseas investors out of sterling. On the other hand, the DoI proposed the complete abolition of direct and portfolio investment in one swoop.[126] This supports the conclusions of

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[123] TNA PJ 1/93, Note of a Meeting, 17 May 1979.
[124] TNA T 388/203, Hancock to Lawson, 4 June 1979.
[125] BOE G3/372 f17, Richardson to Howe, 11 May 1979, accessed: http://www.margaretthatcher.org/document/113157; TNA T 388/203, Lawson to Howe, 2 May 1979.
[126] TNA PJ 1/93, Joseph to Howe, 1 June 1979.

Bellringer and Michie (2014: 120), who observed that the Thatcher government appeared quite indifferent as to the impact of exchange control relaxation on the City's activities.

Contrary to the claims of Helleiner (1994) and Germain (1997), the Thatcher government's advocacy of exchange control liberalisation was not chiefly driven by a desire to consolidate the City's position as a global financial centre, nor by a commitment to neoliberal principles. Instead, this chapter follows Bellringer and Michie (2014: 122) in arguing that 'no evidence can be uncovered that the decision was designed to improve the competitive position of the London Stock Exchange', nor other sectors of the City. Furthermore, while key figures in the government were certainly ideologically opposed to controls, the most immediate and pressing concern was the dire lack of export competitiveness. The Thatcher government intended temporarily to alleviate the stress on British exporters by placing downward pressure on the pound through exchange control liberalisation. The final section of the chapter will explore the Conservatives' strategy for overcoming the barriers that had restricted their predecessors' deregulatory agenda.

IV. The Winter of Discontent and spooking the market

If the Callaghan and Thatcher governments both shared the same motivation in pursuing exchange control liberalisation, then what of the impediments to full deregulation that the former administration had faced? This section will argue that, while the domestic political constraint had significantly eased, the problem of volatile currency markets remained. Yet, unlike its predecessors, the Thatcher

government crafted a rhetorical strategy that it believed would allow it to circumvent the latter obstacle. By publicly emphasising the administration's ideological commitment to laissez-faire principles, the Thatcher government intended to create the policy space to pursue currency depreciation without spooking the markets.

Domestically, Thatcher was less constrained by the unions than her predecessors. To some extent, this was due to the public relations defeat suffered by the unions following the Winter of Discontent. As Gamble (1994a: 94-95) observed, the 'myth of the Winter of Discontent, with its images of closed hospitals, rubbish piling up in the streets, and dead bodies rotting unburied in graveyards', reinforced the popular notion of the bankruptcy of benign state collaboration with the union movement. A directly oppositional policy towards the union movement was now not only possible but electorally savvy: the 'old Tory disadvantage of a cold and distant relationship with the union movement … turned into an asset' (Dorfman, 1983: 20). This calamitous event, combined with 'rising unemployment and de-industrialisation', meant that 'Mrs Thatcher inherited a strong strategic position in relation to the trade unions' (Marsh, 1992: 64). Indeed, the government 'used their obvious political leverage over trade unionism' to enact a radical overhaul of macroeconomic strategy 'without so much as consulting nor considering trade union views' (Dorfman, 1983: 20). Whereas the Callaghan government had moved tentatively on the issue of exchange control relaxation because of tense government-union relations, the Thatcher administration in fact believed that the abolition of exchange controls would 'help the Government's position vis-a-vis the trade unions,

by showing that the Government were determined that investors should be allowed to put their money where they can earn the best return'.[127]

The external economic constraint, however, remained. The attempt to effect a currency depreciation via exchange control relaxations in the context of a floating exchange rate system was, as Lawson admitted in October 1979, 'bound to be a leap in the dark'.[128] There remained a sense of unease throughout the different branches of the government about the proper tools for managing a floating rate. The Official Committee on External Economic Affairs – memories of past sterling crises fresh in their minds – insisted that exchange control relaxation measures should be gradual 'in order to avoid the risk of a foreign exchange crisis'.[129] The Overseas Trade Board concurred, arguing that government intervention to lower the rate 'could easily get out of hand because of speculative action, and it might be very difficult to halt'.[130] Despite the accumulation of foreign reserves in recent years, the authorities still feared that the floating rate system ruled out 'an orderly devaluation of sterling because any *overt* action by the government would have the potential to provoke a diversification out of the pound' (my emphasis; Rogers, 2012: 203).

The Thatcher administration concocted a rhetorical strategy to neutralise these dangers. By justifying the abolition of exchange controls under the banner of 'good housekeeping' – which meant a combination of responsible, forward-looking policy and a commitment to laissez-faire principles – they could manufacture a devaluation in a covert and seemingly unintentional manner. This would, it was hoped, reduce

[127] TNA T 388/208, Note of a Meeting, 1 June 1979.
[128] TNA T 388/207, Note for the Record, 4 October 1979.
[129] TNA PJ 1/92, Note of a Meeting, 2 March 1979.
[130] TNA PJ 1/92, Wilks to Pliatzky, 5 April 1979.

the chance of depreciation spooking the markets or painting the government as hypocrites. In June, Hancock wrote to Lawson: ‘it is risky for Government spokesmen to *say* that it [exchange control relaxation] was intended to secure a depreciation in the exchange rate. Once that feeling got abroad, the short term consequences for the exchange rate could be very destabilizing’.[131] For this reason, the government should avoid ‘the argument that exchange control relaxation is intended as a means of increasing competitiveness’.[132] Lawson agreed that:

> reasoning based on the premise that the exchange control relaxations would help prevent this country catching the “Dutch disease” should be avoided; *while the Financial Secretary sees some merit in the argument, it is not one that he would want to use publicly* and prefers instead to contend that the revenue from north sea oil should be used to build up overseas investments whose future earnings can provide a stream of foreign-generated income which will ultimately be able to replace the revenue from North Sea oil. *In this way the exchange control relaxations can be presented as good house keeping.*[133]

In August, Lawson explained to Howe that, while he favoured a strong (yet not inexorably rising) pound for anti-inflation purposes, he proposed ‘a bonfire of most (if not all) of the remaining exchange controls this autumn’.[134] This deregulation ‘*might*’ slow sterling’s rise without overtly signalling that ‘we are unhappy at the

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[131] Emphasis in original; TNA T388/203, Hancock to Lawson, 4 June 1979.
[132] Ibid.
[133] Emphasis added; TNA T 388/203, Diggle to Hancock, 11 June 1979.
[134] TNA T 388/59, Lawson to Howe, 28 August 1979.

strength of the £', which 'would quickly lead to a very serious loss of confidence in our resolve to stick to [anti-inflationary] policy'.[135]

Nott demonstrated this strategy in an interview with BBC Radio 4 after the first round of relaxations in July. In response to a question about whether this relaxation was an attempt to depreciate sterling, Nott responded:

> it's very difficult to say whether overseas opinion will take this further measure of liberalism, liberalisation with exchange control, in such a way that it thinks that the pound is all the more worth-while buying, because it is an act of self confidence, or whether they will say "well, this means there's going to be a little bit more money going out of the country into overseas investment and therefore, we must sell the pound". Now which way it'll go is very difficult to predict … What the strong pound has enabled us to do is pursue what I regard as the correct policies in themselves.[136]

This strategy was also visible following the final abolition of controls in October. Speaking to the House of Commons, Howe insisted that the aim was not to weaken the pound, but rather to build up overseas income streams for the future and to provide greater 'freedom of choice' to 'companies and individuals'.[137] The strong pound merely helped to facilitate this move. At a later press conference, Lawson was questioned on the relationship between exchange control abolition and the price of sterling, but he 'refused to speculate about the possible outflows or impact on sterling from the changes' (Riddell, 1979c).

[135] Emphasis in original; TNA T 388/59, Lawson to Howe, 28 August 1979.
[136] TNA PJ 1/94, BBC Radio 4 interview, 19 July 1979.
[137] Hansard, House of Commons, vol. 968, cc235-264, 12 June 1979.

The government's pursuit of this rhetorical strategy must be understood in the context of the rise of new classical economics, with its emphasis on the importance of 'policy credibility' (Grabel, 2000). Propelled by several pivotal articles in the late 1970s, this approach argued that rational agents 'assess the credibility of an announced policy' before acting (ibid: 3). Particularly influential for the Thatcher government was Patrick Minford's 'rational expectations' model, which too stressed the centrality of perceived credibility to the art of policy-making (Cooper, 2012: 39-40). Indeed, this rhetorical strategy was convincing, due to the perceived sincerity of the Thatcher administration's commitment to free market principles. The Conservatives had ruled out a pragmatic depreciation of sterling for export competitiveness purposes in their 1976 manifesto *The Right Approach*: 'We reject the simplistic argument that a depreciating currency is required to maintain competitiveness. Internal inflation is the real enemy of successful competition. A falling exchange rate makes internal inflation worse'. In addition, key figures in the administration had previously denounced exchange controls as a matter of principle. At a November 1978 Commons debate, Howe had decried the controls as 'a bureaucratic hallmark of a society that has no confidence in itself', while in his autobiography he characterised them as 'totalitarian' and kept in place by 'forces of ignorance, timidity and inertia' (Howe, 1994: 140-1). Lawson too had publicly expressed his disdain for exchange controls, condemning them first in his 'maiden speech' as Opposition Treasury Spokesman in November 1977 and then in a *Financial Weekly* article at the height of the 1979 election campaign (Lawson, 1992: 38). Immediately following both the July and October 1979 deregulations, the *Financial Times* published front page stories that repeated the government's

rhetoric. Peter Riddell reported on 19 July that 'the latest moves are not designed as a response to the recent sharp rise in the rate' (Riddell, 1979b). In October he went further, arguing that the 'Government has decided to go all the rest of the way now because Minsters believe it is right on its own merits to give additional freedom to investment' (Riddell, 1979c).

So successful was this rhetoric that the Thatcher government's 'neoliberal orientation' and 'dedication to the "free market"' is still one of the dominant explanations for the abolition of exchange control in the IPE literature (Helleiner, 1994: 150; Overbeek, 1990: 196). To paraphrase Gamble (1989: 351), the large gap between rhetoric and actions is not specific to Thatcherism, yet what is novel is the unusual degree to which the Thatcher administration was able to convince even its critics that this gap was much smaller than it really was. This is not to deny that figures like Howe and Lawson were ideologically committed to exchange control abolition – both indicated in private that they wished to see the controls abandoned on principle, regardless of the other economic effects.[138] Yet, this does not explain the ease with which this deregulation gained support at all levels of the civil service, nor why the ideological motivation was the only justification used publicly, despite the overwhelming desire to see these relaxations exert a downward pressure on sterling.

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[138] In early July 1979, Lawson observed: 'there were arguments for and against both a high and low real exchange rate. No precise answer was possible. So the case for further exchange control relaxations had to be considered on merits without regard to the arguments about competitiveness and counter-inflation' (TNA T 388/204, Record of a Meeting, 2 July 1979). In October, Howe wrote to Thatcher: 'Obviously the effect of abolishing exchange controls would be to permit outflow which, especially if they proved substantial would cause the rate to be lower than otherwise. That is a necessary consequence of the achievement of our aim to abolish exchange control' (TNA T 388/207, Howe to Thatcher, 11 October 1979).

In the context of the global profitability crisis, the strong pound following 1977 presented policy-makers with a dilemma. The rise of sterling acted as an automatic disciplining mechanism that acted to purge inflation from the domestic economy, yet at the risk of plunging Britain into a politically unacceptable recession. As such, Callaghan and Thatcher endeavoured to ease exchange controls as a part of a palliative statecraft strategy to depreciate sterling, boost the competitiveness of exporters, and ease the recession. However, both governments faced the challenge of a vehemently opposed union movement and volatile global currency markets. While these obstacles impeded the Callaghan administration, the Thatcher government believed that by justifying the dismantling of exchange controls with rhetoric about 'good housekeeping', they could pragmatically boost export competitiveness while reducing the risks of a collapse in sterling's position.

Conclusion

Britain's abolition of exchange controls constituted a fundamental step towards the financialisation of both the UK and world economies. Yet the existing lenses for conceptualising the state's role in financialisation – namely the *expropriation* and *crisis resolution* explanations – prove inadequate for understanding this deregulation. British governments did not pursue this policy change due to the lobbying power of financial capital, the ascendance of laissez-faire ideology, or the threat of capital flight during the stagflation crisis. Instead, the dismantling of exchange controls must be understood as a strategic response to a crisis of the very

form of wealth underpinning capitalist society. Facing the impersonal domination of value relations, on one side, and the tangible, concrete demands of an enfranchised electorate, on the other, governments forge statecraft strategies to navigate this dilemma. This particular deregulation should be conceptualised as a strategy to meet the latter imperative by delaying the former: that is, to ensure governing legitimacy by postponing the worst effects of the profitability crisis.

In the depths of the stagflation crisis, sterling's appreciation from late 1976 presented the British state with a contradiction. The rising exchange rate disciplined the domestic economy and aided the government in tackling inflation, while placing further pressure on critically uncompetitive industrial exporters and thus risking a politically damaging recession. The archival evidence demonstrated that the Callaghan and Thatcher governments prioritised the latter goal, namely political legitimacy, as they recognised the immediate threat to economic performance and social stability, and thus endeavoured to depreciate sterling by relaxing exchange controls and allowing an outflow of investment. Yet two key obstacles stood in the way of this deregulation: an opposed trade union movement and the volatility of currency speculation in a floating rate system. The Callaghan administration was unable to forge a strategy to overcome either of these barriers, resulting in its relatively weak relaxation of controls in 1977 and 1978. The Thatcher administration, on the other hand, used the narrative of the 'Winter of Discontent' to disarm the unions, while devising a rhetorical strategy that veiled its intended competitive devaluation with appeals to laissez-faire notions of responsible economic management. The abolition of exchange controls was thus fundamentally a palliative statecraft strategy to manage accumulation and legitimation imperatives

– ultimately reflecting the contradiction between value and tangible needs – during the second phase of the profitability crisis in Britain, while the particular form and timing of this deregulation must be understood in terms of discursive strategies designed to navigate the dangers of creating economic policy in the context of volatile global currency markets.

CHAPTER EIGHT

The Big Bang

> If Big Bang goes off successfully, it will be seen as a showpiece for Government policy on deregulation and increased competition; if it leads to scandals and liquidations, it will be labelled the unacceptable face of unpopular capitalism.
>
> Brian Griffiths and David Willetts to Margaret Thatcher, 3 June 1986[139]

Introduction

On the twentieth anniversary of the Big Bang, the *Financial Times* recited the 'conventional wisdom' that these reforms had 'saved the City from a slow slide into irrelevance' (Larsen, 2006). The Big Bang, it was claimed, had transformed Britain's financial sector into 'probably the nearest thing to a true meritocracy' (ibid). The twenty-fifth anniversary commemorations in 2011 assumed a very different tone. As hundreds of protesters marked the occasion by demonstrating in Canary Wharf and at the 'Occupy' encampment outside the LSE, *The Economist* (2011) ran a story with the subheading: 'In the 25 years since the Big Bang, the

[139] TNA PREM 19/1718.

mood in the City has changed from optimism to anxiety'. In just five years, the memorialisation of this event had transformed from an exercise in self-congratulation to a cautionary tale. What has remained unchanged, however, is the fact that the Big Bang represented a crucial policy change in propelling processes of financialisation both in Britain and globally. By disrupting the cartel-like workings of the LSE and allowing for the globalisation of the City, this deregulation accelerated the expansion of the financial sector out of all proportion with industrial growth. For these reasons, it is important to analyse the policy motivations underpinning the Big Bang in order to understand the state's role in advancing financialisation.

To a greater extent than either CCC or exchange control abolition, the Big Bang has generally been understood in popular discourse and much of the academic literature as a policy designed to boost the prospects of financial elites over industrial capitalists. As Talani (2012: 63) has argued, this policy secured the 'definitive submission of productive capital to financial capital'. However, this chapter will demonstrate that neither this *expropriation* perspective nor the opposing *crisis resolution* approach are sufficient for understanding this radical deregulation. The Big Bang must rather be conceptualised in relation to the state's broader attempts to navigate the contradictory imperatives of the crisis of a form of abstract wealth – value – and people's assertion of their tangible demands and needs. This financial liberalisation, it will be argued, constituted an attempt to support the government's broader strategy of depoliticised discipline, which itself was intended to restructure British social relations in line with the dominating pressures of global value relations in a period of crisis, without jeopardising governing legitimacy.

This chapter will advance an account that situates the Big Bang within the Thatcher administration's larger macroeconomic strategy. After their referral to the RPC in early 1979, the LSE began lobbying the government for an exemption from RPC jurisdiction. This presented the Thatcher administration with a dilemma. While granting this exemption would ensure that the government could continue to sell gilt-edged securities on the LSE uninterrupted (an important instrument of monetary control), this high publicity favour for the City would make a mockery of their competition rhetoric. The political considerations won out in 1979 and Thatcher refused the LSE's request.

However, the balance of forces shifted with the creation of the MTFS in 1980. MTFS was a self-imposed policy straitjacket that would lock the government into a four-year path of severe contractionary measures, in an attempt to purge the British economy of stagflation. As a strategy of depoliticised discipline, MTFS required that certain money supply targets were met each year – so as to prove that the policy was working, and thus justify the painful deflation. Yet this policy went disastrously wrong: the ensuing recession was deeper than expected, largely due to the further appreciation of sterling provoked by monetary tightening, and the government was unable to restrain the money supply, due to the fact that they had ignored warnings that their chosen monetary aggregate (£M3) was unreliable. In the context of deepening recession and the erosion of the government's legitimacy, the Thatcher administration reneged on their MTFS pledges and reduced interest rates in an attempt to ease the pressure on the corporate sector and mortgagors. Without the interest rate weapon, the government was forced to discover a different method for reducing the money supply, or else risk the total failure of MTFS. They found

this instrument in a process called ‘overfunding’, whereby more government debt was sold than required by current levels of state expenditure, as a way to soak up excess liquidity in the banking system. In turn, overfunding required a smoothly functioning stock exchange, which could not be reconciled with the continuation of the RPC case. As such, from 1982, the Thatcher government endeavoured to negotiate an exemption for the LSE, which was finally announced in July 1983. The decision that led to the Big Bang, then, was ultimately a result of the government’s need to ensure the success of its depoliticised disciplining measures.

