Abstract

My thesis presents a constructivist institutionalist analysis of the British 'post-2008 context', a conjuncture that I operationalise as the five-year period following the financial crash of 2007-2008. I conceptualise economic crisis as the perception of the need for 'decisive intervention' in response to economic policy failure. This constructivist conceptualisation asserts that the trajectory of political-economic restructuring in response to crisis is shaped by the way that policymakers 'diagnose' economic symptoms, and the success with which they persuade the electorate of the necessity of corresponding decisive interventions. Interpreting the trajectory of political-economic restructuring in the post-2008 context in this light, I operationalise and empirically interrogate the 'crisis diagnoses' and 'crisis narratives' of the two post-2008 governments.

My empirical analysis is informed by, and speaks to, two principal literatures. The first concerns neoliberalism and 'neoliberalisation'. The second analyses the emergence and subsequent failure of a fragile and contradictory 'growth model' in Britain, viewing this as an unanticipated consequence of neoliberal political-economic restructuring. My analysis indicates a more complex and contested process of crisis construction than the predominant focus on macroeconomic policy leads us to believe. I present evidence for the existence of two crisis diagnoses existing simultaneously in government – one neoliberal, one not – on the part of macroeconomic and industrial policymakers respectively. I argue that this reflects the impact of departmental boundaries on the process of crisis diagnosis. I find the neoliberal crisis diagnosis and the decisive interventions to which it points to be the predominant one, reflected in the constrained resources given over to post-2008 industrial policy and the centrality of the defence of neoliberalisation in post-2008 crisis narratives. Yet I argue that, in light of the latter literature, my findings point to the potential for contingency and categorical political-economic change in the present conjuncture.

A Note On The Referencing System

I use a referencing system derived from the Department Of Politics' own footnote system. The system requires that a full bibliographic reference is given the first time that a piece is cited and that an abbreviated form is used on subsequent citations. If the citation refers to a quotation then the page number containing the quote is given at the end of the citation.

However, there are a number of lengthy footnotes in my thesis. I found that the referencing system as it stood tended to produce footnotes that were very difficult to scan, and in which it was unclear where one citation stopped and another began. In order to be kind to my readers I have modified the referencing system in two ways: authors' names and dates of publication are brought together at the beginning of the citation, and both are underlined. Doing so makes it clear where each citation begins, and allows the reader to quickly ascertain where the piece may be found in the bibliography.

I cite several documents produced by government departments with quite lengthy names. Again, these tended to produce footnotes that were difficult to scan. When citing these I have given the full name of the department on the first citation, and subsequently refer to them by an abbreviation or an acronym. 'H.M. Treasury' becomes 'Treasury'; 'Department For Business, Innovation And Skills' becomes 'DBIS'; Department For Communities And Local Government' becomes 'DCLG', etc etc.

Acronyms

ABW	Asset-Based Welfare
ALGM	Anglo-Liberal Growth Model
AMSCI	Advanced Manufacturing Supply Chain Initiative
COLA	Cost Of Living-Adjusted
CSDP	Critical Social Democratic Perspective
DBERR	Department Of Business, Enterprise And Regulatory Reform
DBIS	Department For Business, Innovation And Skills
DCLG	Department For Communities And Local Government
DTI	Department Of Trade And Industry
ECF	Enterprise Capital Funds
ECGD	Export Credits Guarantee Department
EFCT	Expansionary Fiscal Consolidation Thesis
EFG	Enterprise Finance Guarantee
FDI	Foreign Direct Investment
FJF	Future Jobs Fund
FLS	Funding For Lending Scheme
FPC	Financial Policy Committee
FSA	Financial Services Authority
GSIB	Globally Systemically Important Bank
HEW	Home Equity Withdrawal
HTB	Help To Buy
NAIRU	Non-Accelerating Inflation Rate Of Unemployment
NLGS	National Loan Guarantee Scheme
R&D	Research And Development
RDA	Regional Development Agencies
RGF	Regional Growth Fund
SME	Small and Medium-Sized Enterprises
TIC	Technology And Innovation Centre
TSB	Technology Strategy Board
UKEF	UK Export Finance
UKFI	UK Financial Investments Ltd.
UKTI	UK Trade And Investment

An Analysis Of Crisis Construction In The British 'Post-2008 Context'

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PhD Thesis
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For L. Chambers, H. Dobinson, and all the other good teachers.

With thanks beyond words to all the friends, family and loved ones who have supported me through my studies, to my supervisor for his unending advice and encouragement, and to S. Cooke of the Department of Politics for her kindness and patience at critical moments during the process.

Contents

Introduction

In this thesis I examine political-economic ideas, analyses and narratives that have shaped economic policy and the trajectory of political-economic restructuring in Britain in the five years between September 2008 and the end of 2013.[1] I refer to this period as the 'post-2008 context' – an ongoing conjuncture marked by the failure of Britain's problematic pre-2007-2008 'growth model' amid the international economic conditions that have followed the financial instability of 2007 and 2008. I make this analysis in order to contribute to the interpretation and explanation of the trajectory of British political-economic restructuring in the post-2008 context and to understand its relationship to the process of neoliberal restructuring that was previously occurring in Britain. I do so from a 'constructivist institutionalist' perspective that stresses the importance of 'neoliberal ideas' to that process, and, more generally, the importance of ideas in

[1] When referring to the 'restructuring' of a political economy I mean the transformation of its institutional structure, and in the case of the present study I use it to refer specifically to the purposeful but contextually constrained attempts by policymakers to impart a particular trajectory of restructuring to the political economy. By a 'trajectory' I mean, firstly, the direction in which a political economy is being restructured relative to other political economies in other places and times, and the contrasting kinds and configurations of institutions that emerge from these differing directions. My argument in this dissertation is premised on the view that from 1979 until at least 2008 the trajectory of the British political economic restructuring can be broadly characterised as one of neoliberal restructuring – of 'neoliberalisation'. Secondly, the 'trajectory' metaphor implies a velocity as well as a direction of travel. The speed, intensity and precise form of neoliberal restructuring has varied in Britain at different points in time, marking a qualitative difference in the form that restructuring has taken. I return to this latter point in Section 2 of this introduction and in Chapter 5.

shaping the trajectories of political economies.[2] I ask whether and how the poorly performing (and at times catastrophically failing) economic indicators that characterise the British post-2008 context have been understood and represented by the two post-2008 governments as indicative of 'crisis' and the need to 'decisively intervene' in ways that impact upon the trajectory of political-economic restructuring.

The first over-arching question that I ask is whether or not the ideas that inform economic policymaking and political-economic restructuring have changed in the post-2008 context, and what the implications of changes or continuities in these ideas are for the terms with which we characterise the contemporary trajectory of the British political economic restructuring. This part of my research concerns the ideas that policymakers have about the context that they govern in, the way that they conceptualise the problems that economic policy addresses, and how they judge the efficacy of the policies with which they address them. Yet this is not the only way in which ideas impact upon the trajectory of political economies from the perspective I adopt. A second impact arises from the use of ideas, woven into persuasive narratives, as 'weapons' of political struggle, deployed to influence the perceptions that other actors have of the political-economic context and so secure their consent for policies that they might not otherwise have supported.[3] My second overarching question relates to this aspect of the impact of ideas upon political-economic restructuring. I ask how politicians have sought to represent the post-2008 context to the electorate so as to legitimise the dramatic

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[2] I use the term 'constructivist institutionalism' in reference to a variety of institutionalist approaches that situate political-economic actors in, and study the effects of, an ideational/discursive context as well as an institutional one. Such approaches have been given a variety of names, including 'ideational institutionalism' and, more recently, 'discursive institutionalism'. Cf. C. Hay (2001), 'The 'Crisis' Of Keynesianism And The Rise Of Neoliberalism In Britain: An Ideational Institutionalist Approach', in J.L. Campbell and O.K. Pedersen (eds.), *The Rise Of Neoliberalism And Institutional Analysis* (Princeton, N.J.: Princeton University Press), 193-218; V.A. Schmidt (2008), 'Discursive Institutionalism: The Explanatory Power Of Ideas And Discourse', *Political Science,* 11 (1), pp.303-26; M. Blyth (2002), *Great Transformations: Economic Ideas And Political Change In The Twentieth Century* (Cambridge: Cambridge University Press). I retain the heading of 'constructivist institutionalism' over 'discursive institutionalism' in order to give prominence to the perspective's origins in the more general constructivist critique of political analysis, on which see C. Hay (2011b), 'Ideas And The Construction of Interests', in D. Béland and R.H. Cox (eds.), *Ideas and Politics in Social Science Research* (Oxford: Oxford University Press), pp.90-114.

[3] Blyth (2002), *Great Transformations*.

interventions that they have undertaken when attempting to stabilise and restore economic growth to the British economy in the post-2008 context. The terms I use to denote the two processes to which these two over-arching questions refer are 'crisis diagnosis', and 'crisis narration' respectively. Together, these constitute the more general concept of 'crisis construction'.

The notion of 'crisis' is central to the debates that surround these questions. Claims of crisis have featured large in public debate since 2008: a 'banking crisis', a 'debt crisis' and a 'growth crisis', to name but a few. Crisis, understood here as a 'moment of decisive intervention', is also central to the academic literatures on constructivist institutionalism and on neoliberalism.[4] For those conceptualising and charting the history of neoliberalism, the ideas and practices to which the concept refers are both the cause and 'creature' of economic crises.[5] Historically, advocates of neoliberalisation have seized upon moments of crisis to acquire state power and implement neoliberalisation strategies, beginning in Britain with the coming to power of the Thatcher Governments against the backdrop of the troubled economic context of the late 1970s. During neoliberalism's inglorious career as the principal mode of political-economic restructuring in the British and international political economies many economic crises have been attributed to the dynamics that it has unleashed.[6] Yet a consistent regularity associated with crisis tendencies of 'neoliberal capitalism' is that they have functioned to accelerate the process of neoliberalisation, or to bring it into national contexts in which it was previously less established.

For constructivist institutionalists, neoliberalism is manifest primarily as a set of ideas and corresponding practices that constitute the objectives of economic policymaking by specifying to policymakers the nature of the problems that

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[4] C. Hay (1999a), Crisis And The Structural Transformation Of The State: Interrogating The Process Of Change', *The British Journal Of Politics And International Relations,* 1 (3), pp.317-44. This definition of crisis is expanded on at length in Chapters 2 and 3.
[5] J. Peck and A. Tickell (2007), 'Conceptualizing Neoliberalism, Thinking Thatcherism', in H. Leitner, J. Peck, and E. Sheppard (eds.), *Contesting Neoliberalism: Urban Frontiers* (New York: The Guilford Press), pp.26-50.
[6] J. Peck and A. Tickell (2002), 'Neoliberalizing Space', *Antipode,* 34 (3), pp.380-404.

various aspects of public policy must address.[7] In this perspective the turn towards neoliberalisation since 1979 reflects the acceptance of the 'neoliberal restructuring ethos' by dominant factions within British governments since 1979. The importance of crisis to the constructivist institutionalist perspective is that crises, and the deterioration of economic circumstances from which they invariably emerge, are moments in which the ideas that structure economic policymaking and political-economic restructuring can undergo rapid change.[8] In such situations, both the faith of policymakers in existing ideas about the conduct of policy and the patience of the electorate with existing policies are tested. Policymakers (or their rivals in opposition parties) can dramatically re-assess the way in which they conceptualise and approach economic policymaking in such circumstances, coming to perceive the existence of a crisis requiring 'decisive intervention' in the form of a new trajectory of political-economic restructuring. The legitimacy with which the electorate invests old or new modes of political-economic restructuring can also change. Both the ideas of policymakers and the public, and the processes through which they are formed and changed, are consequently considered decisive factors in shaping the subsequent trajectory of political economies at times of crisis from a constructivist institutionalist perspective. Neoliberalism itself is seen to have achieved its ascent in Britain through such a process, having re-constituted the political-economic project that the Conservative leadership sought to undertake in the troubled economic context of the 1970s. Through a successful politicisation of the episode now remembered as the 'Winter of Discontent', the neoliberal restructuring ethos was brought to state power, and with its subsequent permeation of opposition parties it has remained there ever since.

It is from this perspective that the two overarching questions asked in my research arise. The post-2008 context has been a protracted period of poor economic performance across many indicators. Among the most memorable is the international banking system collapse of 2007-08, of which British banks were

[7] C. Hay (2004a), 'The Normalizing Role Of Rationalist Assumptions In The Institutional Embedding Of Neoliberalism', *Economy And Society,* 33 (4), pp.500-27; V.A. Schmidt (2014), 'Speaking To The Markets Or To The People? A Discursive Institutionalist Analysis Of The EU's Sovereign Debt Crisis', *The British Journal Of Politics And International Relations,* 16 (1), pp.188-209.

[8] A review of this perspective, and of this claim in particular, is offered in Chapter 2.

major casualties. The sharp recession that this gave rise to led to a protracted period of stagnation in which unemployment has been consistently higher than prior to the recession (although well below the levels reached during the 1990s' recession) and in which real wages have been subject to a historically exceptionally prolonged contraction.[9] As I show in Chapter 1, a strong case can be made linking these economic performance failures to prominent aspects of the neoliberal restructuring of the British political economy, including (but not limited to) the rise to central economic importance of a permissively regulated financial services industry. It is consequently an opportune moment in which to ask whether or not the experience of these economic 'pathologies' has caused either of the governments that have held power amid them to diagnose a crisis of neoliberalism and re-assess the way in which they conceptualise the goals and purposes of economic policy and political-economic restructuring, or whether the post-2008 context in Britain is another moment in which neoliberalism has arisen unscathed and rejuvenated from a crisis in which it is itself implicated. Moreover, the impact on the general public of both the deterioration of economic circumstances and the policies with which governments have responded to these conditions means that the post-2008 context is an opportune moment in which to ask how politicians are seeking to maintain the legitimacy of political-economic restructuring in the troubled economic context, especially where they defend an implicated form of political-economic governance. Both questions are instrumental in understanding the future trajectory of the British political economy from a constructivist institutionalist perspective, for they relate to the conditions by which restructuring trajectories are established, thwarted, or shaped in unanticipated ways by forces beyond the control of policymakers.

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[9] These claims are based on data from the Office for National Statistics (ONS). Readily viewable and frequently updated sources for ONS employment and growth data covering the period that my analysis concerns are available from the BBC's 'Economy Tracker' website, see British Broadcasting Corporation (2014a), 'Economy Tracker', <http://www.bbc.co.uk/news/10612209>, accessed 12/11/2014. A plotting of ONS average weekly earnings data in relation to a variety of measures of inflation has recently been produced by the Resolution Foundation, see Resolution Foundation (2014), 'Tentative Signs That Wages Are Starting To Turn A Corner', <http://www.resolutionfoundation.org/media/press-releases/tentative-signs-that-wages-are-starting-to-turn-a-corner/>, accessed 13/11/2014. The claim that the contraction in wages is historically exceptional is based on research by the TUC based on historical data produced by the Bank of England, see Trades Union Congress (2014), 'UK Workers Suffering The Most Severe Squeeze In Real Earnings Since Victorian Times', <http://www.tuc.org.uk/economic-issues/labour-market-and-economic-reports/economic-analysis/britain-needs-pay-rise/uk>, accessed 13/10/2014.

The findings that I report here suggest, in answer to the first question, a more complex and nuanced outcome than either a rejection or a triumph of neoliberal ideas among policymakers. In Chapters 5 and 6 I make a case that post-2008 economic policies and institutional reforms reflect two subtly different 'crisis diagnoses' which have been made by different government departments, and that the same conclusion applies to both governments that have held power since 2008. A distinction is found between the ideas that I argue to be informing macroeconomic and industrial policies of both governments, with the former pointing towards an accelerated and intensified trajectory of neoliberal restructuring while the latter has developed tentatively (perhaps abortively) in ways that are not classifiably neoliberal. This suggests that the process of crisis diagnosis has been more contested than is commonly suggested. Whilst not yet amounting to the diagnosis of a crisis of neoliberalism, this second crisis diagnosis does call into question some fundamental ideas on which neoliberal restructuring is premised and consequently sanctions a nascent form of non-neoliberal restructuring that would be a 'decisive' form of change were it given full practical expression. Yet the ongoing constraints of fiscal policy on the budgets of industrial policymakers means that the realisation of 'decisive intervention' in this sense is yet to be obtained.

In answer to the second question I find that it is primarily the neoliberal macroeconomic policies of post-2008 governments that have been the subject of crisis narration in the post-2008 context, and consequently that politicians have found it necessary to defend and legitimise neoliberal restructuring. Unpacking these crisis narratives, I show how politicians have sought to obtain a persuasive effect by adopting a range of rhetorical strategies to mobilise the public in support of post-2008 restructuring even as these reforms have increased pressures on the incomes of much of the population. It falls to future research to ascertain how successful these strategies have been in securing support. However in the absence of a political party advocating a different crisis diagnosis that is capable of taking government, or a sustained extra-parliamentary mobilisation against such reforms, I conclude that successful or not, the outcomes of these narrative processes have posed little threat to ongoing neoliberalisation in the post-2008 context.

My over-arching conclusion, then, is that the post-2008 context is not one in which new ideas about political economy – either in the form of crisis diagnoses or crisis narratives – have yet impacted decisively upon the trajectory of political-economic restructuring in Britain, and that until such a time as they do the impact of the deterioration of economic circumstances since 2008 has acted to revive, accelerate and entrench a more aggressive form of neoliberal restructuring. Yet my conclusion is a qualified one, for neoliberalism has not emerged from the post-2008 context unscathed or unchallenged, and nor are the underlying conditions that gave rise to the troubled post-2008 context (an unsustainable growth model replete with internal contradictions and external vulnerabilities) likely to be remedied by the further rounds of neoliberalisation now being undertaken. Whilst more akin to the early 1970s than the late 1970s in terms of the proximity of a categorical change in the direction of political-economic restructuring, the parallels between that moment and my own post-2008 case study may yet prove indicative of the shape of things to come.

1.
Neoliberalism

The concepts of 'neoliberalism' and 'neoliberalisation' are central to my characterisation of the ideational and institutional context in which the processes that my analysis interrogates have occurred. More generally, they are prominent concepts among critical approaches in political economy and have also gained prominence in public debate since 2008. And yet in spite of (or perhaps because of) the increasing popular currency of the concept, some critics have called into question its utility.[10] There are good grounds to do so. Neoliberalism is almost invariably a 'critic's word', although I argue that it can facilitate important critical insights if used with analytical rigor. A more pressing problem, however, is that neoliberalism is sometimes a 'rascal concept', invoked both promiscuously and incoherently to denote any aspect of contemporary capitalism that a critic

[10] C. Barnett (2005), 'The Consolations Of 'Neoliberalism'', *Geoforum,* 36 (1), pp.7-12.

disapproves of.[11] Yet I maintain that the concept has the potential to facilitate valuable analytical insights into the restructuring of capitalist economies over the past thirty-five years if used with precision and rigor. For this purpose it is necessary to begin by assembling a coherent conceptualisation of neoliberalism and the related process of neoliberalisation.

Broadly speaking, 'neoliberalism' refers to a market-affirming view of the appropriate form of political economic governance, and a related form of political-economic restructuring that has been in evidence in national political economies and international economic governance since the late 1970s.[12] More specifically, the term 'neoliberal' can be used in reference to at least three (related) phenomena: the ideas and ideologies that provide the intellectual basis for such restructuring; the practices and policies through which such restructuring is pursued; and the socio-economic relations, institutions and institutional forms (of states, sectors and whole political economies) that such restructuring brings about at the local, national and international levels.[13] Any such phenomena can meaningfully be categorised as neoliberal insofar as it conforms to a coherent conceptualisation of the concept and there need be no contradiction between accounts that focus on one aspect or analytical level over others. However in practice differing conceptualisations of neoliberalism have produced implicit dissensus among accounts with regard to what it is that is actually being studied.

In a simple conceptualisation prevalent in public debate, neoliberalism is a (capital I) Ideology, an associated bundle of policies, and a type of state, standing alongside other Ideologies of the 20th century such as 'social democracy' that have their own

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[11] N. Brenner, J. Peck and N. Theodore (2010), 'Variegated Neoliberalisation: Geographies, Modalities, Pathways', *Global Networks,* 10 (2), pp.182-222.
[12] J. Peck (2010a), *Constructions Of Neoliberal Reason* (Oxford: Oxford University Press); Peck and Tickell (2007), 'Conceptualising Neoliberalism'.
[13] Peck and Tickell (2002), 'Neoliberalizing Space'; Brenner, Peck and Theodore (2010) 'Variegated Neoliberalism'.

associated signature policies and state forms.[14] In this view neoliberalism is identifiable by the presence of a package of reforms that the Ideology sanctions: namely privatisation, counter-inflationary macroeconomic policy, product and financial market liberalisation, trade and capital account liberalisation, the disciplining of trade unions and reform of industrial relations, and the implementation of market and market-like forms of governance where they had not been previously.[15] By the same token, the absence of these reforms, or reforms that take a more complicated tack vis-à-vis the public and private sectors, are held up as evidence of the inapplicability of the term 'neoliberal' to the party or government enacting them.[16]

This conceptualisation has the virtue of clarity, allowing us to characterise polities and ideas as being either 'neoliberal', 'non-neoliberal', or perhaps 'post-neoliberal'. Yet it confronts at least two problems. The first is that it tells us little of the substance of the process of 'neoliberalisation' (the process by which political-economies become neoliberal), particularly the political struggles and (small i) ideological processes by which the traumatic and highly contested transformations that the concept denotes have been achieved in countries of the core and periphery of the international economy.[17] More seriously in terms of its typological potential, this perspective confronts the problem of 'actually existing neoliberalism': the fact that wherever processes of neoliberalisation are pointed to they invariably differ

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[14] I draw a distinction in this thesis between 'Ideology' (with a capital 'I') and 'ideology' (with a small 'i'). The distinction reflects the differing emphases in the phenomena to which the term is commonly applied. While all uses of the term refer to the impact of ideas on political processes, for many analysts and popular users the term is simply a shorthand for the normative and technical ideas that political parties endorse and to which their members and/or politicians are assumed to subscribe (at least to some extent). Examples of capital I Ideologies that have been analysed in the British context are socialism, social democracy, liberalism and conservatism. Small 'i' ideology is a more nuanced concept that has been developed in critical social scientific literatures. Here ideology refers to the functioning (deliberate or otherwise) of ideas for a particular end – the 'naturalisation' of otherwise contestable social relationships (such as the relationships between employees and employers, or the distributional outcomes of a particular political-economic structure for social groups and classes. On this and other distinctions in the conceptualisation of ideology, see T. Eagleton (2007), *Ideology: An Introduction* (London: Verso).
[15] W. Larner (2000), 'Neoliberalism: Policy, Ideology, Governmentality', *Studies in Political Economy,* 63, pp.5-25.
[16] This, for instance, is the strategy taken by S. Buckler and D.P. Dolowitz (2004), 'Can Fair Be Efficient? New Labour, Social Liberalism And British Economic Policy', *New Political Economy,* 9 (1), pp.23-38.
[17] Larner (2000), 'Neoliberalism: Policy, Ideology'.

in the details of ideas, (small or capital 'I') ideologies, policies, and modes of restructuring, and are unevenly implemented within and between polities.[18] The result is that the concept thus constituted captures only a small section, if any, of the vast array of things to which the term 'neoliberal' might be meaningfully and usefully attached, and excludes a great deal of the phenomena that it is intended to capture. More sophisticated academic conceptualisations of neoliberalism in which the concept refers to specific ideational or regime categories encounter similar difficulties by attempting to identify neoliberalism *ahistorically* through the presence or absence of particular ideas, practices or institutional forms.[19]

Yet the diversity of 'actually existing neoliberalism' is not in itself good grounds to reject the utility of the concept outright if it is accepted that there are relevant historical and geographical relationships between these national and local variants. What is needed is both greater abstraction and greater specificity than a monolithic conception can provide – a conceptualisation able to hold purchase on nationally and locally-specific processes of neoliberalisation and their outcomes whilst also retaining purchase on the historical and geographical linkages between them and the 'family resemblances' that render them categorically related.

Here the work of Peck, Tickell, Brenner and Theodore is particularly insightful. In the perspective that they expound, neoliberalism is an evolving and travelling 'restructuring ethos' rather than a monolithic phenomenon.[20] Particular 'neoliberalisms' do, however, contain common historical links, geographical inter-linkages, and over-arching commonalities in ideational and practical substance that can be identified across time and space that render them categorically related. The 'restructuring ethos' refers to these commonalities and interlinkages. It takes the form of a historically specific, unevenly developed, hybrid, and patterned

[18] Peck and Tickell (2002), 'Neoliberalizing Space'; Brenner, Peck and Theodore (2010), 'Variegated Neoliberalism'.
[19] Examples include Hay (2004a), 'The Normalizing Role'; J.L. Campbell and O.K. Pedersen (2001), 'Introduction', in J.L. Campbell and O.K. Pedersen (eds.), *The Rise of Neoliberalism And Institutional Analysis* (Princeton: Princeton University Press), pp.1-24.
[20] Peck and Tickell (2002), 'Neoliberalizing Space'; Peck and Tickell (2007), 'Conceptualising Neoliberalism'.

tendency of market-disciplinary regulatory restructuring.[21] More succinctly, it is the state-facilitated extension of commodification, and market rule.[22] Among its hallmarks at the national level are the incorporation of market and market-like forms of governance (that is, an expansion of the realm of private-sector activity and market-resource allocation relative to the public sector, or the simulation of such means of resource allocation within the public sector), a critical stance towards non-market forms of association (specifically of a collectivist, statist and bureaucratic kind), and the subordination of other areas of policy to the imperative of creating or sustaining this regime of market rule. Ideationally, it follows that the restructuring ethos is comprised of those beliefs, analyses and normative arguments that assert the efficacy, necessity and legitimacy of such restructuring. The 'policy package' outlined above constitutes some recurring means by which neoliberalisation has been pursued in different times and places, but to focus on them alone is to miss the tendency towards hybridity, incoherence and adaptive experimentation that is also a hallmark of neoliberalisation.

As a historically specific phenomenon, the restructuring ethos has its early origins in the philosophers and economic thinkers who participated in or took inspiration form the Mont Pèlerin Society in the years following the Second World War.[23] It was honed into a series of familiar arguments by American and British think tanks in the mid-20th century, initially as a diagnosis of crisis-ridden domestic and international political economies of the 1970s.[24] Adherents to this 'second wave' of neoliberal thought deliberately sought to recruit those in positions of power and influence.[25] The ideas were taken up by centre-right politicians in the US and UK (and, in an altogether less democratic process, Chile) as a diagnosis of the

[21] J. Peck, N. Theodore, and N. Brenner (2012), 'Neoliberalism Resurgent? Market Rule After The Great Recession', *South Atlantic Quarterly,* 111 (2), pp.265-88. The term 'regulatory' is being used here after the manner of the regulation approach, denoting extra-economic institutional forms underpinning historically and spatially contingent forms of capitalist accumulation – so-called 'modes of regulation'. Although the vocabulary and precise research questions differ, there is an affinity between the regulation approach and the more general kind of institutionalist political economy outlined in Chapter 1 – both represent institutionalist forms of political economy. Consequently, the conceptualisation of neoliberalism as a form of regulatory restructuring is consistent with my emphasis on political-economic restructuring.
[22] Ibid; Peck and Tickell (2007), 'Conceptualising Neoliberalism'.
[23] Peck (2010a), *Constructions Of Neoliberal*.
[24] Peck and Tickell (2007), 'Conceptualising Neoliberalism'; Peck (2010a), *Constructions Of Neoliberal.*
[25] Ibid.

economic malaise of the 1970s. Following electoral success in the late 1970s and early 1980s they began the neoliberal restructuring of their national political economies and, in combination with institutions of international economic governance that shared their diagnoses, promoted similar reforms of other economies. Thereafter, it has been the dominant tendency in political-economic restructuring within many countries, and of the international economy itself.

These historical linkages, and general ideational and practical form, constitute the principal abstract components of the conceptualisation of neoliberalism, and it is from these components that the 'family resemblance' of 'actually existing neoliberalisms' can be identified and separated from phenomena to which the term does not apply. But the value of the concept thus defined lies principally in the analytical purchase that it can levy on changes occurring in specific contemporary political economies, which Peck and Tickell argue to have been shaped by the intended and unintended outcomes of the process of neoliberal*isation* – of neoliberal restructuring.[26] Rather than a process of 'convergence' on some archetypal neoliberal Ideology and state form, 'neoliberalisation' refers to the international diffusion of the restructuring ethos by both consensual and coercive means, its adaptation to domestic ideological and institutional circumstances by national policymakers as it is applied in particular places, its further experimental adaptation in response to crises and societal resistance that have arisen from the dissembedding of market processes that it entails, and the diffusion of these local adaptations back to other localities.[27] New ideas have emerged in support of the broad terms of the restructuring ethos that were not deployed in the 1970s – the 'hyper-globalisation thesis', 'the efficient market hypothesis' and 'financial innovation' to name but a few. The restructuring ethos and the political-economic changes that it gives rise to are consequently neither static nor monolithic, but evolve across space and time.

