

THE MEDIA, THE PUBLIC AND THE GREAT FINANCIAL CRISIS

MIKE BERRY



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INTRODUCTION

When the British banking system was rescued in October 2008 there was much talk of a ‘crisis of capitalism’ and even newspapers not generally seen as bastions of radicalism—such as the *Financial Times*—were featuring articles advising readers to brush up on their Karl Marx (Kennedy 2009). ‘Banker bashing’ dominated the headlines with ‘villains’ such as ‘Fred the Shred’ Goodwin of the Royal Bank of Scotland held up to public scorn and ridicule. The title of a book by the journalist Paul Mason (2009) *Meltdown: The End of the Age of Greed* seemed to capture the belief shared by many that the crisis marked a turning point in British capitalism. Yet within a year, a government White Paper had stepped back from major structural reforms to finance such as breaking up the banks judged ‘too big to fail’. Meanwhile, the debate over bank reform had become eclipsed by discussion of Britain’s budget deficit where by early 2010 a public consensus had solidified in favour of cuts to public spending in order to ‘balance the books’ (Yougov 2010). That consensus would last through the 2010 and 2015 General Elections playing a pivotal role in consecutive Conservative General Election victories (Ashcroft 2010; Hunter 2015). That the public would twice elect a party committed to cuts to the welfare state appeared to challenge a wide body of academic research which had consistently found that governments struggle to reduce spending in the face of public opposition (Pierson 1994, 1996, 2004; Mahoney 2000; Palier 2001; Taylor-Gooby 2001; Starke 2006).

Ten years on from the near collapse of the British banking system, the consequences of the Great Financial Crisis (GFC) continue to reverberate.

Economic growth remains anaemic despite an unprecedented period of ultra-aggressive monetary policy. The rejection of fiscal stimulus in favour of unconventional monetary policy—in the form of quantitative easing—has sharply widened wealth and income inequalities, which have been further exacerbated by unprecedented cuts to Britain’s welfare state (*Financial Times* 2016; Ryan 2017). Such policies—which have been mirrored in the United States and parts of the Eurozone—have had profound political consequences. These include intense political polarisation and the growth of populist parties. From UKIP in Britain to the Front National in France, the Northern League in Italy and Donald Trump’s Republican Party, austerity has helped boost political movements which espouse openly racist and/or anti-democratic attitudes (Judis 2016; Wolf 2017; Elliott 2017).

Whilst many books have been written about what caused the GFC and how to ‘fix finance’, none until now has examined the role of the mass media in influencing the formation of public opinion on the crisis. This book marks a first attempt to address this by connecting news reports with structures of audience understanding and belief. To achieve this the book focuses on the three elements of the ‘circuit of communication’—the production, content and reception of media messages—because only by studying these simultaneously can the process of communicative power be fully understood (Miller and Philo 2002; Philo et al. 2015). The production of news is investigated through interviews with leading journalists and news editors which examine the various factors that structure news accounts. News itself is explored using a series of extensive content analyses of print and broadcast coverage, whilst audience reception processes are unpacked using focus group discussions with the general public supplemented by reference to large scale polling data.

As this book will demonstrate, the media helped to establish of a set of public beliefs about what caused the GFC and how it could be addressed. In the initial phase of the crisis when much of the British banking system was part-nationalised, the media influenced who was seen as responsible for the crisis, whether the bank rescue plans were viewed as an appropriate response and what could be done to reform the sector. This shaping of public opinion was a function of both what appeared in news reports but also the perspectives and arguments that were excluded. A key consequence was that the media functioned to channel the very real public anger than existed at the time into largely symbolic issues—like restricting

Fred Goodwin's pension pot—whilst leaving the deep structural faults in the banking system and its problematic relationship to Britain unbalanced economic model, largely unexamined.

The media was also critical in establishing key elements of public belief in the later stages of the GFC as the banking crisis and subsequent recession led to a rise in public debt and deficits. Media narratives about the dangers of public debt and deficits helped create public support for austerity policies which did substantial damage to Britain's economy and social fabric. However, it is important to recognise that the media were also implicated in much longer processes of political and economic socialisation which affected how the public understood the debates around the deficit and the turn to austerity. Over many years the Press helped to create a climate of opinion that was suspicious of public investment and hostile to welfare and migrants. Although the primary short term political casualty of these media narratives was the Labour party, over the longer term they fostered the growth of anti-state, anti-welfare and anti-migrant attitudes which contributed to the rise of populism and the Brexit vote.