In sum, there is little evidence to support the *expropriation* claims that the state’s role in the Big Bang was motivated by a pro-finance bias or a desire to promote City competitiveness. Neither can this deregulation be understood as an automatic reaction to the crisis of industrial capital, as the *crisis resolution* explanations insist. The Big Bang emerged in the context of the British state’s attempts to reconcile the dominating constraints of a system of social wealth mired in crisis with the need to ensure governing legitimacy in the eyes of the UK electorate. This fundamental step in the British state’s propulsion of financialisation should be understood as one element of a broader strategy to respond to the profitability crisis through depoliticised disciplining.

The Big Bang and financialisation

While within the literature, Britain’s abolition of exchange controls is seen as emblematic of the broader abandonment of Keynesian demand management, the

Big Bang has come to symbolise the radicalism and audacity of the neoliberal revolution in favour of global financial capital. On 27 October 1986, the LSE underwent a dramatic deregulation. Monopolistic fixed commissions on the trading of securities were abandoned and barriers to the entry of foreign firms into the LSE were removed (Plender, 1986: 39). These changes in turn resulted in the scrapping of the single capacity system, which had barred jobbers (who wholesale traded on their own account) from performing the same role as brokers (who traded on behalf of their clients) (Vogel, 1996: 97).

This package of deregulations transformed the City as a financial centre and consequently the British economy. The transaction costs of doing business in the LSE fell rapidly, dropping by 30 per cent between 1986 and 1987 (Laurence, 2001: 83). As a result, the average daily turnover increased from £500 million in 1986 to £2 billion in 1995 (ibid). The increased competition generated by the Big Bang, which saw US and Japanese banks flood into the LSE, is said to have led to the 1980s being the only peacetime decade in which productivity in the UK financial sector grew faster than general productivity (Bellringer and Michie, 2014: 113). Between 1985 and 2005, the UK's banking assets rose from £762 billion to £5,526 billion (Larsen, 2006). By 2007, the financial sector accounted for 8.3 per cent of Britain's GDP and, more importantly, trade in financial services yielded a surplus of £36.9 billion compared to the deficit of £89 billion in traded goods (Eglene, 2011: 34). As Gamble (2009: 16) argues, the Big Bang was central to the emergence of a new financialised growth model, in which financial services are relied upon to 'replace the gap left by the decline of manufacturing'. Froud et al. (2011: 9) relate the Big Bang to financialisation in even stronger terms, emphasising that the credit

creation capacity unleashed by this deregulation ultimately became the driver of Britain's economic growth in the neoliberal era.

'Big Bang' is perhaps a misnomer, considering the gradual and winding institutional pathway through which this deregulation was arrived at. Although the changes that set off this financial revolution were enacted overnight, the Big Bang was in fact a long time in the making. The legal process that resulted in this liberalisation began when the Wilson administration extended the jurisdiction of restrictive practices legislation in 1976 to cover 'virtually all services', without exempting the LSE.[140] As a result, the Director General of the Office of Fair Trading (OFT), Gordon Borrie, came under legal obligation to refer the LSE's rulebook to the RPC, which he did in February 1979. The Chairman of the LSE, Goodison, consequently launched a campaign to lobby the government for an exemption. Goodison's pleas were rejected by the Callaghan administration, but the LSE expected a more sympathetic audience once the Conservatives won the 1979 election. However, in autumn 1979, after discussions between the DoT, Treasury, and Bank, the Thatcher administration refused to exempt the LSE. Goodison, frustrated but undeterred, continued to lobby the government. Finally, in summer 1983, under the stewardship of a new Chancellor and Secretary of State for Trade and Industry, the Thatcher government relented to the LSE's requests and halted the RPC case. In return for exemption, the LSE agreed to several fundamental changes to its rules, which were to be implemented three years later in October 1986 (Moran, 1991). As such, in contrast to the abruptness of the Big Bang's enactment and its

[140] TNA FV 73/148, Thatcher to Wilson, 10 November 1980.

radical implications, the formulation of this landmark piece of deregulation was surprisingly slow, hesitant and punctuated by long periods of inactivity.

Existing interpretations

The existing IPE literature has attempted to explain the radicalism of the Big Bang by pointing to both the ideological makeup of the Thatcher administration and the global dynamics of competitive deregulation. This, in fact, is characteristic of the broader IPE consensus on the causes of neoliberal financial regulatory restructuring. However, only a select few accounts have endeavoured to understand the reason for the gradual and indecisive route by which the government decided to pass this deregulation.

Similar to his analysis of the abolition of exchange controls, Helleiner (1996: 151) argues that the 'government's pressure on the stock exchange to introduce these reforms stemmed in part from a neoliberal desire to eliminate restrictive practices in London'. The role of ideology is also emphasised by Laurence (2001: 81), who points out that the Conservatives had 'always been seen as friends of the city' and thus it should not come as a surprise that they ultimately acquiesced to the LSE's requests for exemption from the RPC case. Moving beyond the analysis of the Thatcher government's broad opposition to financial regulation, Moran (1991: 71) and Laurence (2001) also point to the role played by specific ideologues, such as Chancellor Lawson and Secretary of State for Trade and Industry Cecil Parkinson, who are said to have broken the deadlock of indecision within the administration as a whole. This chimes with the broader explanation of

financialisation as an ideas-driven phenomenon, which constitutes one part of the *expropriation* approach (Palley, 2013).

On the whole, however, IPE explanations of the Big Bang have placed more emphasis on structural shifts in global financial markets than the ideological predisposition of figures within the Thatcher administration. While recognising the role played by contingent factors in shaping the timing and specific form of this deregulation, it is argued that it was the global pressures of competitive deregulation and financial innovation that forced governing elites to act. As Helleiner (1996: 151) claims, 'the mobility of financial activity encouraged a competitive deregulation dynamic' that pushed the Thatcher government to pursue the 'goal of preserving London's position as an international financial center at a time when global financial business was shifting from banking to securities activity'. Similarly, Laurence (2001: 72-3) argues that the May Day deregulation of the New York Stock Exchange provoked a decline in transaction costs in New York financial markets, which, when combined with Britain's abolition of exchange controls in 1979, caused a mass exodus of securities trading from London to more profitable climes. This global dynamic, combined with the rise of large institutional investors in Britain who no longer benefited from the LSE's monopolistic practices, created a powerful pressure for the abandonment of the LSE's cartel-like rules. Ultimately, Laurence (ibid: 75, 80) insists, it was the Bank that pushed the government to exempt the LSE out of fear for the competitiveness of the City as a financial powerhouse. Talani (2012: 60) advances this interpretation in even stronger terms, claiming that the Big Bang 'inevitably followed' the abolition of exchange controls. With the free flow of capital entailed by this deregulation, the declining

competitiveness of the City would directly result in the loss of the LSE's share of global securities trade. By revolutionising the outdated practices of the LSE and consequently prioritising the interests of the British financial sector, Talani (ibid: 63) claims that the 'Big Bang represented the final stage of a process which had already begun in the mid-1970s: the definitive submission of productive capital to financial capital' – echoing *expropriation* approaches to financialisation. Thereafter, 'short-termism' became 'a structural characteristic of the British capitalist system' (ibid). The Big Bang, from this perspective, is understood as one aspect of a broader deregulation agenda that was forced on states by the insipient dynamics of financialisation – conceived of, presumably, as a sort of self-moving phenomenon.

While the IPE literature has prioritised two explanations of the Big Bang – ideology and the global dynamics of competitive financial deregulation – a number of influential accounts have brought to light the messy intra-governmental politics that led to the Thatcher administration's decision to exempt the LSE. These explanations stress, as Daniel Mügge (2010: 46) writes, the lack of 'coherent government strategy' with regards to the LSE, and instead point to the dynamics of institutional path dependency that were initiated by the expansion of the OFT's jurisdiction in 1976. Steven Vogel (1996) puts forwards the most detailed account of the Big Bang, in which he highlights the conflicts both between government departments and between the Treasury and Bank. Vogel (ibid: 102-3) argues that the Thatcher government initially refused to exempt the LSE due to political concerns, namely that they did 'not want to be seen as too close a friend of the City'. This point is echoed by Bellringer and Michie (2014: 125), who emphasise that

Secretary of State for Trade Nott, in particular, was extremely cautious not to 'contradict [the Conservatives'] rhetoric on competition policy'. After Nott's successor, John Biffen, also refused to exempt the LSE, Vogel claims that the Bank decided to intervene. Motivated by a 'keen interest' in ensuring the successful 'trading of gilt-edged securities' and 'the overall health of the City', the Bank began a process of negotiation with the LSE, OFT, DoT, and Treasury in 1982 (ibid: 104). As Moran (1991: 71) argues, the 1983 appointment of two pro-market ideologues to powerful positions within the government – Lawson and Parkinson – gave a new impetus to the Bank's endeavours, which ultimately resulted in the exemption of the LSE in July. These detailed expositions of the period from 1979 to 1983 serve to highlight the complicated and incoherent nature of the government's strategy with regards to the LSE. Bellringer and Michie (2014: 126) go as far as to claim that the 'government's focus was not on sparking a process to propel the Stock Exchange, and as a consequence the City of London, to a position of global influence'. Rather, this approach emphasises the role of chance, the binding power of legal path dependency, and the manner in which this dynamic interacted with the political considerations surrounding competition policy.

This literature is, on the whole, deeply unsatisfactory. While various accounts make important points about the state's motivation in pursuing the Big Bang deregulation, the literature in general is characterised by a completely counterproductive assertion: government policy with regards to financial regulation is arbitrarily separated from broader macroeconomic policy. Due to the fact that the sale of government debt on the LSE was a crucial mechanism through which the government exercised control over the money supply, which in turn formed a central

element of the government's macroeconomic agenda, state strategy cannot be neatly compartmentalised into the self-enclosed categories of financial policy, monetary policy, and macroeconomic objectives. While Vogel (1996: 104) and Bellringer and Michie (2014: 126) mention the role of government funding in the RPC case, neither place the gilt markets at the centre of their accounts. Sahil Dutta (2017) has made a welcome contribution, in this sense, by directly linking the Big Bang with the government's debt-selling needs. By examining the British state's intervention in the gilt-edged markets since the 1960s, Dutta (ibid) draws a link between this financial liberalisation and the state's broader attempts to manage its sovereign debt. Nevertheless, despite the innovative nature of Dutta's account, no existing literature relates the Big Bang to the *immediate* macroeconomic needs of the Thatcher government in the early 1980s. The period 1979-83, during which the government was deliberating over the RPC case, was also marked by the formulation and implementation of an incredibly bold macroeconomic plan that transformed the government's debt-selling needs. MTFS was primarily a political device designed to lock the government into a four-year disciplining programme and insulate it from political pressures to reflate the economy. In order to successfully depoliticise this disciplinary policy framework, this strategy required a number of economically questionable but politically important monetary targets to be met each year. This in turn necessitated that the government was able to sell massive amounts of gilt-edged securities in order to control the money supply. As the government's sole medium for the sale of debt, the LSE's smooth functioning was thus an essential element in the government's macroeconomic strategy. The Big Bang, as such, must be

understood in relation to the immediate debt-selling needs generated by the implementation of MTFS.

This chapter will overcome the shortcomings in the existing IPE literature by analysing this deregulation in terms of a strategic response to the global profitability crisis and its national manifestations. The Big Bang will be framed as a pragmatic attempt to prop up the Thatcher government's MTFS – a strategy of depoliticised disciplining that was proving contradictory, politically divisive, and fundamentally unworkable. The evidence presented in this chapter not only highlights the shortcomings of the Big Bang literature's reliance on dynamics of competitive deregulation and ignorance of debt management issues, but also constitutes a broader disconfirmation of theories of the state's role in financialisation. The British state neither pursued this liberalisation primarily to boost the City's competitive position, as the *expropriation* approach claims, nor was this policy change an attempt to placate the capitalist class by freeing up credit in times of crisis, as the *crisis resolution* approach would insist. Rather, the Big Bang must be understood in relation to the contradiction between the impersonal domination of global value relations during a period of crisis and the demands by people for their immediate needs to be met. MTFS was an ill-thought-out political strategy to discipline domestic social relations in line with global value imperatives, in a depoliticised manner that would insulate political legitimacy – and the Big Bang should be conceptualised as an ad hoc attempt to support this ailing strategy.

Thatcher's initial refusal to exempt, 1979

As detailed in the previous chapter, when the Conservatives arrived in office in May 1979, they faced a dire economic situation. The British experience of the global profitability crisis had entered its second phase, whereby the strong pound, propped up by North Sea oil and the IMF's seal of approval, was aiding in the government's attack on inflation (which nevertheless remained extremely high), while simultaneously eroding companies' already desperately low rates of profit. Just as these conditions had presented the government with a dilemma with regards to exchange controls, so it also led the Thatcher administration to hold conflicting views on the RPC's legal action against the LSE. Four days after the election, Goodison began lobbying Secretary of State for Trade Nott to exempt the LSE from this court case.[141] Yet the LSE's pleas did not concern the new administration greatly. Instead, they were torn between two contradictory governing imperatives.

Firstly, the government needed a smoothly functioning stock exchange both to sell its own debt and so that companies could sell their securities. This was crucial for two reasons: in the context of accelerating inflation, the sale of government debt helped to control the money supply by soaking up excess liquidity; and in the context of dwindling corporate liquidity, companies needed to raise funds for investment on the stock exchange. Secondly, the Thatcher administration had been elected on a platform of increasing the competitiveness of the British economy in all its aspects – ostensibly, this was to be their solution to the interminable

[141] TNA FV 73/146, Goodison to Nott, 8 May 1979.

stagflation crisis – and the high profile exemption of a cosy cartel such as the LSE from legal scrutiny would represent an embarrassing U-turn on this stated objective. Indeed, as explored in the previous chapter, it was the apparent conviction of the Thatcher government's rhetoric on free competition that had given them the political cover to attempt to manipulate the pound through the abolition of exchange controls. This divergence between the Thatcher government's rhetoric regarding their unwavering commitment to laissez-faire and the reality of their pragmatic manoeuvrings casts doubt on the 'blueprint' theories of Thatcherism that emphasise the intentionality and coherence of the Thatcher governments' economic legacy (Evans, 2004).

The Thatcher administration, once again, faced a difficult governing dilemma, arising ultimately from the global profitability crisis. The RPC investigation of the LSE threatened to destabilise the government's immediate objectives to dampen the spiralling inflation numbers and stave off large-scale bankruptcies. Yet exempting the LSE from the RPC would ridicule the government's longer-term strategy for reviving sustainable economic growth – namely their competition agenda – and thus endanger their governing legitimacy. The interplay of these contradictory pressures explains the Thatcher government's decisions with regards to the LSE in 1979.

Upon its election, the Thatcher government was immediately warned by Treasury and Bank officials as to the dangers of the RPC case. On 10 May, Treasury official R. H. Seebohm wrote to Treasury Under Secretary Michael Bridgeman, explaining that an:

> effective secondary market in gilts is highly desirable to support the funding of the PSBR … There is a genuine risk of financial anarchy in the event of an adverse Court decision before a new system is developed, during which period there could be a hiatus in gilt sales. The secondary market is also important for company securities.[142]

Indeed, Bridgeman recognised that 'there is a risk, which may be small, of severe damage to the present Government's key element in its macro-economic strategy, control of the money supply'.[143] This reflected his observation earlier in the year that '[n]o Government which was committed to control of the broader monetary aggregates as a major element in its macro-economic policy and so a substantial programme of gilt sales could run the risk of such an hiatus'.[144] This problem was recognised by the Bank months before the Conservatives had arrived in office. In June, Bank Governor Richardson wrote to Chancellor Howe. Richardson argued that the 'outcome of such a review could be far reaching and unless very carefully handled could seriously disturb markets generally and the gilt-edged market in particular'.[145]

Against this advice, however, Howe was also repeatedly warned of the political embarrassment that would accompany an exemption of the LSE – a point also made by Vogel (1996), Laurence (2001), and Bellringer and Michie (2014). A Treasury note on 17 May warned that an 'amendment to the Services Order would require an Affirmative Resolution in both Houses and there could be political

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[142] TNA T 386/684, Seebohm to Bridgeman, 10 May 1979.
[143] TNA FV 73/147, Bridgeman to Durie, 21 June 1979.
[144] BOE 6A385/12, Bridgeman to PS/Chief Secretary, 30 January 1979.
[145] TNA T 386/684, Richardson to Howe, 4 June 1979.

embarrassment for the Government (which could be accused either of abandoning the policy enshrined in the Fair Trading Act 1973 or of being selective in the support for stronger competition powers generally)'.[146] Two weeks later, Nott repeated this fear to Howe. He agreed that the RPC was the wrong forum to examine the LSE's practices, but emphasised that the legal process was 'already in train' and interrupting it now while claiming to want to 'strengthen competition policy generally … might be fiercely criticised'.[147] The Bank, despite voicing their support for exemption, was also beginning to realise the extent of the government's bind. Peter Cooke, Head of Banking Supervision, was informed by a Bank official after a meeting with Conservative ministers in mid-June that the 'topic is going to be decided on political grounds by Ministers hooked on competition'.[148]

An attempt to reconcile the funding and political imperatives was made, however, in the form of a 'stay of execution' clause to the Competition Bill that was to be unveiled in 1980.[149] This legal amendment would grant the LSE time to adjust to the changes if its rulebook was deemed restrictive by the RPC, thus avoiding an initial period of chaos that could endanger gilt sales. A Treasury note explained that this clause 'seems to remove the main difficulties of allowing the reference to proceed, without incurring the difficulties of immediate exemption'.[150] While this proposal was endorsed by Financial Secretary Lawson[151], the Bank was not

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[146] TNA FV 73/146, Treasury Note, 17 May 1979.
[147] TNA FV 73/146, Nott to Howe, 30 May 1979.
[148] BOE 6A385/13, CEC to Cooke, 14 June 1979.
[149] TNA FV 73/146, Treasury Note, 17 May 1979.
[150] TNA T 386/684, Note by Gilmore, 23 July 1979.
[151] TNA T 386/684, Lawson to Howe, 25 July 1979.