The conceptualisation of neoliberalism as a dynamic restructuring ethos allows for the incorporation of some of the insights of other prominent conceptualisations of neoliberalism from perspectives that are sometimes held to be opposed to one

[26] Peck and Tickell (2002), 'Neoliberalizing Space'.
[27] Ibid; Brenner, Peck and Theodore (2010), 'Variegated Neoliberalism'.

another. The first of these is the neo-Foucauldian literature on governmentality studies, in which neoliberalism is viewed as a mobile 'technology of rule'.[28] The 'technology' operates through attempts to reconstitute the subjectivities of citizens and actors by changing their institutional and discursive settings so that they are, at least in principle, 'reconstituted' as idealised market subjects, bearing responsibility for their own welfare and affairs and attending to them according to a market logic in areas where the state institutions once exercised such responsibility. As Ong stresses, the neoliberal technology of rule is not deployed in isolation from existing ideas and institutions, and for her the result is an almost infinite variety of hybrid 'assemblages'.[29] Ong is quite correct to mark neoliberalism's tendency to hybridity and the importance of local contexts, as well as the importance of 'subject positioning' in neoliberalisation strategies (a theme to which I shall return in Chapter 1). Yet to focus only on these is to miss the wider structural and historical contexts in which they occur, and the historical and geographical links stressed above.[30]

A second and contrasting approach – 'Historical Materialist International Political Economy' – conceptualises neoliberalism as the very structure of the post-Bretton Woods international political economy and a worldwide regime for capitalist growth.[31] The regime is said to be politically reproduced by the 'lock in' effects of liberalised, disembedded world markets (commonly referred to as 'globalisation'), and international organisations and institutions of economic governance, both of which serve to 'discipline' nation states into capital-friendly policies. Such an approach is useful in highlighting the international constraints on countries that would adopt a non-neoliberal path and the institutional pressures that may exist

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[28] A. Ong (2007), 'Neoliberalism As A Mobile Technology', *Transactions Of The Institute Of British Geographers,* 32 (1), pp.3-8; W. Larner (2003), 'Neoliberalism?', *Environment And Planning D: Society And Space,* 25 (5), pp.509-12; P. Langley (2007), 'Uncertain Subjects Of Anglo-American Financialisation', *Cultural Critique,* 65 (1), pp.67-91.

[29] Ong (2007), 'Neoliberalism As A Mobile'.

[30] As Brenner, Peck and Theodore note, the architects of this approach are epistemologically and methodologically committed to problematise the impact of structural and historical contexts. These commitments do not burden the present analysis. Brenner, Peck and Theodore (2010), 'Variegated Neoliberalism'.

[31] J. Crotty (2000), 'Structural Contradictions Of The Global Neoliberal Regime', *Review of Radical Political Economics,* 32 (3), pp.361-68; S. Gill (1995), 'Globalisation, Market Civilisation And Disciplinary Neoliberalism', *Millennium,* 24 (3), pp.399–423; S. Gill (1998), 'New Constitutionalism, Democratisation And Global Political Economy', *Pacifica Review,* 10 (1), pp.23-38; For a critical overview of this literature see Brenner, Peck and Theodore (2010), 'Variegated Neoliberalism'.

towards convergence in some areas of economic policy. It also underlines the rationality of neoliberal restructuring from the point of view of international financial interests when restructuring is viewed as a process impacting on a global system of accumulation rather than from the point of view of national economies and domestic capital.[32] Yet in situating analysis principally at the global level, this approach is less well equipped to account for the national and sub-national processes through which market rule is extended or resisted, and so too confronts the problem of the variety of 'actually existing neoliberalisms'. In the conceptualisation favoured here such processes are instrumental in explaining neoliberalism's dynamics: the emergence and survival of neoliberalism following crises in which it is itself implicated.

The essential hybridity of 'actually existing neoliberalisms' is one of two insights arising from Peck and Tickell's work that are of great relevance to my analysis. The restructuring ethos does not find 'pure expression', but exists in a complex and antagonistic relationship to pre-existing and contrasting ideas and institutions in the contexts in which neoliberalisation unfolds.[33] These can be usefully characterised as neoliberalism's 'others', and the 'sediment' of previous forms of political-economic structuring.[34] The existence of this sediment reflects the fact that neoliberalisation is a drawn-out process of struggle in which battles for institutional change are fought against constituencies who favour the continuity of non-neoliberal institutions, and in which priority is given by those enacting neoliberalisation to those strategies and confrontations that bring the greatest likelihood of success. Witness, for example, the caution and strategic foresight with which the Thatcher governments approached the reform of industrial relations, and the comparatively uneven penetration of private sector involvement in the National Health Service at the end of their terms compared with other areas of political-economic life.

Yet the relationship between neoliberalism and its institutional and (importantly for the present argument) ideational others is more complicated than that of a

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[32] A. Gamble (2001), 'Neo-liberalism', *Capital and Class,* 25 (3), pp.127-34.
[33] J. Peck, N. Theodore, and N. Brenner (2010), 'Postneoliberalism And Its Malcontents', *Antipode,* 41 (S1), pp.94-116.
[34] Brenner, Peck and Theodore (2010), 'Variegated Neoliberalism'; Peck, Theodore and Brenner (2010) 'Postneoliberalism And Its'.

grudging and temporary co-existence. Instead, it is something closer to a parasitical dependence.[35] Themes drawn from pre-existing Ideologies allow neoliberal policymakers to give the restructuring ethos the normative scope it would otherwise lack as a comprehensive vision of governmental purpose, and thus facilitate the contestation of elections. The centre-right political parties that first took neoliberalism to state power in the capitalist core combined it with traditional conservative themes of paternal responsibility, family, and national pride, renewal and borders – collectivist, conservative and nationalist concepts with which the ethos is arguably in stark tension.[36] Over the course of the late 1980s and early 1990s many centre-left political parties embraced the restructuring ethos and have adapted progressivist and social democratic concepts such as 'social justice' and 'community' in ways that are (at least nominally) compatible with the extension of commodification and market rule. In Chapter 4 I characterise the political economy of the 'New Labour' governments in neoliberal terms on the basis of this insight, suggesting that discernible adaptations of rhetoric and policies associated with the Party's 'progressivist' and (more contestably) 'social democratic' heritage do not in themselves count against the claim that these governments pursued neoliberal restructuring or were influenced by neoliberal ideas, but are more often evidence of precisely such an influence.

A second important insight related to this last point concerns the relationship between neoliberalism, contradiction and crisis, and in particular the impact of contradiction and crisis upon the form that neoliberalisation takes. A range of heterodox approaches to political economy, among them Marxist, Keynesian and Polanyian perspectives, give grounds for the view that neoliberal restructuring is likely to militate against the successful reproduction of economic growth in the medium term. What unites these approaches is the view that 'disembedded' forms of capitalism are prone to endogenous contradictions and crises, as well as to crises of legitimacy that arise from their social externalities. In Peck and Tickell's earlier work neoliberalisation itself was cast as a period of capitalist 'jungle law' rife with contradictions, whose legitimacy in the eyes of policymakers and public would flounder on the economic performance failures and crises that it was likely

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[35] Peck, Theodore and Brenner (2012), 'Neoliberalism Resurgent?'.
[36] Gamble, A. (1988), *The Politics Of Thatcherism: The Free Economy And The Strong State* (Basingstoke: Palgrave Macmillan).

to unleash.[37] Certainly, neoliberal restructuring can be implicated in many national and international economic crises over the past 35 years (the first chapter shall explore such an argument in reference to Britain in the years leading up to 2007-08). Yet, confounding, neoliberalisation has also coincided with a period of strong economic growth both in the UK and in the global economy, whilst the crises in which neoliberal restructuring is implicated have often given rise to the acceleration and deepening of neoliberalisation in the national contexts that are affected.[38]

It is for this reason that Peck and Tickell characterise neoliberalism as a 'creature of crisis' in their later work. Yet the two authors also note that both crises and emergent contradictions have had the effect of changing the general form that neoliberal restructuring takes.[39] Neoliberalisation processes, they note, tend to begin with a confrontational and destructive dynamic that they refer to as 'roll back neoliberalisation' in which neoliberalising policymakers deploy state power to break down existing non-neoliberal institutional arrangements and forms of association. The deflationary adjustments, privatisations and disciplining of trade unions undertaken by the Thatcher governments are a case in point. Roll back neoliberalisation serves to dissemble formerly embedded market processes and extend market rule into areas where it was hitherto absent. The unforeseen consequences are a range of economic and social dysfunctions and instabilities that lead to pressures on policymakers for alleviation.

In response, neoliberalisation tends to acquire a different character as it progresses over time. Peck and Tickell term this 'roll out neoliberalisation'. The defining characteristic of roll out neoliberalisation is the use of new forms of state intervention and the construction of new institutions as 'flanking mechanisms' around the neoliberalised political economy in order to contain its crisis tendencies, shore up its legitimacy, and, ultimately, facilitate the continuation of

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37 J. Peck and A. Tickell (1994), 'Jungle Law Breaks Out: Neoliberalism And Global-Local Disorder', *Area*, pp.317-26.
38 Peck, Theodore and Brenner (2010), 'Postneoliberalism And Its'.
39 Peck and Tickell (2002), 'Neoliberalising Space'.

neoliberalisation.[40] Peck characterises it as a re-orientation of neoliberalisation towards the “proliferating challenges of managing the costs and contradictions of earlier waves of neoliberalisation”.[41] Examples of such measures in the UK include the provision of in-work benefits for the low paid and the public funding of ‘employability’ training to compensate for what are negative outcomes of the neoliberalised labour market from the point of view of many working-age adults (stagnating real wages and a loss of job security). They also include the deployment of a particular kind of industrial interventionism to compensate for ‘market failures’ that have emerged over the course of neoliberal restructuring (such policies are of central importance to my argument here and are revisited in detail in Chapters 4 and 6). Crucially, strategies of ‘roll out neoliberalisation’ do not represent a pragmatic reversion to non-neoliberal forms of governance or a social ‘re-embedding’ of capitalism as a Polanyian perspective might anticipate.[42] Rather, they conform to the restructuring ethos and continue to prioritise the extension of commodification and market rule, attempting to stabilise and reproduce the regime of market governance and expanded domain of private sector resource allocation that neoliberalisation brings into being.

From this conceptualisation of neoliberalism and neoliberalisation emerges the empirical ‘problem’ that my analysis addresses. Because neoliberalism is a creature of crisis, we can anticipate the possibility that the crisis diagnoses and narratives of the post-2008 context will be neoliberal ones, and the policies undertaken within and in response to the post-2008 context will entail further neoliberal restructuring of either or both a ‘roll back’ or a ‘roll out’ type. However, the contradictions bound up in neoliberal restructuring and revealed by the failure of the British growth model in the post-2008 context may have exceeded the scope for rationalisation by the neoliberal restructuring ethos, leading to the adoption of

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[40] Peck and Tickell (2002), ‘Neoliberalising Space’; B. Jessop (2002), 'Liberalism, Neoliberalism, and Urban Governance: A State-Theoretical Perspective', *Antipode,* 34 (3), pp.452-72.
[41] J. Peck (2010b), 'Zombie Neoliberalism And The Ambidextrous State', *Theoretical Criminology,* 14 (1), p.106; although he notes that the two strategies are often pursued simultaneously.
[42] Jessop utilises the ‘re-embedding’ metaphor in his discussion of flanking mechanisms, but it is important to note that the ‘fixes’ that he refers to do not contravene the broader goal of neoliberalisation and, insofar as neoliberalism represents the extension of commodification and market rule, do not take the de-commodifying form that ‘embedded’ capitalisms of the 20th century once did. See Jessop (2002), 'Liberalism, Neoliberalism’.

a new trajectory in political-economic restructuring. Both the notion that neoliberalism exists in hybrid forms and the concepts of roll back and roll out neoliberalisation are of great analytical value in addressing this question. They facilitate the characterisation of changes in the positioning of the public sector vis-à-vis the private sector in Britain's political economy over the course of the 1980s, '90s and 2000s. I draw upon these ideas in the following chapters when characterizing the nature of economic policy and political-economic restructuring in the years preceding and proceeding 2007 and 2008. In particular, they allow me to identify whether a particular pattern of intervention in the post-2008 context constitutes a neoliberal or a post-neoliberal strategy, or a continuity of practices that pre-date neoliberalisation and so which are classifiable amongst neoliberalism's 'others' and the 'sediment' against which it struggles.

2.
Contributions

The research presented in this dissertation makes both empirical and theoretical contributions to the literature. Empirically, my analysis contributes to our understanding of the contemporary trajectory of British political-economic restructuring by offering an empirically and theoretically informed investigation of continuity and change in a conjuncture characterised by the presence and management of economic crisis. From this investigation, two specific contributions arise that speak to three (sometimes overlapping) literatures concerning British political economy. The first of these is a critical and institutionalist analysis of the British political economy's structural shortcomings and the weakness of its 'growth model'. I outline this perspective in Chapter 1 under the heading of the 'critical social democratic perspective' ('CSDP'). The second is a constructivist institutionalist strand in literatures on British and comparative political economy that emphasises the impact of ideas, discourses and crises upon the course of political-economic restructuring. I introduce this constructivist institutionalist literature in Chapter 2. The third concerns the 'neoliberalisation' of the British political economy, and forms part of a more general literature on neoliberal restructuring at a variety of scales discussed in the previous section.

Drawing insights from all three literatures to structure my investigation and interpretation, I argue that the failure of the British growth model in 2007-2008 has given rise to a process of political-economic change that is more complex, nuanced and contested than a focus on 'austerity macroeconomics' might lead us to believe, suggesting greater scope for contingency and categorical political change in the conjuncture under study. My analysis confirms the opinion prevalent within the critical social democratic and neoliberalisation literatures that 2008 has not marked the high point of neoliberalisation in Britain, and it shares the view of these literatures that it is also unlikely to mark the high point of the economic instability that is the material basis of crisis. These findings provide a contextualised validation of the view that neoliberalism is a 'creature of crisis' because they suggest that neoliberal ideas provide the dominant framing of economic policy problems for macroeconomic policymakers in the post-2008 context and that the overarching policy response to the crisis reflects them.

Yet where my analysis extends that arising from these two literatures is in pointing to the presence of what I argue to be non-neoliberal framings of economic policy problems among certain sections within both post-2008 governments. In doing so my analysis reveals contested dynamics in policymaking and a potential for contingency and change in the present conjuncture that is otherwise missed. I point to a nascent non-neoliberal crisis diagnosis and policy agenda that has the potential to gain momentum, particularly in the event that the 'neoliberal solution' to the crisis in the post-2008 context presently being pursued turns out to be a politically costly route to sustained stagnation and economic instability for the governments that are implementing it – an expectation with which the CSDP and neoliberalisation literatures equips us. The insights arising from my research consequently enrich our understanding of British economic policy in the present conjuncture and serve to guide our analysis of its future dynamics by pointing our attention towards these areas of contestation.

This first contribution arises primarily out of my inquiry concerning 'crisis diagnosis'. The second empirical contribution arises in relation to the second process that I interrogate: 'crisis narration'. Here my analysis speaks to the constructivist institutionalist perspective, particularly a strand within it that investigates the impact of crisis narratives upon public opinion and the opportunities and constraints that this presents for political-economic restructuring. In the constructivist institutionalist analysis of neoliberalisation in Britain and other national contexts the 'narration of crisis' plays an important role in explaining the political possibility of rapid institutional change. My contribution here is an empirically informed analysis of the crisis narratives that the two post-2008 governments have constructed in the post-2008 context. Importantly, this is but one among several pieces of research that will be necessary to fully comprehend the way in which the post-2008 context has been narrated and the impact of this process if causal inferences about the impact of this process on policy choices are to be drawn.[43] However, mine is an important contribution towards this collaborative end because politicians are likely to be among the primary agents of the process of crisis narrative construction.

Beyond these specific empirical contributions, my analysis and the evidence presented for it is likely to be of use to researchers addressing other research questions elsewhere within the field of British political economy. It holds implications for our understanding of consensus and conflict between political parties and between government departments in the period to which it relates, both of which are enduring issues of debate and research in the study of British politics. More generally, it serves to raise the profile of recent changes in industrial policy among those studying responses to economic crisis both in Britain and in other national contexts, as these have not featured prominently in the debate to date.

As well as these empirical contributions, my analysis makes a theoretical contribution in the form of an empirically operationalised constructivist institutionalist analytical framework for the study of crisis and transformative institutional change that is more comprehensive than existing frameworks. In Chapter 2 I review a diverse set of concepts and claims in relation to the issues that arise from the overarching constructivist institutionalist contention that

[43] I discuss this potential research agenda, and the contribution that my thesis makes to it, in Chapter 3.

intersubjective ideas and discursive processes impact upon the strategic behaviour of political-economic actors. In relation to crisis and political-economic restructuring, it is the contention of this literature that policy responses to economic crisis reflect the ideas that policymakers have about the nature of the crisis, and that the opportunity for a government or opposition party to implement transformations in the institutional fabric of the political economy is conditioned to an extent by the success with which they are able to successfully narrate the crisis to other actors. However although the logical relationship between these two roles attributed to ideational/discursive dynamics is implicit and understood by constructivist institutionalists, an analytical framework that incorporates both, that is empirically operationalisable, and that is transportable to other spatial or temporal contexts has been lacking. My theoretical contribution is to offer a critical appraisal of existing concepts and to assemble them alongside other relevant concepts into such an analytical framework. Additional relevant concepts are drawn from within constructivist political analysis to this end, and also from other fields pursuing separate but related research questions – namely the 'framing approach' to the study of social movements.

In the process of constructing this analytical framework and carrying out empirical analysis with it I have also encountered and generated a number of avenues for further research. These are noted over the course of the discussions, and the principal ones are summarised in the conclusion.

3.
<u>Structure Of The Thesis</u>

In Part I of the dissertation I make the preliminary arguments that structure my interpretation of the way in which the two post-2008 governments have diagnosed and narrated crisis in the post-2008 context. In Chapter 1 I examine the perspective of a group of scholars whom I term 'critical social democrats'. This analysis implicates the recent restructuring of the British political economy in the emergence of a fragile 'growth model'. The critical social democrats' argument is that the economic problems that have faced economic policymakers in the post-

2008 context stem from the failure of the growth model due to its inability to reproduce private debt-led growth in the prevailing economic circumstances of those years. I take this analysis as the 'institutional' aspect of my constructivist institutionalist analysis, arguing in the same chapter that it can be considered an example of the kind of process-oriented institutionalist political economy of which constructivist institutionalism is an example.

In Chapter 2 I then introduce the constructivist institutionalist approach to political economy and review the literature surrounding the core concepts of my argument here. The distinctiveness of constructivist institutionalism is that it locates the actors whose behaviour we study in an ideational as well as an institutional context, and conceptualises the actors as being 'sentient' ideational agents with the capacity to re-interpret and strategically represent the institutionally structured political-economic context that they inhabit. From this general conceptualisation of the political-economic actor arises a number of general concepts that relate ideationally and institutionally conditioned agency to the study of political-economic change. I examine these concepts at length, showing how they have been assembled into frameworks for studying institutional change while also drawing attention to a number of assumptions and controversies in relationship to such frameworks. In Chapter 3 I refine and operationalise these concepts to better reflect the ends of my own research. In so doing I address certain tensions and silences in existing conceptualisations and draw upon the insights of bodies of literature from other fields that study analogous processes. Through this discussion I articulate my operational research questions. After presenting these I move on to reflect the epistemological implications of the questions and outline my methodological approach in light of these considerations.

Chapter 4 completes these contextual and conceptual preliminaries by drawing upon the literature on the 'New Labour' governments of 1997-2007 to advance a characterisation of the ideas underpinning economic policy and political-economic restructuring prior to 2007-2008. I do so in order to facilitate a comparison between these and post-2008 ideas, and more generally to substantiate my view that the British political economy had been subject to a process of neoliberalisation in the years preceding 2007-2008. I argue that the political-economic restructuring undertaken by the New Labour governments was predominantly composed of strategies of roll out neoliberalisation, that these reflected neoliberal 'problem definitions', and that these and prior strategies of neoliberalisation were thus implicated in the emergence and failure of the growth model identified by the critical social democrats. Establishing this point brings me into contact with an ongoing debate between 'social democratic', 'synthetic' and 'neoliberal' characterisations of New Labour. Rather than adopting the traditional channels of this debate, I argue that the debate itself is misconceived in its presupposition that the various attributions made by the different camps are mutually exclusive. To make this argument I consider in detail what is implied by a neoliberal microeconomic approach, introducing the concepts of 'strategic discretionary' and 'non-discretionary' intervention to clarify what is at stake in the claim that New Labour either practiced or did not practice neoliberal restructuring. These concepts are drawn upon later in the thesis to make a similar analysis of post-2008 governments.

In Part II I report the findings of my empirical research into crisis diagnosis and crisis narration in the post-2008 context and offer conclusions. Chapters 5 and 6 concern the crisis diagnoses of the two post-2008 governments. Chapter 5 examines their macroeconomic policy agendas, finding evidence of a neoliberal crisis diagnosis, and policies that amount to new strategies of roll back and roll out neoliberalisation. I show how the policies of both governments have cohered with neoliberal problem definitions, yet I also identify something of a divergence and subsequent re-convergence in the approaches that they have adopted. Between 2010 and 2012 the Coalition pursued a strategy of rapid wage-deflationary macroeconomic adjustment under the influence of the 'expansionary fiscal consolidation thesis'. After 2012, and reflecting the failure of this approach, the Coalition's macroeconomic strategy began to resemble more closely that of the Brown Government: the use of stimulus instruments to preserve fixed and human capital through an acknowledged downturn, the placation of perceived market sentiment through pledges to future fiscal consolidation, and a re-regulation of the credit cycle alongside a defence of financial market practices that had given rise to asset price inflation prior to 2008. Indeed, I argue that the Coalition's post-2012 macroeconomic strategy can be considered a pragmatic and strategic attempt to resuscitate and stabilise the dynamic of 'privatised Keynesianism' that had underpinned the pre-2008 growth model.

Chapter 6 examines the two governments' microeconomic policies. The findings reported here are at odds with those of Chapter 5, for a strand of diagnosis in relation to industrial policy is at odds with what could be characterised as either strategies of roll back or roll out neoliberalisation, both in terms of its form and the arguments offered for it. I find that the same holds true for both governments. I argue that this reflects the simultaneous existence in government of two contrasting but pragmatically aligned crisis diagnoses – one neoliberal, one not, respectively located in the two departments responsible for the macro and micro dimensions of economic policymaking. I suggest that this indicates that certain more nuanced and contested processes are at play in the post-2008 context than a narrative of straightforward ideational and policy continuity would suggest. I suggest that it reflects a longer standing tension in British politics between industrial policymakers and macroeconomic policymakers, and conclude the chapter by reflecting on the significance of this finding for the constructivist institutionalist analytical perspectives examined in Chapter 2.

In Chapter 7 I change my focus to crisis narration. I report the findings of research carried out on the crisis narratives that both post-2008 governments have constructed in order to assert the legitimacy of their decisive interventions. The crisis narratives relate primarily to macroeconomic interventions, and consequently reflect the attempted legitimation of the neoliberal crisis diagnosis identified in Chapter 5. The research draws upon 120 newspaper articles authored by the two post-2008 prime ministers and the ministers responsible for economic policymaking and related areas of policy. I analyze the rhetorical techniques utilised by the two governments to this end and discuss their implications for our understanding of the process of crisis narration more generally.

In the concluding chapter I draw together the empirical analysis, and reflect upon its implications for our understanding of the trajectory of the British political economy in the post-2008 context in light of the critical social democratic perspective.

Chapter 1.
Institutionalist Political Economy And The Post-2008 Context

In this chapter I conceptually and empirically situate the 'institutionalist' element of my constructivist institutionalist analysis. A constructivist institutionalist analysis of institutional continuity and change locates the determinants of either condition in the way that actors diagnose and narrate political-economic circumstances. These circumstances are in turn the unintended outcomes of complex and interacting processes of institutionally conditioned behaviour by the many actors comprising the political economy. The circumstances comprising the post-2008 context – a financial crash and its stagnationary aftermath – were produced in this way, and it is the task of this chapter to elucidate a perspective on how this came to pass. In the first section I introduce the broad contours of the 'institutionalist' approach to political economy. In the second section I outline what I term the 'critical social democratic' perspective on contemporary British political economy and then show in the third section that it can be considered an institutionalist perspective on the causes of the poor economic performance which characterises the post-2008 context. I draw attention to the CSDP's focus on a number of 'institutional processes' (processes in which the institutions are both factors and 'dependent variables') and the outcomes of these processes on the stability and performance of the British political economy.

1.
'New Institutionalism'

The constructivist institutionalist perspective to which my analysis speaks has emerged from the broader family of 'new institutionalist' approaches to the study of political economy.[1] All such approaches share the claim that 'institutions' are an irreducible factor shaping the conduct of political-economic actors and thus the

[1] Here simply termed 'institutionalism', given their predominance in the subfield.

trajectory of political economies.[2] Institutions are 'rule-like structures' and 'relatively enduring' modes of conduct (i.e. patterns of behaviour that are reproduced over time) that actors in a given context collectively expect of one another.[3] We could, for example, speak of the institutions of industrial relations (encompassing firm-employee settlements, statutory rights, and the legal and extra-legal practices by which they are enforced), of finance (encompassing business practices such as lending and credit assessment, and statutory market regulators), or of monetary policy (encompassing the central bank and its techniques and remit): in all cases reference is being made to the formal or informal rules that structure the way that relevant actors behave in these areas of political-economic life, and which consequently impact on the outcomes that arise from these areas.

The 'collectively expected' criterion signals an important distinction between the 'old' and 'new' institutionalisms. As collectively expected modes of practice, institutions may or may not be codified legal institutions such as constitutions or industrial relations regimes: the term 'institution' can refer to any enduring organisational regularity that, in practice, exhibits this rule-like quality. That institutions are defined in this way does however suggest that they possess at least a *de facto* legitimacy: regardless of whether or not the actors operating within a given institution believe it to be the most appropriate or efficient means of organising whatever aspect of political-economic life that it relates to, they do at least recognise and abide by its dictates – they *comply*. Compliance, and the factors that account for it, are thus important variables in the sustenance of individual

[2] C. Parsons (2007), *How To Map Arguments In Political Science* (Oxford: Oxford University Press); Steinmo (2008), 'Historical Institutionalism', in D.D. Porta and M.M. Keating (eds.), *Approaches And Methodologies In The Social Sciences: A Pluralist Perspective* (Cambridge: Cambridge University), pp.118-38; P.A. Hall and R.C.R. Taylor (1996), 'Political Science And The Three New Institutionalisms', *Political Studies,* 44 (5), pp.936-57; V. Lowndes (2002), 'Institutionalism', in D. Marsh and G. Stoker (eds.), *Theories And Methods In Political Science; 2nd Edition* (London: Palgrave), pp.90-108.

[3] W. Streeck and K. Thelen (2005), 'Introduction: Institutional Change In Advanced Political Economies', in W. Streeck and K Thelen (eds.), *Beyond Continuity: Institutional Change In Advanced Political Economies* (Oxford: Oxford University Press), pp.1-40; Lowndes (2002), 'Institutionalism'; Parsons (2007), *How To Map*; Stienmo (2008), 'Historical Institutionalism'.

institutions.[4] The reason for compliance is an important differentiating point between the 'Rational Choice' and 'Historical Institutionalist' positions on the one hand, which see compliance as the result of coercion and compromise among actors who undertake political struggles with competing interests, and 'Sociological Institutionalists' on the other, who define institutions as pre-conscious 'cognitive scripts' which precede the consideration of interests.[5] In either case, however, the causal role of institutions is to foreclose or raise the costs of some strategies for actors attempting to secure valued ends, lower the costs of others, and ultimately favour some courses of action over others. It is on this basis that their 'strategic selectivity' – their conditioning of actors' strategic choices – is exerted.[6]

The appeal of studying institutions lies precisely in their relative endurance: they and their effects can be examined, theorised, modelled and compared. Institutionalism, however, represents a rather distinctive 'genre' of political analysis that is more contextually sensitive and modest in its epistemological ambitions than the behaviouralist and rationalist approaches against which it emerged. Institutionalists are united in their attention to contextual specificities that render acontextual generalisation problematic, adhering instead to the relatively modest epistemological ambition of generating 'mid-range' analytical frameworks of transferable concepts with which to guide the empirical investigation of disparate events in different times and places.[7] As we shall shortly see, many of these transferable concepts relate not simply to typologies of different varieties of institutional forms (although such scholarship is an important part of the institutionalist literature – for example the 'Varieties of Capitalism' approach), but rather to processes in which institutions are factors and outcomes.

A feature of institutionalism since its inception has been an explicit emphasis on a 'dialectical' model of the 'structure-agency' relationship through which institutions

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[4] J. Mahoney and K. Thelen (2010), 'A Theory Of Gradual Institutional Change', in J. Mahoney and K. Thelen (eds.), *Explaining Institutional Change: Ambiguity, Agency And Power* (Cambridge: Cambridge University Press), pp.1-37.

[5] Hall and Taylor (1996), 'Political Science And'.

[6] C. Hay (2002), *Political Analysis: A Critical Introduction* (Basingstoke: Palgrave Macmillan).