Although the primary focus of the book is on how news reporting influenced public knowledge and attitudes towards the GFC, a number of other themes run through the book. One is how economic journalism is constructed. So the book's penultimate chapter examines the various pressures, constraints and intellectual assumptions that influence the production of economic news. Another is the debate over what economic journalism should cover. As this book shows most mainstream economic journalism centres on a narrow range of headline macroeconomic indicators. However, what is often missing is both the distributional composition of these aggregate indicators and the shifts in the underlying structure of the economy. So broadcast news rarely talks about the composition of wealth in the economy or the high levels of regional economic polarisation. Little is said about—or linkages made between—the deterioration of working conditions in the labour market, the reliance on personal debt as a core motor of economic growth, the UK's chronic balance of payments problems or how our reliance on a large finance sector may produce financial 'Dutch Disease' which damages other parts of the economy (Blakely 2018). This inability to connect with—and crucially explain—the lived economy of most citizens, not only hinders a public debate on how the economy might be improved but it also leaves people vulnerable to false and misleading explanations for Britain's economic problems.

STRUCTURE OF THE BOOK

The core purpose of this book is to examine how the media reported the GFC, why it was reported in that manner and what consequences for public knowledge and opinion flowed from identifiable patterns in news coverage. To achieve this the book is laid out in the following way.

In order to provide context to the GFC, Chap. 1 presents a brief history of the major structural changes to the British economy since 1979 and how these were related to political decisions taken by both Conservative and Labour governments. These policy shifts led to finance becoming increasingly dominant in the economy—at the expense of other sectors—in a process that has been dubbed ‘financialisation’ (Krippner 2005; Epstein 2005; Palley 2007; Freeman 2010; Engelen et al. 2011; Dolphin 2013; Shaxson and Christensen 2014; Kay 2015; Lagna 2016; Davis and Walsh 2016; Blakeley 2018). They also led to the creation of a new economic model based on a system of ‘privatised Keynesianism’ where economic growth became increasingly reliant on rising consumer debt underpinned by the rapid growth in derivatives markets (Crouch 2009). The chapter then traces the development of the GFC from the initial failure of the American sub-prime lender New Century Financial in April 2007 to the near collapse of the British banking system in October 2008. It concludes by examining how the financialisation of the British economy was mirrored by the increasing penetration of financial sector actors into the spheres of lobbying, politics and the media.

The next two chapters concentrate on how the banking crisis was reported and the impact of news accounts on public knowledge and opinion. Chapter 2 begins by examining why the banks collapsed before laying out the range of debate on managing the failed institutions and long-term reforms to the sector. The chapter then discusses the methodological background to the study before presenting the analyses of national newspaper and BBC radio news (*Today programme*) during 2008 and 2009. These content studies pointed to significant differences between press and broadcast coverage but also major areas of overlap. In particular, press and broadcast coverage was unanimous in presenting the view that there was ‘no alternative’ to the part-nationalisations and focused much of their attention on the issue of bankers’ bonuses. Chapter 3 explores how the banking crisis was understood by audiences through a series of focus groups conducted in Glasgow, the Midlands and the South East of England over the summer of 2009. These indicated that many people struggled to understand the crisis but also that the media were important

in establishing important aspects of audience belief such as the view that the part-nationalisations had been the ‘only option’ and that the key issue was reforming bankers’ pay structures. The chapter concludes by discussing what happened to the reform process post-2009.