convinced, with Richardson insisting to Howe that the stay of execution was a 'valuable improvement' but still deeply insufficient.[152]

A split began to emerge between Howe and Richardson on one side, and Lawson and Nott on the other. Howe wrote to Nott in late May, voicing his strong opposition to Nott's hesitancy about exemption. After numerous discussions, Howe's position softened somewhat. On 8 August, he explained to Nott that he was unable to 'simply accept the danger to our funding programme which a hiatus in gilt sales would represent … an effective market in gilts and in equities is essential to the economy'.[153] As such, he urged Nott to accept the stay of execution immediately and to keep open the option of exemption when the opportunity presented itself. Yet Nott remained steadfastly opposed to exemption throughout this period. The political considerations, he insisted, had to take precedent: 'The press (the Guardian and the Economist) had stated explicitly that they would regard the Government's actions with respect to the Stock Exchange as the key test of its commitment to [competition] policy'.[154] The Bank came to believe that Nott had isolated himself from his colleagues and advisors. There was talk in the Bank that Treasury Permanent Secretary Wass had 'spoken to the Chancellor who had urged Nott to reconsider this approach but Nott had said "no"'.[155] Furthermore, a DoT official had hinted to the Bank that 'DOT officials' advice to their Minister had been opposed to the line Nott was now taking'.[156] However, despite his possible isolation, Nott could rely on support from Lawson and, more importantly, Thatcher. The latter

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[152] TNA FV 73/147, Richardson to Howe, 15 August 1979.
[153] TNA T 386/684, Howe to Nott, 31 July 1979.
[154] TNA T 386/684, Note for the Record, 31 August 1979.
[155] BOE 6A385/14, Note for the Record, 4 September 1979.
[156] Ibid.

explained that while she was content for Nott and Howe to resolve the issue amongst themselves, she was 'inclined to agree with Mr. Nott that it would be hard to justify not having the Stock Exchange investigated by the Restrictive Practices Court … at this juncture'.[157] Nott revealed his decision not to exempt the LSE to Goodison on 16 October, to the latter's dismay.[158]

In the context of the second phase of the profitability crisis, in which the high pound was pushing the British economy deeper into recession, the RPC's case against the LSE presented the government with a dilemma. On the one hand, exempting the LSE would allow continued sales of gilts and company securities, which helped in the battle against inflation and in keeping companies afloat despite dire profitability. On the other hand, this exemption would directly contradict the Thatcher government's pro-competition rhetoric, and thus threaten their political legitimacy. In 1979, the government decided, as a result of pressure from Nott, Lawson, and Thatcher, to postpone this dilemma. The immediate legitimacy considerations were considered to take priority, while the dangers associated with debt sales were somewhat allayed by the stay of execution clause. This narrative, thus far, is broadly in line with the arguments of Moran (1991), Vogel (1996), and Bellringer and Michie (2014). However, in the following years, the balance of forces was to change in significant ways, with the sale of government debt becoming an increasingly central element in the government's attempt to discipline British social relations and thus revitalise the stagnant economy. This in turn rejuvenated the debate surrounding the RPC case.

[157] TNA FV 73/146, Lankester to Durie, 4 June 1979.
[158] TNA FV 73/148, Note of a meeting, 16 October 1979.

A medium term *political* strategy

The archival record shows a curious lull in discussion of the RPC case within the Treasury, DoT, and Bank after Nott's decision in late 1979.[159] Yet in 1982 this debate reignited with a greater fervour than before. While this period of inactivity is generally explained in the existing literature as deriving from the ideological disposition of the Secretaries of State for Trade who held office at the time – Nott and Biffen supposedly shared a lack of sympathy for the LSE's plight, while Arthur Cockfield and Parkinson were more predisposed to take the City's side (Moran, 1991; Vogel, 1996) – the following sections of this chapter will advance a different explanation. The re-emergence of interest in the RPC case was primarily driven not by ideological considerations, but out of a necessity to support the government's broader macroeconomic strategy. More specifically, it was the 1980 enactment of MTFS – the Thatcher administration's depoliticised strategy to discipline British social relations and thus resolve the profitability crisis – that forced the government to ensure that there was no disruption in the gilt market resulting from a negative RPC decision.

MTFS was the policy framework upon which the Thatcher government's notorious monetarist experiment was based. It consisted of a four-year plan that set

[159] The exception to this generalisation is the intervention made by Harold Wilson following the publication of the Wilson Committee's *Review of the Functioning of Financial Institutions* in 1980. Wilson urged Thatcher, with Goodison's backing, to reconsider the RPC case in light of the report's findings. Thatcher, however, was unconvinced that the report offered any information that would cause the government to reverse its 1979 decision (TNA FV 73/148, Wilson to Thatcher, 17 October 1980; TNA FV 73/148, Thatcher to Wilson, 10 November 1980).

a series of annually declining targets for the money supply and PSBR, with the stated overall goal of reducing inflation. Not only were the money supply targets extremely ambitious, but the key monetary aggregate chosen as a target – £M3 – had a very loose relationship with inflation. Indeed, there were concerns within the Bank, Treasury, and Civil Service Committee that 'the relationships between (any particular definition of) monetary growth and nominal incomes were too fragile a basis for such a long-term commitment' (Goodhart, 1989: 302). As Needham (2014: 147) points out, while there was little econometric evidence suggesting that control of £M3 would allow the government to rein in inflation, there was a 'tolerably robust' relationship between another aggregate – M1 – and nominal incomes. Yet Lawson – the policy's progenitor – chose the former as a target because prioritising M1 would have given more interest rate setting power to the Bank, further cementing its autonomy from Treasury and ministerial control (ibid). In addition, the raft of financial deregulations that had preceded MTFS – most significantly the abolition of exchange controls – seriously undermined the ability of policy-makers to have any definite impact upon the money supply. Such practical concerns, however, were 'brushed aside' by the government in their determination to implement this new policy framework (Goodhart, 1989: 302).

The government's unwillingness to be deterred by the technical deficiencies of MTFS hint at its fundamentally *political* character. MTFS should be understood not simply as a reflection of the Thatcher administration's stubbornness and monetarist ideological fervour, but as an attempt to commit the government to a strict disciplining project that would confront the profitability crisis head on. Several authors have made this point in strong terms. Bulpitt (1986: 32) argued that the

Thatcher government adopted this ostensibly monetarist strategy as a way to rediscover 'automatic rules or pilots to manage the economy'. By reducing the problem of inflation to a single monetary aggregate, which could only be controlled by expert manipulation of certain key economic variables, 'economic management was depoliticized' and thus solely became the prerogative of an insulated elite cabal (ibid). Furthermore, MTFS represented 'the deliberate abdication of power to the financial and exchange rate markets' (Thain, 1985: 269). By basing its macroeconomic strategy upon a select few monetary targets, the government was committing itself to transform policy if changes in financial conditions meant that the targets were in danger of being missed. This policy straitjacket would nullify the 'need for an incomes policy and with it, direct and continuous political negotiations with trade unions': '[w]orkers who continued to demand wage rises above the rate of inflation would be automatically forced to change their expectations or price themselves out of a job' (Flinders and Buller, 2006: 305). MTFS, then, was expected to depoliticise the government's restoration of profitable capital accumulation through severe economic contraction.

While the policy had its detractors, its political character was widely recognised.[160] Discussing MTFS in early 1980, Sir Kenneth Berrill, head of the Cabinet Office's Central Policy Review Staff, summarised what was at stake in implementing this policy:

[160] Governor Richardson urged Thatcher and Howe against the adoption of MTFS at a meeting in March 1980. While he recognised that the policy was designed to lock the government into a stable 'path through the difficulties ahead', he reminded them that it 'was hard enough to set a monetary target for one year ahead: it was much harder for a four year period' (TNA PREM 19/177, Lankester to Wiggins, 10 March 1980).

> This battle (which has only just begun) is between the irresistible force (trades union power) and the immovable object (the money supply). Given British conditions, it could be a very bloody battle indeed with interest rates, exchange rate, reduced investment, bankruptcies, at unknown levels. By declaring its determination to plough on with its monetary targets regardless the Government is giving itself very little elasticity … *This is one of the many decisions which is, in the end, more a matter of political than economic judgement*.[161]

Yet this lack of elasticity, which concerned Berrill, was exactly what attracted Lawson. He argued that this reduction in the government's 'room for manoeuvre as circumstances changed … was the point of the whole exercise. MTFS was intended to be a self-imposed constraint on economic policy-making' (Lawson, 1992: 67). It was a mistake to think, as many cynical Conservatives did, that previous Labour governments 'foolishly over-expanded the money supply simply out of ignorance or sheer perversity' (ibid: 70). Rather, Lawson emphasised, it was 'political pressures' that blew these governments off course (ibid). By committing itself to four years of economic stringency, MTFS would insulate the government from these political pressures. This represented, as Howe (1994: 163) observed, 'a natural follow-through from the sensible lesson that the IMF had imposed upon our predecessors'. Indeed Tim Lankester, Thatcher's Private Secretary, wrote to Treasury Chief Secretary Biffen, Wass, and Thatcher in March 1980: 'the way the policy works implies that they [markets] need to be given clear indication of the

[161] My emphasis; TNA PREM 19/177, Berrill to Lankester, 25 February 1980.

limits within which we intend to manage public spending and the money supply'.[162] The 1980/81 Financial Statement and Budget Report thus stated that 'there would be no question of departing from the money supply policy, which is essential to the success of any anti-inflationary strategy' (HM Treasury, 1981). As Thatcher (1993: 97) insisted, rather than resting on a solid relationship between economic variables, MTFS depended upon a downward reappraisal of economic expectations that would only occur if the government was seen to be committed to strict and continued financial discipline: 'MTFS would only influence expectations in so far as people believed in our determination to stick to it: its credibility depended on that of the Government – and ultimately, therefore, on the quality of my own commitment … [that] I would not bow to demands to reflate'.

The Thatcher government's monetarist experiment should be understood as a statecraft strategy of depoliticised discipline, whereby the government would lock itself in to a contractionary programme that would limit policy-makers' ability to fold in the face of popular outcry. This would allow the government to discipline domestic social relations in line with a system of global value relations in deep crisis. This strategy was predicated upon the achievement of certain technical monetary objectives, which would in turn justify the painful economic restructuring. However, as will be examined next, the practical shortcomings of this programme would ultimately push it to the brink of collapse.

[162] TNA PREM 19/177, Lankester to Biffen, 7 March 1980.

When the rubber hit the road, 1980-82

In order for MTFS to successfully depoliticise the government's disciplining strategy in response to the profitability crisis, Conservative politicians needed to at least be able to demonstrate that the policy was working in its stated goal of tackling monetary growth. This would be the symbolic victory that would justify the government's contractionary agenda and help them resist political pressures to reflate the economy. However, this plan foundered immediately upon implementation, devastating the government's disciplining strategy.

In 1980, Britain entered the worst recession since 1921. Razor thin company profits shrank even further, as they were squeezed by both a pound priced at over $2.40 and interest rates that stood at 17 per cent (Needham, 2014: 154; Britton, 1994: 53). Manufacturing investment fell by 26 per cent, GDP dropped by 4.6 per cent, and unemployment climbed above two million for the first time since the 1930s (ibid). Facing the possible decimation of non-oil industry, the Director General of the CBI promised a 'bare knuckle fight' with the government if they did not make some efforts to ease the contraction (Needham, 2014: 155). Richardson explained the problem in stark terms to Thatcher, Howe, and Lawson in October: 'Profitability was at an appallingly low level: although pre-tax rates of return had fallen in all countries, in the UK it was only about half of what it was elsewhere … there was a danger [in some sectors] that the UK would lose industrial capacity altogether'.[163] This was exactly the kind of 'bloody battle' that Berrill had warned of. In the context of this unprecedentedly deep recession, it was essential that the

[163] TNA PREM 19/179, Lankester to Wiggins, 14 October 1980.

Thatcher government could at least point to the success of MTFS in meeting the money supply objectives. Yet the monetary aggregates showed no sign of responding to MTFS. In contrast to the target range of 7-11 per cent, £M3 grew by 19.1 per cent between February 1980 and April 1981, while inflation averaged 18.1 per cent throughout 1980 (Cobham, 2002: 43, 12). By September 1980, Thatcher was expressing 'serious concern that the money supply would be seen to be out of control'.[164]

MTFS was being torn apart at the seams. Its disciplining effects had been even greater than expected, as the monetary tightening had caused a further appreciation of sterling, which was imposing an extreme contraction upon British businesses. Furthermore, the ensuing recession could not be justified by pointing to the government's success in meeting the monetary objectives, as £M3 was well above the target range. Confronted with this dilemma, the Thatcher administration's resolve was weakened. MLR was reduced from 17 per cent to 16 per cent in July 1980 and then to 14 per cent in November, in spite of the £M3 and inflation numbers, so as to allow ailing businesses to access cheaper credit and to assuage the important Conservative constituency of mortgagors (Tomlinson, 2007: 9). The political sensitivity of increases in MLR meant that the government had to rely on other mechanisms to attempt to meet the MTFS targets. As such, the March 1981 Budget announced a series of sharp cuts in public expenditure as well as indirect and income tax increases, in an attempt to combat the government's contribution to the growth in the money supply and shift resources from the personal to the corporate and state sectors (Dow, 2013: 12). This in turn allowed Howe to reduce

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[164] TNA PREM 19/178, Pattison to Wiggins, 3 September 1980.

MLR to 12 per cent and thus ease the pressure on companies and the mortgage market. As Needham (2014: 153) notes, MTFS came to resemble much more a *fiscal*, rather than monetary, strategy.

The recession bottomed out in early 1981, with output reaching its lowest point in spring (Britton, 1994). Consequently, the economic outlook began to improve: GDP rose for the first time since 1979, sterling reached a four-year low of $1.76 in August, £M3 rose by 13.7 per cent (which was still well above the 6-10 per cent MTFS target), and inflation averaged 11.9 per cent (Cobham, 2002: 43, 12). However, by the start of 1982, bank lending had begun to grow rapidly. Driven chiefly by a desperate company sector as well as house buyers, this sharp acceleration in bank lending threatened to throw the MTFS targets into chaos just when the government seemed to be getting to grips with the economic situation (Dow, 2013: 198). Combined with the stubborn continued rise in unemployment, which began to approach three million, this represented a worrying challenge to the Conservatives' chances in the 1983 election.

In order to preserve the presentational coherence of MTFS, it was crucial that bank lending be restricted without further increasing unemployment, jeopardising the timid recovery in business investment, or alienating mortgagors. As Richardson and Howe both acknowledged, 'for the sake of the corporate sector, there would have to be some reduction in interest rates; but it was questionable whether this could be reconciled with sticking to the figures in the medium-term financial strategy'.[165] Furthermore, not only had MLR increases been deemed too politically sensitive, but the government had very few methods for tightening

[165] Ibid.

monetary policy left at its disposal, having abolished exchange controls on capital movements in 1979 and 'corset' controls on bank lending in 1980. The success of MTFS as a statecraft strategy of depoliticised discipline required the discovery of a more politically neutral instrument that could give the government some measure of control over the money supply.

Overfunding and the stock exchange, 1982-83

This monetary instrument was discovered in a practice called overfunding. Overfunding was a 'peculiarly British practice' which involved the government selling more debt than it needed to fund its expenditure in order to absorb money that would otherwise have been held by banks (Lawson, 1992: 449). This aided in reducing the money supply without politically difficult increases in MLR. In broader terms, overfunding would allow the Thatcher administration to meet their monetary targets, which would in turn justify the pain of the government's depoliticised disciplining strategy to purge stagflation from the British economy.

Goodhart, Bank Chief Advisor during this period, observed that because 'the government [had] shrunk from the option of pushing up interest rates high enough', they were forced to rely on large sales of gilt-edged securities to pick up the slack (Goodhart, 1995: 106). The government's fiscal tightening was proving insufficient to counteract the rise in bank lending, as the Bank's Rachel Lomax argued in November 1981: 'If bank lending continues to grow rapidly, the task of meeting the MTFS target will be difficult, even if the PSBR falls relative to GDP, as planned.

We may only be able to restrain the growth in £M3 by persistently overfunding the PSBR'.[166] Overfunding became an increasingly crucial tool in the Thatcher administration's arsenal, with the government selling an excess of £2.5 billion in debt more than needed to fund the PSBR in 1981-1982 (Bank of England, 1982: 201). Indeed, Lawson (1992: 72) wrote that the MTFS objectives for 1982 and 1983 'were met only after the targets had been raised, and then by somewhat artificial means (the technique known as "overfunding")'. Similarly, former Bank advisor Christopher Dow noted the importance of this method of monetary control when he commented that the increase in bank lending in 1982 'would have had to be accompanied by even more rapid growth of bank deposits – and hence of £M3 – than in fact occurred had we not sold debt on an enormous scale' (Dow, 2013: 198). The centrality of overfunding to the government's macroeconomic strategy was explained in May 1982 to Howe by Treasury Deputy Secretary Middleton in a revealing letter:

> The abolition of exchange controls has greatly restricted our ability to do anything about one counterpart – the growth of bank lending. If direct controls are imposed the banking system would continue to expand offshore beyond our control. We have a completely free banking system for the first time in living memory … We have not thought it either feasible or desirable to attempt to reduce bank lending over the medium term by letting short term interest rates rise … So, for a given fiscal policy, *we are*

[166] BOE 13A173/3, Pirie to Minister of State (Commons), 3 November 1981.

left with only one instrument to control £M3 and the wider aggregates – funding in all its forms.[167]

The need to use government debt sales to control the money supply increased even further in July, when the hire purchase controls on bank lending were abolished (Britton, 1994: 62).