[7] Lowndes (2002), 'Institutionalism'; Steinmo (2008), 'Historical Institutionalism'.

are theorised as both *factors* and *consequences*, of actor conduct.[8] The kind of actor appealed to in institutionalist theory is similar to that dominating most post-Machiavellian political analysis: an actor that is ends-oriented, instrumentalist and strategic.[9] Actors are modelled as possessing valued end-states, towards the attainment of which their behaviour is instrumentally and strategically directed. In an institutionalist account, however, these valued ends are realised in a context structured by established institutions. By defining the relative resources and authority of the actors pursuing their preferences within and between them, and defining sanctions for the transgressions of rules, institutions and the institutional context as a whole exert a 'strategic selectivity' that shapes, but does not necessarily determine, the choices that actors make.[10]

Yet institutions and the institutional context that they comprise are themselves the outcome of actor choices in past moments. Institutional analysis consequently implies some variant of what is termed 'path-dependency'; the notion, discussed at

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[8] K. Thelen and S. Steinmo (1992), 'Historical Institutionalism In Comparative Politics', in S. Steinmo, K Thelen, and F. Longstreth (eds.), *Structuring Politics* (Cambridge: Cambridge University Press), pp.1-33; and C. Hay and D. Wincott (1998), 'Structure, Agency And Historical Institutionalism', *Political Studies,* 46 (5), pp.951-57. Parsons forcefully stresses the need to differentiate 'institutionalist explanations' from 'explanations about institutions': the former invoke institutions as an *independent variable* rather a straight forward reflection of actor interests. Parsons (2007), *How to Map Arguments.*

[9] A point of clarification is warranted here, for some reviews of the 'sociological institutionalist' literature differentiate between it and other institutionalisms by opposing the end-oriented actor of some accounts with the 'goal' or 'appropriateness' directed behaviour of the actors modeled by sociological institutionalists. For an instance of such analysis see J.G. March (1992), 'The War Is Over, The Victors Have Lost', *Journal of Public Administration Research and Theory,* 2 (3), pp.225-31. On closer examination, however, what such analysts are often claiming is that valued ends towards which action is directed are culturally given – that is to say, socially constructed. This, we shall see, is quite compatible with the core constructivist institutionalist contention that interests are socially constructed, but for constructivist institutionalists this makes the behaviour in pursuit of socially constructed ends no less end-oriented or strategic. The relationship between the constructivist and sociological institutionalism warrants closer examination than space here permits, the focus is instead on the 'rational choice' and historical' institutionalisms that are most prevalent in the field of political economy. For rational choice institutionalists, such ends can be deduced from a conserved number of 'utility functions' that the theory assigns to different analytical classes of political actor (on which see W.H. Riker (1995), 'The Political Psychology of Rational Choice Theory', *Political Psychology*, 16 (1), pp.23-44). Historical institutionalists, by contrast, assert an inductive approach to understanding the ends to which strategic action is put, deriving this information through empirical adjudication on a case-by-case basis. For a comparison of both approaches, see K.A. Thelen (1999), 'Historical Institutionalism In Comparative Politics', *Annual Review Of Political Science,* 2 (1), pp.369-404.

[10] Hay (2002), *Political Analysis*.

greater length below, that choices made at 'Time 1' will subsequently shape the range of strategic options available and the formation of subsequent institutions at 'Time 2', ad infinitum.[11] This claim focuses institutionalist analysis on dynamic *processes* over time, with the impact of institutions on actors' strategies and vice versa exerted in the fourth dimension.[12] For this reason, the institutionalist ontology favours empirical analyses of institutionally mediated *processes*, drawing the attention of the analyst to the manner in which institutions beget certain behaviours, and these behaviours impact on the institutional context, and so shape the trajectory of political economies.[13]

Crucially, however, this *does not mean that such processes need relate to political or economic change*. Rather, it is generally asserted that institutional processes function in such a manner that institutions are reproduced. Insofar as institutionalists assert an expansive empirical generalisation, it is that institutions are difficult to reform once they are created. Actors within a given institutional context are suggested to bring whatever resources that context grants them to bear in order to thwart attempts to alter the status quo in ways that might detract from their ability to achieve, or approximate, their valued end-states within it.[14] In short, the endurance of institutions is reflective of a reproduction-favouring logic of behaviour created by the interaction of institutional structure and agency. Because individual institutions are resistant to change, the temporality, direction and conditions of possibility of institutional change is an object of theoretical and empirical import for institutionalist analysis.

An important but sometimes under-specified distinction in institutionalist conceptual frameworks lies in relation to the ontological nature of institutions and their relationship with another analytical category: 'the ideational'. This distinction is particularly important for constructivist institutionalist approaches because they work across the two categories and relate processes occurring in one domain with processes occurring in the other when explaining political-economic

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[11] J.L. Campbell (2010), 'Institutional Reproduction And Change', in G. Morgan, et al. (eds.), *Oxford Handbook Of Comparative Institutional Analysis* (Oxford: Oxford University Press), pp. 87-117.
[12] Lowndes (2002), 'Institutionalism'.
[13] On diachronic analysis and institutionalism, see Hay (2002), *Political Analysis*.
[14] Campbell (2010), 'Institutional Reproduction'.

outcomes. The two categories are often invoked separately, yet this can lead to ambiguity because the definition of institutions outlined above renders them of the same ontological 'stuff' as ideas – they too exist (in part) in the minds of actors as ideas and resulting behaviours, rather than as physical constraints on behaviour.[15]

To specify the nature of the distinction it is helpful to briefly examine the way in which the categories are used in institutionalist approaches that invoke ideas as explanatory factors (which are the topic of Chapter 2). In such approaches ideas condition what actors believe possible, desirable, and how they conceive of their interests, whilst institutions arise from the ways that actors collectively require one another to behave in a given area of political economic life. This distinction is implicit in much constructivist institutionalist work. It provides the analytical clarity necessary to discern the impact of ideational processes on institutional changes. However some recent contributions risk undermining the distinction. In an effort to differentiate 'discursive institutionalism' from its historical institutionalist and rational choice institutionalist forebears, Schmidt has suggested that institutions are conceived of differently by discursive institutionalists: as 'internal' 'constraining and enabling structures of meaning', rather than only as 'external' 'rule following structures'.[16] In advancing this definition Schmidt risks eliding the distinction between institutional processes and the ideational/discursive ones that she herself theorises, for it is no longer clear where the boundary between the analytical classes of institutions and ideas lies, and thus what their relative contributions to explaining a given outcome are. However, in her own empirical work Schmidt's concept of institution bears a striking similarity to that of the older new institutionalisms that she criticises. The role that she ascribes institutions is in shaping the inter-change of ideas through discourse by structuring who talks to whom, where and how, as well as distributing political resources among the proponents of particular ideas.[17] The institutions she has in mind are constitutional ones at the national and European levels. Consequently, her argument rests upon an ontological distinction between

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[15] Parsons (2007), *How To Map.*
[16] V.A. Schmidt (2010b), 'Taking Ideas And Discourse Seriously: Explaining Change Through Discursive Institutionalism As The Fourth New Institutionalism', *European Political Science Review,* 2 (1), pp.1-25.
[17] V.A. Schmidt (2002), *The Futures Of European Capitalism* (Oxford: Oxford University Press).

ideas and institutions, and I suggest that we do well to explicitly maintain this distinction so as to retain a clear purchase on the relationship between them.

2.
<u>The Critical Social Democratic Perspective</u>

The British post-2008 context has been the subject of an increasingly comprehensive body of analysis that I here term the 'critical social democratic perspective'. In this and the following section I review some of this literature and argue that it constitutes (albeit sometimes implicitly) an institutionalist analysis of the post-2008 context that can inform my own constructivist institutionalist analysis.

Critical Social Democrats

Critical social democrats do not describe themselves thus, and nor do they necessarily perceive their collective work as constituting a perspective. Nevertheless, it is my contention that their work does form a broadly coherent whole and that it is useful to think of it as such insofar as their complementary contributions can together tell us a great deal about underlying causes of the failures of economic stability and performance that characterise Britain in the post-2008 context.

The perspective is 'critical' because it has emerged among scholars who have both ethical and practical reservations regarding the restructuring of the British and international political economies over the past thirty years, whether or not they deploy the concept of neoliberalism to analyse this restructuring. They share the view that substantial political-economic and policy change is required in order to overcome the structural problems that they identify as having resulted from it. The contributors generally advocate a more 'embedded' form of capitalism in which government takes a more proactive role in addressing the functional and ethical failures of the capitalist political economy. Many subscribe to a (broadly defined) Keynesian understanding of the economy in which macroeconomic stability, correct market functioning and sufficient levels of productive investment are things for which government can and should take a greater amount of responsibility than it presently does, using more interventionist means to this end. This last point is also the basis of my attribution of the term ‘social democrat’ to these scholars. The focus of the CSDP is the particular form of capitalist political economy that has been brought into being Britain since 1979 and the pathological outcomes and dynamics that it has engendered in the post-2008 context, rather than capitalism itself. Consequently, they leave largely unexamined the more general and enduring contradictions that Marxian scholars claim to afflict all capitalist economies.[18] Instead, their work holds the implicit assumption that capitalist economy, properly instituted, can function for the collective welfare of its host society.

The Anglo-Liberal Growth Model

Contributors to the CSDP are united by their shared assessment of a number institutional features of the UK political economy which they argue underpinned economic growth between 1993 and 2008: a so-called ‘growth model’.[19] The

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18 D. Harvey (2014), *Seventeen Contradictions And The End Of Capitalism* (Oxford: Oxford University Press).

19 A sample of the CSDP literature outlining the central tenets of the perspective would include the following: J. Buchanan, et al. (2009), 'Undisclosed And Unsustainable: Problems Of The UK National Business Model', *CRESC Working Papers* (75; Manchester: CRESC); C. Crouch (2009), 'Privatised Keynesianism: An Unacknowledged Policy Regime', *The British Journal of Politics And International Relations,* 11 (3), pp.382-99; T. Dolphin and M. Griffith (2011), *Forever Blowing Bubbles? Housing's Role In The UK Economy* (London: Institute For Public Policy Research); E. Engelen, et al. (2012), *After The Great Complacence: Financial Innovation And The Politics Of Reform*, (Oxford: Oxford University Press); J. Froud, et al. (2011), 'Rebalancing The Economy (Or Buyer's Remorse)', *CRESC Working Papers* (87; Manchester: CRESC); A. Gamble (2011), *Economic Futures: A Report Prepared For The British Academy* (London: The British Academy); P.A Hall (2013), 'The Political Origins Of Our Economic Discontents', in M. Kahler and D.A. Lake (eds.), *Politics In The New Hard Times: The Great Recession In Comparative Perspective* (London: Ithica), pp.129-49; C. Hay (2013a), 'The British Growth Crisis: A Crisis Of And For Growth', *SPERI Papers* (1; Sheffield: SPERI); C. Hay (2011a), 'Pathology Without Crisis? The Strange Demise Of The 'Anglo Liberal Growth Model'', *Government And Opposition,* 46 (1), pp.1-31; M. Watson (2010), 'House Price Keynesianism And The Contradictions Of The Modern Investor Subject', *Housing Studies,* 25 (3), pp.413-26; S. Lansley (2012), *The Cost Of Inequality* (London: Gibson Square); J. Montgomerie (2007a), 'The Logic Of Neoliberalism And The Political Economy Of Consumer Debt-Led Growth', in S. Lee and S. McBride (eds.), *Neoliberalism, State Power And Global Governance* (Dordrecht: Springer), pp.157-72; R. Wade (2009a), 'From Global Imbalances To Global Reorganisations', *Cambridge Journal Of Economics,* 33 (4), pp.539-62.

'Growth Model' concept has become increasingly prominent in post-2008 academic and political discourse. In its academic context, it denotes the idea that differently organised national forms of capitalism are capable of generating economic growth, as captured by GDP figures and other common measures of economic performance, over a period of time that we might refer to as 'the medium term' (a period that might extend for roughly a decade, or perhaps more depending on the performance of the model).[20] For proponents of the concept, contrasting growth models can exhibit different institutional structures, and can embody very different relationships between 'state', market and societal actors. Crucially, while all growth models can (by definition) produce growth, different models are argued to exhibit different longer-term dynamics and economic performance outcomes, with some being more 'sustainable' and having greater longevity than others.[21]

Hay has usefully termed the growth model that came to underpin the British economy between 1993 and 2008 the 'Anglo-liberal growth model' (ALGM).[22] The ALGM was premised on the capacity of the financial services industry to expand household credit and tax revenues from the mid-1990s to 2007 in the context of low global inflation and interest rates and high global liquidity that characterised the period.[23] This capacity sustained expanding domestic demand by bolstering household consumption spending while geographically redistributing employment in the public and 'para-state' sectors through rising public spending.[24] The model was increasingly premised on a financial boom in securitised credit products and

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[20] Hall (2013), 'The Political Origins'.
[21] Where 'sustainability' denotes longevity, rather than environmental sustainability. See C. Crouch (2012b), 'Employment, Consumption, Debt, And European Industrial Relations Systems', *Industrial Relations,* 51 (2), pp.389-412; Froud et al (2011), 'Buyer's Remorse'; Hay (2013a), 'The British Growth'; R. Wade (2009b), 'The Global Slump: Deeper Causes, Harder Lessons', *Challenge,* 52 (5), pp.5-24; Hall (2013), 'The Political Origins'.
[22] Hay (2011a), 'The Strange Demise'.
[23] Some have referred to Britain's growth model as a 'neoliberal' one, for example Hall (2013), 'The Political Origins'. Caution is warranted here, for it is an important subtlety of those contributions that directly interrogate the relationship between neoliberalisation and the ALGM that the growth model was largely the *unanticipated* consequence of neoliberal restructuring. See Froud, et al. (2011), 'Buyer's Remorse'; Hay (2011a), 'The Strange Demise'; C. Crouch (2012a), 'Beyond The Flexibility/Security Trade-Off: Reconciling Confident Consumers With Insecure Workers', *British Journal Of Industrial Relations,* 50 (1), pp.1-22; E. Stockhammer (2013a), 'Financialisation, Income Distribution And The Crisis', in S. Fadda and P. Tridico (eds.), *Financial Crisis, Labour Markets And Institutions* (Abingdon: Routledge), pp.98-120; Buchanan et al. (2009), 'Undisclosed And'.
[24] Buchanan et al. (2009), 'Undisclosed And'.

the rising financial profits and expanding credit to which it gave rise. The ALGM is subject to a number of contradictions and vulnerabilities. Fatefully, it was particularly vulnerable to an exogenously or endogenously generated interest rate or inflationary spike capable of upsetting the inflationary dynamic in certain asset prices on which credit expansion and financial sector profits depended.[25] Once this risk was realised, and then compounded by the 2007-08 financial crisis, a temporary breakdown in financial accumulation set loose a number of pathological dynamics that have reverberated through the UK economy for the past five years.

This vulnerability is not the only shortcoming attributed to the ALGM: as we shall see, the CSDP highlights a number of other contradictions that critical social democrats argue would render the model unsustainable in the long term even had these vulnerabilities not been realised in the banking crisis of 2007-2008. Consequently for critical social democrats the 'crisis' in the post-2008 context is really a crisis of the ALGM. In this perspective the restoration of sustainable economic expansion requires a new growth model, while the likely consequences of a 'patched-up' ALGM are future failures in economic performance.

'Privatised Keynesianism'

The activities of the UK's financial services industry and their consequences for the wider economy are at the core of CSDP. One such consequence was the expansion of household and consumer credit and its impact on the consumption spending of households. In Crouch's ironic phrase, a dynamic of 'privatised Keynesianism' was at play in the ALGM in which economic growth was sustained by household's leveraged consumption spending and the leverage opportunities and confidence

[25] Hay (2011a), 'The Strange Demise'.

enhancing effects of capital gains on rising house prices.[26] The effect of the resulting consumer spending was to stimulate domestic demand in much the same way that a traditional Keynesian counter-cyclical fiscal stimulus might. In this subsection I outline some of the empirical indicators appealed to by critical social democrats when making this claim, as well as the institutional factors that are identified as having underpinned it.

At the core of the argument is the fact that the scale and accessibility of personal credit in the UK had reached unprecedented levels in the period prior to 2008. In un-disaggregated terms, levels of outstanding personal debt reached nearly £1.4Tn by the beginning of 2008, the same statistic having stood at £574bn in 1993.[27] Around £1.2tn of this 2008 total was composed of secured lending, while total consumer lending stood at £235bn (having stood at around £50bn in 1993).[28] In 2009 the average UK adult owed £9,280 in consumer debt, comprised mostly of personal loans (41%) and credit card bills (49%).[29] At this point the ratio of household debt to disposable income stood at 154%.[30] There had been a marked increase in availability of unsecured credit for those on lower incomes in the UK since the 1980s, much in the form of credit card availability.[31] Montgomerie notes that between 1995 and 2000 households in the bottom two income brackets

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[26] C. Crouch (2008), 'What Will Follow The Demise Of Privatised Keynesianism?', *The Political Quarterly,* 79 (4), pp.476-87; C. Hay, N.J. Smith, and M. Watson (2006), 'Beyond Prospective Accountancy: Reassessing The Case For British Membership Of The Single European Currency Comparatively', *The British Journal of Politics And International Relations,* 8 (1), pp.101-21; Hay (2011a), 'The Strange Demise'; Lansley (2012), *The Cost Of*; J. Montgomerie (2007b), 'Financialisation And Consumption: An Alternative Account Of Rising Consumer Debt Levels In Anglo-America', *CRESC Working Papers* (44; Manchester: CRESC); Watson (2010), 'House Price Keynesianism'; Engelen et al. (2012), *After The Great Complacence*; A further irony being that while 'nationalised Keynesian' policies were intentionally counter-cyclical, privatised Keynesianism embodies no such coordinated purpose and, Crouch argues, proved emphatically pro-cyclical.
[27] Office For National Statistics (2008), *Social Trends 38* (London: The Stationery Office), p.88.
[28] These figure are compiled by The Money Charity (formerly Credit Action) from Bank of England data. Credit Action (2014), 'Debt Facts And Figures, December 2008', <http://themoneycharity.org.uk/media/december-2008.pdf>, accessed 24/04/2014, pp.1-2.
[29] The figures are drawn from British Household Panel Survey data by The Young Foundation. The Young Foundation (2009), *Sinking & Swimming: Understanding Britain's Unmet Needs* (London: The Young Foundation), p.54.
[30] Department of Business, Enterprise and Regulatory Reform (2008), *Household Debt Monitoring Paper H1 2008* (London: The Stationery Office), pp.13-14;
[31] Montgomerie (2007a), 'The Logic Of Neoliberalism'; Montgomerie (2007b), 'Financialisation and Consumption'.

(below £17,500 and £11,500 per annum) saw the largest expansion in the ratio of unsecured debt to income, with unsecured debt amounting to an average of 35.9% of household income in the lower bracket (up from 8.7% in 1995).[32] Rising house prices at this time generated improvements in household balance sheets and had thus increased the scope for home owners to engage in the practice of 'home equity withdrawal' (HEW) – secured loans against their properties made for purposes other than house purchase. Hay notes that in 2006, at which point the average house price in the UK had topped £200,000 for the first time, the wealth effect of rising house prices was equal to around 75% of the average annual pre-tax income of approximately £30,000 per annum.[33] He further notes the rise in the composition of new mortgage lending accounted for by HEW rose sharply between 2002 and 2004, at which point £1 in every £6 of new mortgage lending being was made for equity release.[34] Between 2002 and 2006, total HEW was worth 6% of total household post-tax income.[35]

The notion of privatised Keynesianism implies that credit is either directly or indirectly 'driving' consumer spending. A null hypothesis is that credit is used to finance the purchase of non-housing assets or to pay down debt.[36] It is reasonable to assume that credit card debt generally services consumption. There remains, however, a degree of uncertainty as to the precise proportion of HEW that was invested into consumption in the years running up to 2007.[37] A strong correlation existed between HEW and GDP growth in cyclical upturns of the 1980s and 2000s.[38] In the latter case, the value of HEW actually exceeded the value of GDP growth.[39] Hay et al. calculate that between 2002 and 2006, credit-fuelled

[32] Montgomerie (2007a), 'The Logic Of Neoliberalism', p.169.
[33] Hay (2011a), 'The Strange Demise', p.18.
[34] C. Hay (2009a), 'Good Inflation, Bad Inflation: The Housing Boom, Economic Growth And The Disaggregation Of Inflationary Preferences in The UK And Ireland', *The British Journal of Politics and International Relations,* 11 (3), p.471.
[35] Office For National Statistics (2008), *Social Trends 38*, p.88.
[36] S. Nickel (2004), 'Household Debt, House Prices And Consumption Growth', *Speech given by Professor Stephen Nickell, Bank Of England Monetary Policy Committee at Bloomberg,* London, 14/09/2004.
[37] Froud et al offer a 'guesstimate' of two thirds over the 1997-2009 period, although it is not clear on what foundation this estimation is based, see Froud et al. (2011), 'Rebalancing The Economy', p.21. Others – namely Nickell in the piece cited above – have contested the assumption that a high proportion of HEW was being invested in consumption.
[38] Dolphin and Griffith (2011), *Forever Blowing Bubbles*; Froud et al. (2011), 'Rebalancing The Economy'.
[39] Froud et al, (2011), 'Rebalancing The Economy', pp. 21-25.

consumption was worth between 4 and 6% of GDP, and could therefore it alone be said to be responsible for keeping the economy in growth in this period.[40] However, as Dolphin and Griffith note, the mechanism through which HEW drives GDP growth is subject to a further degree of empirical complexity upon closer examination. During the period in the 2000s in which HEW and GDP were rising in a correlated fashion household spending growth was on a downward trend.[41] This challenges the notion of a 'consumer boom', for a simple positive correlation between household leverage and expanding consumption is absent. Moreover, official figures assert that the vast majority of HEW (56%) was being used to finance home improvements in 2006-07, whilst 29% was being used to pay down debt.[42] Such spending is unlikely to be neutral in macroeconomic terms, yet these observations add further complexity to the notion of a direct link between HEW, consumer spending and GDP growth.

Yet Dolphin and Griffith also note that household savings ratios were falling during the same period and that these are positively related to rising HEW.[43] They postulate that home-owning consumers were willing to tolerate lower savings levels and spend more than they otherwise would because of the capital gains they were achieving on their homes and the opportunities for HEW that this afforded, raising the counterfactual that the savings ratio would have been higher (and thus consumption spending on a sharper downward trend) were it not for rising house prices and expanding HEW.[44]

Thus whilst further research is required on the uses of funds realised through HEW and the indirect mechanisms by which it might have promoted GDP growth, by pointing to the sheer scale of HEW critical social democrats are able to confidently postulate that with all else equal economic growth would have been a great deal weaker were it not for the growth of secured and unsecured credit and the capital gains that facilitated the former, particularly in light of the discussion of

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40 Hay et al. (2006), 'Beyond Prospective'.
41 The authors' figures are drawn from ONS data. Dolphin and Griffith (2011), *Forever Blowing Bubbles*, p.9.
42 Office For National Statistics (2008), *Social Trends 38*, p.148.
43 Dolphin and Griffith (2011), *Forever Blowing Bubbles*, p.9.
44 See also E. Stockhammer (2007), 'Some Styalised Facts On The Finance-Dominated Accumulation Regime', *PERI Working Paper Series* (142; Amhurst: University of Massachusetts, Amhurst).

real-term wage stagnation to which I turn presently. Instead, in the seven years to 2007 the index of retail sales grew 35% in constant prices, which is more than three times as fast as the growth of disposable incomes.[45]

A sub group of critical social democrats have asked why it was that savings and credit, rather than earned incomes, had come to fuel consumption. The answer they offer is the slowing (at times, stagnation) in real-term wage growth for many British earners, and consequently a proportional decline in the earned purchasing power component of domestic consumption demand.[46] Examining percentage changes in employee compensation, Montgomerie notes compression in year on year fluctuations in wage increases and a downward trend in the scale of wage increases since the mid-1980s. Having risen at an average of 11% from 1976-1986, the percentage change from 1990 until 2004 had exceeded 6% only once.[47] For most nominal pay changes, she reports, the real wage increase was zero and a considerable proportion of workers received annual pay cuts (up to 20% of workers depending on inflation conditions).[48] Lansley reports that real earnings for the median earner were near static between 2002 and 2007, with the median worker seeing only a 0.1% annual increase in real hourly rates.[49] Correspondingly, the period has been characterised by mounting inequality between owners and higher paid executives on the one hand, and ordinary employees on the other (a falling 'wage share' of national income). Ryner has recently contributed a sophisticated measure of the wage share of GDP in the UK, demonstrating a downward trend since 1980.[50] Lansley shows that this declining wage share has not been evenly distributed within the pay scale. From 1978 to 2008 the top 10% of wage earners saw real gross earnings double, while the median earner saw a

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[45] Lansley (2012), *The Cost Of Inequality*, p.153.
[46] Ibid; J. Montgomerie (2008b), '(Re)Politicizing Inflation Policy: A Global Political Economy Perspective', *CRESC Working Papers* (53; Manchester: CRESC); Hall (2013), 'The Political Origins'; Stockhammer (2013a), 'Financialisation, Income Distribution'; M. Ryner (2012), 'The (I)PE of Falling Wage Shares: Situating Working Class Agency', *The British Growth Crisis: The Search For A New Model, Inaugural Conference Of The Sheffield Political Economy Research Institute* (Sheffield, 16-18/07/2012).
[47] Montgomerie (2007a), 'The Logic Of Neoliberalism', p.167.
[48] Ibid, p.168.
[49] Lansley (2012), *The Cost Of*, p.48.
[50] Ryner (2012), 'The (I)PE', p.26; Ryner argues his preferred measure - employee compensation as percentage of GDP measured through factor costs - to be more accurate than others due to its exclusion of certain wage-linked transfer payments and social benefits in wage statistics, and the distorting effects of government taxes and subsidies in GDP measured through market prices.

56% increase and the bottom 10% saw 27%.[51] This inequality can be attributed to macroeconomic implications because high wage earners have a lower propensity to consume, and are able to invest their earnings in funds that were increasingly becoming centred on speculative and non-productive business strategies – a trend examined in greater depth in the third subsection.[52]

This, along with arguments about household spending and HEW, amounts to a claim of a latent crisis of under consumption in the UK offset by privatised Keynesianism*.* When the cost of servicing debt rose and the supply of credit contracted in the aftermath of the banking crisis of 2007-08, so consumption demand contracted as well. This failure of the growth model's central element is, in essence, the core of the critical social democratic assessment of the stagnationary malaise that has hovered over the British economy in the post-2008 context.

The institutional factors identified by critical social democrats as being at the root of privatised Keynesianism fall into four areas. The first relate to business practices in the financial sector that facilitated the development and profitability of financial businesses centred on the expansion of household and personal credit. These are discussed separately in the third subsection. The second relate to changes in macroeconomic, industrial relations and labour market policies in the UK that lie behind the stagnation of real wages just discussed. The third relates to labour-commodifying and foreign exchange policy practices in other countries that contributed to the low-inflation, low interest rate equilibrium on which privatised Keynesianism was based. Finally, there are housing and savings policies that lie at the root of house price inflation and the willingness of British consumers to leverage their consumption and investment activities to the extent that they did. I examine these in turn.

According to those critical social democrats that take up the question of wage stagnation the phenomenon is attributed to the neoliberalisation of the British political economy and the changes to macroeconomic and labour market policy

[51] Lansley (2012), *The Cost Of,* p.48.
[52] Wade (2009a), 'The Global Slump'; Lansley (2012), *The Cost Of*.

that it entailed.[53] Their argument is that successive governments have deliberately sought price flexibility in the labour market as a means to their broader economic policy goals of controlling consumer price inflation and promoting labour market flexibility. The most general institutional factor here is the over-arching shift in macro-economic policy objectives that have occurred since the late 1970s, with the abandonment of full employment as an objective of macroeconomic policy and of the quasi-corporatist arrangements that had characterised the macro-economic management of the previous decades.[54] Since this time, policymakers have exhibited a greater tolerance of unemployment and lower real income growth, with the imperative to stable inflation often invoked as a justification.[55] The effect is to place the burden of counter-inflationary policy on to the majority of wage earners who occupy middle and lower income brackets.[56]

A prominent feature of roll back neoliberalisation in Britain has been the use of cumulative rounds of legislation to contain the power of organised labour.[57] Such legislation was conceived of quite openly as a means of redressing the balance of economic power in favour of managers and owners, restoring their bargaining position in pay deals and their ability to acquire and shed labour rapidly.[58] These included greater exposure of unions to tort laws, the substantial weakening of permissible strike action (including the elimination of 'flying pickets' and solidarity strikes), and the strengthening of employers' rights to transact with non-unionised labour and firms that served to undermine recruitment. As the UK economy

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[53] Montgomerie (2008b), '(Re)politicizing Inflation'; J. Montgomerie (2006), 'Giving Credit Where It's Due: Public Policy and Household Debt in the United States, The United Kingdom and Canada', *Policy and Society,* 25 (3), pp.109-41; Lansley (2012), *The Cost Of*; Ryner (2012), 'The (I)PE'; M. Watson (2002a), 'The Institutional Paradoxes of Monetary Orthodoxy: Reflections on the Political Economy of Central Bank Independence', *Review of International Political Economy,* 9 (1), pp.183-96**;** Stockhammer (2013a), 'Financialisation, Income Distribution'; E. Stockhammer (2013b), *Why Have Wage Shares Fallen? A Panel Analysis Of The Determinants Of Functional Income Distribution* (Geneva: International Labour Organisation).

[54] Montgomerie, (2007), 'The Logic of Neoliberalism'; Lansley (2012), *The Cost Of*; Crouch (2009), 'Privatised Keynesianism'.

[55] Montgomerie (2008b), '(Re)politicizing Inflation'; Hay (2004a), 'The Normalising Role'; Watson (2002a), 'The Institutional Paradoxes'.

[56] Montgomerie (2007a), 'The Logic Of Neoliberalism'; Montgomerie (2008b), '(Re)politicizing Inflation'.

[57] Lansley (2012), *The Cost Of*.

[58] Montgomerie (2006), 'Giving Credit'; D. Farnham (1990), 'Trade Union Policy 1979-1989: Restriction Or Reform?', in S.P. Savage and D. Farnham (eds.), *Public Policy Under Thatcher* (Basingstoke: Palgrave Macmillan), pp.60-74.

underwent a transition away from the unionised manufacturing sectors towards service industries, organised labour lacked the capacity to impose itself on these growth sectors, and so declined in significance as an actor in political-economic struggle.[59] For Lansley and for Hall, the containment and eclipsing of organised labour in the UK is alone sufficient to explain falling wage share and rising economic inequality.[60]

Montgomerie also points to the increasing prevalence of 'cost of living adjusted' (COLA) pay deals, which formally link wage rises to the consumer prices index.[61] Although unable to offer data showing the exact extent of these instruments, Montgomerie notes use in both the public and private sectors and also in some union pay bargains, suggesting the instrument's widespread acceptance. By their very nature, COLA settlements are designed to bring about stagnation in real wage inflation. Yet Montgomerie suggests that such instruments might also bring about an increase in purchasing power under certain circumstances because of the methodology through which CPI is calculated. As we shall see in the discussion of the next institutional factor, the basket of goods from which CPI is calculated can be subject to deflationary pressures from export-led growth models. However, the same is not necessarily true of other household necessities such as gas or electricity, creating a scenario in which COLA pay deals can inadequately reflect the full range of pressures on household incomes and contribute towards deflationary pressures on incomes.