The following three chapters focus on the deficit and the turn to austerity: exploring the range of debate among economists, how the media represented the spectrum and balance of arguments and how this, in turn, played a role in influencing public knowledge and attitudes. Chapter 4 examines how the media debate over Britain’s budget deficit developed during the first nine months of 2009. It starts by examining what caused the rise in the deficit before evaluating Britain’s public finances within both historical and international contexts. It then looks at the range of debate among economists on how serious a problem the deficit represented and the options for managing it. Next, comes the findings of content analyses of press and broadcast (BBC News at 10) coverage of deficit reporting which found a very strong emphasis on the alleged dangers of public deficits and strong endorsement of austerity policies. Chapter 5 presents the findings of a series of focus groups which examine public knowledge and attitudes towards the deficit. Once again the research suggests that the media were critical in establishing core elements of audience belief particularly in relation to perceptions of what caused the rise in the deficit, how serious a problem it represented and how it should be addressed. Chapter 6 further unpacks public attitudes to the deficit and austerity by examining how key audiences beliefs identified in the focus groups—that much of Labour’s extra public spending had been wasted, and that welfare payments and immigration were key drivers of deficit spending—were related, in part, to long-term patterns of media socialisation. This involves an examination of further samples of press content stretching back to the turn of the millennium considered alongside other factors that may have contributed to the construction of public knowledge and attitudes in these areas.

Chapter 7 draws on interviews with senior economic correspondents and news editors to explore the factors that structured the production of GFC news. In these interviews a variety of issues were raised that are rooted in patterns of media ownership, political economy and the sociology of newswork. These include sourcing, commercial pressures, proprietorial influence and political partisanship. The book concludes in Chap. 8 by pulling together the findings from the production, content and reception studies and considering their implication for a range of groups including news organisations and political parties.

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CHAPTER 1

The Rise and Fall of British Finance

This chapter examines the background to the GFC. It focuses on how regulatory and tax policies introduced by both Conservative and Labour governments fostered the development of financial innovation in the City of London, radically changing the structure of the British economy. The chapter also examines why political elites chose to favour the interests of finance over other sectors of the economy. In part, this was a consequence of extensive lobbying by the sector but it was also because financial innovation came to underpin a new growth model based on expanding consumer debt which helped to compensate for stagnant wage growth. However as the events of 2008 proved it was a model that was both dangerous and unstable.

THE FINANCIALISATION OF THE UK ECONOMY

Since the dawn of the Imperial Age the City of London has held a central place in Britain's economic life. As Cain and Hopkins (2016) note, the City played a key role in the development of 'Gentlemanly Capitalism' manifested through domestic economic development and the spread of Empire. However, this review will concentrate primarily on the period after 1979 when the finance sector expanded rapidly whilst manufacturing as a share of national output declined (Coates 1995).

The key reason for the rapid expansion of finance was the decision by the Conservative government to progressively remove the regulations

on banking, capital and credit that had been introduced during and after the Great Depression. Three decisions in particular were to prove pivotal to the growth of the finance sector. The first was to remove exchange controls in 1981. This shifted the balance of power against labour and towards capital as investment was free to flow to areas where it could secure greater returns (Davis and Walsh 2016). It also hindered domestic manufacturing and accelerated financial globalisation—which increased the power of the City. As former City trader David Buik put it, ‘by abolishing exchange controls in 1981, Margaret Thatcher pulled the trigger that made London the international financial centre of the world’ (cited in Butcher 2013: 3).

The second key decision was to deregulate the provision of consumer credit. The restrictions on higher purchase agreements were abolished, ownership of credit cards expanded and mortgage lending boomed as consumer borrowing tripled during the 1980s (BBC 2013). The final decision was to deregulate the activities of the City through the ‘Big Bang’ reforms of October 1986. These were in part driven by technological change as in the shift from trading on ‘open-outcry’ exchange floors to screen based electronic exchanges. However, the Big Bang also altered the structure of the City by abolishing the distinction between stockbrokers, advisers and ‘jobbers’ (who created the market in shares), and broke up the clubby old boy networks of the Square Mile by allowing foreign firms—primarily large American and European investment banks—to move into the market. As Will Hutton argues, this allowed foreign banks to evade Wall Street’s regulations which separated commercial from investment banking activities and banned proprietary trading:

‘Big Bang’ in 1986 allowed the brokers and jobbers on London’s stock market to be bought up by American, European and Japanese investment banks so they could do in London what was outlawed in New York by Roosevelt’s Glass-Steagall Act, introduced in the aftermath of the credit crunch that caused the Great Depression. They could manage huge investment funds, trade in any kind of financial security both on their own account and for clients, advise on deals and act as large banks – all under the same roof despite the conflicts of interest that were prohibited in New York. London began to rise in the league tables of international finance. The foundations of Anglo-American financial capitalism were being laid – and with them the seeds of its own demise. (Hutton 2008: 9)

The decision by policy makers to favour the interests of the City over manufacturing had a profound effect on the structure of the British economy and patterns of regional development (Hutton 1996; Davis and Walsh 2016). Inward capital flows increased markedly, pushing up sterling, damaging exports and widening the UK's trade deficit. As Tony Dolphin, senior economist at the Institute for Public Policy Research, noted, the bias towards finance 'produced a casualness about the decline of manufacturing and the collapse of all competing sectors which is really quite jaw-dropping' (cited in Stewart and Goodley 2011: 23).

Such structural shifts were accelerated in the mid 1990s with the rise of financial innovation—particularly securitisation and derivative trading. Although securitisation was not a new process—it can be traced back to the late eighteenth century when Dutch capital helped to fund real estate speculation in North America (Frehen et al. 2012)—the late 1990s saw a sharp increase in its use. Securitisation involved the process of taking assets (such as the revenue streams from loans, credit cards or mortgage payments), pooling them and then turning them into securities (or risk weighted tiers of securities) which could then be traded in secondary markets. These new securities were a type of derivative because their value was based on the price of an underlying asset. As Engelen et al. (2011) note, the growth of securitisation and derivatives was at the time seen as a positive development by regulators and financial economists due to four inter-linked prospects:

First, that financial innovation would de-risk core financial institutions; second, that it would free up capital in those institutions which would boost returns safely; third, that it would lead to a superior allocation of capital at a system level and produce liquidity in new markets and stimulate growth; and fourth, that it would 'democratize' finance – permitting the extension of loans to those households that had hitherto been excluded from the benefits of cheap credit. (2011: 44)

Between 1998 and 2009 the global value of over the derivatives (OTC) market grew from \$80,309 billion to \$614,674 billion, equivalent to a rise from about 2.4 times to 10 times global GDP (Engelen et al. 2011: 42). Most of this rise was driven by an increase in interest rate contracts which as Engelen et al. note, reflected 'innovation in other markets, and in particular the rapid expansion of securitization in the 2000s which increased the financial sector's appetite for floating, mainly LIBOR-linked securities'

(2011: 42). New financial products such as the credit default swap (CDS), effectively insurance contracts against loan defaults—although you didn’t need to hold the insured loan to buy a CDS so that they could operate as purely speculative instruments—also expanded rapidly during the period, rising from a market of less than a \$2,000 billion in 2001 to \$62,000 billion by the end of 2007 (Hjort et al. 2013).¹

A number of factors have been cited for the explosion in financial innovation from the late 1990s. On the supply side the large increase in consumer debt from the 1980s onwards provided the raw materials for the creation of mortgage and other asset backed securities. On the demand side Wall Street and the City of London saw huge influxes of foreign capital from the Petro-states, awash with cash from a commodity boom, and China eager to recycle its trade surpluses and savings glut (Wolf 2010). This wall of money on the ‘hunt for yield’—and in America encountering record low interest rates—fuelled the demand for complex products which paid a good coupon rate. Furthermore, the low interest rate environment offered the opportunity for financial firms to gear up and gamble on derivatives. Other factors were also significant such as the role of higher maths graduates (‘Quants’) in creating the complex models (e.g. Black–Scholes, Capital Asset Pricing Model) which underpinned trading strategies, and the role of tax havens used extensively for tax and regulatory arbitrage (Keeler 2009; Shaxton 2012).