This heavy intervention in the gilts market created a greater necessity for a functioning stock exchange. As a result, interest in pursuing the exemption of the LSE from the RPC revived within the Treasury and DoT in 1982, after little attention had been paid to the issue since autumn 1979. Wass wrote to Bank Deputy Governor McMahon in March, arguing that the problem was not simply that a negative ruling by the RPC could create a temporary disruption in the sale of government debt. Rather, there was an additional problem that meant an unconditional exemption which maintained the status quo would also be unworkable, namely that the LSE's outdated and monopolistic practices had rendered the existing stock market too small to adapt to the government's overfunding requirements: 'The jobbers, as you have often told us, are not highly capitalised, and could not be expected to run sizeable books, particularly of long-dated stock … [T]his lack of capital base imposes a serious constraint on our freedom to experiment with new techniques of selling'.[168] Governor Richardson urged Howe in late June that 'the Court proceedings ought to be stopped and replaced by a rapid independent enquiry'.[169] Furthermore, he assured Howe that he

[167] My emphasis; TNA T 521/42, Middleton to Howe, 13 May 1982.
[168] TNA T 521/42, Wass to McMahon, 15 March 1982.
[169] TNA T 521/44, Seebohm to Pirie and Monck, 2 July 1982.

had 'obtained Mr Goodison's informal and confidential assurance that he [Goodison] would be prepared to work for the implementation of the findings of any such enquiry'.[170] By the end of June, Howe decided to take action to accelerate the process by asking 'for a speedy paper from Treasury officials to consider inter alia a forum other than … Restrictive Practices Court for examining the Stock Exchange's restriction'.[171]

Political considerations concerning a visible U-turn on competition policy, which had stopped the government from exempting the LSE in 1979, had still not faded completely from sight. By August 1982, Howe had arrived at the 'provisional conclusion' that 'primary or secondary legislation to interrupt the case would be very difficult politically'.[172] As such, 'the best of an unpromising range of options may be to encourage "without prejudice" discussions with a view to settlement out of Court'.[173] Secretary of State for Trade Cockfield, Biffen's successor, shared the same sentiment, explaining to Howe that he 'thought it impossible to withdraw or block the case: and that the only possible way out was for the Stock Exchange to put its house in order and for what amounted to a consent judgement to be given on that basis'.[174] Similar developments took place in the Bank during this period. David Walker was appointed Executive Director for Industrial Finance and consequently started to investigate ways to circumvent the RPC (Vogel, 1996: 104). Walker began corresponding with Philip Brown, DoT Deputy Secretary, on the topic of a possible exemption. Considering the political sensitivity, Brown insisted that the DoT

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[170] Ibid.
[171] TNA FV 73/215, Linstead, Note for File, 1 July 1982.
[172] TNA FV 73/215, Rutter to Rhodes, 3 August 1982.
[173] Ibid.
[174] TNA FV 73/215, Whitlock to Linstead, 15 August 1982.

believed 'the right way to talk is "talks about talks"' – yet Walker commented that 'even "talks about talks" will be difficult to launch'.[175] Furthermore, Cockfield was wary of the Treasury taking the lead on the case, as they 'could not be relied upon to adopt a wholly independent posture on Bank proposals' due to the fact that that 'Treasury perceptions would be dominated by the likely effect of any proposals upon the gilts market'.[176]

Growth in monetary aggregates slowed in the second half of 1982, possibly dampening the sense of immediacy about exempting the LSE, which is reflected in a period of quiet in the archival record. Yet in early 1983 the situation worsened. From March to May, £M3 grew by 15.7 per cent, flouting the 7-11 per cent MTFS target range (Bank of England, 1983: 173). The most important reason for this monetary growth was a sharp and unexpected increase in the PSBR and mortgage lending. In order to counter this, the government sold £3.1 billion in gilt-edged securities between March and May, which was still not enough to offset the borrowing requirement.[177] In early May, Howe, Cockfield, and Richardson met and decided that the 'next step should be for the Treasury and DOT officials, in consultation with the Bank, to produce, as a matter of urgency, a draft negotiating brief'.[178] The reason for this urgency, in the words of Treasury Under Secretary for Home Finance Nick Monck, was that the government required 'an efficient market for gilts not only as a source of finance but as an instrument of monetary control'.[179]

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[175] TNA FV 73/215, Brown to Walker, 23 August 1982; TNA FV 73/215, Walker to Brown, 26 August 1982.
[176] TNA FV 73/215, Madelin to Brown, 19 November 1982.
[177] Ibid.
[178] TNA PREM 19/1005, Record of Discussion, 6 May 1983.
[179] TNA T 486/12, Monck to Cassell, 2 June 1983.

In order to maintain (or rescue) the appearance of MTFS as an economically sound strategy, rather than a device to depoliticise disciplining measures, the government desperately needed 'to be able to control monetary growth by varying quantity of debt sales to the non-bank private sector'.[180]

The Conservatives' election victory on 9 June spurred the process further, as Lawson became Chancellor and Parkinson was appointed as Secretary of State for Trade and Industry. Parkinson was strongly opposed to the RPC case, a position that was motivated by his fear that the 'Stock Exchange would become a peripheral institution on the world financial scene' (Parkinson, 1992: 244). Ironically, Parkinson argued, the LSE was being 'prevented from changing by a legal action designed to promote change' (ibid). Eager to maintain the momentum that had been built up before the election, Parkinson looked to arrange a meeting with Lawson and Richardson to discuss the next steps. In preparation for this meeting, Monck emphasised to Treasury officials – including Middleton, the new Permanent Secretary – that the 'Treasury has an interest in the subject both because of the macro-economic importance of an efficient and effective capital market and because of our interest in an effective and cheap mechanism for marketing gilt-edged stock as a means of controlling the growth of the broad monetary aggregates'.[181]

In addition to the energy injected by the new post-election appointments, the political considerations surrounding the exemption of the LSE had changed significantly. The fear of damaging political repercussions if the government was seen to contradict its competition rhetoric had subsided after the election victory.

[180] Ibid.
[181] TNA T486/12, Monck to Principal Private Secretary, 14 June 1983.

Furthermore, a new political concern was emerging, namely that if the case went all the way to court it could expose a deep division between the Treasury and Bank. On 22 June, Monck told Lawson:

> Apart from the argument of substance, continuation of a Court case could produce severe embarrassment. The Bank feel that if they had to give evidence, they would have to support the status quo … There would be a choice between the Treasury giving evidence in favour of the status quo and a more or less public disagreement with the Bank. It would be preferable to avoid this and the Department of Trade proposal offers a way of doing so.[182]

As such, at a meeting between Parkinson, Lawson, and Richardson on 24 June, a plan of action was set out, which would include speaking first with the OFT and then beginning negotiations with Goodison: 'The aim would be to move as fast as possible with the Stock Exchange Council'.[183] Less than one month later, after negotiations with both Goodison and Borrie, a deal was struck: the Goodison/Parkinson agreement was announced on 19 July 1983 (Vogel, 1996: 106).

In sum, the exemption of the LSE from the RPC became a political priority for the Thatcher government following the calamitous implementation of their depoliticised disciplining strategy – itself a response to the global profitability crisis. MTFS was designed to lock the government into a four-year policy straitjacket, whereby severe economic contraction could be pursued without the government

[182] TNA T 486/12, Monck to Lawson, 22 June 1983.
[183] TNA PREM 19/1005, Record of Discussion, 24 June 1983.

being blown off course by legitimacy concerns. In order to justify this disciplining, it was crucial that MTFS be seen to successfully meet its stated objective of reducing the money supply. However, due to the Thatcher government's unfamiliarity with monetary aggregates and dismissal of the Bank's advice, they selected an aggregate – £M3 – that was notoriously difficult to control. As such, MTFS pushed the British economy into an unprecedentedly severe recession without a commensurate fall in £M3. In response, the Thatcher administration loosened monetary policy, in order to provide relief to companies and mortgagors; yet this left the problem of how to reduce £M3 so as to maintain MTFS's presentational coherence. The government discovered this strategy in overfunding, whereby excess liquidity would be soaked up through the sale of government debt on the LSE and consequently the money supply would be reduced. By applying the bandage of overfunding to MTFS, this deeply flawed strategy of depoliticised disciplining could stagger on without being branded a total failure. For this reason, it became essential for the government to ensure that their enormous debt sales were not interrupted by the RPC's case, which in turn led to the eventual exemption of the LSE.

Conclusion

The Big Bang constituted a decisive move towards the financialisation of the British economy. The LSE's cartelistic practices were disturbed, the City was opened up to global operators, and the sheer scale of the UK financial sector expanded rapidly. Yet conventional explanations of the state's role in financialisation are unable to

grasp the governing motivations that resulted in this historic deregulation. Against the *expropriation* approach's claims, the Big Bang was not the consequence of City lobbying nor the Thatcher government's desire to boost the global competitiveness of the British financial sector. Similarly, the *crisis resolution* approach's focus on financial deregulation as a functional response to the crisis of industrial capital also proves inadequate. The Big Bang must be understood as part of a broader state response to both the impersonal domination of global value relations in a period of crisis and the persistent claims by civil society that concrete needs be met regardless of the dynamics of capital accumulation.

In 1979, the decision by the RPC to examine the LSE presented the government with a dilemma: the scrutinising of this monopolistic financial cartel was consistent with the Thatcher administration's competition rhetoric; yet it could jeopardise government debt sales. While the sale of government debt for the purpose of monetary control was important, considering the rate of inflation, Thatcher, Lawson, and Nott believed that it could not be prioritised at the expense of the image of the government's competition agenda – especially considering that this competition rhetoric was crucial in justifying the abolition of exchange controls. As a result, the Thatcher administration decided against exempting the LSE from the RPC in 1979.

However, this balance of objectives changed significantly in the following years. The government's strategy to tackle the seemingly interminable profitability crisis head on was going to entail a 'bloody battle' with businesses, unions, and political opponents. This necessitated a depoliticisation device that would lock the government into a deflationary path and thus insulate it to some degree from

political pressures to change course. MTFS was designed to fulfil this role, by setting out a four-year plan of declining targets for the money supply and public spending, which had to be met at all costs. The success of this strategy of depoliticised disciplining required that the government be able to meet these monetary targets, which would justify and legitimate the hardship of contraction. Yet this objective proved elusive: after choosing a questionable monetary aggregate – £M3 – in the context of an increasingly liberalised financial sector, the severe economic contraction imposed by the government did not result in a commensurate fall in the money supply. The Thatcher administration's resolve to stick to MTFS thus buckled, and interest rates were lowered in order to provide relief to struggling companies and homeowners and thus maintain political legitimacy. The interest rate weapon was thus ruled out as an instrument for tackling monetary growth. In its place, the sale of gilt-edged securities became the government's key method of monetary control, in turn requiring that no interruption take place in the LSE's normal operation. This created a powerful pressure on the government to exempt the LSE from the RPC, which was complemented by the declining importance of political considerations after the Conservatives' 1983 election victory. Consequently, the government agreed in June 1983 to negotiate an exemption with the LSE and OFT.

This chapter thus supports the claim made by Bellringer and Michie (2014: 132) that there is no evidence to suggest that the Big Bang was 'the product of City influence with the deliberate intention of making London into a global financial centre'. Neither can this landmark deregulation be explained by reference to chance or legal path dependency alone. Instead, the Big Bang must be understood as

resulting from an attempt by the Thatcher government to rescue their ailing statecraft strategy of depoliticised discipline during the latter years of the global profitability crisis.

CHAPTER NINE

The Financial Services Act

> The last major deregulation in the City was in banking – Competition and Credit Controls [sic] in 1971. It was followed by the property boom of 1972-73, the market collapse of 1974, and then the fringe bank crisis of 1974-75. Might not something similar happen following the deregulation of the securities industry?
>
> Brian Griffiths and David Willetts to Margaret Thatcher, 11 April 1986.[184]

Introduction

The 1986 FSA regulation stands in stark contrast to its counterpart, the Big Bang, in terms of how it has been understood both in the literature and popular consciousness. In fact, it may be more accurate to state that there is *no* popular conception of FSA, and that most academic interrogations of this financial reform have remained at the level of description. A striking example of this is the latest volume of *The Oxford Handbook of Banking and Financial History*, which confuses

[184] TNA PREM 19/1718.

the Big Bang and FSA as one and the same.[185] Yet the lack of attention paid to FSA belies its impact upon the British economy. As this chapter will explain, FSA spurred financialisation in two ways.[186] Firstly, FSA allowed Britain to take full advantage of the Big Bang deregulation, by providing a clear, non-preferential legal framework for foreign financial actors to follow – propelling the globalisation of the City, with its attendant increases in scale and fragility. Secondly, FSA's form – particularly its arm's-length approach, whereby the state delegated its regulatory responsibilities to a private body – ushered in an era of light-touch regulation that created a breeding ground for dubious financial practices, culminating ultimately in the 2008 crisis. This colossal policy change was thus central in propelling the expansion of the UK financial sector out of all proportion to the productive economy.

This chapter will demonstrate that the formulation and passing of FSA cannot be understood through the lenses of the *expropriation* or *crisis resolution* approaches to financialisation. The arm's-length, light-touch form of this system of regulations did not result from the lobbying power of the City or from the Thatcher government's ideological support for the financial industry. Neither was FSA a response to economic crisis, designed to allay capital flight by boosting profitability and expanding credit markets. In fact, this policy transformation is also

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[185] This book claims that 'the "Big Bang" financial deregulation (officially the Financial Services Act of 1986) … opened up the London Stock Exchange to international competition' (Fohlin, 2016: 156).

[186] Wainwright (2012: 103) argues that FSA contributed to the growth of mortgage securitisation in the UK, by allowing financial institutions other than building societies to move into the mortgage market. Yet this can only be fully comprehended in relation to the 1987 Building Societies Act, which it is beyond the scope of this chapter to discuss.

fundamentally different from the previous cases examined in this thesis. FSA was deliberated upon and passed into law at the tail end of the profitability crisis, when the economy was in a nascent but definite recovery phase. As such, FSA should not be conceptualised as part of a statecraft strategy for governing during crises. Instead, this chapter will argue that this reregulation must be understood as a form of regulatory tidying up, whereby a new form of financial governance was instituted that was appropriate to the liberalised financial order bequeathed by the previous fifteen years of deregulation. FSA was thus *not* a statecraft strategy designed to reconcile the conflicting imperatives of a global system of abstract domination in crisis and the tangible demands of the electorate; yet it was an attempt to manage the economic and political fallout of previous deregulations that *had* constituted such strategies.

In 1981, the DoT commissioned Professor Laurence Gower to review Britain's financial regulations. This chapter will argue that Gower's first publication – his 1982 Discussion Document, advocating self-regulation within a statutory framework – was met with near-universal scepticism by the government, Bank, and City practitioners alike. Yet this attitude changed with the signing of the 1983 Goodison/Parkinson agreement, which set the stage for the rapid globalisation of the City, and thus forced these actors to recognise the necessity of some statutory intervention.

Gower's next publication – his 1984 Report, which suggested that existing self-regulation be supplemented by the DTI's direct supervision and statutory backing – caused the government more concern. By placing the DTI at the centre of this framework and invoking statutory law – created by an Act of Parliament – the

Prime Minister's office worried that government ministers would be held politically responsible for future financial crises – crises that they felt unable to prevent following the cumulative liberalisations studied in this thesis. Such a regulatory failure could shatter the government's legitimacy. As such, Thatcher and her advisers set out to depoliticise Gower's proposals by convincing the DTI, who were in charge of formulating a new regulatory structure, to insulate the government from direct financial oversight. Simultaneously, the Bank set up a group of City practitioners to devise recommendations to put to the DTI. The Bank used the findings of this group, which stressed the City's dislike of government intervention, to push its own institutional agenda. That is, the Bank lobbied to create a *private* intermediary body lying between the government and the City, to which the DTI would delegate its *public* powers and over which the Bank could exert its influence. This would allow the Bank to maintain its autonomy from government and its network of informal regulatory relationships, despite the onset of statutory regulation. The Bank's proposals chimed perfectly with Number 10's depoliticisation agenda, and both these powerful groups pushed the DTI to devise a new regulatory framework based on these principles. The resulting 1985 White Paper successfully depoliticised Gower's original proposals, by erecting a three-tier system of regulation that allowed the government to maintain a sizeable distance from City activities and which gave the Bank a veto over important decisions. After certain deft political manoeuvring, the government was able to overcome Conservative backbench opposition to this unprecedented outsourcing of state power to a private body, and FSA became law in late 1986.

This chapter will conclude that neither the *expropriation* nor *crisis resolution* approaches to financialisation explain the depoliticised form that FSA assumed. The City did not successfully capture the government and force its hand, yet neither was the government responding to any immediate crisis. Furthermore, FSA cannot be adequately theorised as a statecraft strategy to govern the contradiction between the crisis of the value form of wealth and popular tangible demands – rendering this case different from the other cases studied in this thesis. Instead, this policy change must be understood as a strategy to craft a form of depoliticised financial regulation appropriate to a financial sector that had been transformed by the accumulated deregulations of the preceding 15 years – deregulations which *were* elements of crisis governance strategies.

FSA and financialisation

Prior to 1986, British financial services were regulated by a fragmented combination of self-regulation, informal supervision by the Bank, and weak legal protections for investors. The securities industry was ostensibly subject to the 1958 Prevention of Fraud (Investments) Act, which was designed to protect investors in the buying and selling of securities and which required securities dealers to obtain a license. This act was enforced by the DoT and then the Department of Trade and Industry (DTI) after 1983. However, the most important market actors – clearing banks, large merchant banks, the LSE etc. – were exempt from this regulation (Pimlott, 1985: 143-5). Instead, the largest banks were supervised by the Bank, which relied on

informal meetings with leading bankers, observation of market indicators, and self-regulation on the part of the practitioners, while 'second tier' banks were overseen by the Treasury (Vogel, 1996: 97). The LSE, on the other hand, was self-regulating – it policed its own members according to its rulebook, which became the subject of the RPC case discussed in the last chapter. The Bank and DoT/DTI formally oversaw this self-regulation. Those directly subject to the DTI's legal scrutiny via the Prevention of Fraud Act were fringe market actors, such as building societies and small securities brokers (ibid). Overall, self-regulation was dominant amongst the big City players, supplemented by informal relationships with Bank officials, outdated statutes, and a great deal of faith in City practices on behalf of the state.