The issue of purposefully wage stagnationary stances by governments ('wage repression') is an area in which the CSDP overlaps with a broader literature in critical IPE that investigates the outcomes of different kinds of wage-repressive policies and income inequality for the growth and stability of the international

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[59] Lansley (2012), *The Cost Of*; Hall (2013), 'The Political Origins'.
[60] Lansley (2012), *The Cost Of*; Hall (2013), 'The Political Origins'.
[61] Montgomerie (2008b), '(Re)politicizing Inflation'.

capitalist economy.[62] In common with this literature a number of critical social democrats have noted that an important condition of possibility for leveraged consumption-led growth models such as the ALGM are export-led growth models such as those of Germany, China, East Asia and oil exporting countries.[63] Wage stagnation and labour market flexibility is a characteristic of these economies as it is in consumption-led economies, yet in these economies growth has been sustained by foreign demand emanating from the consumption-led economies. Consequently, global growth had come to be sustained by current account deficits and the effects of credit expansion and capital gains in countries with growth models such as the ALGM.[64] Much of the commentary has focused on China because it is now the world's major exporter of consumer goods, with factors such as the pegging of the Renminbi, restrictions on welfare provision and concomitantly high household and public savings ratios cited as central to its growth model. [65]

There are three important consequences of these export-led growth models for the ALGM. First, the running of persistent trade deficits by the UK and US economies, and the high savings ratios and foreign exchange reserves in export-led countries, led to large financial surpluses on the part of exporting countries. The 'recycling' of these funds back into investments in countries with consumption-led growth models played an important role in lowering interest rates and stimulating the 'search for yield' that contributed to the 'innovative' financial practices, whilst these in turn (among other things) sustained privatised Keynesianism by expanding the availability of credit.[66] Secondly, the supply of cheap consumer goods from these jurisdictions placed downward pressure on domestic inflation in

[62] F. Cripps, A. Izurieta, and A. Singh (2011), 'Global Imbalances, Under-Consumption And Over-Borrowing: The State Of The World Economy And Future Policies', *Development And Change,* 42 (1), pp.228-61; M.L. Mah-Hui, M. Lim, and E. Khor Hoe (2011), 'From Marx To Morgan Stanley: Inequality And Financial Crisis', *Development And Change,* 42 (1), pp.209-27; A. Saith (2011), 'Inequality, Imbalance, Instability: Reflections On A Structural Crisis', *Development And Change,* 42 (1), pp.70-86; B. Lucarelli (2012), 'Financialisation And Global Imbalances: Prelude To Crisis', *Review Of Radical Political Economics,* 20 (10), pp.1-19.
[63] Montgomerie (2008b), '(Re)politicizing Inflation'; Wade, (2009b), 'From Global'; Gamble (2009), *The Specter*; Hay (2011a), 'The Strange Demise'.
[64] Wade (2009a), 'From Global'.
[65] Lucraelli (2012), 'Financialisation and Global'; Montgomerie (2008b), '(Re)politicizing Inflation'; Wade (2009b), 'The Global Slump'.
[66] Ibid; Gamble, (2009), *The Specter*; Lucarelli (2012), 'Financialisation and Global'.

the years running up to 2006. This created the very low-inflationary equilibrium in which privatised Keynesianism could operate, for credit could expand to the huge scale that it did without the need for the Bank of England to intervene.[67] Finally, this supply of cheap consumer goods served to limit the politicisation of wage stagnation. Montgomerie notes that the basket of goods from which the CPI linked COLA pay deals was based was 20.17% composed of goods the price of which was deflated by export-led growth models, limiting the loss of purchasing power for lower-paid consumers in the UK.[68] We might also add that this counter-inflationary effect also limited the political capital to be made from an appeal to a 'cost of living' crisis even as real wages lay stagnant for many.

These first three institutional factors all militate against real wage growth. The remaining two militate in favour of the greater use of credit and the lowering of savings ratios on the part of consumers. House prices in the UK have trended upwards since the 1970s, but have been subject to occasional episodes of above and below-trend volatility often discussed in the financialistic language of 'bubbles' and 'busts'. The upswing in house prices that underpinned privatised Keynesianism began in the mid-1990s, and was remarkable not merely for its magnitude but also for its longevity: prices remained above trend for 18 consecutive quarters.[69] Policy and academic debates concerning the volatile behaviour of house prices in the UK tend to polarise between those who analytically prioritise the secular upward trend in UK house prices – often ascribed to the impact of restrictive housing and planning policies – and those who prioritise the volatile spikes and troughs, often characterised as the product of speculative lending and over-borrowing on the demand side of the market.[70] Critical social democrats have paid particular attention to the increasingly speculative character of mortgage lending in the UK (the financial 'supply-side' of the bubble, which is addressed in the third subsection), yet a number have also

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[67] Hay (2011a), 'The Strange Demise'; A. Gamble (2012), 'The United Kingdom: The Triumph Of Fiscal Realism?', in W. Grant and G.K. Wilson (eds.), *The Consequences Of The Global Financial Crisis: The Rhetoric Of Reform And Regulation* (Oxford: Oxford University Press), pp.34-50.
[68] Montgomerie (2008b), '(Re)politicizing Inflation', p.12.
[69] Dolphin and Griffith (2011), 'Forever Blowing Bubbles', p.15.
[70] Cf. A. Morton (2011), *Cities for Growth* (London: Policy Exchange) (an archetypal statement of the former view), and Hay (2009a), 'Good Inflation Bad Inflation' (an example of the latter).

pointed to factors that led to the sharp rise in demand for mortgage credit and powered the purchasing behaviour that sustained the bubble, all of which are related in one way or another to macroeconomic, housing and savings policies.

Several critical social democrats have noted that the 'New Labour' governments exhibited a curious 'double standard' in their inflationary preferences, extolling the virtues of low consumer price inflation while simultaneously tolerating the rapid inflation of asset prices – including, from late 2003, housing.[71] At this time, the government reformed the mandate of the Bank of England so as to target the CPI measure of inflation instead of the RPIX measure. This measure excludes housing, and thus absolved the macro-economic policy regime of addressing the house-price bubble even as inflation measured through RPIX began to rise sharply above the CPI measure.[72] Watson also noted the subsidisation of some public sector workers' mortgage payments as part of the 2006 Key Worker Living programme, an action that suggests an acceptance of the inflationary housing market and a willingness to explicitly over-ride potentially counter-inflationary forces.[73] For both Hay and Watson, a repoliticisation of monetary policy had occurred in which the New Labour governments had embraced the inflationary housing market as a means to other ends.[74]

Dolphin and Griffith argue that a number of changes in housing policy and financial regulation permitted the rise of the 'buy-to-let' property holder, a feature unique to the 2000s' housing bubble that helps explain its longevity.[75] Following the liberalisation of private rented sector under the 1988 Housing Act and the opening of mortgage markets to competition in the 1980s (discussed in the third subsection), the buy-to-let market increased rapidly as lenders competed for market share in this profitable new sector.[76] In the period between 1998 and 2007, the number of outstanding buy-to-let mortgages grew at more than 30% per

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[71] Hay (2009a), 'Good Inflation Bad Inflation'; Watson (2010), 'House Price Keynesianism'.
[72] Hay (2009a), 'Good Inflation Bad Inflation', p.474.
[73] Watson (2010), 'House Price Keynesianism'.
[74] A debate exists as to what these ends were. I revisit this debate in Chapter 4.
[75] Dolphin and Griffith (2011), 'Forever Blowing Bubbles'.
[76] A. Leyshon and S. French (2009), '"We All live in a Robbie Fowler House": The Geographies of the Buy to Let Market in the UK', *The British Journal of Politics & International Relations,* 11 (3), pp.438-60.

annum, and exceeded 60% per annum between 2000 and 2003.[77] As well as bolstering demand for housing, the Buy-to-Let sector served to restrict supply of housing stock to more conventional purchasers. The net annual loss of housing stock to the owner-occupied sector arising from the expansion of the buy-to-let sector rose from 15,240 in 2003-04 to 158,770 in 2007-08 (shortly after the peak of the housing bubble that underpinned privatised Keynesianism).[78]

Buy-to-Let borrowers were typically speculative, seeking to leverage capital gains through a broad portfolio of housing assets in a rising housing market. Drawing on the Department of Communities and Local Government's *Private Landlord Survey*, Leyshon and French note that Buy-to-let borrowers were often highly leveraged and that the majority of outstanding mortgages were interest-only.[79] This rendered many buy-to-let businesses vulnerable to changes in interest rates and negative equity, and suggests a high degree of hubris given the historical record of the UK's housing market. More revealing still, the same survey also reports that as many as 35% of respondents saw their primary source of income from their business arising out of house price appreciation, rather than rental income.[80] A further 33% retained a role for house appreciation in their core business strategy.[81] The rising housing market on which privatised Keynesianism rested was thus facilitated by changes in government policy that impacted upon the supply and kinds of credit available, and was driven increasingly by the activities of speculative Buy-to-Let Borrowers to whom housing's new role as an income bearing asset was very clear.

Other critical social democrats have examined the motives of more general categories of non-professional borrowers and investors. Through the work of Watson in particular there is a dialogue between the CSDP and the work of a number of neo-Foucauldian 'governmentality' scholars who have made the 'financialisation of the subject' and its resulting contradictions their topic of

[77] Leyshon and French (2009), 'We All Live', p.10.
[78] Dolphin and Griffith (2011), 'Forever Blowing Bubbles', p.40
[79] Leyshon and French (2009), 'We All Live', pp.13-14.
[80] Ibid, pp.13-14
[81] Ibid, p.13-14.

research.[82] By 'financialisation of the subject', they mean the attempts of governments to reconstitute the subjectivity of citisens to incorporate a greater role for a financial logic of calculation and behaviour. A particular focus has been the turn by some governments to 'asset-based welfare' (ABW), a policy approach in which individuals are expected to contribute towards their consumption needs in times of emergency or in retirement by investing present earnings into a portfolio of low-risk assets that can be liquidated at the point of need.

Watson charts how the New Labour governments sought to reconcile the tension between a macroeconomics premised on control of inflation and a faltering commitment to budgetary discipline with a welfare policy that was substantive enough to address the electorally disadvantageous outcomes of such policies.[83] Drawing on a mixture of policy observations, government documents and ministerial statements, he shows how aftefr 2001 the Labour governments increasingly sought to achieve this goal through a turn to asset-based welfare and the cultivation of a particular kind of subjective identity and behaviour among citizens – that of self-reliant and financially literate 'welfare citizens' who would limit their requirements for state-provided social security through their own savings and investments activities.[84] The role of government in this vision was to equip the citizen with the financial literacy and skills necessary to do this, and offer some small incentives to begin participation in financial markets at an early age (seen, for instance, in the 'Child Trust Funds'). Initially adopted as a means of promoting greater pensions self-provision, under New Labour the ABW agenda

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[82] M. Watson (2008a), 'The Split Personality Of Prudence In The Unfolding Political Economy Of New Labour', *The Political Quarterly,* 79 (4), pp.578-89; M. Watson (2008b), 'Constituting Monetary Conservatives Via The 'Savings Habit': New Labour And The British Housing Market Bubble', *Comparative European Politics,* 6 (3), pp.285-304; Watson (2010), 'House Price Keynesianism'; M. Watson (2013a), 'The Welfare State Sources of Bank Instability: Displacing the Conditions of Welfare State Fiscal Crisis under Pressures of Macroeconomic Financialisation', *Public Administration,* 91 (4), pp.855-70; M. Watson (2013b), 'New Labour's 'Paradox Of Responsibility' And The Unraveling Of Its Macroeconomic Policy', *The British Journal of Politics & International Relations,* 15 (1), pp.6-22; P. Langley (2007), 'Uncertain Subjects'; P. Langely (2008), *The Everyday Life of Global Finance: Savings and Borrowing in Anglo-America* (Oxford: Oxford university Press); A. Finlayson (2009a), 'Financialisation, Financial Literacy and Asset Based Welfare', *The British Journal of Politics & International Relations,* 11 (3), pp.400-21.

[83] Watson (2010), 'House Price Keynesianism'; Watson (2013b), 'New Labour's Paradox'; Watson (2013a), 'The Welfare State Sources'; See also Finlayson (2009a), 'Financialisation, Financial Literacy'.

[84] Watson (2013b), 'New Labour's Paradox'; Hay (2011a), 'The Strange Demise'.

became an increasingly important approach to tackling a range of social policy issues.

As painted by the Foucauldian scholarship that Watson speaks to, the ABW agenda was at once a very intimate injection of neoliberal norms at the level of individual identity and behaviour, but also a distinctly non-coercive form of public policy: the principal means used to advance the agenda was exhortation, incentivisation and the creation of opportunities.[85] However, the agenda was contradictory: the kind of subject position that the citizen was being exhorted to take on was both that of the prudent 'passive saver' who lays money aside for a rainy day, and that of the asset speculator seeking to profit from price movements, positions that yield a very different orientation to risk.[86] This contradiction holds the potential for unforeseen macroeconomic consequences insofar as it succeeds in changing citizens' financial behaviour, for it could impart an increasingly speculative character to asset pricing as a growing number of citizens begin to invest their savings in speculatively priced markets. It is far from clear that ordinary citizens would hold the capacity to make good financial decisions upon entering such markets. As Montgomerie notes, potent socially constructed forces such as consumerism can lead 'actually existing' financialised subjects to make poorer investment and purchasing decisions than their idealised counterparts in the theory of ABW.[87] Leyshon and French, for instance, suggest that the willingness of some Buy-to-Let property holders – many of them inexperienced or first-time business people – to enter the housing market in this highly speculative sector could be ascribed to the ABW agenda.[88]

Whether or not a demonstrable relationship exists between New Labour's exhortative reconstitution of citizens subjectivities, its contradictions, and the growth of consumer leverage and house price speculation remains an open question. However the growing opportunities for citizens to leverage their consumption and investment activities and to enter speculatively priced asset markets were undoubtedly factors contributing towards the rise in speculative housing market behaviour on the part of ordinary citizens, as seen with buy-to-let

[85] Finlayson (2009a), 'Financialisation, Financial Literacy'; Langley (2007), 'Uncertain Subjects'.
[86] Watson (2013a), 'The Welfare State Sources'.
[87] Montgomerie (2007b), 'Financialisation And Consumption'.
[88] Leyshon and French (2009), 'We All Live'.

landlords. Insofar as the ABW agenda sought to harness, encourage and facilitate such behaviour it is likely to have been implicated to some degree.

Expansion Of The Para-Public Sector

Another channel by which economic performance was sustained under the ALGM was through the (geographical) redistribution of revenues arising from Britain's booming financial sector through rising public spending. Growing employment in the public sector reflected the growth in public spending following New Labour's first term. In the seven years to 2007, real expenditure increased by nearly £200Bn, with the predominant beneficiaries being health and education sectors.[89] Total employment in the conventionally defined public sector rose between 1998 and 2007 by 571,000 (decreasing 93,000 from its 2005 peak), increasing the proportion of the workforce in public sector employment by over 10%.[90]

Yet Buchanan, et al. argue that an even greater proportion of the total increase in employment between 1998 and 2007 is accounted for by public sector expansion. They estimate that by 2007 28% of the UK's workforce was employed either by the 'state' or the 'para-state sector' (the former denoting conventionally defined public sector employment, the latter concept including those businesses dependent on public sector funds or contracts).[91] The state and para-state sector is estimated to

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[89] Buchanan et al. (2009), 'Undisclosed', p.23.

[90] Office For National Statistics (2011), *Statistical Bulletin: Public Sector Employment Q1 2011* (London: The Stationery Office), Tables 1 and 5. It should be noted that the number of public sector employees reported here on the basis of the ONS data cited differs from Buchanan et al's by an additional 214,000 employees, in spite of the latter's also being based on ONS data. It is possible that this reflects Buchannan et al.'s decision to exclude Northern Irish public sector employment from their sample. Whilst this does not detract from Buchanan et al.'s central claim that a large number of additional jobs were sustained indirectly in the 'para-state sector', it does suggest that a degree of double counting may occur if a direct comparison of my statistics and theirs is attempted. Consequently, my presentation of these two statistics side-by-side is made to illustrate the scale of public sector employment growth rather than to provide a precise basis for asserting the relative number of 'state' and 'para-state' employees as Buchanan et al. do.

[91] Buchanan et al. (2009), 'Undisclosed', p.20. The size of the combined state and para-state sector employment total is estimated utilising ONS sub-sectoral employment data drawn from its *Annual Business Inquiry* and applying divisors of between 1 and 0.25 to sub-sectors in which business is likely to be dependent to some extent on public sector activity, based on the Analysts' estimates of the likely dependence of business in those sub-sectors on such funds.

account for 57% of net employment growth nationally between 1998 and 2007.[92] Geographically, it is estimated to account for over 50% of job growth in all regions except London and the South. In some sub-regions, such as the Northeast and West Midlands, it accounted for the vast majority of employment growth over that period.[93] That this should have happened within such loose credit conditions suggest to Buchanan et al that rather than 'crowding out' the private allocation of resources, the public sector would appear to have been 'filling in' and was the lead growth sector in the country's 'national business model'.[94]

For Buchanan et al. and other critical social democrats a succinct institutional explanation of rising public spending can be offered: the existence of a large welfare state sustained through current public spending and the need of the Labour party to win elections in a competitive multi-party democracy.[95] Buchanan et al. suggest that although New Labour were convinced of neoliberal nostrums regarding the institutional pre-conditions of private sector employment growth, the governments inadvertently stumbled upon this geographically redistributive element of the ALGM through their attempts to maintain the support of southern swing voters with health and education spending commitments.[96] The unintended but politically and economically happy result – the better performance of northern regional economies – was sustainable in the medium term insofar as growing revenues could be maintained.

Critical social democrats have also examined the institutional factors that militated against private sector employment expansion in the UK's regional economies. Buchanan et al.'s argument that the public sector was 'filling in' for a deficient private sector reflects a more general critical social democratic claim about the British economy: that it suffers from a lack of long-term 'productive investment' and that British producers – particularly manufacturers – are not able to reach their growth potential because the UK's flourishing financial sector militates

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[92] Ibid, p.16.
[93] Ibid, p.22.
[94] See also Froud et al. (2011), 'Rebalancing The Economy'.
[95] Buchanan et al (2009), 'Undisclosed'; Hay (2011a), 'The Strange Demise'.
[96] Buchanan et al (2009), 'Undisclosed'.

against this outcome in a number of ways.[97] Froud et al note that in the decade from 1998 gross fixed capital investment as a percentage of manufacturing output began to decline to an unprecedented low of around 9%, well below the cyclical lows of the 1980s and '90s.[98] This concern with the performance of productive investment is shared with a range of critical perspectives on British political economy going back to the seminal Marxian thesis developed by Anderson and Nairn.[99] Like these earlier writings, the critical social democrats perceive this lack of productive investment and the underperformance of private sector growth to arise from the centrality of financial businesses and the political influence of financial interests in the British political economy, and the paucity of British industrial policy in remedying the outcomes. In the contemporary critical social democratic literature these issues are expressed through the more recent concept of 'financialisation'. The institutional factors surrounding financialisation and a lack of productive investment are explored in the next section.

Personal and Household Credit Expansion

The critical social democratic argument thus far reviewed amounts to the claim that acceptable economic performance in Britain (in terms of growth and employment) in the ten years to 2007 was being sustained by privatised Keynesianism and expanding para-state employment – two elements of Britain's growth model. These two components are tied together by their dependence on a third: the indirect impacts of the activities of the UK's financial sector, namely the

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[97] These include the over-valuing of Sterling, the paucity of industrial policy and the impact of capital market expectations on firm's investment decisions. The latter issue is explored in greater depth in the following subsection. It should be noted that the term 'productive investment' is not used in the normative sense (i.e. to denote one investment as being more moral or worth while than another), but rather descriptively: productive investments are made in enterprises that produce goods or services (as in capital investments or the financing thereof) whilst unproductive investments are not (such as investments in the exchange of existing financial assets, or in enterprises that yield a profit by divestment and the asset stripping of productive enterprises). Critical social democrat addressing the poor performance of the 'real economy' of goods and services production along these lines include Froud et al (2011), 'Rebalancing The Economy'; Wade (2009b), 'The Global Slump'; Lansley (2012), *The Cost Of*; M. Watson and C. Hay (1998), 'In The Dedicated Pursuit Of Dedicated Capital: Restoring An Indigenous Investment Ethic To British Capitalism', *New Political Economy,* 3 (3), pp.407-26.
[98] Froud et al. (2011), 'Rebalancing The Economy', pp.33-34.
[99] On which see C. Hay (1997a), 'A Sorry State? Diagnosing The British Affliction', *Socialism and Democracy,* 11 (1), pp.87-104.

expansion of credit and tax revenues that it facilitated.[100] The scale of credit expansion has already been noted in the first subsection. The contribution of the sector to government revenues arose from the substantial profits that it generated. According to statistics provided by the industry itself, in each of the five years to 2007 the financial services industry contributed in excess of a quarter of all corporate tax receipts, peaking at 27.5% (£12.2Bn) in 2007.[101] In the same period, income tax receipts from financial sector workers did not fall below 11% of the total income tax take, and were at 14.6% (£18.2Bn) in 2007.[102] Insofar as these figures are accepted, and if one also factors in the impact of privatised Keynesianism on GDP growth and profits more broadly, the importance of the financial sector to funding the government's spending ambitions is clear. The ALGM was very much a finance-led and financialised growth model.

Institutional Bases Of Credit And Financial Sector Profit Expansion

Engelen et al offer perhaps the most comprehensive account of the institutional factors and processes at play in the expansion of credit and financial sector profits in the ALGM, although other critical social democrats share many of their observations.[103] They identify three processes at play. The first is the normalisation of a short-termist conception of 'shareholder value' maximisation in the UK's system of industrial finance. The effects of this approach to shareholder value maximisation are said to have negatively impacted the development of the non-financial economy by encouraging short-termist developmental strategies in financial and non-financial firms. The second process follows on from this, and involves the adoption of non-interest income based business models by major retail and universal banks premised upon 'transaction generation' and the

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[100] The direct impacts were rather smaller. In many estimates the financial services sector accounted for around 10% of GDP in the late 2000s: a significant proportion, but comparable with other sectors. Buchannan et al. estimate the effects of direct job creation and the multiplier effects of well-paid city workers did not contribute significantly to net employment growth during the period that they study. See theCityuk (2010), *Economic Contribution Of UK Financial Services, 2010* (London: theCityuk), p.1; J. Tomlinson (2010), 'Sick But Not Dying', *Political Studies Review,* 8 (1), p.71; Buchanan et al (2009), 'Undisclosed', pp.12-13.

[101] theCityuk (2010), '*Economic Contribution*', p.1.

[102] Ibid, p.1.

[103] Engelen et al. (2012), *After The Great Complacence*; Lansley (2012), *The Cost Of*; Hay (2011a), 'The Strange Demise'; Gamble (2009), *The Specter*; Stockhammer (2007), 'Some Stylised'; Wade (2009a), 'From Global'.

prioritisation of the rapid, highly leveraged expansion of lending (particularly lending secured against residential and commercial property and lending to other financial businesses). They observe how financial business had become increasingly focused on originating, acquiring, managing and trading financial assets (and the financing of such activities by other financial actors) rather than traditional financial intermediation. However, in common with many other analyses of the financial crisis, they situate these processes within a third: the growing liquidity of world financial markets in the years leading up to 2007-08 (often discussed as 'financial globalisation').

In this area there is a direct overlap between the CSDP and the broader comparative and international literatures on the 'financialisation' of advanced capitalist economies.[104] The amorphous concept of financialisation refers to a number of more or less distinct processes. Insofar as it is possible to advance a definition that encompasses all applications of the concept (at the cost of analytical precision), its essence can be captured through the broad-stroke definitions offered by Epstien and Montgomerie. For Epstien, financialisation refers to the "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies"; while for Montgomerie it refers to a dynamic by which "individuals, firms and the macro-economy are increasingly mediated by new relationships with

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104 W. Lazonick and M. O'Sullivan (2000), 'Maximising Shareholder Value: A New Ideology For Corporate Governance', *Economy And Society,* 29 (1), pp.13-35; G.A. Epstein (2005), 'Introduction: Financialisation And The World Economy', in G.A. Epstein (ed.), *Financialisation And The World Economy* (Cheltenham: Edward Elgar Publishing), pp.3-16; G.R. Krippner (2005), 'The Financialisation Of The American Economy', *Socio-Economic Review,* 3 (2), pp.173-208; B. Fine (2011), 'Neo-liberalism In Retrospect? It's Financialisation, Stupid', in C. Kyung-Sup, B. Fine, and L. Weiss (eds.), *Developmental Politics In Transition: The Neoliberal Era And Beyond* (Basingstoke: Palgrave Macmillan), pp.51-69; E. Stockhammer (2010), 'Financialisation And The Global Economy', *PERI Working Paper Series* (242; Amhurst: University of Massachusetts, Amhurst); J. Froud, S. Johal, and K. Williams (2002), 'Financialisation And The Coupon Pool', *Capital & Class,* 26 (3), pp.119-51; J. Froud, et al. (2000a), 'Shareholder Value And Financialisation: Consultancy Promises, Management Moves', *Economy and Society,* 29 (1), pp.80-110; J. Froud, et al. (2006), *Financialisation and Strategy: Narrative and Numbers* (London: Routledge); D.M. Kotz (2010), 'Financialisation And Neoliberalism', in G. Teele and S. McBride (eds.), *Relations of Global Power: Neoliberal Order and Disorder* (Plymouth: University of Toronto Press), pp.1-18; for a useful review see J. Froud, A. Leaver, and K. Williams (2007), 'New Actors In A Financialised Economy And The Remaking Of Capitalism', *New Political Economy,* 12 (3), pp.339-47.

financial markets".[105] These definitions allow us to identify at least two general categories of process that fall under the conceptual umbrella of financialisation.[106] There are *quantitative* processes, relating to the growing size and proportional significance of the financial businesses, and the size of their balance sheets and profits, in the national and the international economies.[107] Secondly, there are *qualitative* processes, relating to the nature of financial activities, to the relationship between financial businesses and the broader economy of goods and services production, and the growing incorporation of financial subjectivities into the 'everyday' affairs of ordinary citizens. Qualitative processes of financialisation are at the heart of the CSDP. Yet these were situated and enabled by the context of expanding global liquidity.

Quantitative Financialisation Of The International And UK Economies

The financialisation of the UK economy has been taking place in an international and domestic economic context in which a growing volume of capital seeks profitable returns on financial markets around the world.[108] On an international level, this is evident in the extraordinary growth in the balance sheets of financial market participants since the 1980s. Having occupied a similar level to world output in the 1980s, the value of global assets had grown to 343% of global GDP in 2007.[109] This expansion in financial assets reflects the increasing quantity of money entering the international financial sector, adding liquidity to established markets and facilitating newer secondary ones in securitised debt products and their derivative assets. A parallel quantitative financialisation of the UK economy occurred alongside that of the international one. As one of the world's major financial centres, the City could thrive in these international conditions. In 2010 London originated 18% of cross-border lending, and accounted for 50% of all

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[105] Epstien (2005), 'Introduction: Financialisation', p.3; J. Montgomerie (2008c), 'Bridging The Critical Divide: Global Finance, Financialisation And Contemporary Capitalism', *Contemporary Politics,* 14 (3), p.234.
[106] This distinction is inspired by Kotz (2010), 'Financialisation and Neoliberalism'.
[107] Krippner (2005), 'The Financialisation'.
[108] Lansley (2012), *The Cost Of*.
[109] C. Roxbrugh, et al. (2009), *Global Capital Markets: Entering A New Era* (McKinsey Global Institute).

European investment banking activity.[110] A financial boom thus underpinned the ALGM, with the balance sheets of financial companies expanding at a much faster rate than domestic economic output. Having stood at around 40% of GDP in 1960, the combined asset bases of the largest 10 UK banks stood at 450% in 2010, which Barclays, RBS and HSBC (the three large universal banks) each holding assets in excess of 100% of GDP.[111] It is in this context that the financial sector's taxable profits expanded to the levels discussed in the subsection above.

Another quantitative change has been the increasing concentration of long-term savings under the management of a variety of different institutional investors.[112] Alongside the growth of well-established fund-types such as pension and mutual funds were a range of more specialised institutional investors such as hedge funds and private equity funds. The assets under management by the former grew from $20bn to around $2tn in the ten years to 2007, whilst the average investment size of the former increased exponentially from 2002 at nearly 20% per anum.[113] The international financial markets in which institutional investors operated were marked by a proliferation of increasingly exotic securitised fixed-income products (and derivatives thereof) during the period of the ALGM, however the traditional stock remained the largest global asset class.[114] A consequence of the growing financial power of institutional investors is that the decisions of a relatively small number of financial actors can dramatically alter the stock price of listed firms.