As financial innovation accelerated finance and real estate began to play an increasingly central role in the British economy. Whilst the UK economy as a whole grew by 3 per cent per annum between 1997 and 2007 the finance sector expanded by an annual rate of 6 per cent (Burgess 2011). Finance grew from less than 6.6 per cent of the economy to 9 per cent, and the real estate sector grew from 12.6 per cent to 16.2 per cent (Giles 2009). Even more dramatic was the increasing share of corporate profits generated by the finance, real estate and insurance (FIRE) sectors. Between 2002 and 2007 companies from oil and mining plus the FIRE sector accounted for more than 70 per cent of all FTSE 100 profits (Engelen et al. 2011). Finance alone accounted for 30 per cent of all FTSE profits during this period when its share of UK employment was static and it accounted for only 8 per cent of UK output (Engelen et al. 2011). Underlying this profit was the high returns on equity that were being generated by investment and retail banks. This was commonly above 15 per cent per annum and at some banks such as Lloyds TSB between 23 per cent and 34 per cent (Engelen et al. 2011). However this profit surge was

not the result of high-value innovation—returns on assets were very low typically less than 1 per cent—but instead was primarily achieved by expanding bank balance sheets which increased from 50 per cent of UK GDP in the 1970s to 300 per cent in 2000, to 550 per cent in 2007 (Smaghi 2010). As Haldane notes increased leverage was the key factor in the growth and profitability of the sector:

During the golden era, competition simultaneously drove down returns on assets and drove up target returns on equity. Caught in this cross-fire, higher leverage became banks' only means of keeping up with the Joneses. Management resorted to the roulette wheel... leverage increased across the financial system as a whole. Having bet the bank on black, many financial firms ended up in the red. (Haldane 2009: 3, cited in Engelen et al. 2011: 108)

One flipside of swelling bank balance sheets was a sharp rise in household indebtedness which increasingly came to underpin the growth in UK GDP, public spending and employment. This temporarily obscured the weaknesses in other parts of the economy, especially the non-financial private sector and in particular manufacturing—which lost two million jobs between 1997 and 2010 (Comfort 2013). Replicating the Thatcher government, growth under New Labour became heavily reliant on consumer demand funded by housing equity release. Between 1997 and 2007 housing equity withdrawal was equal to 103.3 per cent of the growth in UK GDP, slightly less than the 104.2 per cent seen during Mrs. Thatcher's administration (Engelen et al. 2011). By 2014 UK homeowners had borrowed £1.8 trillion, or 125 per cent of total UK GDP, via home equity release (Hutton 2014). Econometric modelling conducted by Oxford Economic Forecasting has attempted to gauge how the economy would have fared without this increase in household indebtedness. Estimating on the basis that the level of debt to disposable income rose from 102 per cent in 1997 to 120 per cent in 2007 (just over a quarter of the rise actually seen) over the ten year period real consumption would have been 8.9 per cent lower, consumer prices would have been 12.5 per cent lower and the UK would have suffered four consecutive years of deflation between 2000 and 2003 (Turner 2008).

The debt fuelled growth after 1997 did however allow New Labour to undertake a major programme of public investment. Spending in areas such as health and education saw sustained real terms increases whilst

transfer payments reduced child and pensioner poverty, though poverty rates for childless working age people rose (IFS 2013). Growth in health and education spending also operated as Engelen et al. (2011) note, as an ‘undisclosed regional policy’ by boosting state and para-state employment in areas outside the South East where private sector job creation was ‘weak or failing’:

State and para-state employment expanded right across the national economy, but was particularly critical where private sector job was weak or failing...in London and the South, state and para-state employment accounted for no more than 23–32 per cent of employment growth between 1998 and 2007; while in the Midlands, the North, Wales and Scotland, it accounted for between 38 and 61 per cent of the employment growth over the same period, with most of the rest induced by public expenditure multiplier effects. Increasingly state and para-state employment was crucially important in the old industrial areas like the West Midlands and the North East, where declining manufacturing was not replaced by any other autonomous private sector activity. (Engelen et al. 2011: 216)

On the eve of the 2008 banking crisis the British economy found itself in a precarious position, with its reliance on finance and debt leaving it dangerously exposed to a downturn. It hosted the largest financial centre (as a proportion of GDP) of any major developed nation which was heavily leveraged and involved in risky business practices. Its manufacturing base had fallen as a proportion of GDP to nearly 40 per cent below the Eurozone average (10.1 per cent versus 16.1 per cent) and its productivity and research and development spending lagged behind key EU competitors such as France and Germany (World Bank 2017; ONS 2007). The UK was running a persistently high current account deficit and suffered from extreme regional economic polarisation with much of the area outside London and the South East being heavily dependent on public spending. Just before the crisis, the IMF (2008) estimated that the UK housing market was overvalued by 20–30 per cent whilst household debt, which had become another of the economy’s key motors of growth, was at record levels.