In contrast, FSA introduced a coherent and extensive statutory framework for regulating the securities industry. In other words, it brought statute law – which requires the approval of both Houses of Parliament as well as Royal Assent – to bear on City affairs, instituting formality where informality had previously reigned supreme. FSA produced three institutional layers. Firstly, actors in the securities industry were grouped into five organisations called Self-Regulatory Agencies (SRAs). These SRAs required that all investment firms within their branch of the industry were authorised and acted according to that SRA's rules (Laurence, 2001: 87). Secondly, these rules, created and enforced by individual SRAs, had to comply with the general directives set by a broader body: the Securities and Investments Board (SIB). The SIB was a limited company and was comprised of City practitioners, yet it exercised public authority in carrying out the following tasks: authorising the SRAs, creating broad rules for these SRAs to follow, supervising their registration of businesses, and policing and prosecuting offences (Moran,

1991: 59). Finally, these public powers were delegated to the SIB by the Secretary of State for Trade and Industry, who alongside the Bank Governor appointed the Chairman and members of this body. The Secretary of State was in turn subject to Parliamentary scrutiny (Singh, 2007: 11). As such, FSA replaced a muddled assortment of informal relationships and weak laws with a clear hierarchy of statutory control.

This transformation heralded by FSA had tremendous implications for processes of financialisation, yet not in the same manner as the previous cases studied in this thesis. The 1971 CCC measures, the 1977-79 abolition of exchange controls, and the 1986 Big Bang all represented – to varying degrees – the state's retreat from direct intervention in British financial markets and the granting of greater authority to market mechanisms. FSA, on the other hand, was possibly the most significant intervention of the state's legal authority into financial markets in British history. However, this regulation in fact propelled financialisation in two ways. Firstly, by instituting a clear set of rules for global actors to adhere to, following the Big Bang, FSA replaced the pre-existing cartelistic regulatory relationships with a non-preferential statutory framework that bolstered competition. As Vogel (1996: 7) argues, within the financial industry, the disruption of nepotistic and cartelistic practices and the introduction of a greater degree of competition requires *re*regulation, rather than an absence of regulation. Indeed, Cerny (1993: 51) points out more broadly that 'the very operation of market economies is dependent upon the existence of *a priori* rules, as well as of a range of mechanisms to deal with market failure'. This chimes with one of this thesis' key contributions to IPE debates, namely that states actively forge and reproduce

capitalist social relations – yet this thesis further elaborates, following the value-form reading of Marx, that these relations become autonomised and in turn dominate states. FSA's introduction of a clear statutory system indicating the rules of play let global actors operate without prejudice in London, allowing the City to exploit its newfound potential (following the Big Bang) of attracting transnational financial capital (Thatcher, 1993: 311-12).

Secondly, and perhaps more importantly, the *form* that this regulation took engendered an enduring 'light-touch' approach, which ensured that regulatory power remained with City practitioners rather than the state. The creation of the SIB created an arm's-length relationship between the state and the City, while the SIB itself was made up of City practitioners, which ensured a high degree of self-regulation. As Engelen et al. (2011: 143) argue, FSA was 'discredited by successive regulatory failures, and above all by the massive failure of light-touch regulation to foresee and forestall the crash of the House of Baring in 1995'. Moreover, although this framework was significantly changed by New Labour's transformation of the SIB into the Financial Services Authority in 1997, the new system of regulations built upon the 1986 FSA's system of delegation of public powers to non-state intermediaries – which perpetuated, as the 2008 financial crisis revealed, serious institutional fragilities (Daripa et al., 2013).

While FSA had a profound impact on financialisation, it did not emerge preformed, but was instead the result of a period of deliberation that spanned 1981-6. This deliberation took the form of three phases. Phase 1: In July 1981, following several fraud scandals in the City (HM Treasury, 2002: 228), the DoT was tasked with commissioning company law expert Professor Gower to review the existing

securities regulations. Gower, who had recently retired from the post of Vice Chancellor of Southampton University, had published his seminal work *Principles of Company Law* in 1954 and had previously participated in Wilson's Royal Commission on the Press. Gower's first publication as part of the DoT's commission, a Discussion Document released in January 1982, condemned the existing system and proposed a fusion of self-regulation with a new system of statutory controls. Phase 2: In January 1984, Gower released his full Report. A number of SRAs would supervise day-to-day affairs within their particular sphere of financial services, while statutory powers would be delegated to these SRAs by an umbrella supervisory body, which Gower argued should be the DTI (Pimlott, 1985: 153). Phase 3: After discussing Gower's report for nearly one year, the DTI published a White Paper in January 1985. This White Paper accepted the broad thrust of Gower's proposals with one major exception: the umbrella body would not be the DTI or any government agency, but rather two *private bodies*: the SIB and the Marketing of Investments Board (MIB). Following debates with Conservative MPs, the White Paper's recommendations were amended so as to merge the SIB and MIB, and consequently grant the SIB powers to investigate and prosecute offences. These changes were crystallised in the 1986 FSA. Crucially, through these three phases of deliberation, FSA was transformed from a regulation administered by the government, to one that operated with a tremendous degree of autonomy from state authority. Therefore, the puzzle that this chapter will engage with has two aspects. First: why was FSA – a dramatic and unprecedented financial *re*regulation – deemed necessary? Second: why did this reregulation take an arm's-length, light-touch, quasi-governmental form?

Existing interpretations

FSA has been subject to significantly less analysis than its deregulatory corollary, the Big Bang. Nevertheless, it has perhaps attracted more detailed examinations, in which the strategic political manoeuvrings between various government departments are brought to the fore.

Coleman (2003: 281), in his analysis of global financial governance, understands the Thatcher government's arm's-length approach to regulation in terms of 'ideology': 'The Anglo-Saxon liberal tradition encouraged a certain scepticism about the government's competence in business affairs … It was assumed that only insiders would fully understand how markets work … It followed that regulation should feature practitioners themselves in a prominent role'. The creation of the SIB as an intermediary between the government and the SRAs is thus explained by belief on the part of the DTI and other branches of government that they were ill-equipped to tackle the nuances of financial oversight. However, this ideational focus has generally been overshadowed by examinations of the political struggles over the makeup of FSA. Strange (1998: 155) hints at this point with her insistence that FSA was the result of a political bargain 'in which, in return for deregulation, governments insisted on statutory reforms'. As such, the SIB maintained self-regulation in the face of the encroachment of democratic politics, and was designed by a Thatcher government presumably dedicated to enacting the wishes of financial elites. This broadly aligns with the *expropriation* approach to

financialisation, as well as IPE literature on the causes of neoliberal financial regulatory reform.

Rather than the government simply acting on behalf of financial capital, Vogel (1996) paints a more nuanced picture of the SIB's creation. Following Gower's 1984 report, the Bank set up a group of senior City practitioners to deliberate on the Professor's proposals. This group recommended that the umbrella body tasked with supervising the SRAs should be private, and – in an attempt to minimise the role of the DTI, which they viewed as 'obsessed with political appearances and indifferent to the concerns of honest businessmen' – advised that the Bank have a much greater statutory role in controlling this private organisation (ibid: 110). This proposal was greeted cheerfully by the DTI, who Vogel argues was not interested in directly regulating the City anyway. The Bank reacted to this group's recommendations with greater caution, as they were wary to take too much formal control over financial regulation after their difficult experience attempting to regulate the fringe banks. The result was a political compromise in which the Bank and DTI jointly appointed the Board of the SIB – a private sector body. Moran (1991) also emphasises the government's and Bank's disinterest in directly controlling the reins of financial regulation. Gower's proposal for a government supervisory agency were rejected in favour of a private body with public powers because there 'was no interest inside the DTI or the Bank of England in taking on the horrifyingly complex task of creating and controlling the details of the new system' (ibid: 73). The creation of the SIB as an intermediary was a panacea of sorts, as it gave City actors the hope that they could 'preserve the political independence conferred by self-regulation', keep 'cost out of the public purse', keep

‘the personnel recruited off the public sector manpower totals’, and hive ‘the appallingly complex detailed tasks off from central government’ (ibid: 78, 73). Both of these accounts therefore emphasise that the SIB appeared to be a middle-ground solution to appease the various interests at play, particularly the City’s desire to remain autonomous from state control and the government’s and Bank’s lack of interest in gaining responsibility for financial regulation.

Building upon both of these accounts, Laurence (2001) gives perhaps the most detailed explanation of FSA’s peculiar form. The SIB’s ‘unusual hybrid nature’, Laurence writes (ibid: 88), ‘owes much to the uneasy compromise from which it was born’. While Gower favoured a centralised regulator ‘modelled along the lines of America’s SEC’, the Thatcher government was ‘ideologically hostile’ to the ‘creation of a big new bureaucratic agency’ that was entailed by this approach (ibid). Furthermore, the Bank’s advisory group (discussed above) accepted Gower’s notion of self-regulation within a statutory framework only if the Bank took a greater role in regulating the City. However, as Vogel also points out, the Bank was not keen to assume formal control of City affairs: ‘Many in the bank believed that future collapses and scandals were inevitable … Creating a new regulatory body with specific responsibility for oversight, but deliberately kept less powerful than the bank, would have been an ideal way to divert political criticism from the bank in the years ahead’ (ibid.). In Laurence’s account, then, it is the Bank that preferred to delegate its responsibility to an institutional scapegoat of sorts – the SIB – so as to deflect criticism during future crises.

Taken together, these accounts provide compelling explanations for the specific form that FSA assumed. The most convincing analyses place emphasis on

both the City's efforts to maintain its autonomy from political interference and the government's and Bank's reluctance (both ideological and practical) to directly regulate an increasingly complex and crisis-prone financial sector. Yet there is an overreliance on the same official government publications and a dearth of documentary substantiation for the key claims of causality regarding FSA's formulation, which leads to certain mischaracterisations of departmental motives. This chapter will overcome the limits of the existing literature by drawing on recently released archival data. It will be argued that the government's commissioning of the Gower Report constituted an attempt to create a systematic form of financial governance, in the wake of the cumulative deregulations carried out during the years of the stagflation crisis. However, by assuming control over the regulation of the City, the government feared that Gower's proposals would mean that policy-makers would be held responsible for future financial crises. As such, the government and the Bank – the latter of which was concerned about the erosion of its autonomy – sought to depoliticise the new system of regulations by inserting a private body between the government and the City. FSA can thus be considered a strategy to govern the new liberalised financial order in a depoliticised manner.

The depoliticisation of financial governance

This thesis has thus far argued that the financial deregulations pursued during the profitability crisis must be understood as elements of broader statecraft strategies, designed to reconcile the conflicting imperatives of a global system of abstract

wealth mired in crisis and the persistent demands by citizens that their tangible demands be met regardless of economic constraints. FSA, however, is different in two ways. Firstly, this legislation was fundamentally *not* a financial deregulation, but instead created a more systematic framework of statutory regulations than had ever existed before. Secondly, much of the political deliberation that resulted in FSA took place during the recovery from the profitability crisis. This policy change, as such, cannot be understood as part of a statecraft strategy for governing through periods of crisis.

Nevertheless, this is not to say that FSA's passing was unrelated to the preceding profitability crisis. During the period examined by this thesis, an array of financial deregulations was enacted that fundamentally transformed the nature of Britain's economic growth. CCC broke up the clearing banking cartel, scrapped the state's preferential system for distributing credit to strategic sectors, and resulted in the marketisation of Bank Rate; the abolition of exchange controls dismantled the state's controls over inflows and outflows of capital; and the Big Bang opened up the UK's securities industry to global market actors. These cumulative changes spurred the growing divergence between the trajectories of the British industrial and financial sectors, leading to a pattern of growth increasingly dependent upon financial accumulation. As evidenced by the litany of banking scandals and financial crises that followed this raft of deregulations, Britain's model of financialised accumulation has proven to be deeply volatile. FSA must therefore be understood as an attempt to create a system of financial regulation appropriate to Britain's new financialised status quo – a status quo arrived at through preceding strategies to govern the dilemmas emerging from the profitability crisis, and

ultimately the contradiction between value and heterogeneous social wealths that lies at the heart of capitalist society.

This chapter will argue that, following the July 1983 Goodison/Parkinson agreement studied in the previous chapter, whereby the government and the LSE agreed to the 'Big Bang' changes to the LSE's rulebook that would be implemented in 1986, the Thatcher government faced a governing predicament. The impending liberalisation of the LSE necessitated a complementary system of laws for global actors to follow when operating in the City. Without clear, statutory regulations, there was the risk both that foreign financial firms would be discouraged from operating in London, and that dubious practices could result in a damaging scandal or full-scale financial crisis. On the other hand, by creating a system whereby the state directly regulated the City, governments would risk being seen as responsible for financial crises, thus endangering political legitimacy. The dilemma for the Thatcher government, thus, was how to govern a fragile, financialised pattern of accumulation – inherited from previous strategies to govern the profitability crisis – without risking the collapse of popular legitimacy during financial scandals. It is through this lens that the deliberations over FSA must be framed.

I. Gower's Discussion Document and the Big Bang, 1982-3

Less than a year after being commissioned by the DoT to review British securities regulation, Gower published his initial Discussion Document in January 1982. This document was circulated amongst City practitioners and officials at the DoT, OFT, Treasury, and Bank. Although relatively vague on specifics, this document rejected

the principle of *caveat emptor* – that is, the buyer is responsible for their purchase – and insisted that some statutory system was needed to supplement existing self-regulation. This document received an almost universally icy reception across the public and private sector. The City was opposed to legal intervention, the government was concerned about the impact of Gower's proposals on the drawn-out and expensive RPC investigation of the LSE, and the Bank was wary of forfeiting its informal regulatory networks. However, the impending globalisation of the City provoked by the Goodison/Parkinson agreement of July 1983 forced all parties to recognise the need for some form of statutory intervention.

The City, unsurprisingly, had the coldest response to Gower's document. At a meeting with Bank Governor Richardson on 5 January, the Chairman of the Accepting Houses Committee stated his total opposition to Gower's proposed 'erection of a new tier of bureaucracy in the field of investment management'.[187] It appeared that this sentiment was widely shared. DoT official Elizabeth Llewellyn-Smith informed Secretary of State Biffen in March that '[o]pinion in the City seems to be hardening against Professor Gower's scheme for a constellation of "self-regulatory" bodies within a loose statutory framework'.[188] Indeed, the following day Goodison, Chairman of the LSE, explained to Biffen that 'Professor Gower's proposals were unnecessarily elaborate. There was no occasion to interfere with the Stock Exchange procedures, which were working satisfactorily'.[189] The City Capital Market Committee provided a clearer explanation of their anxieties about the Gower document. While they acknowledged that his proposals 'might have merit in

[187] BOE 7A15/4, Note of a meeting, 5 January 1982.
[188] TNA FV 73/215, Brief for a meeting, 17 March 1982.
[189] TNA FV 73/215, Note of a meeting, 19 March 1982.

theory', they feared that the abolition of exchange controls ruled out a statutory approach, because 'too tight a control might frighten people away'.[190]

Despite commissioning Professor Gower to carry out this inquiry, DoT officials were also unconvinced by his initial findings. Of particular concern was the possibility that Gower's overhaul of City institutions could overrule the OFT inquiry into the LSE's rulebook. As OFT official Timothy Pratt observed, Gower's likely recommendation that the RPC should drop its case against the LSE 'could cause the Department [of Trade] some embarrassment'.[191] This was especially the case, OFT Director General Borrie observed, due to the 'time, money and thought [that] have been expended by the Stock Exchange and Government in preparing the case for the court'.[192] The DoT also supported the Bank's plans to update its traditional self-regulation, as a way to negate the necessity for statutory intervention. As Deputy Secretary Brown explained to Secretary of State Cockfield in November, 'the attempt to improve the present self-regulatory structure is wholly desirable, and if it does produce a system which we can later recommend to Ministers as a reliable alternative to more statutory supervision, that is all to the good'.[193]

The Bank's response to the Discussion Document was both fearful and pragmatic. Walker, Executive Director for Industrial Finance within the Bank, explained to the Bank's Court of Directors in April that Gower's 'statute-based framework … would involve unwelcome government intrusion, would require a

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190 BOE 7A15/4, Note of a meeting, 23 March 1982.
191 TNA FV 73/214, Note of a meeting, 5 January 1982.
192 TNA FV 73/214, Borrie to Brown, 6 January 1982.
193 TNA FV 73/215, Brown to Cockfield, 10 November 1982.

substantial administrative overhead and would not in the end be as flexible or effective as better self-regulation'.[194] The task for the Bank to pursue in the coming months was to 'strengthen the City's self-regulating agencies, thus weakening or largely removing any case for extensive legislation' and minimising the 'risk of intrusion by statute'.[195] Walker himself led this initiative, setting out his proposed alternative to the DoT in late March, which entailed self-regulation remaining the dominant form of City policing, with occasional licensing of fringe investors by the DoT.[196] Yet while the Bank appeared confident that it could undermine Gower's recommendations through its own efforts at self-improvement, Cockfield was less sure, warning Richardson in November that 'it was quite possible Professor Gower's next recommendations would be for a higher proportion of statutory regulation'.[197]

However, while the government and the Bank displayed a clear opposition to Gower's proposed statutory regulations, this sentiment began to change following the 1983 Goodison-Parkinson agreement that started the countdown to the Big Bang. As examined in the previous chapter, this agreement involved a compromise whereby the LSE agreed to abolish both fixed commissions on securities trading and barriers to the entry of foreign firms in return for the government exempting the LSE from an anti-monopolisation court case brought by the RPC in 1979. The City was thus preparing itself for a period of rapid liberalisation and globalisation,

[194] BOE 3A161/199, Williams to Dawkins, 29 April 1982.
[195] Ibid.
[196] TNA FV 73/215, Walker to Brown, 30 April 1982.
[197] TNA FV 73/215, Note of a meeting, 15 November 1982.

characterised by massive increases in financial flows through London and the domination of Britain's financial sector by transnational actors.