The institutional factors that explain financial globalisation, the expansion of global liquidity and the growth of the funds controlled by institutional investors are complex and multifaceted. They include the turn away from 'embedded liberalism' and the liberalisation of exchange and capital accounts.[115] Regarding the growth of institutional investors, some critical social democrats have cited neoliberal economic and social policies in both the UK and abroad as one

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110 I. Eturk, et al. (2011), 'City State Against National Settlement: UK Economic Policy And Politics After The Crisis', *CRESC Working Papers* (101; Manchester: CRESC).
111 M. King (2010), 'Banking: From Bagshot To Basel And Back Again', *Speech By The Governor Of The Bank of England At The Buttonwood Gathering* (New York, 25/10/2010).
112 Lansley (2012), *The Cost Of*; Engelen (2012), *After The Great Complacence*.
113 Engelen (2012), *After The Great Complacence*, figs. 3.1 and 3.2.
114 Roxbrugh, et al. (2009), *Global Capital.*
115 M. Blyth (2008), 'The Politics Of Compounding Bubbles: The Global Housing Bubble In Comparative Perspective', *Comparative European Politics,* 6 (3), pp.387-406.

contributing factor. For Engelen et al, the growing flows of funds into pension and insurance funds are partly reflective of a ‘great risk shift’ occurring in neoliberalising political economies, whereby the retrenchment of state welfare and service provision requires the greater utilisation of private management of personal risks.[116] Similarly, Watson has identified asset-based welfare policies that inculcate the rationality of the ‘investor subject’ as a channel through which a greater number of individuals were being encouraged and given opportunities to participate in various forms of funds.[117] The implementation of wage-stagnationary policies discussed in a previous subsection have also been argued to play a part, as it is the corollary of falling wages – rising profit share (which is extended by some authors to include senior executive pay) – that has yielded additional money with which hedge funds and various other wealth management entities build their capital bases.[118] Finally, similar low wage policies in the Far East have contributed to the rise of sovereign wealth funds, the fastest growing component of the global ‘liquidity glut’ that served to lower global interest rates prior to 2007-2008.[119]

Capital Market Short-Termism

The financial power of British institutional investors lies at the heart of the first qualitative process of financialisation that critical social democrats have identified in relation to the ALGM: the economically damaging impact of increasingly short-termist capital market actors. The character that they attribute to institutional investors – that they operate to short time horizons, and have a strong preference for liquidity – lies at the root of the venerable distinction between ‘capital market-based’ and ‘bank-based’ systems of industrial finance, with the UK being an instance of the former.[120] Critical social democrats have favoured the latter for the

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[116] Engelen (2012), *After The Great Complacence.*
[117] Watson (2010), ‘House Price Keynesianism’; Watson (2013a), ‘The Welfare State Sources’.
[118] Lansley, (2012), *The Cost Of.*
[119] Wade (2009a), ‘From Global Imbalances’.
[120] A. Gerschenkron (1962), *Economic Backwardness In Historical Perspective* (Cambridge, MA: Harvard University Press); J. Zysman (1983), *Governments, Markets And Growth: Financial Systems And The Politics Of Reform* (Ithaca: Cornel University Press); Watson and Hay (1998), ‘In The Dedicated Pursuit’; For a review of this literature See R. Pollin (1995), 'Financial Structures And Egalitarian Economic Policy', *PERI Working Paper Series* (182; Amhurst University of Massachusetts, Amhurst).

'patient capital' that they are said to offer and chastised the former for the tendency that they argue such systems show towards a deficiency of investor patience and long-term investment in non-financial enterprises.[121] The expectation is that (all other things equal) levels of investment and long-term economic performance will be lower under capital market systems, because firms must internalise and meet their investors' preferences for fast returns and liquidity.

Many years after the beginning of this debate the jury remains out on the extent to which this simple institutional binary can offer a general explanation of the quality of investment performance and economic outcomes across broad stretches of time and space.[122] A number of critical social democrats have, however, located Britain at the forefront of a related trend that they argue is particularly damaging to non-financial businesses in capital market-centred financial systems such as Britain's: the emergence in recent decades of an aggressively short-term norm of 'Shareholder Value Maximisation' amongst capital market actors and management consultants.[123] In this view, 'shareholder value' came to be understood among capital market actors and the financial commentariat as a readily quantifiable outcome with which metrics were constructed to rank the performance of individual firms (and towards the attainment of which consultancy services could be purchased).[124] As a result of this norm capital markets began to expect and demand returns on equity at scales and timeframes that are simply beyond the capacity of mature industries to deliver through production-centred business strategies.[125]

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121 Watson and Hay (1998), 'In The Dedicated Pursuit'; M. Watson (2005), 'Hedge Funds, The Deutsche Borse Affair And Predatory Anglo-American Capitalism', *The Political Quarterly,* 76 (4), pp.516-28.
122 For a critical view see R. Levine (2002), 'Bank-Based Or Market-Based Financial Systems: Which Is Better?', *Journal Of Financial Intermediation,* 11 (4), pp.398-428.
123 J. Froud, et al. (2000b), 'Restructuring For Shareholder Value And Its Implications For Labour', *Cambridge Journal of Economics,* 24 (6), pp.771-97; Froud, et al. (2000a), 'Shareholder Value And'; J. Montgomerie (2008a), 'Labour And The Locusts: Private Equity's Impact On The Economy And The Labour Market', *7th British-German Trades Union Forum* (Manchester, 16-17th July 2008); Lansley (2012), *The Cost Of*; Stockhammer (2007), 'Some Stylised Facts'; Engelen, et al. (2012), *After The Great Complacence*.
124 Froud, et al. (2000a), 'Shareholder Value And'.
125 Froud, et al. (2000b), 'Restructuring For Shareholder'; Froud, et al. (2006), *Financialisation And'*; Montgomerie (2008a), 'Labour And The'; Engelen et al (2012), *After The Great Complacence*.

In developing this line of argument, critical social democrats have incorporated a further institutional characteristic of the UK's financial economy into the critique: the emergence of a 'liquid market for corporate control'. The term is a neologism of the 1980s that refers to the notion that senior executives ought to compete for their positions through corporate performance as measured by shareholder value.[126] For proponents of shareholder value maximisation, the threat of takeover and management changes that it brings is said to align the strategic priorities of managers to that of its shareholders. The UK indeed has a liquid market for corporate control: takeovers are frequent and a high proportion result in managerial replacement.[127] Although take-over 'waves' have occurred at other times in the history of British capitalism, a common motif of the wave that occurred throughout the 1980s and 1990s was the justification of hostile take-overs (including a growing number of private equity buy-outs) as being conducted in order to restructure the company so as to deliver greater shareholder value.[128]

Critical social democrats are less optimistic than proponents of shareholder value as to the impact of the norm and the behaviours to which it gives rise on the long-term prosperity of financial and non-financial businesses. Indeed, the negative impacts of these changes are cited as reasons both for the under-performance of Britain's private sector and the ultimately self-destructive business strategies of several British banks under the ALGM.[129] Firms are said to increasingly compete with one another on the stock markets, seeking to slake capital market demands for stock appreciation and maintain the market value of the firm through means that are often inconsistent with the long-run sustainability of the firm. Some of the phenomena extant in the British case that are attributed to these capital market demands include the hoarding of investable funds, share buy-backs, divestment strategies, private equity buy-outs and a willingness to engage in higher risk

126 Froud, et al. (2000b), 'Restructuring For Shareholder'.
127 Ibid; J. Franks and C. Mayer (1996), 'Hostile Takeovers And The Correction Of Managerial Failure', *Journal Of Financial Economics,* 40 (1), pp.163-81.
128 Montgomerie (2008a), 'Labour And The'; Froud, et al. (2000b), 'Restructuring For Shareholder; Lansley (2012), *The Cost Of*.
129 Engelen, et al. (2012), *After The Great Complacence*; Froud et al. (2011), 'Rebalancing The Economy'; Lansley (2012), *The Cost Of*; Froud, et al. (2000a), 'Shareholder Value'; Montgomerie (2008a), 'Labour And The'.

strategies than would otherwise be the case.[130] This is a sharp contrast to other national cases, in which the emergence of 'Anglo-Saxon' capital market demands has been met with national outcry.[131]

Banking In The ALGM

While many non-financial firms have struggled to satisfy the demands of capital markets British banks performed impressively, with apparent convergence on targets of return on equity in excess of 15% (and with many firms delivering in excess of this).[132] This was in spite of declining returns on assets that were partly a consequence of the intense competition on the personal credit markets as availability expanded.[133] Engelen at al. suggest that a shareholder value-driven form of banking had emerged, sharing Haldane's conclusion that banks were driven to "keep up with the Jones'" (or in the Economist's rendition, the Goldmans).[134] The transformation of bank business strategies in response to these capital market pressures, and the macroeconomic consequences of these changes (the rapid expansion of household credit) constitute the second qualitative processes of financialisation implicated in the CSDP.

The precise means by which this was achieved differed from bank to bank. [135] However, Engelen et al identify several general strategies common among the UK retail and universal banks. Firstly, they took up of aggressively expansionary business models, leveraging their capital bases with funds from international wholesale markets. In the post-crisis discussion it is Northern Rock (the first of the UK retail banks to succumb to the financial crisis) that is often held as emblematic of such practices. At the time of its nationalisation in late 2007, Northern Rock was

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[130] As Watson and Hay note, however, a tendency towards asset stripping and sub-optimal growth strategies is an enduring feature of the relationship between British capital markets and industry in critical political economy well prior to the emergence of the ALGM. See Watson and Hay (1998), 'In The Dedicated Pursuit'.
[131] Watson (2005), 'Hedge Funds'.
[132] Engelen, et al. (2012), *After The Great Complacence*, pp.107-110.
[133] Ibid; A. Haldane (2009), 'Small Lessons From A Big Crisis', *Federal Reserve Bank Of Chicago 45th Annual Conference* (Chicago, 08/05/2009).
[134] The Economist (2009), 'Keeping Up with the Goldmans', *The Economist,* 16/06/2009.
[135] For a discussion of the individual business strategies of the UK banks that were subject to public rescue following the financial crisis, see Commons Treasury Select Committee (2009), 'Banking Crisis: Dealing With The Failure Of The UK Banks', (7th Report of Session 2008–09; London: The Stationery Office).

76% funded by short-term borrowing on wholesale markets, its growth ambitions having long since outstripped its capital base.[136] However, the reliance on wholesale funding was, to a greater or lesser extent, a common feature of the business models of the UK banks, and was instrumental to the failure of those that became stricken during the wholesale market 'panics' of 2007 and 2008.[137]

Secondly, banks increasingly pursued non-interest income (that is, income achieved through services on which a transaction fee is charged). [138] In this, they paralleled a broader trend identified by Engelen et al. in which financial businesses more generally were turning to 'transaction generation' as a business strategy. In the UK such income grew from around 35% of net bank income in 1984 to over 53% in 2007.[139] This was achieved in a number of ways: the mass-marketing of retail products, engagement in proprietary trading and acquisitions activities by universal banks, and the securitisation of fixed-income assets for consumption by investors on the international secondary markets in securitised debt. It is the latter that concerns us most here, as it is most directly linked to the expansion in household credit that underpinned the ALGM.

The complex process of securitisation and the 'originate to distribute' transaction-generating business model that it sustained has been well summarised elsewhere.[140] The practice was originally imported and 'translated' to the legal-regulatory environment of the UK by the US investment banks following the 1986 liberalisations, yet it met the preferences of UK banks responding to capital market pressures in a number of respects: it allowed banks to eliminate maturity costs, freed up additional investable capital that might otherwise have been tied up in meeting international capital reserve ratios, and allowed the liquidity of the growing global secondary markets in securitised credit instruments and their derivatives to be drawn upon to finance the expansion of mortgage and unsecured

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136 Engelen, et al. (2012), *After The Great Complacence,* p.76.
137 Commons Treasury Select Committee (2009), 'Banking Crisis'.
138 Engelen, et al. (2012), *After The Great Complacence*; Hay (2011a), 'The Strange Demise'; Lansley (2012), The Cost Of; Crouch (2009), 'Privatised Keynesianism'.
139 Engelen, et al. (2012), *After The Great Complacence,* Table 4.1.
140 T. Wainwright (2009), 'Laying The Foundations For A Crisis: Mapping The Historico-Geographical Construction Of Residential Mortgage Backed Securitisation In The UK', *International Journal Of Urban And Regional Research,* 33 (2), pp.372-88; for a global picture see G. Tett (2009), *Fool's Gold* (London: Abacus).

lending in the UK.[141] It is sometimes objected by supporters of liberalised financial innovation that the stricken UK banks were not deeply embroiled in the 'alphabet soup' products assembled from securitised debt (CDOs, CDSs, MBSs and the like) that brought down the US investment banks. However, only in the most direct sense is this true. Securitisation was a very profitable business in Britain and many British banks acted as originators, including HSBC, RBS, Barclays, Northern Rock, not to mention the numerous specialised lenders that drew on investment banking finance to fund their lending.[142] Official estimates place the number of UK mortgages that had been securitised at upwards of 30% of the total stock.[143] In many cases then, the business models of banks were conditioned by the presence of the secondary markets in securitised credit products which served both as a source of demand for securities based on underlying personal credit assets and as a source of fee-based income.

Engelen, et al. characterise the expansionary and increasingly non-intermediary business models of banks during the ten years to 2007 as collectively constituting a 'transaction generation machine'. In effect, they argue, the 'innovative' activities that facilitated the expansion of the supply of credit to unproductive activities and the earning of fee-based non-interest income had become the overriding aim of the British financial sector. From 1996 to 2008 bank lending as a proportion of total productive investment (operationalised as all sectors except finance and property re-selling) fell from 30% to 12%.[144] By 2007, 79% of all bank lending was made on the purchase of residential or commercial property or lending to other financial businesses.[145] The pertinent outcome of this is in terms of state/para-state employment and privatised Keynesianism is that financial sector profits were expanding and that lending was increasingly concentrated into property acquisition, consumer purchases and lending to other financial businesses.

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141 A. Leyshon and N. Thrift (2007), 'The Capitalisation Of Almost Everything', *Theory, Culture And Society,* 24 (7-8), pp.97-115.
142 Engelen, et al. (2012), *After The Great Complacence*; Dolphin and Griffith (2011), *Forever Blowing*; Wainwright (2009), 'Laying The Foundations'; Leyshon and Thrift (2007), 'The Capitalisation Of'.
143 The figures draw on FSA calculations based on ONS data. Dolphin and Griffith (2011), *Forever Blowing,* Fig 5.6.
144 The figures are drawn from ONS data. Engelen, et al. (2012), *After The Great Complacence*, pp.209-210.
145 The figures are drawn from Bank of England data. Engelen, et al. (2012), *After The Great Complacence*, Fig 7.4.

Consequently, transaction-generating financial business models in response to capital market demands was sustaining the other two elements of the growth model outlined in the previous subsections.

The principal institutional factor in this qualitative transformation of British banking is the structure of UK firm-capital market relations and the liquid market for corporate control in a context of financial globalisation. However there are a number of other important institutional conditions of possibility. The first of these are direct matters of government policy, namely the liberal re-regulation of the UK's financial sector in the so-called 'Big Bang' and the opening of the mortgage and retail banking sectors to competition from firms in other areas of banking in the Financial Services and the Building Societies Acts of 1986. Among the varied outcomes of the process of financial sector liberalisation, Dolphin notes that it served to increase competition in the banking sector in two important respects.[146] First, the personal credit markets, including mortgages (which had been the lucrative preserve of building societies until that time) were subject to much greater competition as a growing number of demutualised former building societies and banks sought to secure market share. Secondly, competition was further stimulated by non-bank specialised lenders operating as subsidiaries of US investment banks. It was also in this liberal and competitive context that a number of retail and universal banks began to substantially leverage their deposit bases.

A second is Britain's over-arching approach to financial regulation – a so-called 'light touch' approach. 'Glass-Steagall'-style statutory separations of retail and investment banking activities have never applied in Britain. This allowed the turn towards wholesale funding and fee-based income by banks to proceed unhindered, with little indication over the course of the 1980s and '90s that either regulators or politicians perceived a risk to the banking system or to individual firms in such business models. Such a transition was politically more difficult to accomplish in the US, where legislation was required before American firms could become universal banks in that jurisdiction and adopt similar strategies.[147]

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[146] Dolphin and Griffith (2011), *Forever Blowing.*
[147] Tett (2009), *Fool's Gold.*

3.

Institutionalist Logics in the Critical Social Democratic Perspective

I opened this chapter with a series of abstractions drawn from the institutionalist perspective on political economy concerning the nature of institutions and their role in the kind of explanation that institutionalist political economists produce. As we have seen, institutions and institutional reforms made over the past thirty years lie at the heart of the CSDP. In this final section I go one step further, demonstrating that the CSDP's account of the rise and failure of the ALGM is an institutionalist one. I do so on the basis that the account implicitly rests on a number of institutional processes and incorporates a relational view of structure and agency within these processes. These institutional processes are situated examples of mechanisms that have been conceptualised in the abstract by institutionalist political economists.

Complementarity

A particularly prominent example is 'institutional complementarity'. Complementarity refers to relationships between two or more institutions in which the logic of behaviour given by each forms a mutually re-enforcing whole, such that their totality is reproduced over time.[148] It is, thus, most obviously applicable as part of a theory of political-economic continuity and stasis, and is utilised as such in the influential 'Varieties of Capitalism' approach.[149] This approach has been rightly criticised on the basis of the empirical inadequacy of the static picture of political economic systems it portrays when the entire political economy is said to constitute a reproducing complementarity.[150] Yet complementarities can be an important component of a theory of political-

[148] Campbell (2010), 'Institutional Reproduction'.
[149] See P.A Hall and D. Soskice (2001), 'An Introduction To Varieties Of Capitalism', in P.A Hall and D. Soskice (eds.), *Varieties Of Capitalism: The Institutional Foundations Of Comparative Advantage* (Oxford: Oxford University Press), pp.1-68.
[150] M. Blyth (2003b), 'Same As It Never Was? Typology And Temporality In The Varieties Of Capitalism', *Comparative European Politics,* 1 (2), pp.215-25.

economic change if invoked to explain the perpetuation of contradictory or vulnerable organisational forms.[151]

It is on this basis that the idea of institutional complementarity plays a role in the CSDP. The ALGM as painted by the critical social democrats is, in essence, the sum of an intricate network of complementary relationships between institutions that together served to generate and sustain the expansion of personal and household credit and financial sector profits on which the growth model depended. A number of these relationships are clearly discernible in the arguments reviewed above. For example, a complementarity exists between the predominant macroeconomic policy and industrial relations practices on the one hand and the business strategies of banks on the other. The first two combine to create wage stagnation and a growing demand for credit, the third found a profitable activity in meeting this demand through practices such as securitisation and expands the supply of credit to a point where it briefly became for consumers a viable alternative to earned income.[152] Because credit was so plentiful, the contradictions imparted to the political economy by a set of institutions that limited the growth of domestic demand in an economy that was dependent upon it were not realised. Instead, the two sets of practices re-enforced and partly sustained one another, pushing a latent crisis of under-consumption further into the future.

Path-Dependency

A related, broader, concept to complementarity is that of path-dependency. As noted above, this notion lies in one form or another at the heart of all institutionalist forms of analysis. As enduring features of the political-economic context, institutions are factors in path-dependent development: once established they shape the strategies and resources open to political-economic actors and thus exert an irreducible effect on subsequent decisions, and hence the development of the political-economic system.

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[151] J.L. Campbell (2011), 'The US Financial Crisis: Lessons For Theories Of Institutional Complementarity', *Socio-Economic Review,* 9 (2), pp.211-34.
[152] Crouch (2009), 'Privatised Keynesianism'.

The complementarities noted above are themselves part of a path-dependent logic of development attributed to the British political economy by the critical social democrats in their account. As we have seen, such processes favour the reproduction of patterns of behaviour and sustain economic dynamics over time. Another form of path-dependent relationship that can be discerned in the growth model is what Pierson has termed 'institutional lock-in'.[153] This refers to growing political costs of reforming an institution as time goes on, so-called 'increasing returns' to past decisions. An example of this effect can be seen in the way critical social democrats have approached the 'New Labour' governments' relationship to asset price inflation, and the attempt of these governments to strategically harness it through asset based welfare rather than seeking to reform the underlying institutional factors that generated it. As Watson notes, the asset based welfare approach was politically expedient: it allowed New Labour to resolve the dilemma of welfare state sustainability while leaving the status quo largely unchallenged.[154] We can reason that the political costs of challenging the various interest groups tied to the institutional factors generating house price inflation and privatised Keynesianism would have been very great indeed. It would have meant confronting employers over wage-growth stagnation, financial sector interest groups profiting from securitisation, and halting the growing prosperity of the electoral constituencies who profited from house price inflation. Consequently, asset price inflation and the institutional factors that generated it may have become 'locked in' to the British political economy, or at least may have been perceived so by the government as it weighed up the relative costs of potential strategies.

Contradiction And Vulnerability: Endogenous And Exogenous Causes

A second avenue of institutionalist inquiry has sought to identify the processes through which stability-promoting complementarities and path-dependencies break down. Originating in the study of US political development and the work of Orren and Skowronek, the historical institutionalist 'multiple orders thesis' argues

[153] P. Pierson (2000a), 'Increasing Returns, Path Dependence, And The Study Of Politics', *American Political Science Review,* 94 (2), pp.251-67; P. Pierson (2000b), 'The Limits Of Design: Explaining Institutional Origins And Change', *Governance,* 13 (4), pp.475-99.
[154] Watson (2013b), 'New Labour's Paradox'.

against accounts that emphasise institutional equilibrium or which overstate complementarity, asserting in (Thelen's words) that "the various institutional arrangements that make up a polity emerge at different times and out of different historical configurations. For this reason, the various 'pieces' do not necessarily fit together into a coherent, self-reinforcing, let alone functional, whole".[155] A source of change in this account is the interaction of different institutions within the same polity, with advocates of this approach looking to 'frictions' or 'non-complementary interactions' between previously unconnected or complementary institutions. Non-complementary interactions are, in this view, the products of historical contingencies, emerging either exogenously (for instance, from an invasion, or natural disaster) or endogenously through the intensification of latent inter-institutional tensions over time. There is a clear affinity between this notion and that of 'contradiction' in Marxian strands of political economy. In such perspectives tensions between certain aspects of political-economic organisation are seen to occupy antagonistic, dialectical relationships that create pressures for change by generating conflicts and crises that must be resolved to ensure orderly reproduction of the overall political-economic system.[156] Non-complementary interactions constitute a form of contradiction in this sense. The multiple orders thesis urges close tracing of institutional processes to identify the emergence of such contradictory dynamics within the institutional fabric of the political economy in order to explain the presence of pressure for institutional change.

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[155] Thelen (1999), 'Historical Institutionalism', p.382**;** See also K. Orren and S. Skowronek (1994), 'Beyond The Iconography Of Order: Notes For A New Institutionalism', in L.C. Dodd and C. Jillson (eds.), *The Dynamics of American Politics: Approaches And Interpretations* (Boulder: Westview Press), pp.311-30; S. Skowronek (1995), 'Order And Change', *Polity,* 28 (1), pp.91-96; B.J. Glenn (2004), 'The Two Schools Of American Political Development', *Political Studies Review,* 2, pp.153-65; R.C. Lieberman (2002), 'Ideas, Institutions, And Political Order: Explaining Political Change', *American Political Science Review,* 96 (4), pp.697-712.

[156] An example of such a perspective is the regulation approach. It should be noted however that the use of the term 'institution' differs somewhat between this approach and the historical institutionalists reviewed in these paragraphs. Regulationist political economists often refer in general terms to 'institutional forms' that regulate a given contradiction in a regime of accumulation (such as that between capital and wage labour). Historical institutionalists more frequently refer to specific institutions, and do not necessarily organise their analyses and analytical frameworks around presumed contradictions in regimes of accumulation. See B. Jessop (2013), 'Revisiting The Regulation Approach: Critical Reflections On The Contradictions, Dilemmas, Fixes And Crisis Dynamics Of Growth Regimes', *Capital & Class,* 37 (1), pp.5-24.

The temporality of the emergence of non-complementary interactive processes varies according to circumstances. Orren and Skowronek confine their analyses to 'frictions' that operate between contradicting institutions over long periods of time.[157] However, non-complementary interaction can be much more rapid and devastating in its effect. Such a scenario might be termed 'catastrophic interaction', and bears greater resemblance to the Marxian conceptualisation of 'crisis' as a situation in which contradictions can no longer be managed, and orderly reproduction of the political-economic system obtained, without some decisive form of institutional change. However, I withhold the term 'crisis' in favour of the term 'economic performance failure' and the related concept of 'catastrophic equilibrium' for reasons discussed in depth in Chapters 2 and 3. [158]

For Hay the failure of the ALGM in 2007-2008 is the result of two closely related catastrophic interactions. One is endogenous to the growth model itself and reflects its contradictory nature, occurring amid the previously complementary institutional relations that sustained Privatised Keynesianism. The other is exogenous to the British growth model, reflecting its vulnerabilities and the realisation of threats posed by the exposure of the highly leveraged British banks to the global wholesale markets. Both reflect the dependence of the growth model on a particular and historically contingent set of interest rates and monetary conditions.[159]

In the first instance, Hay argues that the same liberally instituted financial practices that were driving the boom in securitised consumer debt underpinning privatised Keynesianism had also given rise to commodity speculation.[160] This contributed to an unforeseen historical contingency in the form of the rapid rise of oil prices during 2006. More generally, we might add that the growth of exporting countries sustained by demand from consumer debt-led growth models such as the ALGM is likely to have added further non-speculative inflationary pressures to

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157 Skowronek (1995), 'Order and Change'.

158 Succinctly, the reason is that, from a constructivist perspective, crisis does not obtain until political-economic actors who are capable of mobilizing in favour of one 'crisis diagnosis' or another perceive the situation confronting them as one of 'crisis'. Catastrophic interaction giving rise to economic performance failure is a necessary, but not sufficient condition of crisis in the perspective adopted here.

159 Hay (2011a), 'Pathology without Crisis?'

160 Ibid.

markets for fossil fuels. The result of these inflationary pressures was an upturn in CPI inflation in Britain throughout 2006. The manner in which macroeconomic policy is instituted in the UK meant that the primary means of combating this inflation was the base-rate policy of the independent Bank of England. As the Bank raised interest rates in response it inadvertently interrupted the virtuous complementarity of privatised Keynesianism.[161] As borrowers diverted more resources from consumption towards servicing debt the ensuing slow-down of the housing market stymied the wealth effect on which growing consumption spending had been premised. The result was a slump in domestic demand, and what might potentially have been a severe stagflationary scenario in early 2007. How such a scenario might have been dealt with is an interesting question. Yet across the Atlantic, interest rate rises, although a response to different inflationary pressures, were about to yield another catastrophic interaction – the financial crash of 2007-2008.

As is now comprehensively documented, the interest rate hikes by the Federal Reserve between 2004 and 2006 were the precursor to the collapse of the markets for 'sub-prime' mortgages as such borrowers were increasingly unable to meet their repayments.[162] The exposure of highly leveraged financial institutions through complicated mortgage securitisation instruments and their derivatives led to a more general collapse of confidence, and the freezing of inter-bank lending. The resulting liquidity traps set the condition for the worldwide collapse that followed. Again, the unexpected consequences of a change in interest rates led to the previously complementary relationships turning into catastrophic interactions as banks suffered crises of liquidity and solvency. The ALGM, and the transaction-generating bank businesses strategies that had sustained it, ceased in this moment to function for the orderly reproduction of economic growth and expanding employment. The ensuing fiscal pressures have constrained the willingness of subsequent governments to expand state/para-state employment. The result for Britain in the post-2008 context has been the absence of an operational growth model.

[161] Ibid.
[162] Gamble (2009), *The Specter*.

Agency In Institutionalist Political Economy And The Critical Social Democratic Perspective

When rendered only at the level of institutional interactions, institutionalist political economy takes on a very structuralist hue. The actual human actors making up the system appear more like passive automata of institutionally given pressures, save for path shaping 'critical junctures'.[163] Neat as such an explanation undoubtedly is, is leaves unexamined the policy preference strategies adopted by political-economic actors in response to non-complementary or catastrophic interactions. The critical response holds that there is little in the emergence of non-complementary interactions and economic performance failure to explain why actors choose to respond to it in one way and not another.[164] Such *choices* are a fundamental component of the causal sequence of the multiple orders thesis, for the intended and unintended consequences of reforms made to address negative feedback at Time 1 will also form the institutional conditions in which future complementary or catastrophic processes will occur at Time 2.

This line of critique is at the heart of the constructivist institutionalist critique of institutionalist political economy, which is the topic of the following chapter. Yet before examining this critique it is important to note that another debate is also at stake, concerning the relative roles of structure and agency in an institutionalist account. If the responses that actors make to negative feedback implies choice and strategy then a role for 'political agency' is being asserted: the irreducible capacity within the explanatory logic of a theory of political economy for actors to conceive of, and attempt to instigate, changes on the environment they inhabit.[165] A vocal tendency within the historical institutionalist tradition has long insisted against their orthodox Marxian forebears on the irreducibility of actor choices to structural pressures, and thus the need to investigate empirically the preferences

163 Campbell (2010), 'Institutional Reproduction'.

164 D. Béland (2007), 'Ideas And Institutional Change In Social Security: Conversion, Layering, And Policy Drift', *Social Science Quarterly,* 88 (1), pp.20-38; Hay and Wincott (1998), 'Structure, Agency'; V.A. Schmidt (2010a), 'Analyzing Ideas And Tracing Discursive Interactions In Institutional Change: From Historical Institutionalism To Discursive Institutionalism', *Annual Meeting Of The American Political Science Association* (Washington DC).

165 Hay (2002), *Political Analysis*.

of different actors and groups when analysing the dynamics of political change.[166] In recent years this tendency has been revived by Thelen and her collaborators.[167] In a seminal conceptual contribution, Streeck and Thelen have set about investigating how governments seeking to reform complementary or locked in institutions can under some conditions strategically outmanoeuvre the entrenched interests that perpetuate them by cumulatively instigating minor reforms in areas where they face less opposition.[168] Streeck and Thelen suggest that significant institutional changes can arise from the cumulative impact of such minor changes over time.

The theoretical point of interest for the present argument is that in this view, actors can (either intentionally or unintentionally) bring about the non-complementary interactions that drive change in the multiple orders thesis. Some of these agency-driven processes are appealed to in the critical social democratic arguments reviewed here. One example concerns the process of cumulative change termed 'layering', which describes attempts to implement new institutions in a given area without directly dismantling older ones.[169] One frequently cited example is the tendency of many neoliberal governments to incentivise private pension schemes alongside existing state ones, rather than seeking to dismantle state pension schemes head on.[170] Watson identifies precisely this kind of layering in New Labour's turn to ABW. [171] One unanticipated consequence of this choice was the channelling of greater quantities of long-term savings into the global financial surplus controlled by private institutional investors, exacerbating the

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166 Thelen and Steinmo (1992), 'Historical Institutionalism'; for a discussion of the status of structure and agency in this strand of historical institutionalism, see Hay and Wincott (1998), 'Structure, Agency'.