As this review has demonstrated a key factor behind the growth of the UK’s unbalanced economic model was a finance sector employing a business model which concentrated heavily on the maximisation of shareholder value through commercial and residential real estate lending rather than the provision of ‘patient finance’ to fund productive capital accumulation (Mazzucato 2011; Engelen et al. 2011).

EXPLAINING POLITICAL SPONSORSHIP OF FINANCIALISATION: PRIVATISED KEYNESIANISM, ELITE STORY TELLING AND REGULATORY CLOSURE

In the previous section I sketched out a broad series of structural changes to the British economy after 1979 which led to it becoming increasingly financialised. This involved the FIRE sector becoming increasingly significant in the economy at the expense of other sectors whilst growth was increasingly underpinned by rising consumer and (financial sector) debt.

This section will consider why both Conservative and Labour governments supported these shifts. This is important both as context but also because it explains the response of key political actors to the GFC. To do so requires the examination of two interlinked issues. The first concerns the fact that financialisation created the space for a new ‘policy regime’ of ‘privatised Keynesianism’ which could sustain—temporarily at least—economic growth without the use of classic Keynesian demand management (Crouch 2009). The second focuses on how the financial sector was able to shape the regulatory sphere in its own interests through the use of lobbying and elite story telling.

As Crouch (2009: 382) notes in the post-war era states sought an economic model which reconciled ‘the uncertainties and instabilities of a capitalist economy with democracy’s need for stability for people’s lives and capitalism’s own need for confident mass consumers’. This was partly achieved through the creation of strong welfare regimes which worked to foster political stability and acted as a bulwark against the spread of communism. However the standard of living guaranteed by welfare states was below that required to maintain the ‘purchasing power...needed to sustain an expanding, consumption-driven economy’ (Crouch 2009: 384). To counter this the UK as well as the Scandinavian states, Austria and to a lesser extent the USA instituted a policy of Keynesian demand management:

In times of recession, when confidence was low, governments would go into debt in order to stimulate the economy with their own spending. In times of inflation, when demand was excessive, they would reduce their spending, pay off their debts and reduce aggregate demand. The model implied large state budgets, to ensure that changes within them would have an adequate macroeconomic effect...The Keynesian model protected ordinary people

from the rapid fluctuations of the market that had brought instability to their lives, smoothing the trade cycle and enabling them gradually to become confident mass consumers of the products of a therefore equally confident mass-production industry. (Crouch 2009: 386)

The inflationary shocks of the 1970s provided the political space for return of 'free market' economic doctrine which had been largely marginalised since the Great Depression. In the UK, organisations such as Institute of Economic Affairs, Adam Smith Institute, Institute of Directors and the Centre for Policy Studies were critical players in establishing the hegemony of neoliberal ideas and the dismantling the post-war Keynesian compact (Desai 1994; Gamble 1994). The new orthodoxy involved 'the absolute priority of near-zero inflation at whatever cost in terms of unemployment, the withdrawal of state assistance to firms and industries in difficulties, the priority of competition, the predominance of a shareholder maximisation as opposed to a multiple stakeholder model of the corporation, the deregulation of markets and the liberalisation of global capital flows' (Crouch 2009: 388). However, the return of free market policies created a conundrum. With no Keynesian demand management and workers experiencing stagnating real income because of the erosion of labour power, globalisation and new technology, how could consumer spending be maintained in Anglo-American economies primarily dependent on domestic consumption? The answer under a regime of privatised Keynesian was for individuals—rather than governments—to take on debt in order to stimulate the economy. This process, underwritten by the growth of derivative trading and the increase in mobile investment funds, created a new growth model supported by successive British governments:

Eventually governments, especially British ones, began to incorporate privatised Keynesianism into their public policy thinking, though the phrase did not occur to them. While a reduction in the price of oil would be seen as good news (because it reduced inflationary pressure), a reduction in the price of houses would be seen as a disaster (as it would undermine confidence in debt), and governments would be expected to act through fiscal or other measures to get prices rising again... The possibility of prolonged, widespread unsecured debt was in turn made possible through innovations that had taken place in financial markets, innovations which for a long time had seemed to be an excellent example of how, left to themselves, market actors find creative solutions...Through the links of these new risk markets to ordinary consumers via extended mortgages and credit card debt, the

dependence of the capitalist system on rising wages, a welfare state and government demand management that had seemed essential for mass consumer confidence, had been abolished. The bases of prosperity shifted from the social democratic formula of working classes supported by government intervention to the neo-liberal conservative one of banks, stock exchanges and financial markets. (Crouch 2009: 392)

This approach was to prove attractive to New Labour as it allowed them to create a new electoral block centred on London and the home counties. Under first past the post this was a critical element of the electorate that Labour has struggled to attract during the 1980s and early 1990s (Radice 1992; Radice and Pollard 1993, 1994). However, under a system of privatised Keynesian this group could be won over by the prosperity created by a booming London based financial sector and the tax-free capital gains created by consistently rising house prices—which were especially concentrated in London and the home counties (Engelen et al. 2011).

Political elites also supported financialisation due to pressure from extensive financial sector lobbying and elite story telling. In their account of the history of UK financial oversight, researchers from CRESC locate the origins of light touch regulation in the fact that the City emerged in the period before the formation of the Britain's democratic state (Engelen et al. 2011; Froud et al. 2011; Johal et al. 2014). In this absence of legal and democratic oversight the City developed a system of informal self-regulation which survived the introduction of the universal suffrage, the growth of the trade union movement and coming to power of the Labour Party. Froud et al. (2011) argue that one reason why the City was able to avoid democratic oversight was elite 'story telling' manifested through 'a venerable tradition of constitutional mystification about 'arm's length control' and such like which justified the unaccountability of elites by implying that the delicate functioning of our institutions would only be upset by the intrusion of majoritarian democratic forces' (Froud et al. 2011: 4).

The unleashing of the free market after 1979 did not automatically guarantee the regulatory and tax regimes favoured by City interests so the sector invested heavily in lobbying by both individual firms and sector wide alliances (Moran 2006; Froud et al. 2011). At the core of these efforts were two powerful arguments to justify the maintenance of a permissive regulatory environment. The first drew on the pre-1914 narrative about the superiorities of self-regulation but was now buttressed by new

theories which emphasised the efficiency and self-regulating character of markets as well as the ability of financial elites to manage risk through new forms of innovation. Engelen et al. (2011) argue that such theories soon became a new ‘intellectual superstructure’ which came to dominate not only financial economics, accounting and financial law but also politics, media and the regulatory sphere:

At the intellectual root of blindness lay the rise within the economics profession of theories of efficient markets that ascribed to market processes and institutions a superior capacity (superior to regulators) to monitor, measure and anticipate risk. These theories conquered large parts of the profession and were central to the accounts of the working of finance which was taught in leading business schools. Equally significant, the connection between academic economists, market practices and regulatory styles in the period leading up to the crisis had a concretely structural form. In the generation before the great crash, financial economics - especially through business school education and in the role of professional economists in consultancies and in research departments of financial institutions - became an important component of corporate life. This corporatization of a discipline which had hitherto been organized in relatively autonomous academic hierarchies was important in reinventing the media-visible and publically engaged economist, who was no longer a professor against the backdrop of a book case but the ‘chief economist’ of a giant investment bank captured against the background of a dealing room. (Engelen et al. 2011: 136–137)

Even debacles like the collapse of Barings in 1995, which ought to have discredited the model of light touch regulation, had little impact. When the new tripartite regulatory regime was introduced by New Labour in 1997 there appeared to be movement towards a ‘more formal publically controlled system’ but the ‘strength of the historically entrenched regulatory ideology, and the strength of the interests in the markets, ensured that the [newly created] FSA was rapidly colonized by that old ideology’ (Engelen et al. 2011: 143).