As argued by Norman Tebbit, Secretary of State for Trade and Industry, the Goodison/Parkinson agreement 'heaved a massive brick into the once tranquil waters of the City'.[198] This '"financial services revolution"', the DTI explained, 'is rapidly altering the institutional structure of the City of London', resulting in 'increasing international competition in the provision of financial services'.[199] The City's fragmented and club-like regulations were unsuitable for a globalised financial market, in which foreign actors, unschooled in informal British regulatory customs, would need clear rules to follow. As Moran (1991: 77) explains, 'the Goodison/Parkinson agreement meant that new sources of regulatory authority were urgently required'. Faced with the prospect of the globalisation of a once cosy British market, the government came to recognise the necessity of a non-preferential infrastructure of statutes. In the words of Chancellor Lawson, the looming Big Bang 'underlined the need … for a new and improved regulatory framework' (1992: 400). As such, the DTI argued that the 'Government needs to take action now' by introducing a 'statutory framework' which 'inspire[s] investor confidence by ensuring that the UK financial services sector both is and is clearly seen as a competitive and "clean" place in which to do business'.[200] Sentiment even began to change within the Bank. Treasury officials noted that four months after the Goodison/Parkinson agreement was signed, 'the Bank, who were at an earlier stage strongly critical, have of late struck a more forthcoming note, without yet going so

198 Hansard, House of Commons Debate, vol. 64, cc49-114, 17 July 1984.
199 TNA PREM 19/1461, DTI note, 12 July 1984.
200 Ibid.

far as to endorse the Gower package'.[201] This, the Treasury observed, 'may suggest that the [Gower] report's main proposals could command more widespread acceptance than seemed likely earlier'.[202]

While Gower's 1982 Discussion Document met a wall of resistance, due to its proposals for statutory intervention in the City, the impending Big Bang forced the government and Bank to reconsider their opposition. The globalisation of the City implied by this liberalisation, building on the previous deregulations passed during the profitability crisis, made it necessary to institute a clear and unbiased legal framework within which global actors could operate in London. The next section deals with the political debates over what form this reregulation should take, following the publication of Gower's 1984 Report.

II. Depoliticising Gower's proposals, 1984-85

Gower's full report, published in January 1984, outlined a comprehensive system of self-regulation within a statutory framework. SRAs, some of which would be based upon already existing City organisations, would regulate day-to-day financial activities, while the whole system would be overseen by a central organisation, which would delegate its statutory powers to these SRAs (Pimlott, 1985: 153). Politically, Gower's proposals already ensured a significant degree of distance between the government and the City, due to the emphasis the report placed on self-

[201] TNA T 471/171, Saunders to Pirie and Lawson, 17 November 1983.
[202] Ibid.

regulation. Yet Gower was insistent that the central supervisory body should be the DTI – a government department.

Four groups were tasked with assessing the Gower Report and advising Tebbit as to the form that a future financial services bill should take: the Gower Report Group (GRG), the Number 10 Policy Unit, the Bank's City practitioner group, and Alexander Fletcher's (Under Secretary of State for Trade and Industry) insurance industry practitioner group. These groups were not all clearly defined; for example, Fletcher set up the insurance practitioner group but was also instrumental in the GRG. Nor were these groups equally influential; there is little evidence of the impact of Fletcher's insurance industry practitioner group on Tebbit's thinking, and thus it is not analysed in this chapter. Finally, there is an unequal availability of archival evidence about these groups; there is no documentary record of the internal discussions of either practitioner group. However, these groups hint broadly at the networks of politicians and civil servants that transformed Gower's proposals into the depoliticised 1985 White Paper.

The GRG and the Number 10 Policy Unit

The first group to begin digesting the Gower Report was the GRG. Made up primarily of DTI officials, with one Bank and one Treasury official (Dawkins and W. R. Pirie, respectively), this group met from December 1983 to June 1984. In its first preliminary meeting, Fletcher clearly expressed the DTI's anxiety about the political implications of assuming extensive control over City activities. He acknowledged that a legal framework was necessary but noted that '[s]elf-regulation

was important as the government was not an enthusiastic regulator'.[203] Furthermore, Fletcher was 'opposed to the establishment of an independent Securities Exchange Commission' because it 'would lead to an extra layer of regulation, as the government would not be able to stand back entirely'.[204] Expressing a similar sentiment, Pirie wrote in January 1984 that '[i]f regulation is imposed comprehensively, Ministers will be unable to avoid an enhanced degree of responsibility for regulatory arrangements, even when these are largely self-regulatory'.[205] Yet not all GRG members shared this anxiety about the politicisation of regulation. In fact, later in January, DTI official Reid expressed concern that the existing Gower proposals would take too much power out of ministers' hands: the 'yielding of the necessary wide powers to a [US SEC-style] Commission would not be welcome either to MPs or to Ministers – who would wish to retain their control over such a crucial area of policy. Political reality in the UK was that direct accountability to Parliament, through a Government Department, was the most acceptable form of regulation'.[206]

The next group to begin analysing the Gower Report was the Number 10 Policy Unit. Of particular importance within this group was Director John Redwood and official David Willetts. Similar to the GRG, the chief concern of the Policy Unit, and of Thatcher herself, was the threat of politicisation. On 6 April, Redwood wrote to Thatcher, voicing his unease:

[203] TNA T 520/117, Note of a meeting, 15 December 1983.
[204] Ibid.
[205] TNA T 471/171, Pirie to Dell, 17 January 1984.
[206] TNA T 471/171, Note of a meeting, 20 January 1984.

> The intention behind Gower of setting up a series of self-regulatory bodies beneath an umbrella organisation with responsibility ultimately flowing back to the Department of Trade and Industry is a dangerous one. It would mean that the Government would start to assume responsibility for all the foibles and problems of the market place. People would expect the Government to offer them redress. People would expect the Government to make sure there were no crooked operators. It is not within the Government's power to ensure either of these things.[207]

Rather than directly intervening in City affairs, the Government should instead restrict its role to ensuring against fraud and embezzlement and guaranteeing that market operations were as transparent as possible. Thatcher annotated her agreement with Redwood's points.[208] Four days later, Number 10 informed the DTI of Thatcher's concern: 'She wonders just how closely the Government should become involved in taking responsibility for the proposed self-regulatory bodies as there is a risk that ultimately the Government could be blamed for any malpractice in the City'.[209] During the remainder of April, Willetts drafted a paper that both critiqued Gower and put forward an 'alternative minimalist approach' to financial regulation. Redwood sent this paper to Fletcher on 4 May, in an effort to influence the DTI's assessment of Gower. Willetts' central criticism of the Gower Report was that:

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207 TNA PREM 19/1461, Redwood to Thatcher, 6 April 1984

208 Ibid.

209 TNA PREM 19/1461, Turnbull to McCarthy, 10 April 1984.

> it conflicts with one of the fundamental tenets of this Government – that Government should not appear to take on responsibility for matters which are not actually under its control. Under Professor Gower's proposals, the DTI registers, directly or through SRA members, all those permitted to carry out investment business. This must inevitably become a seal of approval … If and when a registered investment business is found to have been engaging in criminal malpractices, it will be claimed that the DTI and the Ministers responsible have not been doing their job properly.[210]

In contrast to Gower's proposals, Willetts' approach involved forgoing any registration of investment businesses, while supporting the principle of *caveat emptor* with tough legal enforcements, preferably through the creation of a new 'fraud squad' with powers to prosecute 'breaches of criminal law'.[211] This approach, Willetts emphasised, 'goes with the grain of the Government's philosophy' by entailing 'no suggestion of government endorsement' of any City firms.

The GRG reacted to Willetts' proposals to depoliticise Gower with scepticism. The group explained that the 'Government would inevitably have some responsibility; if offences were created to influence City behaviour Government could not wash its hands of having created them'.[212] Yet, interestingly, the group pointed out that '[i]f one was trying to limit political embarrassment the SRA approach might be rather useful' – that is, they recognised that the self-regulatory

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[210] TNA PREM19/1461, Redwood to Fletcher, 4 May 1984.
[211] TNA PREM 19/1461, Redwood to Fletcher, 4 May 1984.
[212] TNA T 520/118, Note of a meeting, 25 June 1984.

element of Gower's approach already involved a significant depoliticisation of financial regulation.[213]

Tebbit responded at length to Number 10's concerns in July, via a DTI note on financial regulation. The paper set out five policy objectives that a future regulation must meet: the City must be 'able to provide services to UK industry and commerce, private investors and the Government' cheaply and competitively; market forces must be free to stimulate competition and innovation; the 'regulatory framework must provide effective protection for investor[s]', without becoming protectionist; regulation must 'inspire investor confidence' through transparency; and regulation must be predictable and flexible.[214] Crucially, this regulation must also meet three *political* objectives: 'the Government should not appear to take responsibility for the activities of City practitioners'; a regulatory body should be made up of 'the minimum number of civil servants'; and this regulatory framework should entail 'the minimum number of quangos'.[215] Overall, Tebbit emphasised that '[p]hilosophically I favour standing as close to reliance on market forces as we can defend politically'.[216] The regulation would as such be made up of voluntary SRAs operating 'at arms-length from the Government'.[217] With regards to an intermediate umbrella body supervising these SRAs, Tebbit was ambivalent at this stage: 'I leave that question open at the moment until I hear what the Governor's Group may have to say'.[218] Yet at a Treasury meeting the following day between Tebbit, Lawson,

[213] Ibid.
[214] TNA PREM 19/1461, Tebbit to Thatcher, 12 July 1984.
[215] Ibid.
[216] Ibid.
[217] Ibid.
[218] Ibid.

Bank Governor Robin Leigh-Pemberton, and other officials, the attendees agreed that 'it was becoming increasingly likely' that the 'most acceptable form could well be a number of SRAs plus an umbrella body'.[219]

Number 10 received Tebbit's note with measured enthusiasm. Willetts commented: 'It is much closer to the Prime Minister's thinking than the earlier work done by the DTI'.[220] Furthermore, he wrote, 'at least Mr Tebbit emphasises that the SRAs will operate at arm's-length from Government'.[221] He encouraged Thatcher to agree with Tebbit's proposals, which she did.

The Prime Minister's office, and to a lesser extent several DTI officials within the GRG, expressed a clear and urgent desire to depoliticise the Gower Report so as to avoid blame for future financial scandals. This occurred months before the Bank put the recommendations of its practitioner group to the DTI – the event that most accounts of FSA point to as key in establishing its arm's-length character (Vogel, 1996: 110; Laurence, 2001: 88). In the context of a radically deregulated financial system, following a decade and a half of cumulative liberalisations, the Thatcher administration intended to institute a depoliticised mode of financial governance that would insulate the government's legitimacy from crises. However, while the government sought to depoliticise Gower's proposals, it was not clear how this could be achieved. As the next section will demonstrate, it was the Bank that proposed that this objective could be attained through the creation of institutional shock absorbers between the government and the City.

[219] BOE 15A91/6, Note of a meeting, 13 July 1984.
[220] TNA PREM 19/1461, Willetts to Turnbull, 13 July 1984.
[221] Ibid.

The Bank's practitioner group

While certain figures within the Bank had reacted very negatively to Gower's 1982 Discussion Document – due to fears of government encroachment on their informal regulatory networks – Bank officials had a more conciliatory response to Gower's full report. This compromising tone resulted from two factors: the impending Big Bang and the Bank's fear that an oppositional approach to Gower's findings would isolate them from the decision-making process. Indeed, in January 1984, Walker explained that if the Bank did not appear to be attempting to reform their networks of informal regulation, 'there was a risk that the introduction of more intrusive structures would be precipitated'.[222]

In May 1984, the Bank took the first concrete steps towards directly intervening in the debates surrounding the Gower Report. On 10 May, Bank Governor Leigh-Pemberton wrote to Thatcher, expressing his desire 'to invite, on my own initiative and without committing Government, a small number of senior City practitioners … to form an advisory group' on future financial regulation.[223] This request was not received warmly in the Treasury. Treasury official M. A. Hall expressed his distrust of the Bank's initiative to Chancellor Lawson: 'There has been no collective discussion by Ministers, yet the appointment of a group from the City implicitly rules out the statutory approach … And the recommendations of such a high powered group would be difficult to reject'.[224] Thatcher's Principal Private Secretary Andrew Turnbull alerted her to the Treasury's displeasure and speculated

[222] BOE G4/211, Minutes of a meeting, 27 January 1984.
[223] TNA PREM 19/1461, Leigh-Pemberton to Thatcher, 10 May 1984.
[224] TNA T 520/118, Hall to Lawson, 10 May 1984.

as to the Bank's motives: 'I detect some ill feeling in the Treasury about this letter. They feel that there has been a deal between the Bank and DTI without bringing them in … I suspect that the purpose [of the group] is that the Bank will provide the secretariat, enabling them to write the script'.[225] This discontent must be understood within the context of the Bank's long-standing desire, since its nationalisation in 1946, to gain greater autonomy from government (see Burn, 1999). Indeed, this circumvention of the Treasury's input may explain Lawson's subsequent disavowal of FSA, which he described as 'cumbersome and bureaucratic' (Lawson, 1992: 401). Nevertheless, Thatcher was encouraged by both Redwood and Tebbit to endorse the Governor's plans, without associating the government with the group.[226] As such, Thatcher gave Leigh-Pemberton her blessing on 18 May, while insisting that the group's 'recommendations would in no way restrict the Government's options in looking at a wider range of possible regulatory arrangements'.[227]

For the following three months, the Bank's practitioner group carried out private and undocumented deliberations, chaired by banker Sir Martin Jacomb (Vogel, 1996: 110). Before the group's conclusions were unveiled, Walker began hinting that the Bank was moving ever closer to Gower's proposals. He told the Court of Directors on 23 August that 'it was hard to conceive any sensible way forward that did not involve both continuing self-regulation and statutory underpinning'.[228] This sentiment was echoed weeks later, when Leigh-Pemberton announced the practitioner group's findings to the Court on 6 September. He

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[225] TNA PREM 19/1461, Turnbull to Thatcher, 11 May 1984.
[226] TNA PREM 19/1461, Tebbit to Thatcher, 11 May 1984; TNA PREM 19/1461, Redwood to Thatcher, 11 May 1984.
[227] TNA PREM 19/1461, Thatcher to Leigh-Pemberton, 18 May 1984.
[228] BOE G4/211, Minutes of a meeting, 23 August 1984.

referred to the 'unreality of the so-called choice between self regulation and statutory regulation. In practice, neither represents a serious option on its own'.[229] Therefore, the Governor proposed a strategy for depoliticising the Gower proposal's fusion of self-regulation and statutory control, through the insertion of a private body between the government and the City: 'The preference of the advisory group, and one which I fully share, would be for securities regulation to be headed by a *private sector body*, recognised as the competent authority by government and, on being so recognised, left to get on with the job'.[230] Yet even this depoliticisation of Gower's plans did not allay City anxieties over government encroachment, due to the lack of Bank participation in this supervisory body:

> in the absence of the insulation that would be provided by the continuous prominent involvement of the Bank, there would be risk that Ministers and officials would persistently interfere in a way that would undermine the effectiveness of such a private sector body and the readiness of major practitioners to be committed to it. The [group's] argument is that a structure for which the bank had a clear responsibility would largely eliminate this risk and would thus be very desirable.[231]

However, while Leigh-Pemberton sympathised with this concern, he explained that Bank officials had 'strong arguments against assumption by the Bank of a formal statutory responsibility for supervision in this area. In any event, I doubt whether

[229] BOE 3A161/199, Minutes of a meeting, 6 September 1984.
[230] Ibid.
[231] Ibid.

government and Parliament would be ready to give the Bank such power even if we ourselves sought it'.[232] As Vogel (1996: 110) argues, the Bank was wary of assuming formal responsibilities due to the difficulties of governing this complicated array of financial institutions. In order to resolve this problem, he suggested that the Bank could be given greater veto power over the staffing of the private supervisory body:

> a structure could be put in place under which, with the power of appointment of the chairman and council of the regulatory body reposing in the Governor, and clear delegation by the government through recognition of the body as competent authority, the Bank would be in a position to exert influence in our conventional and informal way to the extent that this were necessary. I am planning to put advice on broadly these lines to Ministers in the near future.[233]

Leigh-Pemberton thus used his practitioner group's recommendations to advise the DTI to ensure that two principles were at the heart of a future system of regulations. Firstly, a private body should insulate the Bank and City from government prying; and secondly, the Bank should have a veto over the makeup of this body so as to maintain the Bank's traditional autonomy.

Drawing on the Bank's recommendations, Tebbit began creating a fully-formed framework for what would become the 1985 White Paper (Tebbit, 1989: 296). He explained the makeup of the future regulation to Thatcher on 9 October.

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[232] Ibid.
[233] Ibid.

Tebbit came down firmly in favour of Gower's principle of self-regulation through SRAs within a statutory framework, yet he insisted that the government delegate its supervisory capacities to two non-state bodies with statutory backing, rather than one: the SIB and MIB.[234] These bodies would be given statutory backing 'on the condition that they satisfied basic principles of conduct to be laid down by Government'.[235] These bodies' decisions on licencing and disciplining of investors would need to be verified by an 'independent tribunal whose members I would appoint'.[236] This arm's-length approach should also ensure against the DTI 'being too closely involved in answering to Parliament'.[237] Tebbit ended the letter by disclosing that he had discussed the matter with Lawson, who agreed with the plan.