167 For instance, K.A. Thelen (2000), 'Timing And Temporality In The Analysis Of Institutional Evolution And Change', *Studies In American Political Development,* 14 (1), pp.101-08; Streeck and Thelen (2005), 'Introduction: Institutional'; Mahoney and Thelen (2010), 'A Theory Of'.

168 Streeck and Thelen (2005), 'Introduction: Institutional'.

169 For an expanded discussion of the conceptual literature on this process, see J. van der Heijden (2011), 'Institutional Layering: A Review Of The Use Of The Concept', *Politics,* 31 (1), pp.9-18.

170 Streeck and Thelen, 'Introduction: Institutional'; See also J.S. Hacker (2005), 'Policy Drift: The Hidden Politics Of Us Welfare State Retrenchment', in W. Streeck and K. Thelen (eds.), *Beyond Continuity: Institutional Change In Advanced Political Economies* (Oxford: Oxford University Press), pp.40-82.

171 See Watson (2013b), 'New Labour's Paradox'; and Watson (2013a), 'The Welfare State Sources'.

pressure on financial organisations to achieve above-average returns and adding to the so-called 'liquidity glut' that had displaced financial capital into securitised credit markets and commodity speculation. The effect, in short, was to exacerbate contradictions and vulnerabilities that were later implicated in the growth model's failure in 2007-2008. Similar points might be made about a variety of neoliberal reforms noted above that brought about the institutional conditions from which the complementary relationships comprising the growth model first emerged. Consequently, the ALGM, and the contradictions that were to prove its downfall, were in important senses the unintended product of (neoliberalising) agency in an institutionally structured context.

Conclusions

This chapter has served to gather the empirical context and part of the theoretical context for my research in the subsequent chapters of this thesis. I have drawn attention to the critical social democratic analysis of the British growth model in the years leading up to 2007-2008. This analysis portrays a fragile growth model characterised by internal contradictions and vulnerabilities to external shocks. It was these contradictions and vulnerabilities that were realised in a series of catastrophic institutional processes that have left Britain in the post-2008 context in a stagnationary malaise for want of a functioning growth model. In many respects both the emergence of the ALGM and its subsequent failure were the unanticipated consequence of the neoliberalisation of the British political economy. In order to understand the nature of these contradictions and vulnerabilities I have introduced institutionalist political economy and have demonstrated that the CSDP implicitly appeals to a variety of institutionalist conceptualisations. Consequently, the CSDP can inform the 'institutionalist' part of the constructivist institutionalist analysis that I offer in this dissertation.

Institutionalist political economy is a powerful means of explaining how the institutions that comprise the political economy function to sustain or undermine one another over time, and how political-economic agents can, through their strategic actions, create intended and unintended changes that can exacerbate as well as ease contradictions. It is a powerful approach for explaining the failure of economic performance in previously well-performing political economies. This, however, is as far as a 'pure' institutionalist account (that is, one that deals only with institutional processes) can take us. In the next chapter I introduce the 'constructivist institutionalist' critique and, in doing so, show how such an analysis can enrich our understanding of the British political economy in the post-2008 context.

Chapter 2.
The Constructivist Institutionalism

In this chapter I introduce the constructivist institutionalist perspective and bring together a variety of conceptual insights that inform my empirical research. The constructivist critique of institutionalist political economy, succinctly stated, is that while institutionalists offer persuasive explanations of how pressures for political-economic change accrue (such as the poor performance of economic indicators arising from the failure of an underlying growth model), they are neither able to explain the direction that change takes in the aftermath of failure, nor the entirety of the means by which change is accomplished.[1] The analysis of institutional processes alone can achieve only so much, even where the role for agency is incorporated, because no adequate account is given in such explanations of why actors pursue or support one kind of change and not another. Instead, constructivist institutionalists assert that an ontologically distinct but related set of processes must also be analysed *as well as* institutional ones to provide such an explanation. These are *ideational processes* through which shared 'intersubjective' ideas are formed and reformed, and in so doing form and reform the interpretations, behaviours and political struggles of the actors who together produce the political-economic outcomes that we seek to explain.[2] The distinctiveness of the approach thus lies in attending to the bi-directional influence of the institutional and ideational contexts on one another through their mutual conditioning of political agency.

The implications of the constructivist institutionalist integration of ideational processes into institutional analysis are expansive. A second constructivist criticism of institutionalist political economy is that if 'ideational variables' are simply grafted on to existing institutionalist analytical frameworks without attending to these implications then the result is an ad hoc form of explanation in

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[1] Schmidt (2010a), 'Analyzing Ideas'; Hay (2011b), 'Ideas And The'; D. Béland (2009), 'Ideas, Institutions, And Policy Change', *Journal of European Public Policy,* 16 (5), pp.701-18; D. Béland and R.H. Cox (2011), 'Introduction: Ideas And Politics', in D. Béland and R.H. Cox (eds.), *Ideas And Politics In Social Science Research* (Oxford: Oxford University Press), pp.1-26; Lieberman (2002), 'Ideas, Institutions'.

[2] The useful distinction between ideational and institutional processes is Béland's. Béland (2009), 'Ideas, Institutions'.

which ontological premises are inconsistently applied, undermining the logical cohesiveness of the resulting analysis.[3] If ideational processes are conceded to be relevant factors in some circumstances then they must be conceded to be relevant in all circumstances (although in different ways depending on those circumstances).[4] Paying adequate heed to the ongoing impact of ideational processes entails a wider research agenda than that of non-constructivist forms of institutionalism, drawing in the analysis of persuasion, public mobilisation, expert input into the policy process and the interpretations of policymakers and other political-economic actors.

I begin in the first section by reviewing the points of contention between a constructivist and a non-constructivist conceptualisation of the political-economic actor and in so doing reveal the source of constructivist institutionalism's distinctiveness. In the second section I examine constructivist institutionalist concepts in more detail, noting how the broad concept of 'ideas' and 'ideational processes' are conceptualised and categorised at different levels of generality in the constructivist institutionalist ontology. In the third section I examine constructivist institutionalist analytical frameworks for the analysis of political-economic change at crisis and non-crisis moments. In the final section I respond to a recent criticism of the approach in light of the foregoing discussions.

1. The Constructivist Institutionalist Critique Of Institutionalist Political Economy

The essential constructivist insight in the study of political economy is a problematisation of the motives and interests of political-economic actors. Constructivist institutionalists generally retain the view that actors are strategic and act to maximise or best approximate their perceived 'interests' (whether it be an organisation or an individual in question). Yet it is precisely this seemingly

[3] M. Blyth (1997), 'Any More Bright Ideas? The Ideational Turn Of Comparative Political Economy', *Comparative Politics,* 29 (1), pp.229-50; Hay (2011b), 'Ideas And The'.
[4] Schmidt (2008), 'Discursive Institutionalism'.

simple concept of 'interests' that has been the object of constructivist problematisation.

The characterisation of the political actor as interest-oriented in their behaviour means that it is the actor's own subjective assessments of their interests that are of analytical interest to constructivist institutionalists (rather than a third party's assessment of the actor's 'real' interests).[5] At the root of any 'interest claim' are two elements.[6] The first is a valued end state that would ideally obtain, or be approximated. This is an inextricably normative category: it asserts that which one thinks *ought* to be. The second is a course of action by which this valued end-state can be brought about or approximated in the context in which one acts. This is an analytical category: it asserts (either correctly or incorrectly) that which is, and that which is likely to happen if certain choices are acted upon.

A thought experiment can show how these two categories contribute to a perceived interest. For one to deem a life-saving medicine to be in one's interests it is first necessary to establish that one deems life to be a valuable end-state. For the patient in chronic pain, or for a would-be political martyr, perceived value may not obtain in the end-state of ongoing life. Secondly, if an act is to be deemed 'in one's interests' then the act must be perceived as contributing towards achieving or approximating the valued end state. One perceives the option of taking the life-saving medicine as in one's interests only if one believes it really is life-saving and will not make one's condition any worse.[7] If one lacks the information to make this judgment then one's context is uncertain and one cannot make an interest-based judgment about how to behave.[8]

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[5] For a discussion of competing conceptualisations of 'interests' see Hay (2011b), 'Ideas And The'.
[6] Blyth (2002), *Great Transformations*.
[7] At this juncture the debate often shifts to a normative one regarding 'real' or 'true' interests versus 'self-regarding' or 'false' ones. The notion of 'real' interests involves the imposition of a normative standard by a third party against which 'good' behaviour might be judged. As an analytical rather than value-critical enterprise, constructivist institutionalism remains silent on this issue. For discussion of normative versus analytical conceptions of interest, see Hay's discussion of the 'false consciousness' debate in C. Hay (1997b), 'Divided By A Common Language: Political Theory And The Concept of Power', *Politics,* 17 (1), pp.45-52.
[8] Blyth (2002), *Great Transformations*; on uncertainty see B.C. Rathbun (2007), 'Uncertain About Uncertainty: Understanding The Multiple Meanings Of A Crucial Concept In International Relations Theory', *International Studies Quarterly,* 51 (3), pp.533-57.

A central constructivist institutionalist question is how actors' subjectively valued end-states, and their ideas about how to achieve them, are constituted and reconstituted. The focus is on the way that these ideas influence how political-economic actors interpret their context and perceive their interests within it. It is helpful to draw on the concept of 'ambiguity' to understand this claim.[9] Constructivist institutionalists assert that the political-economic context is ambiguous, meaning that it can be interpreted differently by identically located actors if their interpretations are mediated by different ideas about what is valuable and/or how best to obtain their valued end states. From this arises the essential constructivist proposition: that two actors who are identical in every respect save for subscribing to different ideas about the world may interpret the context and perceive their interests very differently, yielding different preferences and behaviours.[10] Ideas and interests are consequently not separate categories – to make a claim about 'material interests' as a motive for behaviour is necessarily to presuppose the ideas that comprise those interest-based motives. For constructivists, this is a matter of logical necessity: to talk of actors' interests-based motives *is* to talk of ideas.[11]

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[9] On the analytical usefulness of the concept of ambiguity in constructivist political economy, see J. Best (2008), 'Ambiguity, Uncertainty And Risk: Rethinking Indeterminacy', *International Political Sociology,* 2 (4), pp.355-74.

[10] Blyth (2002), *Great Transformations*; R. Abdelal, M. Blyth, and C. Parsons (2010), 'Introduction: Constructing The International Economy', in R. Abdelal, M. Blyth, and C. Parsons (eds.), *Constructing The International Economy* (Ithaca: Cornell University Press), pp.1-20; A. Wendt (1999), *Social Theory Of International Politics* (Cambridge: Cambridge University Press).

[11] Blyth (2002), *Great Transformations*; Hay (2011b), 'Ideas And The'; V.A. Schmidt (2010b), 'Taking Ideas And Discourse Seriously: Explaining Change Through Discursive Institutionalism As The Fourth New Institutionalism', *European Political Science Review,* 2 (1), pp.1-25; W.W. Widmaier (2007), 'Where You Stand Depends On How You Think: Economic Ideas, The Decline Of The Council Of Economic Advisers And The Rise Of The Federal Reserve', *New Political Economy,* 12 (1), pp.43-59. There are several arguments that constitute 'routes to constructivism', of which this 'argument from ambiguity' is only one (although I would argue that it is quite sufficient in and of itself). Blyth, for instance, favours one premised on the complexity of the context and the cognitive limits of human beings in his 'argument from Knightian uncertainty', an argument aimed chiefly at rationalist approaches. He argues that in a system as complicated as a political-economy one simply cannot know all of the possible outcomes of one's decisions, and the fact that actors are able to make 'rational' decisions at all consequently demonstrates that they use theories about the political-economy as guides to their interests. On this and other 'routes to constructivism' see Abdelal, Blyth, Parsons (2010), 'Introduction'.

The proposition has far reaching epistemological implications for institutionalist political economy. Institutions and other structural variables are favoured in these perspectives because they are considered unambiguous: they have an observable impact on the behaviour of all political-economic actors regardless of what ideas they possess, and provide the shape of the context in which actors must achieve their interests. For some schools of institutional political economy information about the institutional context alone is deemed sufficient to 'read off' the interests of political-economic actors. In the case of rational choice institutionalism (and rational choice theory more broadly) the valued ends (or 'utility function') to which political actors subject their instrumental behaviour are generally assumed by the analyst as an *a priori* fact, with different classes of political-economic actors imputed particular valued ends by the analyst ('politicians' seeking 'votes', 'trade unions' seeking 'wages'; 'bureaucrats' seeking 'rents', etc).[12] For advocates of these approaches similarly located political-economic actors are preconceived as understanding the context they inhabit, and the means by which to realise or approximate their valued ends, in essentially the same 'rational' way. The only acknowledged difference between actors in this approach is the amount of information that they possess, not the bases on which that information is interpreted. The logically prior ideational constituents of valued end states and of the rational assessment of choices on how to pursue them are not considered in these accounts. Consequently, the assumption made by rationalists is that actors with identical utility functions and identical information will interpret the same context identically, and thus behave in the same way. If true, the upshot is that actor behaviour can be predicted.[13]

This simplistic and unrealistic conceptualisation of the political-economic actor is given legitimacy on a single proviso: that it supposedly facilitates reliable

[12]Riker suggests that such attributions should be the result of a process of hypothetical deduction, whereby clearly stated assumptions about the valued-ends of political actors are tested against behaviour until one arrives at one that hold predictive purchase. See Riker (1995), 'The Political Psychology'. However Hay notes that despite professed agnosticism and empiricism regarding utility functions in rational choice accounts, they are invariably defined narrowly in the kinds of terms that I have stated above. Moreover, Hay notes that they must remain conserved in this way if rational choice theory is to retain its much-vaunted parsimony of assumptions between studies. C. Hay (2004b), 'Theory, Stylised Heuristic Or Self-Fulfilling Prophecy? The Status Of Rational Choice Theory In Public Administration', *Public Administration,* 82 (1), pp.39-62.
[13] Abdelal, Blyth, Parsons (2010), 'Introduction'.

predictive inference about the future behaviour of similarly located actors and thus holds out hope for a predictive political science.[14] Whether or not the predictive track record of rationalist theories really does legitimise such assumptions is not within my scope to resolve here, although at least one recent history of the discipline is sceptical.[15]

Constructivist institutionalists have adopted a different tack in criticizing the rationalist conceptualisation of the political-economic actor, suggesting that it is flawed in its own terms. Blyth observes that rational choice institutionalists have been consistently troubled by the problem of so-called 'multiple equilibria': situations in which there are equally rational but qualitatively different outcomes to modeled scenarios involving rational utility-maximizing actors.[16] In such scenarios the analyst is required to specify a non-arbitrary and rational basis to the choices that actors have made. The rationalist conceptualisation of the political-economic actor gives little grounds to do so, and some rationalist accounts have attempted to incorporate a role for ideas and interpretation to fill the resulting explanatory gap. This, Blyth charges, constitutes a kind of ontological arbitrariness, for if ideas and interpretations impact upon interests at times of multiple equilibria then they presumably must also impact at the other moments when rationalists disregard them.[17] In a stronger rendition of the critique, Blyth suggests that an attempt to incorporate ideational variables into a rationalist framework in a consistent manner yields an approach that is in essence no longer rationalist: if ideas constitute interests at all times, and if ideas can change, then this violates the parsimonious assumption that valued end-states are conserved and that beliefs about achieving ends are contingent only on the supply of information.[18] Instead, the resulting approach becomes a constructivist one in which interests themselves must be explained rather than assumed.

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[14] Hay (2004b), 'Theory, Stylised'.
[15] M. Blyth (2006), 'Great Punctuations: Prediction, Randomness, And The Evolution Of Comparative Political Science ', *American Political Science Review,* 100 (4), pp.493-98.
[16] Blyth (1997), 'Any More'.
[17] Ibid.
[18] M. Blyth (2003a), 'Structures Do Not Come With An Instruction Sheet: Interests, Ideas And Progress In Political Science', *Perspectives On Politics,* 1 (4), pp.695-703.

Any approach that rejects the rationalist conceptualisation of the political-economic actor is obliged to attend to the impact of ideas and processes of ideational reproduction/change on actor behaviour if ontological arbitrariness is to be avoided.[19] This is the basis of a friendlier constructivist critique leveled at historical institutionalism: while few authors identifying with this approach have explicitly ruled out the role of ideas in constituting interests, they have not always adequately attended to the implications of a conceptualisation of the political-economic actor when this importance is conceded.[20]

Being consistent in the importance assigned to ideas and ideational processes not only resolves the issue of ontological arbitrariness but also facilitates additional empirical insights and theoretical integrity. It can enrich, for example, the iterative agent-centred analyses of political-economic change examined in the previous chapter by accounting for perceptions of a need to reform on the part of the agents of change, and why one strategy is favoured over another.[21]

2.
The Constructivist Institutionalism

In making this critique constructivists have set themselves no small task. An analytical framework is required that consistently incorporates and relates both the impact of agency and the institutional and ideational contexts in a co-constitutive whole. At a basic level, the constructivist proposition is that if the interest-oriented behaviour of political actors is influenced both by ideas as well as by the institutional structure of that context then ideational change or ideational stasis becomes a factor in changes in the behaviour of political economic actors:

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[19] Schmidt (2008), 'Discursive Institutionalism'.

[20] Hay (2011b), 'Ideas And The'. It should be noted, however, that many self-identifying historical institutionalists have made precisely such an attempt at consistency, for example P.A. Hall (1993), 'Policy Paradigms, Social Learning, And The State: The Case Of Economic Policymaking In Britain', *Comparative Politics,* 25 (3), pp.275-96. By the terms adopted here such authors are identified as constructivist institutionalists working in the historical institutionalist tradition. A similar claim can be made regarding rational choice institutionalists who have attempted to consistently incorporate ideas into their analytical frameworks. One example is Denzau and North's model of 'shared mental modes', which Abdelal, Blyth and Parsons re-characterise as a constructivist approach. A.T Denzau and D.C. North (1994), 'Shared Mental Modes: Ideologies And Institutions', *Kyklos,* 47 (1), pp.3-31; Abdelal, Blyth, Parsons (2010), 'Introduction'.

[21] Béland (2007), 'Ideas And'; Schmidt (2010a), 'Analyzing Ideas'.

outcomes will invariably reflect one or the other. Consequently, constructivist institutionalists have endeavoured to conceptualise how ideational processes condition, and are impacted upon by, the agency of actors in an institutionally structured context that is itself constituted by and conditioning of the behaviour of actor agency. It is agency situated in these ideational and institutional contexts that give direction to political-economic change in a constructivist institutionalist account.

Intersubjectivity

There are a number of conceptual issues that arise for constructivist institutionalists whilst developing this framework. The first relates to the level of abstraction at which such research takes place. The ideas that structure a single individual's motivations and interpretations of their surroundings are highly complex. To account for them all would be a historic neuro-scientific accomplishment, let alone accounting for those of the many hundreds or thousands of individuals that are implicated in a given piece of political economy research. The constructivist institutionalist enterprise is therefore by necessity a more modest one. The ideas studied in this perspective are shared ones. These collectively held 'intersubjective' ideas shape the subjective perceptions and perceived interests of multiple individuals, and so allow a degree of explanatory purchase on behaviours exhibited across actors (or among groups of individuals who comprise collective actors).[22] Constructivist institutionalists situate actors in an ideational context populated with a variety of intersubjective ideas on which they draw when making sense of the world that they inhabit.[23] Like the institutional context, the ideational context of intersubjective ideas is ontologically distinct from any particular individual that inhabits it. Because intersubjective ideas are shared, changes in the structure of the ideational context (the emergence of new ideas that challenge old ideas, or the development of existing ideas in new

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[22] Wendt (1999), *Social Theory*.
[23] Hay (2011b), 'Ideas And'; Blyth (2002), *Great Transformations*; Schmidt (2008), 'Discursive Institutionalism'; W.W. Widmaier (2004), 'The Social Construction Of The Impossible Trinity: The Intersubjective Bases Of Monetary Cooperation', *International Studies Quarterly,* 48 (2), pp.433-53; W.W. Widmaier, M. Blyth, and L. Seabrooke (2007), 'Exogenous Shocks Or Endogenous Constructions? The Meanings Of Wars And Crises', *International Studies Quarterly,* 51 (4), pp.747-59; Abdelal, Blyth, Parsons (2010), 'Introduction'; Béland and Cox (2011), 'Introduction'.

ways) and changes to which ideas particular actors and groups subscribe can exert a wide-reaching effect on the behaviour of political-economic actors and the struggles between them. As this perhaps suggests, the impact of intersubjective ideas can vary depending on how widely they are subscribed to and who subscribes to them. Some are so widely accepted as to constitute apparently objective facts about the world, whilst others facilitate agreement among groups of actors who might otherwise find themselves opposed, or cement opposition between groups that might otherwise find consensus.[24]

It is important to note at this point that the relationship between ideational structure and agency in a constructivist institutionalist account is not uni-directional but a relational one: the political economic actor is an ideational agent as well as the recipient of intersubjective ideas, capable of creating changes in the ideational context in which they are situated. In the very act of drawing on intersubjective ideas to interpret the political-economic context actors are able to critically reflect on, elaborate, develop and reject them, to contest those of others, and to seek to persuade others of the merits of new ideas. In doing so they transform the intersubjective context in which they and other actors will perceive their interests at future moments by altering its ideational composition.[25] Schmidt usefully terms this reflexive capacity 'sentience'.[26]

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[24] Blyth (2002), *Great Transformations*; Widmaier (2004), 'The Social Construction'; On the topic of the notion that some intersubjective ideas can constitute apparently objective facts, an interesting front in constructivist research has recently opened up regarding 'performativity' – the notion that ideas about societies, economies or political systems can become self-fulfilling prophesies that lead the actors that bare them to behave in ways that bring about the very dynamics that the idea describes. This kind of research is particularly advanced in feminist and queer-theoretical sociology, where ideas about gender that were once accepted as immutable facts have been subject to critique as contingent social constructs that shape social processes. The work of McKenzie has also taken these insights into the study of financial markets. D. MacKenzie (2006), *An Engine, Not A Camera: How Financial Models Shape Markets* (Cambridge, MA: MIT Press).
[25] Schmidt (2010a), 'Taking Ideas'; Widaier, Blyth and Seabrook criticise earlier IR constructivist work for having paid insufficient heed to the question 'where do ideas come from?' and 'how do people become persuaded by them?', see Widaier, Blyth, Seabrook (2007), 'Exogenous Shocks'.
[26] Schmidt (2010a), 'Taking Ideas'.

Normative And Analytical Ideas

A variety of different kinds of intersubjective ideas about the political economy populate the ideational context that constructivist institutionalists study, and these can inform analysis in different ways.[27] We can, for instance, speak of encompassing systems of political thought such as Ideologies (social democracy, liberalism), specific theories about how parts of the political economy work (the non-accelerating inflation rate of unemployment, the Phillips Curve), or systems of political-economic analysis and restructuring ethoses assembled from such theories and concepts (Keynesianism, neoliberalism). At a very low level of generality, we can speak of unnoticed concepts and metaphors, such as the range of water-based metaphors used to describe financial market processes. Constructivist institutionalist analysis has the potential to address all such generalities of ideas. For this reason there has been interest in recent constructivist conceptual work in typologising the different kinds of ideas so as to demarcate their explanatory functions.

One such distinction applies to all forms of ideas and arguments constructed with them and typologises them according to their analytical or normative status.[28] Normative ideas relate to the appropriateness of things and of how things ought to be. They are central to the specification of valued end-states in the perception of interests because they confir value on certain outcomes. Analytical ideas consist of claims about what is, and what will happen if a particular course of action is taken.[29] They posit relationships between events and people (or more generally, between causes and effects), and so provide a guide to action in the world.[30] Analytical ideas offer the 'means-ends' relations on which instrumental action is based.

Now, it should be noted that analytical ideas necessarily presuppose normative ideas when discerning between the relative costs and benefits of different

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[27] Schmidt (2008), 'Discursive Institutionalism'; J. Mehta (2011), 'From 'Whether' To 'How': The Varied Roles Of Ideas In Politics', in D. Béland and R.H. Cox (eds.), *Ideas And Politics In Social Science Research* (Oxford: Oxford University Press), pp.23-46.
[28] Schmidt (2008), 'Discursive Institutionalism'.
[29] These are sometimes referred to as 'cognitive ideas', for instance Ibid.
[30] Béland and Cox (2011), 'Introduction'.

options.[31] Neoliberal arguments, for instance, stress the collective welfare enhancing nature of the market and market-like forms of governance and resource allocation, and the collective welfare-harming effects of alternative forms of political-economic organisation. Such claims are analytical because they assert the likely outcomes of particular forms of political-economic governance, but they are necessarily underpinned by categorically normative assumptions about the value of certain outcomes, such as economic growth above other potential goals, when asserting what the collective welfare is.

At this point it is necessary to pause and to take a position on an issue of debate among constructivist institutionalists. The point in question is the extent to which frameworks of predominantly normative ideas (for example, ethical beliefs) constitute the *conscious* basis of 'elite' political-economic actors' behaviour. Phrased differently, the question is whether they operate on the basis of what March terms an instrumental 'logic of consequentiality' or a normatively-centred 'logic of appropriateness' when making decisions.[32] In the popular imagination (and in much political analysis) it is assumed that politicians are not and cannot be motivated by systematic or inflexible ethical commitments. This viewpoint is often simply the result of cynicism: the view that politicians enter office either to serve themselves, or to serve other powerful interests that are themselves self-serving. This cynicism reaches its zenith in the rational choice theory, which characterises all human beings as necessarily self-serving and incapable of cooperation except under very specific conditions. Yet while there are undoubtedly good historical examples to be found of corrupt or self-serving politicians and political-economic elites, cynicism alone does not constitute an adequate argument for the generalisation of these attributes. A number of constructivists have advocated leaving room for a more ethically inclined characterisation of the political-economic actor and the possibility that they do act according to a logic of appropriateness.[33]

There are, however, more sophisticated grounds on which to maintain a qualified assumption that elite behaviour conforms to a logic of consequentiality under most

[31] Mehta (2011), 'From Whether'.
[32] March (1992), 'The War'.
[33] Hay (2011b), 'Ideas And'.

conditions. At the core of Machiavelli's 16th century masterpiece *The Prince* is the observation that an inflexible commitment to ethical principles in the face of an unpredictable and highly contested political-economic context is prejudicial to the survival of politicians.[34] He argued that the prioritisation of actions aimed at survival is both appropriate and inevitable for any political actor, for if they do not behave thus then they would soon be subject to defeat by their foes and cease to be a political actor at all. This pressure for survival-oriented behaviour applies equally to contemporary political-economic actors. While it is a near-certainty that they possess genuine ethical beliefs and goals, these can only be acted upon in instances where doing so does not jeopardise their survival in their respective roles.

Another way of putting this is to say that the context is 'strategically selective' – that it favours some courses of action over others because of the consequences it assigns to different choices, but that it does not necessarily determine the choices that actors make.[35] I suggest on this basis that we can assume that policymakers will strive to appease forces that threaten their survival in their roles if they are unable to defeat them. They may, for example, seek to shape the opinion of a sceptical electorate so that it supports their preferred policies, but if this fails then they may attempt to accommodate the electorate's demands and claim these to have been their preferences all along. Perhaps most importantly for my argument, however, *I maintain that politicians administering a capitalist political economy will strive to maintain economic performance by whatever means they believe best able to do this (insofar as powerful interests and electors will permit them in their given historical and ideational context)*. This is because in a capitalist political economy failure to produce economic performance as measured by key indicators – namely GDP growth and socially acceptable levels of employment – will earn a democratic politician the wrath of economic interest groups and the electorate alike.

Because the strategic selectivity imposed by the context elevates survival above other valued end-states, and because the restoration of economic performance is a key means to political survival in the post-2008 context, *my focus in this thesis is on*

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[34] N. Machiavelli (2003), *The Prince* (London: Penguin).
[35] Hay (2002), *Political Analysis*.

ideas that define the nature of post-2008 economic problems and prescribe solutions to them (i.e. analytical ideas about the working of the political-economy), rather overtly normative ethical systems that might inform an actor's conduct outside of the structures of political-economic governance. These ideas are analytical ones (although as I have mentioned above, analytical ideas presuppose oft-times unconscious normative commitments, such as the value of a political career over charity work). Whilst politicians can lay aside rigid ethical commitments for the purposes of political survival, analytical ideas about how to go about obtaining valued end states cannot be laid aside in this way. One does not simply choose to perceive reality differently because it suits one's purposes – such a statement is nonsensical.[36]

Now, statements such as these bring my position superficially close to some non-constructivist (or indeed anti-constructivist) renditions of the 'structural dependencey thesis', which states that politicians and policymakers are highly constrained in their autonomy by the economic interest groups that surround them.[37] Such a position becomes anti-constructivist where it implies that policymakers' interests are reducible to a function of the context they inhabit and can be 'read off' without attending to the ideational context. Yet my position differs in at least two respects. Firstly, my view that the strategic selectivity of the context strongly favours survival-oriented behaviour does not mean that policymakers are unable to pursue normative motives under any circumstances. However, I do maintain that these conditions are unlikely to obtain during a period of economic performance failure such as the post-2008 context, when the survival of policymakers rests upon restoring economic performance as quickly as possible. Although remaining open to the possibility in principle, I have encountered no evidence that GDP growth and employment levels have been displaced as primary objectives of economic policy and political-economic restructuring. Secondly, although the strategic selectivity of the context favours restoring the functioning of the capitalist economy, this does not determine the means that policymakers or other political actors will come to perceive as constituting the best route to do this.