The second powerful narrative that was deployed to head off closer regulation was the argument that the City represented the cornerstone of a new post-industrial economic model. With manufacturing in decline, financial services could use its comparative advantage to become a national champion—as long as the regulatory environment was sufficiently unobtrusive:

What was to replace all this manufacturing might? The narrative that developed was to the effect that the deregulation of London as a financial centre had created an alternative economic dynamic, had given the UK a comparative advantage in building a post-industrial service economy, the great motor of which would be the financial services sector, especially its heart in the City. At the height of the Great Moderation, policymakers such as the Chancellor of the Exchequer, and leading voices of City interests, were united in expressing and believing in this story. The account had an important corollary. If the City was an economic powerhouse, it was a powerhouse which had to operate in a fiercely competitive global financial services industry, against many rival centres. It could only operate successfully if light-touch regulation allowed maximum flexibility in the pursuit of enterprise and creativity. (Johal et al. 2014: 412)

As Engelen et al. (2011: 143–144) note, this narrative was a ‘deliberate creation of organisations like the City of London Corporation with its annual reports extolling the contribution of finance to London and the wider economy as well as sector-specific reports like those from the British Private Equity and Venture Capital Association. Furthermore the narrative was ‘powerful because it was promoted by the heft of a new lobbying and PR machine...and served to align the calculations of different elites (in markets, in the core executive and the regulatory agencies)’ (Engelen et al. 2011: 144).

THE FALL OF FINANCE

The first sign of the impending crisis was the bankruptcy of the US mortgage lender New Century Financial in April 2007 (BBC 2007). It had lent heavily to the subprime market and suffered substantial losses following the downturn in the US housing market in the second half of 2006. Three months later two highly levered hedge funds owned by the US investment bank Bear Stearns, which had also invested heavily in mortgage backed securities, collapsed (Bland 2007). On 9 August 2007, stock markets around the world plunged following the announcement that BNP Paribas had suspended withdrawals from three of its investment funds which had invested in subprime because of the ‘complete evaporation of liquidity in certain market segments of the US securitization market’ (Peston 2007). By this stage the US housing market was in free fall and the value of mortgage backed securities, which were widely dispersed across the international financial system and underpinned the asset base of many institutions,

had fallen sharply in value—though by how much it was impossible to estimate because the market for the securities had vanished. Widespread fear over the solvency of institutions led to banks restricting lending to the corporate and household sectors. The credit crunch had begun.

The following month the freezing up of the interbank lending markets claimed their first British victim. Northern Rock, a Newcastle based bank which had expanded aggressively following its conversion from a building society and floatation on the stock exchange in 1997, found itself suffering a liquidity squeeze. The bank had become heavily reliant on the wholesale money markets and securitisation of its mortgage book to fund lending. However, with the contraction of the interbank lending market and the collapse of the market for mortgage backed securities Northern Rock found it impossible to roll over its short term borrowing and begun to run out of funds. On 13 September, members of the Tripartite Authority (Treasury, Bank of England and the FSA) met at the Treasury to finalise the details of a bailout which was due to be announced the next morning (Pym 2014). However, news of the rescue plan leaked out before the announcement could be made, and a run started on the bank. By lunchtime of 14 September queues were building up around Northern Rock branches across the country as panicked customers rushed to withdraw their savings. The run continued for three days until the government announced that all deposits in the banks would be guaranteed. Over the next five months the Government tried repeatedly to engineer a private takeover of Northern Rock before conceding defeat on 17 February 2008 and fully nationalising the bank. In the meantime, another former building society, Alliance and Leicester, came close to bankruptcy in November 2007 before being bailed out with a secretive £3 billion life line from the Bank of England (Watt and Riley-Smith 2015). The following year the bank was bought by the Spanish bank Santander in a £1.2 billion deal.

As 2008 progressed more banks struggled to stay afloat. In March 2008 the giant American investment bank Bear Stearns was taken over by JP Morgan Chase following a liquidity crisis and an almost complete collapse in its share price. However it was September 2008 when the crisis reached a peak as banks across the globe teetered on the edge of insolvency. On 8 September the American government nationalised Freddie Mac and Fanny Mae, who between them underwrote half the US mortgage market (Elliott 2008). The following week on 15 September the American investment bank Lehman Brothers filed for bankruptcy following enormous