Within Number 10, Tebbit's proposals were met with ringing endorsement. Willetts exclaimed to Thatcher on 10 October, in explicit depoliticisation terms, that 'Mr Tebbit's particular solution is ingenious … [H]is supervisory bodies can check up on the performance of SRAs, *whilst acting as a lightning conductor for City scandals so they are not blamed on the Government*'.[238] After requesting clarification on certain issues concerning Tebbit's proposed framework later in October, Thatcher informed the DTI in November that she was 'broadly content with the line your Secretary of State is taking'.[239] Yet Thatcher continued to push for greater depoliticisation: 'In her view, the role of the Government – and, indeed, the House of Commons – should be to satisfy themselves about the general conduct

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[234] TNA PREM 19/1461, Tebbit to Thatcher, 9 October 1984.
[235] Ibid.
[236] Ibid.
[237] Ibid.
[238] My emphasis; TNA PREM 19/1461, Willetts to Thatcher, 10 October 1984.
[239] TNA PREM 19/1461, Flesher to Thompson, 14 November 1984.

of City regulation', and as such 'the Government should steer clear of involvement in individual cases, and should not be answerable for these in the House of Commons'.[240]

The decision to depoliticise Gower's proposals through the creation of the SIB (and the short-lived MIB) resulted from the coincidental harmonisation of interests between Number 10 and the Bank. The Prime Minister's office was keen to ensure that government ministers were insulated against future crises, which were more likely to occur following the cumulative deregulations studied in this thesis. The Bank was keen to preserve its informal networks of financial regulation against the encroachment of government ministers, officials, and Parliament. These interests coalesced around the same depoliticisation agenda, whereby a 'lightning conductor' body would be erected between the government and the City, and the Bank would play a crucial role in deciding which people occupied this body. Tebbit, whose department shared some of the government's concerns about the dangers of politicised financial regulation, heeded the demands of these powerful advisors during the creation of the 1985 White Paper. The following section will examine how this depoliticised reform became law.

III. Defending depoliticisation, 1985-1986

While the depoliticised approach contained in the 1985 White Paper satisfied the interests of Number 10, the Bank, and the DTI, it was heavily criticised in the House

[240] Ibid.

of Lords, House of Commons, and even amongst the Conservatives' own back bench. Lord Chancellor Quintin Hogg wrote to Tebbit on 9 January 1985, expressing that he feared Tebbit 'may have underestimated the criticism which will be mounted against your proposal that the legislation should enable you to delegate your regulatory powers to the proposed Securities and Investments Board and Marketing of Investments Board'.[241] This framework would mean these boards 'would be law-making bodies without any sort of Parliamentary accountability' – a form of 'sub-delegation to a quango' that was 'unprecedented' except for 'under the Emergency Powers (Defence) Act 1939'.[242] Grey Gowrie, Chancellor of the Duchy of Lancaster, shared the same concern. Writing to Tebbit days later, Gowrie explained that 'we may be vulnerable to criticism' due to the lack of accountability to government entailed in the White Paper: 'I wonder whether we can expect Parliament to sign so open a cheque'.[243]

Upon presenting the core elements of the White Paper to the House of Commons on 24 April, Tebbit received backlash from both sides of the partisan divide. Conservative MP Anthony Beaumont-Dark decried the 'constitutional outrage' entailed by granting the Bank the power to overrule the Secretary of State's decisions with regards to the SIB.[244] Anthony Nelson, another Conservative MP, expressed his agreement with Beaumont-Dark about the growing power of the Bank: 'There is great concern that the proposals for the SIB … effectively give a power of veto to the Governor of the Bank of England … Many of us are concerned

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[241] TNA PREM 19/1461, Hogg to Tebbit, 9 January 1985.
[242] Ibid.
[243] TNA PREM 19/1461, Gowrie to Tebbit, 15 January 1985.
[244] Hansard, House of Commons, vol. 77, cc885-964, 24 April 1985.

about the steady encroachment of the Bank of England in this area'.[245] This sentiment was echoed by Labour politician John Smith, Shadow Secretary of State for Trade and Industry, who nevertheless put a party-political spin on his critique. Smith suggested that 'the purpose of the Bank of England veto', which was a 'monstrous proposition', was 'to guard against what a Labour Secretary of State might do' in the future.[246] The fear on the part of Labour, as such, was that by hiving off the government's power to both the SIB and the Bank, the Thatcher administration was effectively foreclosing the future, by preventing a Labour government's incursion into City affairs.

The greatest formal challenge to Tebbit's framework, however, was mounted by Conservative backbenchers during the Committee stage of the financial services bill, following Tebbit's replacement as Secretary of State for Trade and Industry by Leon Brittan (September 1985 – January 1986) and Paul Channon (January 1986 – June 1987). Conservative MPs Nelson and Tim Smith made several amendments to the DTI's proposals, including the scrapping of the MIB. Yet the most serious of these amendments gutted the regulatory framework of its depoliticising characteristics and effectively 'made the SIB a conventional government agency – with its budget, staffing and powers under full departmental control'.[247] In April 1986, Channon suggested to Lawson that these backbenchers could be appeased by granting a number of concessions related to the SIB. These concessions included solidifying the SIB's regulatory capacities against accusations of being light-touch, by granting the SIB statutory powers to investigate and

[245] Ibid.
[246] Ibid.
[247] TNA PREM 19/1718, Griffiths and Willetts to Thatcher, 11 April 1986.

prosecute illegal investment activities.[248] Ironically, in an attempt to assuage Conservatives who were worried about the government's loss of control over City regulation, Channon was advocating a further delegation of public powers to a private body. Thatcher recognised this point, writing: 'This is a fundamental change … Are there any other *private bodies* with *prosecuting* powers?'.[249] Yet Channon's initiative was successful, as the concessions were accepted by Nelson and Smith in early May, paving the way for the bill to make smoother progress through the remaining stages of the legislative process.[250] FSA finally gained Royal Assent on 7 November.

FSA constituted an attempt to create a system of financial governance appropriate to Britain's liberalised and globalised financial order, yet in a manner that would shield the government from the political fallout arising from future City crises. Although the government and Bank were initially resistant to Gower's 1982 support for statutory regulation of the UK's financial sector, the impending Big Bang underlined the necessity of a clear and firm system of rules for the City. Nevertheless, the Thatcher administration feared that Gower's 1984 proposals would hold government ministers responsible for future financial crises, despite having less power to prevent them. Number 10 and the DTI endeavoured to overcome this dilemma by depoliticising Gower's proposals. The Bank, desiring to protect its regulatory relationships from popular intervention, proposed that this depoliticisation could be achieved through the insertion of a private agency between

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[248] TNA PREM 19/1718, Channon to Lawson, 17 April 1986.
[249] Emphasis in original; TNA PREM 19/1718, Norgrove to Thatcher, 18 April 1986.
[250] TNA PREM 19/1718, DTI note, 7 May 1986.

the Government and the City. This coalition of interests explains the transformation of the 1984 Gower Report's proposals for direct government oversight into the arm's-length, delegated oversight of the 1985 White Paper. While the resulting depoliticised framework met diverse opposition, the government was able to resist pressures to *re*politicise the scheme after certain political manoeuvring, and this in turn outsourced even more regulatory power away from the British state.

Conclusion

FSA fuelled financialisation in two ways. Firstly, the introduction of statutory reregulation was a necessary corollary to the Big Bang deregulation, as it allowed the British financial sector to take full advantage of the latter policy's global implications by setting out clear rules of play that could be followed by all actors regardless of country of origin. Secondly, the form that this regulation took, with its large degree of separation between the government and City, birthed a light-touch approach to financial supervision that allowed the expansion of risky financial activities throughout the late 1980s, 1990s, and 2000s. Both factors propelled the expansion of Britain's financial sector out of all proportion to the growth of the productive economy.

Despite FSA's key role in furthering processes of financialisation, this policy transformation cannot be understood through the lenses of the *expropriation* or *crisis resolution* approaches. There is little evidence that FSA's light-touch form resulted from the pro-finance ideology of the Thatcher government or politicians'

capture by City elites. To the extent that FSA was designed to promote the City, this was because, as Redwood and Willetts explained to Thatcher, the City was ‘a successful, profitable area of the economy’ and the ‘Government should reap political benefits from associating itself with this success story’.[251] Neither is there evidence that the government created this policy as a direct response to the stagflation crisis. In addition, the theoretical lens used to examine the other chapters in this thesis has less analytical purchase regarding FSA. This reregulation should not be conceptualised as a statecraft strategy directly responding to the contradictions emerging from the profitability crisis – a crisis from which the global economy was recovering by the time of the political deliberations over FSA. In this sense, this policy change differs from the previous three examined in this thesis. Yet this reregulation was fundamentally related to the crisis, as it constituted an attempt to create a form of financial governance appropriate to the new financial order that had been forged in the era of stagflation. CCC, exchange control abolition, and the Big Bang – deregulations that served as elements of broader statecraft strategies of crisis governance – had acted to boost the expansion and globalisation of Britain’s financial sector. It was thus crucial that the state introduce a complementary system of regulation that would both discourage financial malpractice and provide clear rules for international actors to follow when operating in London. It was for this reason that Gower’s initial proposals were met with begrudging acceptance by the government and the Bank once the radical implications of the impending Big Bang became clear in 1983.

[251] TNA PREM 19/1461, Redwood and Willetts to Thatcher, 29 June 1984.

However, this need for a system of statutory regulations entailed a political danger. The cumulative liberalisations studied in this thesis had rendered the British economy increasingly reliant on financial accumulation, which heightened the fragility and volatility of UK growth. If the state was to directly regulate this emerging financial order, policy-makers could find themselves on the hook in case of financial crises, which could in turn shatter government legitimacy. As such, Gower's 1984 proposals, which advocated a framework of statutory regulation overseen by a government department, were met with anxiety on the part of the government. Similarly, the Bank worried that such state intervention would disrupt their informal governance of the City. As a result, the Prime Minister's office insisted on a depoliticised regulatory framework, whereby the government would not be responsible for City crises. The Bank put flesh on the bones of this sentiment, by advising the government to create a private regulatory body standing between the government and the City, which would be subject to the Bank's influence. The resulting 1985 White Paper outlined a regulatory system that depoliticised financial governance in both directions: government ministers would be insulated from political backlash over financial scandals, and the Bank and City would be insulated from political pressures from ministers, MPs, and ultimately the electorate. This unprecedented depoliticisation alarmed both Labour and Conservative MPs, the latter of which tried to amend the financial services bill so as to reassert government control. Yet the Thatcher government was able to outmanoeuvre these attempted amendments by granting greater prosecuting power to the private regulatory body, and thus, ironically, further deepening the government's outsourcing of its public powers.

The policy changes examined in this thesis all propelled the dual processes of financial expansion and productive stagnation in different ways. Yet FSA has an additional distinguishing characteristic. This regulatory change did not simply contribute to the advancement of financialisation in Britain, it also tied a bow of sorts on the preceding 15 years of deregulation. FSA constituted a state strategy to create an effective framework of financial governance appropriate to the newly liberalised and globalised City, in a manner that would insulate British governments from a collapse in legitimacy in case of future financial crises.

CHAPTER TEN

Conclusion

In *The Making of the English Working Class*, E. P. Thompson (2013: 12) wrote that he sought to 'rescue the poor stockinger, the Luddite cropper, the "obsolete" hand weaver', and so on, from 'the enormous condescension of posterity'. These people had been dismissed by bourgeois historians as 'backwards looking', 'foolhardy' ideologues, intent on perverting the course of capitalist development for their own particularistic purposes (ibid). At the risk of heresy, it could be argued that contemporary progressives have replicated this form of unsophisticated, retrospective condemnation in their criticisms of Thatcher's role in sparking processes of financialisation (see also Jamie Peck, 2013: 139). This 'Queen Mother of global austerity and financialization' (Hudson and Sommers, 2013) is accused of simultaneously dismantling the institutions of postwar productive capitalism and creating a new financialised pattern of accumulation. Her crimes are twofold, it is said, namely that she both willingly opened the government's door to financial lobbyists and actively participated in rolling out an ideologically-driven project of financialised neoliberalism.

This thesis has endeavoured to demonstrate that this approach is an analytical and political dead end. Critiques of the political origins of financialisation should not seek to superficially condemn nor 'rescue' the legacies of Thatcher, Callaghan, or Heath, but to properly situate their policies of financial regulatory

restructuring in the political economic context of their time; and, in turn, to understand their decisions in relation to the pressing dilemmas of this period. This thesis has argued that British policy-makers from the late 1960s to early 1980s were forced to govern a political economy that had entered a deep crisis: global competitive pressures intensified as Britain's ability to compete continued to decline, national economic indicators became erratic and distorted, domestic social groups pressed their tangible demands upon the state in an increasingly militant manner, and the traditional Keynesian tools of macroeconomic management proved progressively more futile. In this context, British policy-makers attempted to craft strategies that would reproduce the state's economic and political bases by both recreating the necessary conditions for the production of surplus value and ensuring the state's *appearance* as a neutral referee between the partisan demands of civil society. The policies of financial de- and reregulation studied in this thesis constituted elements of these broader statecraft strategies of crisis governance.

While the form that these strategies took was ideologically-inflected, influenced by factional political struggles, and defended publicly with rhetoric that connected them to greater blueprints for British prosperity; the archives reveal such policies to be quite consistent across Labour and Conservative governments, and fundamentally driven by pragmatic governing concerns. The historical record cautions us against explanations of the state's role in financialisation that assign undue causal power to the ideologically-driven machinations of politicians or the nefarious power of financial lobbyists. Rather, the characters in this thesis appeared to struggle with impersonal forces that had escaped the control of even the most

powerful sections of society. It is such a ubiquitous form of domination that this thesis sought to theorise through the value-form Marxist lens.

This concluding chapter will present the key findings of the thesis, emphasise the original contributions made by this research, and discuss the limits and prospects for future research entailed in this work.

Domination, crisis, and changing financial governance

The first part of this thesis sought to provide a novel characterisation of the literature on financialisation, subject this literature to critique, and offer a new conceptualisation of the state's role in propelling financialisation processes. Chapter 2 argued that despite the great breadth and diversity of financialisation literature, the most analytically precise accounts define this phenomenon as the interrelated development of both financial expansion and productive stagnation since the 1970s. Within this strand of the literature, two different explanations can be found of the causal relationship between financial expansion and productive stagnation. *Expropriation* accounts insist that the growth of financial markets and political ascendance of financial elites has resulted in the expropriation and consequent decline of productive capital (Faroohar, 2016; Crotty, 2000; Stockhammer, 2004; Duménil and Lévy, 2004). *Crisis resolution* accounts argue that the stagnation of the productive economy preceded and indeed triggered the expansion of finance (Arrighi, 1994; Crouch, 2009; Baran and Sweezy, 1966; Brenner, 2006). Within

these accounts the state's role in propelling financialisation is conceptualised in a pluralist/instrumentalist or functionalist manner. While *expropriation* explanations claim that policy-makers pursued financial liberalisation because of the lobbying pressures of financial capital and the ideological hegemony of laissez-faire norms; *crisis resolution* approaches insist that state managers reacted quite automatically to the crisis of productive capital by deregulating finance in an attempt to produce a new pattern of accumulation. The exception to this pluralist and functionalist tendency is the work of Krippner (2011) and Streeck (2014), who emphasise the strategic, political character of states' financial regulatory measures during the stagflation crisis.

This thesis has contributed to Krippner's and Streeck's strategic conceptualisation of the state's role in mediating financial expansion and productive stagnation, and sought to further this analysis by grounding these scholars' observations in a theoretically-consistent framework. In Chapters 3 and 4, this thesis set out its theoretical scaffolding. The form of social domination peculiar to capitalism, it was argued, does not emanate from a particular sociological class or institution, but rather derives from the very social relations that constitute capitalist society; that is, monetised exchange relations (Rubin, 2010). By equating the products of labour on the market as different quantities of money, people unknowingly equate their labour as different quantities of the same abstract labour (Heinrich, 2012). Averages of labour productivity come to dominate market participants, pressuring them to produce more in less time. Through the process of market exchange, money – ostensibly a mere means for particular social purposes – becomes an end in itself and these social purposes become instrumentalised as a

mere means for the expansion of money (Postone, 2003). The world of purposeful human action is turned on its head. This dynamic creates powerful pressures for the classification of society into flexible, dependent producers of surplus value (Holloway, 2002), while simultaneously creating a tendency towards falling average profitability and thus crisis. Faced with impersonal domination by abstract quantities, people reject the dictates of value as wealth and assert tangible, substantive forms of social wealth. The actual course of capitalist history is thus characterised not by the unfolding of value-logic, but by the violent struggle between a decentred form of domination and the everyday affirmation of alternative forms of social valuation.

Within this unruly system, states are not external regulators, but rather constitute global value relations through the establishment and governance of national currencies and international exchange rate regimes (Bonefeld, 1993; Kettell, 2004). The pressures of world money relations in turn force national policy-makers to ensure average profitability within their territories or face a range of economic sanctions. Yet these same state managers must also maintain their political legitimacy by being seen to respond to the wishes of their domestic polities. The contradiction between the abstract domination of value and the daily assertion of human need is thus expressed as a contradiction between the material and political reproduction of the state system. Policy-makers, this thesis argues, manage this dilemma in times of profitability crisis by employing statecraft strategies that fall on a spectrum between palliation (delaying the effects of the crisis to rescue political legitimacy) and depoliticised discipline (directly confronting the crisis in a manner that insulates governing legitimacy). The financial de- and reregulations

studied in this thesis must be understood as elements of these broader crisis governance strategies.

The second part of this thesis sought to apply the preceding theoretical discussion to the case of the British stagflation crisis and the restructuring of UK financial regulation between 1967 and 1986. Chapter 5 provided a broad historical overview of this period and examined the governing strategies employed by Labour and Conservative governments to manage dilemmas generated by the crisis. The British experience of the global profitability crisis, it was argued, can be split into two periods. The first, from 1967 to 1977, was characterised by falling profitability, rising inflation, and recurring currency crises that resulted from balance of payments deficits. The second, from 1977 to 1983, was characterised by a strong pound alongside extreme recessionary domestic conditions. Chapter 6 analysed the first major financial deregulation in the postwar era, namely the 1971 CCC measures. While this policy change was a brainchild of the Bank, it nevertheless needed to gain approval from the Treasury. This chapter argued that the government conceived of CCC as a useful instrument to navigate the contradictions entailed by the accelerating profitability crisis. In the aftermath of the 1967 sterling devaluation, the government sought to launch a sustained recovery in the balance of payments by depressing domestic consumption and boosting exports, ultimately in order to bring UK social relations in lines with the abstract dictates of a global system of value that was mired in crisis. By allowing credit to be allocated not by state direction but by marketised interest rates, CCC offered the government a mechanism that would allow money resources to be transferred from persons to exporting companies in a manner that would veil the state's hand in the process. In

this sense, the government endorsed CCC as a strategy to extend palliative relief to capital and to discipline personal consumption in a depoliticised fashion. Chapter 7 tackled the abolition of exchange controls in the years 1977, 1978, and 1979. Following the IMF's seal of approval on UK government policy and the sale of North Sea oil, the pound rapidly rose in price, which helped to combat inflation while further exacerbating the squeeze on profitability. With the UK's export sector facing disaster, this chapter demonstrated that both Callaghan and Thatcher governments endeavoured to depreciate sterling through exchange control relaxation. However, while the Callaghan government was ultimately impeded by their tense relations with the TUC and the possibility of a run on sterling orchestrated by flighty currency markets, the Thatcher administration was able to fully abolish exchange controls by emphasising that this policy was not a beggar-thy-neighbour attempt at currency manipulation, but was rather motivated by laissez-faire convictions. The dismantling of exchange controls can thus be understood as a palliative measure to stave off the worst effects of the profitability crisis, masked with free market rhetoric.