[36] It is, of course, quite possible that a political-economic actor could pretend to perceive reality differently to how they actually do in order to secure some strategic advantage or another, but this is a distinct proposition.
[37] See, for instance, A. Przeworski (1985), *Capitalism And Social Democracy* (Cambridge: Cambridge University Press).

This, I maintain, is explicable only in reference to the ideational context that policymakers inhabit.

Policy Ideas And Problem Definitions

Beyond the distinction between analytic and normative ideas, constructivists have also categorised ideas according to their 'level of generality' in relation to policy. There are a number of attempts to produce such a typology of ideational types.[38] Mehta proposes two categories that are of particular relevance to my argument here. At the lowest level of generality are 'policy ideas'. These are ideas about means to solve a particular problem that has been deemed policy relevant.[39] 'Inflation rate targeting', for instance, is a policy idea in the field of monetary policy, stipulating a means to the end of product price stability.

Policy ideas depend, however, on prior and more general intersubjective ideas that specify to policymakers that which constitutes a policy-relevant problem in the first place (the ends to which the policy ideas are the means), and what the nature of these problems are. These more general ideas are termed 'problem definitions' by Mehta, who places them on an equivalent level of generality to the ubiquitous notion of a 'policy paradigm'.[40] Policy paradigms are bodies of intersubjective ideas that define the purposes and goals of policy in a given issue.[41] As Hay puts it, they "circumscribe… [for their adherents] what is feasible, possible and desirable".[42] For reasons that shall shortly become clear, however, I prefer the term 'coordinative discourse' to that of paradigm – a term that like the paradigm concept refers to intersubjective ideas held by a group of adherents, but which also refers to the discursive process through which these ideas are developed and

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[38] Mehta (2011), 'From Whether'; J.L. Campbell (2002), 'Ideas, Politics, And Public Policy', *Annual Review of Sociology,* 28, pp.21-39.
[39] The distinction between the concepts of 'policy' and 'policy idea' is a fine one. A policy idea remains a policy idea until it is implemented, at which point it is both a policy and a policy idea.
[40] Mehta (2011), 'From Whether'; These are also sometimes termed 'programmatic ideas', although confusingly other authors use the same term in reference to policy ideas, such as J.L. Campbell (1998), 'Institutional Analysis And The Role Of Ideas In Politics', *Theory And Society,* 27 (3), pp.377-409. The term 'problem definition' therefore has the advantage of clarity.
[41] Hall (1993), 'Policy Paradigms'.
[42] Hay (2001), 'The Crisis Of Keynesianism', p.202.

through which policy ideas derived are from them.[43] Coordinative discourses are composed of problem-defining ideas that are shared and developed by participants to the discourse. These are in turn composed of analytical ideas and their normative ideational precepts. In the field of economic policy these include analyses of how the economy works (comprised of economic theories and concepts through which policymakers can define strategies to achieve valued end-states) and normative presuppositions (for instance, the value of certain behaviours such as 'enterprise', along with the more general suppositions that place economic growth and profit higher than other possible goals such as equality or environmental sustainability).

Problem definitions within coordinative discourses consequently provide the 'background assumptions' through which political economic actors understand their world.[44] They confer meaning on events and specify what the likely outcomes of particular choices are, and it is through such ideas that interests are identified and strategies are made. Insofar as they are applied to the rudimentary questions of policymaking in a capitalist political economy (such as how to maintain economic growth) they specify the goals and objectives of policymaking in the areas to which they relate for the actors that bear them, defining the problems to which policy ideas are attached.

The neoliberal restructuring ethos takes the form of a set of evolving, historically linked problem definitions and policy ideas in relation to political-economic restructuring. Insofar as neoliberal problem definitions have entered the coordinative discourses of policymakers, these coordinative discourses themselves can be considered neoliberal ones. Neoliberal coordinative discourses are composed of historically linked market-positive problem definitions that paint a different picture of the relationship between, for example, inflation, growth and unemployment to earlier Keynesian problem definitions. A key point, however, is that problem definitions do not dictate particular policy ideas but instead demarcate the problems against which policymakers will seek to formulate or acquire policy ideas – there is a 'directional dependence' between them. The

[43] Schmidt (2008), Discursive Institutionalism'.
[44] Ibid.

Thatcher governments, for example, experimented with a range of counter-inflationary policy ideas, yet these ideas were only countenanced because they spoke to a broader neoliberal problem definition that regards the control of product price inflation to be the primary target of macroeconomic policy.

Problem definitions in policymaking coordinative discourses are an appealing level at which to operationalise the impact of ideational processes in the post-2008 context because they inform our understanding of multiple policies and the trajectory of political-economic restructuring to which they contribute. Yet the analytic and normative ideas that are bound up in these problem definitions exist at a greater level of generality still, in the form of systematic economic theories, Ideologies or restructuring ethoses. In formulating problem definitions, political-economic actors draw upon these to source the analytical and normative ideas on which problem definitions are based. Some ideational scholars have pushed still further up the ladder of ideational generality, seeking to operationalise concepts such as 'public philosophies', or even 'the zeitgeist'.[45] Such abstractions, insofar as they are measurable at all, exceed the level of generality required for my argument in this dissertation.

Ideational Processes

The central constructivist institutionalist contribution to institutionalist political economy is to analyze how changes in the ideational context impact upon the institutional one through conditioning the behaviour of agents, and vice versa. Such analysis is naturally oriented to political-economic change. As this emphasis on change perhaps suggests, it is not static ideas that are the core concern for constructivist institutionalists, but rather the dynamics of the ideational context in which ideas rise and fall from influence. Consequently, the remainder of this section shall draw out how constructivist institutionalists have conceptualised political economic ideas in this dynamic way.

[45] Mehta (2011), 'From Whether'; J.W. Kingdon (1984), *Agendas, Alternatives, And Public Policies* (Boston: Little, Brown and Company); Campbell (1998), 'Institutional Analysis'.

Here Schmidt's terminology is particularly useful. Rather than talk of 'paradigms', Schmidt conceptualises intersubjective ideas in terms of the process by which they are developed – through what she calls 'coordinative' and 'communicative discourses'. Coordinative discourse is a dual-faceted concept. As we have seen, it refers firstly to the 'ideational background conditions' of actor preferences and behaviour – normative and analytical ideas assembled into problem definitions.[46] In this respect it serves a similar explanatory function to that of 'paradigm' in Hall's framework.[47] Yet Schmidt is critical of the utility of the paradigm concept because it imparts a static and homogenous conceptualisation of the ideational context.[48] In its original academic context the paradigm concept served as a means of explaining the punctuated equilibrium dynamic that Kuhn attributed to scientific systems of thought.[49] The argument makes a number of suppositions that may very well hold purchase on scientific intersubjectivity but which are problematic when deployed in relation to political economy.

Firstly it assumes that a paradigm is universally subscribed to by all actors save for a few maverick dissenters.[50] This is not the case in the realm of political economy, where the bearers of multiple 'paradigms' frequently interact and contest one-another's policy preferences and the assumptions on which they rest. Secondly, the notion of paradigm suggests an almost total lack of ideational agency, save for critical moments where an accumulation of empirical anomalies beyond the explanatory grasp of the predominant paradigm gives rise to a revolution in scientific thought.[51] In Kuhn's rendition, bearers of a paradigm work within its confines, interpreting information in line with it and disregarding information that challenges it. For Schmidt this is wrong on two counts. Firstly, political-economic actors must be conceptualised as 'sentient' ones able to reflect critically on their assumptions in the light of experiences and encounters with new ideas. Secondly,

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[46] Schmidt (2002), *The Futures*; Schmidt (2008), 'Discursive Institutionalism'.
[47] Hall (1993), 'Policy Paradigms'.
[48] V.A. Schmidt (2011), 'Ideas And Discourse In Transformational Political Economic Change In Europe', in G. Skogstad (ed.), *Policy Paradigms, Transnationalism, And Domestic Politics* (London: University of Toronto press), pp.36-63; see also M.B. Carstensen (2011), 'Paradigm Man Vs. The Bricoleur: Bricolage As An Alternative Vision Of Agency In Ideational Change', *European Political Science Review,* 3 (1), pp.147-67.
[49] T.S. Kuhn (1996), *The Structure Of Scientific Revolutions (3rd Edition)* (London: University Of Chicago Press).
[50] Schmidt (2011), 'Ideas And Discourse'.
[51] Ibid.

and partly as a consequence of sentience, she emphasises that ‘paradigms’ where they relate to policymaking are continually adapted and elaborated by the political-economic actors who bear them as they encounter failures and are forced to reconsider (and perhaps redefine) the very problems they are addressing.[52] This is the second facet of the concept of coordinative discourse. Subscribers to a coordinative discourse do not simply enact the problem definitions that it contains. Rather, they interact with other sentient agents and reflect critically upon their problem definitions, and through this process transform the intersubjective ideas they share and the ideational context that they inhabit.

Following Schmidt I maintain that problem definitions should be conceptualised as the dynamic and changing outcomes of coordinative discourses. Doing so confers a number of advantages on constructivist institutionalist explanation. Firstly, it overcomes the punctuated equilibrium model of ideational change that has characterised some earlier constructivist institutionalist analyses of policymaking since Hall’s seminal article. This view sees the ideational context as static and so stability-promoting save for rare critical junctures at which ideational changes promote institutional change.[53] While contributors in this vein offer many useful insights about the role of ideas during economic crises (many of which will be drawn upon here) they nevertheless deny the utility of constructivist insights to the slower-paced institutional process explored in the last chapter, and thus fail to account for the entirety of the ideational conditions and agential processes through which sudden change occurs.[54] Secondly, conceiving of problem definitions as situated and developed within coordinative discourse also allows us to better explain the role of ideas in moments of ‘crisis’. Rather than seeing new ideas as largely unexplained exogenous factors that simply appear at such moments, the concept of coordinative discourse sensitises us to the collective process of re-interpretation that goes on among policymakers and other political-economic actors as they seek to explain anomalous events and catastrophic failures in economic performance.

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[52] Ibid.
[53] Hall (1993), ‘Policy Paradigms’.
[54] Schmidt (2008), ‘Discursive Institutionalism’.

Coordinative discourse denotes a consensual process: it implies that problem definitions and policy ideas are held in earnest by policymakers who develop them through coordinative discourses with the motive of better attaining genuinely valued end states. However, the traditional role assigned to ideational processes in political economy is of a different and somewhat more sinister category: mystification, and the use of arguments to disguise reality and manipulate other actors into compliance. This, at least, is one function assigned to ideology in those conceptions that stress the 'naturalisation' of otherwise contestable relationships of dominance between actors, social groups and socio-economic classes.[55] This notion is similar to Lukes' 'third face of power', in which ideas are deliberately and strategically deployed by manipulative actors to *persuade* other actors of the legitimacy and/or necessity of their preferences, securing their consent prior to a conflict occurring.[56] Both persuasion and mystification imply that strategy and manipulation are at the forefront, in place of the consensual sense-making implied in the concept of coordinative discourse.

The constructivist institutionalist treatment of ideas as constitutive of the interests of political-economic elites is partly a response to this emphasis on manipulation. The concept of coordinative discourse allows us to assert that ideas and ideational processes matter in all areas of political-economic research, not simply in the legitimation of powerful interests. However the use of ideas as manipulative tools still matters greatly to constructivist institutionalism. In relation to such processes, Schmidt supplements her concept of coordinative discourse with a second – 'communicative discourse'. Communicative discourse refers to policymakers' attempts to communicate their policy programmes and restructuring preferences to the general public in such a way that their decisions and preferences appear legitimate, perhaps winning support for them in the process and limiting resistance that might otherwise exist.[57]

Communicative discourse has a number of differentiating features in comparison with coordinative discourse. Firstly, it is a process of *persuasive communication*.[58]

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[55] Eagleton (2007), *Ideology.*
[56] S. Lukes (2005), *Power: A Radical View* (Basingstoke: Palgrave Macmillan).
[57] Schmidt (2002), *The Futures*; Schmidt (2008), 'Discursive Institutionalism'.
[58] Schmidt (2010b), 'Taking Ideas'.

Its effect obtains through strategically shaping the ideational context that the actor who is being persuaded inhabits and through which they formulate their perceptions of the world and their interests, and does so in ways designed to encourage consent. This contrasts with coordinative discourse, wherein the process is less one of persuasion than of mutual sense-making among actors with initially similar ideas pursuing similar objectives and confronting similarly perceived problems. Secondly, communicative discourse is characterised by the more widespread use of arguments composed of normative ideas than the analytic ideas utilised in communicative discourse.[59] This is not to say that they are exclusively composed of normative arguments, yet it has been noted that they often achieve their persuasive effect by constructing a (possibly spurious) consistency between policymakers' preferences and widely held norms and ethical values.[60] Third, communicative discourse can be (and often is) combative; it is not simply a means by which subscribers of one coordinative discourse assert the legitimacy of their policy preferences, it is also a means by which they contest and undermine the legitimacy of the policy preferences of political opponents. Indeed, the former is often achieved through the latter. Insofar as these preferences follow from the opponents' coordinative discourse, communicative discourse can become a means by which rival coordinative discourses are attacked, marginalised, and possibly displaced. However combative communicative discourses can also occur between groups of actors committed to very similar, if not identical coordinative discourses. Many years of near consensus on economic policy in Britain have not prevented the Labour and Conservative parties from attacking one another's approaches in this area by, for example, questioning one another's competence.

While Schmidt's focus is on the communication between policymakers and the general public it takes no stretch of the imagination to see that all political-economic actors engage in some form of communicative discourse. Companies do not merely market their products (which is itself a form of communicative discourse), but they also extol the societal benefits of their activities where their business practices become subject to scrutiny (a political communicative discourse). Pressure groups and charities often rely on exhortative

[59] A claim I substantiate in Chapter 7.
[60] Schmidt (2002), *The Futures.*

(communicative) discourses to obtain funds and gain influence. Furthermore it is plausible that communicative discourse does not simply take place between political economic actors and the general public, but also between political-economic elites. Engleen et al., for instance, claim that a communicative discourse produced by financial sector lobbying organisations was in part responsible for shaping the coordinative discourse of the New Labour governments on matters of financial policy.[61]

The Relationship Between Institutional And Ideational Processes

Ideational processes such as coordinative and communicative discourse do not take place in isolation from the institutional context in which those processes occur. As Schmidt observes, the distribution of resources, powers and authority among political-economic actors – in part a function of the institutional context – is instrumental in deciding how coordinative discourses will play out.[62] They dictate, for example, who has the authority to be included within the policymaking coordinative discourses, the (relative) access of groups outside of government to policymakers' coordinative discourses, and more generally the powers of policymakers relative to other political-economic actors. Institutions also define the resources available to actors with which to disseminate communicative discourses and structure access to the media. Ideational processes are thus shaped by, and cannot be analysed in isolation from, the institutional context when explaining outcomes. However the same is also true in reverse: institutional processes (such as the emergence of economic policy failure) unfold in an ideational context, and it is ideational processes that mediate how sentient actors respond to the outcomes of institutional processes. It is the capacity of the constructivist institutionalist approach to relate dynamics in the former domain to the latter through actor agency that gives the approach its analytical utility as a contribution to intuitionalist political economy.

61 Engelen et al. (2012), *After The Great.*
62 Schmidt (2002), *The Futures.*

3.

Explaining Political-Economic Change From A Constructivist Institutionalist Perspective

The previous sections have brought together conceptual building blocks of the constructivist institutionalist approach. What remains is to show how these insights could be assembled in order to empirically study policy change and continuity, as well as to derive a more specific set of concepts on which my own empirical research can draw. A theme that emerged from the discussion of institutionalist political economy in Chapter 1 concerns the temporality of change. As we have seen, institutionalist accounts fall into those that focus primarily on occasional and rapid periods of transformative change in political-economic institutions and those that look to more gradual and cumulative processes by which endogenous pressures for change build up or are (deliberately or inadvertently) created by agents. So it is with the constructivist institutionalist analysis of policymaking and policy change. There are those accounts that focus on moments of 'great transformation' in political-economic systems at times of crisis, and those that focus instead on non-crisis moments of 'normal policy making'. My own thesis is a contribution to the first category, focusing as it does on a moment of significant economic failure in the British political economy. However during the course of my research the insights of the latter approach have been illuminating for a number of reasons that will be encountered later in this dissertation. Consequently, I shall briefly review both approaches here and draw attention to insights that are relevant to my subsequent arguments.

The 'Diagnosis' And 'Narration' Of Economic Crisis

The analysis of moments of institutional transformation and change in the trajectory of capitalist political economies has been prominent in constructivist institutionalist research. Exponents sought to capitalise on the Hallian framework for studying transformative political-economic change. Hall had suggested that at times of political-economic failure and economic crisis paradigms could undergo a sort of Gestalt dynamic by which an ailing paradigm is suddenly replaced, and that following the entrenchment of a new paradigm the trajectory of political-economic restructuring would thereafter be transformed.[63] Hall's empirical case study was the transition from Keynesian to Monetarist-inspired macroeconomic policy in the UK during the protracted problematic economic context of the 1970s, yet subsequent authors have looked to his approach to answer the question of how a shift to neoliberalism occurred in various national contexts.[64]

Hall was circumspect regarding the means by which a paradigm shift would occur, focusing primarily on the outcomes of the 1979 election in his British case study and imputing the Conservatives' new outlook on economic policy as an exogenous factor. This left unexamined the institutional and ideational processes by which new paradigms/coordinative discourses rise to dominance, as well as the means by which public support was drummed up for dramatic changes in policy prior to the 1979 general election.[65] These sort of prior mechanisms, Hall noted, were likely to be "more sociological than scientific", but his account had little more to say either in general terms or specifically on his case study.[66] It is to these mechanisms that the first generation of constructivist institutionalists turned.

Schmidt's concepts of coordinative and communicative discourse are a useful means with which to think about these missing elements in Hall's account whilst also challenging the lack of agency inherent within it. For Schmidt, coordinative discourses are not exclusively the preserve of policymakers, but in principle can be opened to other actors as well with whom policymakers consult and seek new perspectives on the problems that they confront.[67] There is consequently scope within an account to incorporate the insights of scholars who have studied the history of neoliberalism in order to account for the emergence of neoliberal coordinative discourse within the Conservative Party in the 1970s. Such scholars have stressed the historical importance of particular intellectuals and organisations in the national and international contexts in fermenting the neoliberal problem definitions within the financial press and the Conservative

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[63] Hall (1993), 'Policy Paradigms'.
[64] Hay (2001), 'The Crisis Of Keynesianism'; Blyth (2002), *Great Transformations*.
[65] Blyth (1997), 'Any More Bright'.
[66] Hall (1993), 'Policy Paradigms', p.280.
[67] Schmidt (2002), *The Futures.*

Party itself prior to the 1970s.[68] Secondly, she argues that political-economic actors must be conceptualised as producers of communicative discourses as well as participants in coordinative discourses. Alerting us to ideational agency, this second aspect of Schmidt's framework sensitises us to research on the sociological processes by which consent is constructed in the electorate and opens the door to a wider engagement with critical cultural and media studies.[69]

With their contrasting emphasis on inter-elite and elite-public communications, the two strands of Schmidt's framework provide a useful basis for conceptualising how ideational processes can impact transformations and non-transformations in the trajectory of political economies at times of crisis. Taking inspiration from Hay and Blyth, I call the two aspects of this dual-faceted framework the 'diagnosis' and the 'narration' of economic crisis respectively, with both comprising the broader concept of 'crisis construction'.

Crisis Diagnosis

Moments of transformative change in advanced capitalist economies have invariably coincided with moments of failure in economic performance, subsequently remembered as 'crises'.[70] Schmidt, like Hall, notes that such moments can be 'windows of opportunity' for entirely new problem definitions to be adopted in the coordinative discourses of governments and opposition parties, thereafter informing economic policy and the trajectory of political-economic restructuring.[71] To conceptualise the process by which this occurs it is first

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[68] Peck and Tickell (2007), 'Conceptualising Neoliberalism'; R. Desai (1994), 'Second-Hand Dealers In Ideas: Think Tanks And Thatcherite Hegemony', *New Left Review,* 1 (206), pp.27-64.
[69] C. Hay (1996), 'Narrating Crisis: The Discursive Construction Of The Winter Of Discontent'', *Sociology,* 30 (2), pp.253-77; D. Hudson and M. Martin (2009), 'Narratives Of Neoliberalism: The Role Of Everyday Media Practices And The Reproduction Of Dominant Ideas', in A. Goffas and C. Hay (eds.), *The Role Of Ideas In Political Analysis: A Portrait Of Contemporary Debates* (London: Routledge), pp.97-117.
[70] Hay (2001), 'The Crisis Of'.
[71] Schmidt (2002), *The Futures*. Schmidt borrows the term 'window of opportunity' from Kingdon, whose work is examined later in this chapter. The kind of ideational change Schmidt has in mind is, however, rather more encompassing that the changes in policy ideas that Kingden theorises – Schmidt is referring to a level of change akin to 'paradigm shift' involving the transformation of problem definitions in a whole area of policy, whilst Kingdon's focus is the conditions under which a particular policy idea is likely to be implemented.

necessary to consider what exactly a crisis is. Hay does so on the basis of the term's medical origins. In a medical context crisis refers to the moment at which the health of a patient has failed suddenly and a decision must be made – a 'decisive intervention' – that will change the subsequent course of events and either heal or kill the patient (for example, the cauterizing of a swollen artery).[72] Consequently, there is an inherent element of diagnosis/interpretation involved: a crisis is defined not simply by the presence of a failure in the health of the patient, but by the interpretation of symptoms and a related decision to intervene in order to stabilise and heal them. Hay transfers this conception of crisis to the political economy. For economic crisis to exist, he argues, there must be a set of 'symptoms' that are deemed to constitute a failure of economic performance. Yet these 'symptoms' must also be 'diagnosed' by policymakers (or an opposition party of would-be policymakers able to take government) as necessitating some form or another of 'decisive intervention' and a conception of the underlying causes that the intervention should address (that is, a set of problem definitions which specify the presence and nature of the crisis).[73] Widmaier, Blyth and Seabrooke summarise this point of view succinctly by defining crises as "events which agents intersubjectivley interpret as necessitating change".[74]

In this view economic performance failures are not in and of themselves evidence of the need for political-economic change. A scenario in which economic failure is present but in which decisive intervention is not deemed necessary by agents in, or capable of taking, government is not one to which the term 'crisis' is applicable – the scenario has not been 'diagnosed' as a crisis. Following Gramsci, Hay terms such a scenario one of 'catastrophic equilibrium' – a moment in which policymakers are either unable or unwilling to decisively intervene and so persist with policy ideas that are not yielding the economic performance that they are intended to.[75] Examining the 1970s, Hay characterises that context as one of catastrophic equilibrium until the election of the Thatcher government in 1979.[76] The quasi-corporatist policy practices and 'monetarily constrained Keynesianism' of the Wilson-Callaghan governments proved unable to control inflation and

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[72] Hay (1999a), 'Crisis And'.
[73] Ibid.
[74] Widmaier, Blyth, Seabrooke (2007), 'Exogenous Shocks'.
[75] Hay (1999a), 'Crisis And The'.
[76] Hay (2001), 'The Crisis Of'.

improve economic performance for a protracted period of time amid what Hay views as a largely exogenous inflationary shock beginning in 1973.[77] The Labour government was neither willing to initiate a full-blooded deflationary monetarism nor to adopt the more radical physical and financial interventionism required by the Left's 'alternative economic strategy'. They had, Hay argues, failed to develop a coherent set of new problem definitions as a result of the experience but persevered with faltering commitments to the old ones.

Crisis diagnosis and decisive intervention in this context fell to Thatcher's 'drys', a group within the Conservative Party that subscribed to a neoliberal coordinative discourse and who were able to capture both the leadership of the Conservative Party and then, after 1979, the leadership of the country as well. For these policymakers, the rise in unemployment in the early 1980s that resulted from their interventions was not indicative of crisis or economic performance failure, but rather of the 'patient' responding to unpalatable but necessary medicine.

Blyth has also pointed to the importance of crisis diagnosis. Utilizing a more economics-centred prose, he suggests that crises are often moments of 'Knightian' uncertainty; that is, a moment in which actors are unable to assign likely outcomes to the choices that are available to them because the analytical ideas encompassed within previously predominant problem definitions no longer hold purchase on the outcomes being produced by the political-economic system.[78] What is more, because other actors can be similarly uncertain about their interests in such moments it becomes more difficult still for actors to guess one another's likely behaviour, and so the uncertainty of the context is compounded. In such moments, he argues, actors become receptive to new ideas in order to reestablish an understanding of the context that they act in. These new ideas serve both as 'weapons' with which to formulate arguments to attack those of opposing interest groups and defenders of the status quo, and as 'blueprints' for new policies and institutional changes aimed at resolving the crisis. In this sense he parallels Schmidt's dual emphasis on the role of ideas in coordinative and communicative discourses.

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[77] Ibid.
[78] Blyth (2002), *Great Transformations*.

An interesting implication of this constructivist conceptualisation of crisis is that relatively unambiguous policy failure (as represented by poorly performing indicators such as GDP) need not actually be present for a crisis to be diagnosed. What is necessary is that some actors within the context diagnose crisis and then successfully persuade the electorate and other political-economic actors that the circumstances they inhabit are marked by failure that demands decisive intervention.[79] Hay suggests that while catastrophic equilibrium had obtained throughout the mid-1970s, it was only the episode immediately preceding the election of the Thatcher governments – the 'Winter of Discontent' – that warrants the term crisis because it was successfully constructed as a moment necessitating decisive intervention.[80] This, he notes, occurred in spite of improving economic indicators.

Blyth also emphasises another important role for ideas both in crisis and non-crisis moments: because they are constitutive of interests they influence the formation of interest groups, and consequently the scope for collective action among actors.[81] Those groups between which co-operation will be possible, and those groups with whom agents will perceive an advantage in seeking cooperation with, depends not simply on their structural position in relation to one another, but also on shared problem definitions. For constructivists, these can facilitate common interests between actors that cut across socio-economic and other divisions. For Blyth, it is cooperation and opposition between organised expressions of 'capital' and of 'labour' with 'the state' that is of interest, however the insight can be applied at a lower level of generality to sections within these broad categories. Blyth notes, for example, that some business groups were more

[79] Widmaier, Blyth, Seabrook (2007), 'Exogenous Shocks'. Cox calls this the 'social construction of the need to reform', on which see R.H. Cox (2001), 'The Social Construction Of An Imperative: Why Welfare Reform Happened In Denmark And The Netherlands But Not In Germany', *World Politics,* 53 (3), pp.463-98; Hay, (1996), 'Narrating Crisis'; Béland (2009), 'Ideas, Institutions'.
[80] Hay (2001), 'The Crisis Of'; C. Hay (2009b), 'The Winter Of Discontent Thirty Years On', *The Political Quarterly,* 80 (4), pp.545-52.
[81] Blyth (2002), *Great Transformations*; see also Widmaier (2004), 'The Social Construction'.

prepared to cooperate with the US government in the context of the 1930s largely because they shared a similar diagnosis of the economic context.[82]

Conversely, however, Schmidt and Hay both alert us to the possibility of ideationally-constituted disunity among individuals within political parties, governments and the state more broadly, in both crisis and non-crisis moments. Schmidt notes that there are often minority coordinative discourses 'waiting in the wings' of parties and governments that contrast with the problem definitions being enacted by the leadership.[83] An example of such a minority coordinative discourse is the 'wets' within Thatcher's Conservative Party, for whom the approach adopted by the 'drys' was premised on an incorrect understanding of the economic crisis and social problems that the government was confronting. For Hay, 'the state' is an amorphous web of inter-connected organisations that lie beyond the straightforward control of the core executive, and which is thus not amenable to analysis as a collective actor outside of very specific historical conditions.[84] The result of these observations is that the issue of collective interest and action, and of the composition of collective actors, is more complicated in a constructivist account than in other perspectives.

This theme has emerged to be important in interpreting my own findings, and it is returned to in Chapters 4, 6 and the Conclusion. There is, however, a tendency on the part of Schmidt, Hay and Blyth to treat governments and opposition party leaderships as unified collective actors during moments of crisis. For Hay, a crisis is a scenario in which a (temporary) unity and coherence can be imposed upon the many interacting agencies comprising the state by a decisively intervening government in the form of a 'state project'.[85] Thatcherism in his account constituted such a state project, and the unfolding process of neoliberalisation in the UK has been its legacy.[86] Schmidt shows greater caution in regard to this assumption. She remains open to the possibility that a single policy programme, even one made in the light of economic crisis, could be the product of compromises between policymakers subscribing to multiple and quite different coordinative

[82] Blyth (2002), *Great Transformations.*
[83] Schmidt (2002), *The Futures*; Schmidt (2011), 'Ideas And Discourse'.
[84] Hay (1999a), 'Crisis And The'.
[85] Ibid.
[86] Ibid.

discourses.[87] However Schmidt does not regard this scenario as applicable to her British case study. For Schmidt, 'single actor systems' (political systems that are unitary, executive-centred and majoritiarian) such as Britain's favour governmental and party unity around a single set of problem definitions in moments of crisis. She notes that having secured the leadership of the Conservative Party and won the 1979 election the neoliberal 'drys' were able to act on their crisis diagnosis largely unhindered by conservative 'wets' or the divided Labour opposition due to the institutional structure of the British executive and electoral system.[88] My own findings suggest that this assumption, while a wholly plausible possibility, has been too readily generalised.