Chapters 8 and 9 were concerned with the de- and reregulation of the LSE. An anti-monopolies court case had been brought against the LSE in 1979 for its restrictive practices. Despite requests from the LSE's Chairman, Thatcher refused to exempt it from this case, due to how this would be perceived to clash with the government's pro-competition agenda. However, Chapter 8 argues that the government's stance changed following the implementation of the MTFS monetarist experiment. MTFS, launched in 1980, was an attempt to defeat inflation and reignite profitable capital accumulation by locking the government into a

radically disciplinary policy straitjacket. However, this strategy of depoliticised disciplining was reliant on a deeply ideological faith in the government's own ability to reduce the monetary aggregate £M3, which in reality proved nearly impossible. As such, MTFS resulted in an extremely deep recession without the commensurate fall in the money supply that would justify this economic pain. In order to rescue this strategy, the Thatcher administration relied on increasingly large debt sales on the LSE in order to soak up liquidity and artificially reduce the money supply. This in turn required that the normal functioning of the LSE was not interrupted by the anti-monopoly case. As such, in 1983, the government exempted the LSE from this case, on the condition that they voluntarily abolish certain restrictive practices – thus beginning the countdown to the 1986 Big Bang deregulation. The Thatcher government's liberalisation of the LSE, then, was chiefly a desperate attempt to rescue their failing strategy of depoliticised discipline. The final empirical chapter examines the 1986 FSA. Following a series of City scandals, the government commissioned legal expert Gower to assess the UK's securities regulations. His initial proposals for a statutory system of self-regulation, presided over by a government body, was received with anxiety by the government and Bank due to the increased political intervention in financial affairs that it would imply. However, following the 1983 decision that set in motion the Big Bang, it became clear to the government and Bank that the impending globalisation of the City required a commensurate system of clear and impartial regulation. The fear remained, nevertheless, that in case of a financial crisis in the City, a statutory regulatory system would leave the government on the hook for this crisis, potentially shattering their political legitimacy. The government and the Bank thus

endeavoured to depoliticise Gower's proposals by inserting a non-governmental body between the government and the City, which would both absorb the blame for future financial crises and impede political intervention in informal Bank-City relations. The resultant FSA was thus not a direct strategy of crisis governance – which differentiates it from the other cases studied in this thesis – but should rather be understood as an attempt to institute a form of depoliticised financial governance appropriate to the preceding fifteen years of financial liberalisation.

Original contributions

The study of financialisation, however defined, is perhaps an example of a true attempt at constructing an interdisciplinary research agenda. Scholars from a great range of disciplines have examined the causes, processes, and effects of the increasing dominance of financial logics in contemporary life. This thesis contributes to a more precise conceptualisation of financialisation, namely literature that examines the relationship between financial expansion and productive stagnation. More specifically, this research addresses the state's role in mediating these processes – an area that has received insufficient attention to date.

This thesis proposed that the British state pursued policies of financial regulatory restructuring in the 1970s and 1980s as a part of broader pragmatic strategies to reconcile the immediate governing dilemmas arising from the profitability crisis. Policy-makers found themselves pressed, on one side, by the impersonal forces of a system of global wealth mired in deep crisis, and, on the

other side, by the tangible demands of domestic groups that immediate needs be met. Financial de- and reregulations served as elements of statecraft strategies designed to navigate these contradictory pressures, by either postponing this contradiction into the future or directly restructuring domestic social relations in line with global value imperatives in a manner that protected governments' legitimacy. This thesis ultimately insists that the state's role in propelling financialisation was not an inevitable outcome of capitalism's deep tendencies, but was rather a strategic attempt to govern the crisis-prone and struggle-ridden social relations that constitute capitalist society.

These findings act as a powerful disconfirmation of existing explanations of state involvement in financialisation. Against *crisis resolution* explanations, the British state's response to the global profitability crisis was far from automatic, nor is there evidence of an attempt by politicians to construct a new pattern of financial accumulation to replace the postwar Fordist model (Tabb, 2010; Kotz, 2011). The politics of financial regulatory restructuring were messier, more ideologically inflected, and more concerned with the management of immediate governing dilemmas than this literature allows. However, the *expropriation* approach is perhaps even less suitable for explaining the British state's propulsion of financialisation (Davis and Walsh, 2016; Palley, 2013). Firstly, while *some* of the policy-makers who were instrumental in these regulatory transformations were committed neoliberal ideologues, the governing dilemmas they were seeking to address were not imagined but instead very real. Indeed, the decisions that such ideologues made, while resulting in profoundly unreasonable outcomes, appeared strikingly reasonable in the context of the profitability crisis. In addition to

examining the negative consequences of particular policy decisions, analysts of the state's role in financialisation must also address a more troubling question: what is it about our society that made such damaging decisions appear necessary? It is this question that this thesis' conceptualisation of impersonal domination sought to address.

Secondly, the emphasis on the lobbying power of financial elites has been greatly exaggerated (Talani, 2012; Duménil and Lévy, 2004). The imperatives that pressed British policy-makers to act in a way that favoured financial capital did not emanate from any particular elite group, but rather *appeared* to derive from the cold logic of the world market – an appearance that this thesis argues veils what is actually the self-imposed domination of a society in which human interaction is mediated by monetised commodity exchange. Critiques of financialisation that identify the political origins of financial expansion with the hegemony of the financial capitalist class thus commit a categorical error: they personalise a form of domination that is ultimately impersonal; they concretise that which is fundamentally abstract.

This thesis makes a related contribution to IPE understandings of state/market relations. It has become quite commonplace in IPE to claim that states and markets are mutually constitutive social phenomena (Underhill, 2000; Block and Evans, 2005; Aitken, 2007). Open Marxist IPE approaches have given this claim more analytical depth and historical specificity by insisting that both states and markets should be understood as forms of capitalist social relations, and, as such, are not locked in contest but rather together constitute the totality of capitalist society (Burnham, 1994). This thesis engages with Open Marxist IPE scholarship,

and attempts to integrate cutting edge research from the value-form reading of Marx's writings.

The international political economy is not characterised by a struggle between the automatic logic of the price mechanism, on the one side, and the purposeful actions of states, on the other. Rather the price mechanism and the world of economic abstractions are underpinned by the force of state power. The foundational elements of market society – private property, money, etc. – are political constructs that are policed by states and state-delegated political authorities. Nevertheless, according to Marx's notion of fetishism, these political creations become autonomised, acquire a rhythmic, directional development pattern, and come to dominate their creators (Rubin, 2010; Postone, 2003). The state's enforcement of property rights and sound management of money *appears* not as the root of capitalist domination, but as an essential condition for the economic survival of a political territory within a global system of mobile capital. States thus contribute to the ties that bind them, just as these ties seem to be imposed from without by a natural or transhistorical economic logic. In this way, the value-form reading builds upon the observation of state/market mutual constitution by explaining a) how states accidentally reproduce a system of impersonal self-domination, and b) how this system gives rise to the illusion that states and markets are locked in a bitter struggle and that economic forces are quasi-natural phenomena.

Finally, this thesis contributes to IPE literature on neoliberal financial regulatory change. Within this literature, the liberalisation of financial regulation in the neoliberal epoch has generally been explained with reference to two causal

factors: dynamics of competitive deregulation and the ascendance of laissez-faire economic ideas. The first factor refers to the pressures upon advanced capitalist states to enact financial liberalisation in order to stave off the threat of damaging capital outflows and to gain the reward of transforming their national financial industry into a global financial centre (Andrews, 1994; McNamara, 1998; Cerny, 1994; Green, 2016). The second factor refers to an ideational change, both at the national level and within international organisations, whereby Keynesian governance norms came to be replaced by laissez-faire notions of economic management – often with a distinctly monetarist bent (Best, 2005; Chwieroth, 2010). The British case, particularly Thatcher's deregulatory agenda, is said to exemplify the manner in which this combination of factors propelled financial regulatory restructuring (Helleiner, 1994; Germain, 1997).

This thesis challenges this IPE consensus by putting forward empirical evidence to the contrary and advancing an alternative conceptual framework. The British state's pursuit of financial regulatory restructuring did not primarily result from a desire to advance the City as a global financial centre nor from the growing dominance of laissez-faire, monetarist thinking. Instead, these policies of regulatory transformation constituted elements of broader strategies designed to navigate the British economy through the tumultuous crisis that struck the global capitalist economy in the late 1960s and lasted until the early 1980s. Faced with the national manifestations of a global crisis of capitalist wealth, the British state pursued statecraft strategies of three varieties: palliation, which delayed the effects of the crisis in order to assuage political constituencies; depoliticised discipline, which attempted to restructure British social relations in line with global averages while

avoiding the political backlash; and hybrid strategies that incorporated both palliative and depoliticised disciplining measures. As such, this thesis reconceptualises the causes of neoliberal financial regulatory change by pointing to the reactive, ad hoc, and strategic nature of the British state's actions, and by demonstrating that neoliberal financial liberalisation cannot be understood separately from the crisis that ravaged the global capitalist system in the late postwar period.

Limits and prospects

The four transformations in British financial regulation examined in this thesis constitute the British state's most important actions in propelling financialisation during the critical years of the 1970s and 1980s. Nevertheless, towards the end of the 1980s, and accelerating in the 1990s and 2000s, Britain's pattern of financialised accumulation assumed a distinctly housing-led character. Rising house prices have become, in many respects, the backbone of UK growth, while houses as financial assets and mortgages as revenue streams have become increasingly integrated into the circuits of global finance.

The emergence of housing-led financial accumulation did not represent a natural evolution of Britain's increasingly financialised economy, but rather this trajectory was directly spurred by state policies. The 1980 Housing Act introduced 'Right to Buy', whereby social housing tenants were given the option, and indeed incentivised, to purchase their homes (Mullins and Murie, 2006: 39). The 1986

Building Societies Act allowed building societies to diversify their portfolios in order to compete with other mortgage lenders, leading many of these institutions to merge, demutualise, and branch out into other financial services (Cowan, 2011: 41-2). The 1997 Building Societies Act further loosened the restrictions on building societies' activities, allowing them to carry out any form of commercial activity within their remit unless it was explicitly prohibited (Ellinger, et al., 2011: 22). These policy changes both encouraged private homeownership and greatly deepened the liquidity of the UK mortgage market.

There is a significant degree of debate over precisely *why* such policy transformations were pursued. The deregulation of mortgage markets in Britain has been explained as part of a broader ideological blueprint to construct an 'ownership society' (Ansell, 2014); as one element of a strategy to institute a new macroeconomic growth regime of 'house-price Keynesianism' (Watson, 2010); and as a directly political mechanism to manipulate working-class political preferences in line with the Conservative Party's agenda (Ginsberg, 1983). Yet this thesis' archival examination of the governing motivations underpinning deregulatory policies warns against narratives that place undue emphasis on the intentionality and functionality of such policies. Therefore, future archival work that intends to strengthen and extend understandings of the British state's role in propelling financialisation would examine i) the potential slippages between official government rhetoric surrounding the creation of an 'ownership society' and the underpinning governing motivations; ii) the relationship between deregulatory housing policy and other areas of macroeconomic management; and iii) ultimately whether the liberalisation of British mortgage markets should be conceptualised as

the result of an intentional blueprint or a consequence of ad hoc, pragmatic policy-making.

Annex

List of names

Allen, Douglas	HM Treasury, Permanent Secretary, 1968-1974
Armstrong, Robert	Prime Minister's Principal Private Secretary, 1970-1975
Barber, Anthony	HM Treasury, Chancellor of the Exchequer, 1970-1974
Barnett, Joel	HM Treasury, Chief Secretary to the Treasury, 1974-1979
Barratt, F. Russell	HM Treasury, Deputy Secretary
Beaumont-Dark, Anthony	Conservative Member of Parliament
Berrill, Sir Kenneth	Central Policy Review Staff, Head, 1974-1980
Biffen, John	HM Treasury, Chief Secretary, 1979-1981; Department of Trade, Secretary of State, 1981-1982
Borrie, Gordon	Office of Fair Trading, Director General, 1976-1992
Bridgeman, Michael	HM Treasury, Under Secretary, 1975-1981
Brittan, Leon	Department of Trade and Industry, Secretary of State, 1985-1986
Britton, Andrew	HM Treasury, Senior Economic Adviser; HM Treasury, Under Secretary, 1981-1982

Brown, Philip	Department of Trade, Deputy Secretary
Butler, M. D.	Foreign Office
Callaghan, James	Prime Minister, 1976-1979
Cassell, Frank	HM Treasury, Home Finance Adviser
Channon, Paul	Department of Trade and Industry, Secretary of State, 1986-1987
Cockfield, Arthur	Department of Trade, Secretary of State, 1982-1983
Cooke, Peter	Bank of England, Head Banking Supervision, 1976-1985
Dawkins, Douglas	Bank of England, First Deputy Chief of Exchange Control, 1972-1979; Chief of Exchange Control, 1979-1980
Dell, Edmund	Department of Trade, Secretary of State, 1976-1978
Dixon, P. V.	Treasury, Industrial Economic Division
Dow, Christopher	Bank of England, Adviser to the Governors, 1981-1984
Fforde, John	Bank of England, Executive Director for Home Finance, 1970-1982
Figgures, Frank	HM Treasury, Second Permanent Secretary, 1968-1971
Fletcher, Alexander	Department of Trade and Industry, Under Secretary
Gill, George Malcolm	HM Treasury
Goodhart, Charles	Bank of England, Monetary Adviser, 1969-1985; Chief Adviser, 1980-1985

Goodison, Nicholas	London Stock Exchange, Chairman, 1976-1986
Gowrie, Grey	Chancellor of the Duchy of Lancaster, 1984-1985
Griffiths, Brian	Adviser to the Prime Minister
Hall, M. A.	HM Treasury
Hancock, David	HM Treasury, Under Secretary, 1975-1980
Hattersley, Roy	Department of Prices and Consumer Protection, Secretary of State, 1976-1979
Hawtin, Michael	HM Treasury
Healey, Denis	HM Treasury, Chancellor of the Exchequer, 1974-1979
Heath, Edward	Prime Minister, 1970-1974
Hogg, Quintin	Lord Chancellor, 1979-1987
Holland, David	Bank of England, Deputy Chief of the Economic Intelligence Department, 1975-1980
Jenkin, Patrick	HM Treasury, Financial Secretary, 1970-1972
Jenkins, Roy	HM Treasury, Chancellor of the Exchequer, 1967-1970
Joseph, Keith	Department of Industry, Secretary of State, 1979-1981
Lanchin, Gerry	Department of Trade, Under Secretary
Lankester, Tim	Prime Minister's Private Secretary for Economic Affairs, 1978-1981
Lawson, Nigel	HM Treasury, Financial Secretary, 1979-1981; Chancellor of the Exchequer, 1983-1989

Leigh-Pemberton, Robin	Bank of England, Governor, 1983-1993
Liesner, Hans	Department of Trade, Chief Economic Adviser
Llewellyn-Smith, Elizabeth	Department of Trade
Lomax, Rachel	Bank of England
Lovell, Arnold	HM Treasury, Monetary Policy Division, 1965-1970
Mason, Graham	CBI, Deputy Overseas Director
McMahon, Kit	Bank of England, Executive Director of External Finance, 1973-1980; Deputy Governor, 1980-1985
Middleton, Peter	HM Treasury, Under Secretary, 1976-1980; Deputy Secretary, 1980-1983; Permanent Secretary, 1983-1991.
Monck, Nicholas	Under Secretary, 1977-1984
Neale, Alan	HM Treasury, Deputy Secretary, 1968-1971
Nelson, Anthony	Conservative Member of Parliament
Nott, John	Department of Trade, Secretary of State, 1979-1981
O'Brien, Leslie	Bank of England, Governor, 1966-1973
Painter, R. J.	HM Treasury
Parkinson, Cecil	Department of Trade and Industry, Secretary of State, 1983
Pirie, W. R.	HM Treasury
Pliatzky, Leo	Department of Trade, Permanent Secretary, 1977-1979
Posner, Michael	HM Treasury
Pratt, Timothy	Office of Fair Trading

Redwood, John	Chief of Policy to the Prime Minister, 1982-1987
Rees, Peter	HM Treasury, Minister of State, 1979-1981
Reid [first name unknown]	Department of Trade and Industry, Companies Legislation Division
Sangster, John	Bank of England, Deputy Chief Cashier, 1975-1977
Seebohm, R. H.	HM Treasury
Smith, John	Shadow Secretary of State for Trade and Industry, 1984-1987
Smith, Tim	Conservative Member of Parliament
Stowe, Kenneth	Prime Minister's Principal Private Secretary, 1975-1979
Tebbit, Norman	Department of Trade and Industry, Secretary of State, 1983-1985
Thatcher, Margaret	Prime Minister, 1979-1990
Turnbull, Andrew	Prime Minister's Private Secretary, 1983-1985
Varley, Eric	Department of Industry, Secretary of State, 1975-1979
Walker, David	Bank of England, Executive Director for Industrial Finance, 1981-1988
Wass, Douglas	HM Treasury, Under Secretary, Deputy Secretary, 1968-1973; Second Permanent Secretary, 1973-1974; Permanent Secretary, 1974-1983
Willetts, David	Prime Minister's Policy Unit, 1982
Wilson, Harold	Prime Minister, 1964-1970, 1974-1976

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