Crisis Narration

These constructivist institutionalist arguments serve as an important amendment to silences in Hall's framework. Yet the causal sequence is not yet complete. A second silence in Hall's framework is how legitimacy and electoral consent is marshaled in support of transformative change. To amend this silence a shift of focus is necessary, from coordinative to communicative discourses, and to the process of 'Crisis narration'.[89] Crisis Narration is a process of communicative discourse through which mobilizing agents – in the case of the present research, Government ministers – attempt to mobilise supportive constituencies behind the predominant governing crisis diagnosis by socially constructing the perception of crisis and the imperative to reform amongst the electorate.[90] It contrasts to the process of crisis diagnosis in coordinative discourse because it involves a potentially manipulative process in which the electorate is persuaded that it is experiencing a particular kind of crisis; that a particular set of policies is necessitated in order to in response to the crisis; and that it is appropriate and in *its* interests that the crisis be so resolved. [91] Consequently, crisis narration is also an ideological process because its outcomes mobilise people for or against the particular political-economic relationships at stake in differing modes of capitalist

[87] Schmidt (2002), *The Futures.*
[88] Ibid.
[89] Hay (1996), 'Narrating Crisis'.
[90] Cox (2001), 'The Social Construction'.
[91] Hay (1996), 'Narrating Crisis'; Campbell (1998), 'Institutional Analysis'; Schmidt (2002), *The Futures.*

restructuring.[92] To the extent that crisis narration is successful in allowing a party or government to gain or retain governing power and implement decisive interventions, it completes the causal sequence in the constructivist analysis of transformative institutional change. I will dwell here on a number of features that are pertinent to the operationalisation of the concept in my own research.

In exploring the concept I shall draw on Hay's analysis of the narration of crisis during the 'Winter of Discontent'.[93] Hay sees something of a coalition to have existed between right wing newspapers and the Conservative Party, viewing both as producers of a 'New Right' 'crisis of social democracy' narrative.[94] The issue of which actors are party to this story-telling process is complex: existing studies have tended to focus on the media as both the producer and shaper of crisis narratives themselves and the diffuser of crisis narratives produced by politicians.[95] The issue of my own choice of focus on politicians as narrative producers is taken up in the following chapter.

A more conventional form of narrative – story-telling – is a useful analogy with which to unpack crisis narration. In a straightforward way, crisis narratives resemble stories because they occur through the same media: written or spoken communications. Yet like a piece of historical fiction, a crisis narrative also invites the reader to imagine certain causal relationships as having comprised events that have really taken place in the world that the 'decoder' (the recipient of the ideological narrative) inhabits. To do so, it foregrounds certain aspects of that reality as being of greater importance than others, or simply ignores others which an alternative telling of the story might highlight.[96] I term this aspect of crisis narrative construction 'narrative selectivity'. In Hay's analysis of the Winter of Discontent, he shows how events were selected for reporting by right-wing newspapers only insofar as they were consistent with a causal attribution of economic and social problems to a failing strike-prone social democracy. Strikes,

[92] Hay (1996), 'Narrating Crisis'.
[93] C. Hay (1995), 'Mobilisation Through Interpellation: James Bulger, Juvenile Crime And The Construction Of A Moral Panic', *Social & Legal Studies,* 4 (2), pp.197-223; Hay (1996), 'Narrating Crisis'; Hay (2009b), 'The Winter Of'.
[94] Hay (1996), 'Narrating Crisis'.
[95] Ibid; Hudson and Martin (2009), 'Narratives Of Neoliberalism'.
[96] Hay (1996), 'Narrating Crisis'.

wage inflation, Jim's Callaghan's 'junkette' and a general sense of social chaos are widely reported, while the generally improving economic indicators of the time that ran counter to this interpretation were neglected.[97] These are simply 'deselected' and not presented to the reader.

Narrative selectivity also imputes motives to the various real world characters that have been recruited into the narrative's plot in order to explain their behaviour, and narratives may draw on certain culturally prevalent 'stock characters' that the audience will readily identify in order to do so. This is done in order to invite certain normative judgments about the appropriateness of the characters' actions. In the New Right narrative trade union officials were cast as the promoters of sectional interest in opposition to parliament as the democratic voice of the people, a move which portrayed a confrontational relationship between 'union bosses' and the rest of society to which the decoder belonged (whilst deselecting contrary information about their democratic mandates and the less than perfect representativeness of the majoritarian UK electoral system).[98]

As a story about crisis, a crisis narrative echoes an adventure story in describing certain risks and perils that impinge upon the decoder themselves or characters with which they are likely to sympathise (often arising from the behaviours or indifference of other characters). This is a particularly crucial characteristic of a crisis narrative, because it is through this function that the narrative specifies problems *for* the electorate, which are presented in such a way that they demand that a government or opposition party's decisive interventions be allowed to proceed (even if the problems identified are not economic ones or directly related to economic policy). Hay observes how the crisis of social democracy narrative attributes not only economic decline and impending economic collapse to the activities of unions and the weakness of the Labour government, but also a range of harmful inconveniences to (amongst others) sick children and the relatives of deceased people awaiting burial. For some decoders, these situations will directly implicate them (they could, perhaps, have a sick child and so feel directly outraged by the situation facing other parents with which they identify).

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97 Ibid.
98 Ibid.

Yet the effect could also be less direct, appealing to empathy rather than direct experience. When thinking about how this empathic appeal can be made it is useful to consider that crisis narratives (like all forms of story-telling) are composed within a social and normative context in which certain norms and values are prevalent, and these values and norms can be drawn upon strategically by authors to shape the perceptions of the decoder as to the appropriateness of the actions of characters in the narrative.[99] Hay shows how the portrayed relationship between striking hospital workers and a sick child suffering from leukemia was straightforward recruitment of the social value that prioritises the interests of children (especially sick and vulnerable children) over the material interests of adults to the service of a crisis narrative that casts trade unions as a political-economic problem against which state power should be used.

In these ways and more crisis narration is like a process of story-telling. Yet where crisis narratives depart from fiction is in their active attempt to change the decoder's interpretation of the political-economic context that they actually inhabit (to make them experience it as one of crisis), and in so doing to change their political attitudes and preferences. Successful crisis narratives function to constitute the 'lived experience' of the decoder.[100] This occurs through the 'meta-narration', whereby ideological texts published at different times and describing many disparate events or topics collectively re-inforce the notion that these events are systematically linked, and are symptomatic of a particular kind of crisis being underway.[101] As a process, crisis narration denotes this, rather than the stories told in individual texts. In Hay's analysis, many disparate stories of government incompetence, alleged trade union self-interest and a general climate of chaos are assembled through meta-narration into the narrative of a crisis of social democracy. It is thus in the common themes comprising each story that the crisis narrative resides. The decoder may experience some of these events directly, for example power outages or public transport inconveniences as a result of strikes. Others are only experienced through the narrative. Yet providing a common

[99] Hay (1995), 'Mobilisation Through Interpellation'; Campbell (1998), 'Institutional Analysis'; Cox (2001), 'The Social Construction'.
[100] Hay (1995), 'Mobilisation Through Interpellation'; S. Hall (1979), 'Great Moving Right Show', *Marxism Today,* (January, 1979), pp.14-20.
[101] Hay (1996), 'Narrating Crisis'.

explanation for and connection between disparate and experienced events, meta-narration creates a 'lived experience' of a particular kind of crisis being underway. [102]

The claim that crisis narratives are able to constitute the lived experiences of decoders requires an account of the mechanism whereby crisis narration influences the perceptions and perceived interests of recipients – a theory of persuasion. Both Hay and Schmidt have pointed to the somewhat amorphous concept of 'resonance' as a factor of persuasion.[103] The more successfully a crisis narrative is able to construct points of resonance with the decoding actor's existing worldview, the more likely it is that they will internalise the crisis narrative as a lived experience and perceive the decisive intervention inscribed within it as necessary.

Hay draws upon a modified form of the Althusserian concept of 'interpellation' in explaining how resonance is achieved.[104] Crisis narratives, he argues, contain an implied 'subject position' for the decoder that is 'encoded' within the text.[105] The subject position is a point of view within the text that the decoder is being invited to take. To the extent that the text succeeds in interpellating the decoder – that is, successfully getting them to identify with the preferred subject position – it will prove persuasive. The mechanism of interpellation operates by constructing points of resonance between the claim that crisis is underway and the social roles, subjective understandings and values of the reader. This is done through the story-telling processes and narrative strategies discussed above. As we have seen, this is sometimes achieved directly by representing a social role that the decoder occupies in the text and then presenting these as implicated in an unfolding crisis (for instance, the direct appeal to parents noted above). Sometimes the process is less direct, acting instead upon values that the decoder is likely to hold and presenting these as pointing towards support for the decisive interventions inscribed in the text (for instance someone who believes the welfare of children

[102] Hall (1979), 'Great Moving Right'.
[103] Hay (1996), 'Narrating Crisis'; Hay (1995), 'Mobilisation Through Interpellation'; Schmidt (2008), *The Futures.*
[104] Hay (1996), 'Narrating Crisis'.
[105] Hay (1995), 'Mobilisation Through Interpellation'.

trumps all else). These can be referred to as 'direct' and 'empathic' modes of interpellation, respectively.[106]

A note of caution is required here, however, for the process of interpellation is not one synonymous with indoctrination.[107] An ideological text may fail to induce the decoder to internalise the crisis narrative either because, among other things, the decoder may recognise its ideological nature, or because they have simply not understood the encoded ideological message.[108] They may be predisposed to reject the preferred subject position because their own lived experiences run counter to it (for instance, a union official is unlikely to have been persuaded by the crisis of social democracy narrative). Consequently, the theory of persuasion and ideology expounded by Hay and his intellectual influences is a 'critical' one because it differs from deterministic accounts of ideology and retains the relational conceptualisation of (ideational) structure and agency. The outcomes of interpellation are negotiated, complicated and contingent, and it is likely that the influence of a crisis narrative will be uneven across a population as broad as the general electorate.[109]

Through this conceptualisation of crisis narration through communicative discourse, constructivist institutionalists possess a sophisticated tool for addressing the way in which legitimacy and consent for decisive intervention are cultivated. Consequently, friendly critics such as Seabrooke are incorrect to equate constructivist institutionalist analyses with a 'proclamation' view of legitimacy in which elite struggles alone are seen to determine the course of political-economic change.[110] Legitimacy and consent for decisive interventions must often be achieved through the ideational process of crisis narration if a would-be decisively intervening party or government is to obtain or retain office. Yet where Seabrooke's 'everyday politics' perspective does have a great deal to inform constructivist institutionalist research is in conceptualising the feedback of

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[106] Ibid.
[107] Hay (1996), 'Narrating Crisis'.
[108] Hay (1995), 'Mobilisation Through Interpellation'.
[109] Ibid; S. Hall (1988), 'The Toad In The Garden: Thatcherism Among The Theorists', in C. Nelson and L. Grossberg (eds.), *Marxism And The Interpretation Of Culture*, pp.35-57.
[110] L. Seabrooke (2009), 'Everyday Legitimacy And Institutional Change', in A. Goffas and C. Hay (eds.), *The Role of Ideas In Political Analysis: A Portrait of Contemporary Debates* (London: Routledge), pp.78-94.

resistance to interpellation and reform by the general public in processes of everyday politics, rather than through organised social movements that are more readily classifiable as 'actors' in institutionalist terms.[111] Such insights apply at both crisis and non-crisis moments in a way that is broadly commensurate to existing constructivist frameworks, and so may serve to enrich our understanding of the trajectory of the British political economy. This is, however, beyond the scope of my thesis, which remains focused on governments and their coordinative and communicative discourses.

Constructivist Analysis Of Non-Crisis Moments

This constructivist analytical framework for the study of transformative political-economic change facilitates research and insights into important political processes that were neglected by earlier institutionalist accounts, and concepts derived from this perspective constitute the mainstay of my arguments here. Yet left thus there is the danger that constructivist institutionalism amounts to the claim that ideational processes matter only at times of crisis. This is problematic because the conceptualisation of the political-economic actor as a sentient agent situated in dynamic ideational and institutional contexts suggests that ideas and ideational processes matter at all times. Now, it could be said that ideas matter in non-crisis moments because they are a stabilizing influence. Hall suggests that the presence of a dominant paradigm means that policymakers agree on problem definitions, and so we need only attend to institutional processes and to adjustments in policy ideas in our analysis of political economy.[112] Yet this is a problematic general assumption to make if political actors really are sentient agents, for it suggests that policymakers are not reflexive about their own assumptions about the world and thus excludes ideational agency at all but crisis moments.[113] Such a view is challenged by the institutionalist approaches examined in Chapter 1 that emphasise gradual change as the result of strategic agency. These suggest a more fluid relationship between agency, interests and the ideational and institutional contexts.

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[111] L. Seabrooke (2007), 'The Everyday Social Sources Of Economic Crises: From "Great Frustrations" To "Great Revelations" In Interwar Britain', *International Studies Quarterly,* 51 (4), pp.795–810.
[112] Hall (1993), 'Policy Paradigms'.
[113] Carstensen (2011), 'Paradigm Man'.

Other constructivists working in and beyond the field of political economy are less willing to bracket the role of ideational processes to moments of economic crisis. Schmidt's own conceptual framework is attuned to the notion that ideas matter at all times, but not necessarily in the same way.[114] Yet her empirical work regarding economic policy change is mostly crisis-centred, so it has fallen to others to show how ideational processes might impact on the policy process at non-crisis moments. Recently, there has been renewed interest among some constructivist scholars in Kingdon's seminal conceptualisation of the policy process.[115] Unlike the approaches discussed in the previous section, Kingdon's framework focuses on policy change that occurs outside of historically exceptional moments of economic performance failure. For him, policy formation is conditioned by the outcomes of processes unfolding in three distinct but inter-related domains (or 'streams'), with conditions favouring the adoption of a new policy when these streams yield a compatibility between available policy ideas in the 'policy stream', problem definitions in the 'problem stream' and political circumstances in the 'political stream'.[116] Although not cast in the institutionalist vocabulary, Kingdon's framework is clearly attuned to the impact of both ideational and institutional processes.

Kingdon's framework utilises a similar directional dependence of ideational types to that adopted here. First there are 'problems' for policy to solve. These arise in the 'problem stream', a concept denoting policymakers' interpretations of events that occur in the areas for which they are responsible. Second are policy ideas which are formulated in the 'policy stream' by a variety of actors (including policymakers, officials, experts and interest groups) who take interest in a given policy area and constitute 'policy communities' around that issue area. Policy ideas hold no traction with policymakers until they offer a solution to a perceived problem. There are considerable parallels between these two streams and the

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[114] Schmidt (2010b), 'Taking Ideas'.
[115] Kingdon (1984), *Agendas, Alternatives;* D. Béland (2005), 'Ideas And Social Policy: An Institutionalist Perspective', *Social Policy And Administration,* 39 (1), pp.1-18; Béland (2009), 'Ideas, Institutions'; Carstensen (2011), 'Paradigm Man'; Mehta (2011), 'From Whether'; D. Wincott (2011), 'Ideas, Policy Change And The Welfare State', in D. Bèland and R.H. Cox (eds.), *Ideas And Politics In Social Science Research* (Oxford: Oxford University Press), pp.143-66.
[116] Kingdon (1984), *Agendas, Alternatives.*

notion of coordinative discourse. Kingdon differs from constructivist institutionalists in bracketing the processes by which policy ideas and problem definitions are produced into these two different streams for the purposes of analysis: constructivist institutionalists conceptualise both as arising from the more general process of coordinative discourse.[117] Nevertheless, Kingdon argues that policy communities tend to produce a common vocabulary and set of concepts over time (implying the production of problem definitions as well as policy ideas), whilst the identification and definition of problems rest in part on the ideas that policymakers have about *how* the world works and how it *ought* to be.

There is also a strong sensitivity to political realities in Kingdon's framework. The political stream consistently influences the policy and problem streams and so impacts upon the shape of the political agenda and the policy ideas that are practically available. Policymakers will, he suggests, tend to avoid conceding the existence of 'problems' if doing so entails an increased burden of political or financial responsibility, and may instead choose either not to resolve them or to engage in bureaucratic 'turf wars' in order to categorise the problem as another minister or organisation's responsibility. Conversely, policymakers may jealously defend their remits and their own problem definitions where another department encroaches on it. Policymakers may also seek to confront or make compromises with other policymakers whose activities create externalities for them, especially where budgets are the issue at hand. Finally, there is also the struggle between organised interest groups seeking to influence the policy process, which can impose costs and benefits on the courses of action open to policymakers through the confrontations or compromises that they facilitate. In Kingdon's framework the policy process represents the parallel unfolding of the three streams, in which

[117] The need for the bracketing in Kingdon's framework reflects a different emphasis to constructivist institutionalists. Kingdon's framework is chiefly designed to explain the adoption of particular policy ideas. Much of his discussion of problem definition is related to the impact of fairly short-lived incidents that come to be defined as symptomatic of the need for new legislation or regulation, such an aeroplane crash becoming emblematic of the need for new regulations on air traffic management. In contrast, the 'problem definitions' that constructivist institutionalists conceptualise and investigate are more general and enduring issues such as how to maximise economic growth and combat unemployment, which are issues policymakers necessarily attend to even if they do not presently constitute a politicised issue for the general public. Nevertheless, Kingdon's framework remains a useful heuristic in relation to constructivist institutionalist research questions providing this distinction is borne in mind.

from time to time circumstances in the political stream will permit a problem identified and defined in the problem stream to be connected to a policy idea arising from policy communities in the policy stream.

There is a great deal of potential for Kingdon's framework to inform a constructivist institutionalist analysis of policymaking at non-crisis moments. Its emphasis on ongoing processes of problem definition and re-definition can, for example, enrich accounts that appeal to the incremental processes of institutional change emphasised by Thelen and her collaborators, accounting for why actors are attempting to incrementally change institutions in one direction and not another.[118] Such moments are not within the immediate remit of my argument in this dissertation, yet I maintain Kingdon's framework has a number of lessons that are relevant for a constructivist analysis of policymaking at a moment of crisis as well.

Two related ones are the importance of being attuned to the impact of departmental boundaries and intra-executive politics when considering the formation of problem definitions and policy ideas adopted by different parts of government. Choices of policy ideas will, constructivist institutionalists readily concede, closely reflect political realities in an institutionally structured context as well as problem definitions. Yet Kingdon raises the possibility that problem definitions may differ depending on which government department has defined them, owing to the different normative and analytical ideas that may arise from the different policy communities that inform the coordinative discourse of policymakers in particular departments. The extent and nature of executive boundaries, and the ideational divergences that may result, are determined by the constitutional make up of the polity in question.[119] Some are characterised by strong core executives whilst in others formal decision-making power is diffused among central government departments, or between different levels of government and networks of governance. However Kingdon's discussion of intra-executive politics lends credence to the view that there is always likely to be a degree of autonomy among policymakers from the head of government, and that

[118] Béland (2007), 'Ideas And Institutional'; Schmidt (2010a), 'Analyzing Ideas And'.
[119] Schmidt (2002), *The Futures*.

the state bureaucracy itself has a degree of independent influence on the policy process. The former point is applicable to the British polity, in which ministers are constitutionally responsible for departments that are themselves large and specialised bureaucracies. Despite many years in which the power of the prime minister has been seen to increase relative to ministers and in which attempts have been made to reform the executive in a way that ensures greater coherency between departmental issue areas, the role of ministers and their advisors and officials in policy formation and in the day-to-day operation of government remains a strong one.

The implication of this point is that governments cannot necessarily be assumed to be a collective actor in an area as expansive an economic policy. Instead, the executive is composed of (possibly competing) actors that may perceive problems very differently. Where these departmental actors hold responsibilities in over-lapping issues areas, such as the two departments with foremost responsibility for economic policymaking in the UK (the Department of Business, Innovation and Skills and the Treasury), it is possible that they formulate their understanding of issues among different policy communities and so develop separate coordinative discourses. Cross-departmental decision-making would in these circumstances reflect compromises between different interpretations of how economic policy ought to be conducted and the problems it ought to address. The importance of this insight for my own argument will become apparent in Chapter 6.

4.
Bricolage and Constructivist Institutionalism

A criticism that has been leveled at the constructivist institutionalist approach is that it overstates how systematic and theory-based the thinking of the political-economic actor is.[120] In a contrasting view, policymakers are conceived of as pragmatic problem-solvers wedded to whatever they believe will work at any given moment, rather than being inflexibly committed to theoretical abstractions. This contrasts with the view held by some of the authors so far encountered that

[120] M. Watson (2004), 'Endogenous Growth Theory: Explanation Or Post Hoc Rationalisation For Policy?', *The British Journal Of Politics & International Relations,* 6 (4), pp.543-51; Carstensen (2011), 'Paradigm Man'.

formal theories do exert an effect on problem definitions in coordinative discourses. In his seminal study Blyth, like his historical institutionalist forebears, traced the impact of historically significant economic theories of the 1920s and '30s on policymaking in that decade.[121] Hay has traced the impact of ideas such as Friedman's 'natural rate hypotheses' on British policymaking, while Schmidt believes German 'ordoliberalism' to be a significant influence on recent budgetary debates within the European Union.[122] Such claims imply that the problem definitions at the centre of policymaking coordinative discourses are premised on well worked out (albeit evolving) abstractions about the economy that render policy decisions consistent with oneanother over time (excepting at times of transformative ideational change).

An alternative perspective paints the structure of coordinative discourses and the processes by which politicians make decisions in an altogether messier way. Policymakers, exponents claim, are not rational strategic decision makers but instead simply (and exclusively) 'muddle through', drawing eclectically and possibly incoherently on available policy ideas in order to resolve the constant stream of problems that arise from the dynamic political-economic context.[123] In this view they are professional problem-solvers, constrained in both time and epistemological resources. Carstensen has recently contributed a well-developed rendition of this critique intended as a corrective to the constructivist institutionalist perspective.[124] Critical of the concept of 'paradigm' and sceptical of the punctuated equilibrium temporality of ideational change that it implies, Carstensen instead advocates a 'lean' model of the political-economic actor that stresses the cognitive limitations of human beings. People, he asserts, simply cannot internalise such complicated ideational systems as an entire economic theory and apply them consistently to every policy decision, for the simple reason that this exceeds the capacity of human memory. The result, he claims, is that a great deal of ideational content of a coordinative discourse exists 'outside' the

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[121] Blyth (2002), *Great Transformations*; For examples of the former perspective see the contributors to P.A. Hall (ed.), (1989), *The Political Power Of Economic Ideas: Keynesianism Across Nations* (Princeton: Princeton University Press).
[122] Hay (2004a), 'The Normalizing Role'; Schmidt (2014), 'Speaking To The Markets'.
[123] Carstensen (2011), 'Paradigm Man', see also C.E. Lindblom (1959), 'The Science Of 'Muddling Through'', *Public Administration,* 19 (2), pp.79-88.
[124] Carstensen (2011), 'Paradigm Man'.

minds of the political-economic actors, presumably in the form of documents or distributed among the minds of other actors. For Carstensen, this means that there is no comprehensive set of problem definitions that exist within the minds of all subscribers to a coordinative discourse.

Having made this (highly plausible) observation, Carstensen then begins to re-assemble a conceptualisation of the 'policymaker' from first principles. He argues that policymakers are 'bricoleurs'.[125] 'Bricolage', as developed in the work of Levi-Strauss, refers to a mode of problem-solving conduct in which solutions to problems are improvised using the tools at hand.[126] It stands opposed to 'engineering', a mode of problem-solving conduct in which tools are carefully designed depending on the nature of the problem that they are intended to address. Transferred to the context of policymaking, Carstensen suggests that policymakers' decisions represent a kind of bricolage through which they creatively and eclectically draw upon the policy ideas available to them in order to solve the problems that they face. Crucially, this differs from the decision making process implied in the concept of paradigm, in which each problem is interpreted in terms of the paradigm's problem definitions and the policy ideas that they are compatible with. In Carstensen's view, policymakers are not dogmatically committed to any one economic theory or set of problem definitions, and so carry out an *atheoretical* 'inter-paradigm borrowing' of policy ideas in order to resolve the problems that they confront. Because they are not committed to a single set of problem definitions, policymakers encounter each policy problem afresh, and 'knead and mould' ideas drawn from a range of (possibly theoretically incommensurable) sources into a form that will prove acceptable to their parties, the electorate, and meld with existing institutional structures in the polity.[127]

The debate between the constructivist institutionalist conceptualisation of the political-economic actor and Carstensen's own puts at stake a number of more subtle questions. Foremost is whether policymakers are, or even attempt to be, consistently rational in their decision-making. Carstensen's position is decidedly 'irrationalist' because policymakers are conceived of as addressing each problem

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125 Ibid.
126 C. Levi-Strauss (1996), *The Savage Mind* (Oxford: Oxford University Press).
127 Carstensen (2011), 'Paradigm Man'.

anew without appealing to a more general set of ideas about the nature of problems and their relationships to other problems (i.e. problem definitions).[128] Constructivist institutionalists meanwhile maintain that policymakers proceed from an evolving but relatively stable set of problem definitions that allow them to understand and respond to problems in different times and places in a consistent way.

The debate also places in question the relative stability of the ideational context. At one extreme is Hall's framework, in which problem definitions are stable paradigms except at moments of crisis. At the other is Carstensen's position, in which problem definitions are assumed to be in a state of constant flux as bricoleurs look to different bodies of theory and combine them eclectically each time they confront a problem. Between these two positions is the one explored in the preceding sections of this chapter, in which problem definitions are relatively stable features that structure coordinative discourses through which policymakers select policy ideas, but which are subject to change *through* coordinative discourses as actors critically reflect upon the intended and unintended consequences of past decisions.

Whilst Carstensen is correct to criticise overly static conceptualisations of intersubjective ideas, there are a number of conceptual and empirical considerations that together suggest that he has overstated his case. The first concerns Carstensen's prioritisation of 'policy ideas' (for which one could read 'policy', for a policy idea becomes a policy at the point that it is taken up and enacted by policymakers) and the factors influencing their selection. Interestingly, the factors he proposes are largely institutional and political ones, which raises the question of how far this is actually an ideational approach, and whether it would better be situated among non-ideational forms of historical institutionalism that treat the uptake of ideas as a dependent variable conditioned by institutional

[128] On rationality and irrationalism in ideational explanation, see Parsons (2007), *How to Map*. Carstensen would likely assert that bricolage is not irrational, but rather a distinct form of reason. However, to the extent that it involves actors combining ideas drawn from incommensurable economic theories, or resolving similar problems at different times in inconsistent ways, they are indeed being irrational. Rational decision implies the consistent application of a set of premises to decisions. Insofar as actors arbitrarily apply different premises to resolve different instances of the same 'symptom' then the process of decision-making is an irrational one.

‘fit’.[129] Carstensen appears to disregard a basic constructivist insight that it is the interpretation of events and circumstances that defines them as problems demanding a policy idea in the first place. As one of Kingdon’s respondents observed, “if you only have four fingers on one hand, that’s not a problem; that’s a situation”.[130] In the approaches that Carstensen criticises it is (relatively stable) problem ideas that lead to the interpretation of ‘situations’ as ‘problems’. Yet in Carstensen’s account the ideational basis of problem definition is not engaged with, and policy ideas are instead cast as being selected on the basis of how acceptable they are to a policymaker’s party, the electorate, and how well they meld with the existing structures of the polity.

It is when the issue of problem definition is re-introduced that the difficulties with Carstensen’s rejection of the relative stability of the ideational context becomes apparent. To argue that problem definitions are subject to bricolage is considerably more problematic than the suggestion that policy ideas are. This represents a ‘pure’ irrationalist conception of policymaking, for policymakers behaving in such a way make no attempt to achieve logical consistency between their past and present definitions of problems: an event that was deemed a crisis of insurmountable proportions in one instance might not be defined as a problem at all in the next. Yet while conceptually tenable this creates a distinctly unrealistic empirical picture of policymaking. Such chaotic behaviour would likely earn policymakers the contempt of their officials, the experts in the policy communities around them, and the general public on whose votes they depend. It also fails to explain the strong degree of consistency in the problems that British governments seek to address. Since 1979, for example, British governments have cast inflation as a primary problem in macroeconomic policy and have sought to address it using a variety of instruments.

Carstensen himself at some points seems to acknowledge the absurd consequences of conceiving of problem definitions as subject to bricolage. He notes, for instance, that ‘programmatic ideas’ (ideas at a higher level of generality than policy ideas, equivalent to problem definitions) are subject to a slower tempo of change than

[129] For a review of this literature see Blyth (2002), *Great Transformations*.
[130] Kingdon (1984), *Agendas, Alternatives,* p.109.

policy ideas.[131] Yet in making this concession Carstensen has arguably adopted the very position he is criticizing, for these slower changing problem defining ideas constitute the very (relatively) stable core of ideas to a coordinative discourse that he chides other approaches for assuming. Insofar as problem definitions remain relatively stable, they are likely to exert a strong influence on the policy ideas that policymakers deem relevant by defining what the nature of the problems are and which kind of solution is likely to work. Consequently although problem definitions may be 'outside the heads' of policymakers (or more accurately, distributed among their heads, and among the heads of experts and officials with which they consult), they are no less important an influence on policymaking and they serve to impose a level of coherency on the process. Insofar as this is accepted, Carstensen's valuable critique of punctuated equilibrium models of ideational change and his observations about the 'physical' externality of ideas from the minds of particular policymakers, their cognitive limits, and their practicing of bricolage in relation to policy ideas does not necessitate his irrationalist conceptualisation of the political-economic actor and policymaking: he has overstated the implications of his arguments, and in doing so commits to an implausible conception of the policymaking process.

Carstensen's 'externalisation' of problem definitions from the minds of particular actors raises the interesting question of how it is that a relatively stable set of problem definitions can persist in a coordinative discourse over time? One potential answer for which there is considerable precedent in constructivist literature is the idea that communities of official advisors, interest groups and policy experts around policy areas – Kingdon's 'policy communities' – perform this sense-making function and policymakers consult with them by including them within their coordinative discourse. Think tanks, economists, other organisations and individual scholars manifestly *do* devote their time and resources to producing theoretically consistent analyses of the political-economic context so as to identify and interpret problems, as well as policy ideas for how to resolve them. The same can safely be assumed of the government's own officials. These kinds of actor are absent from Carstensen's framework in which it appears that ministers do most of the labour of economic analysis and policy formation themselves. By consulting

[131] Carstensen (2011), 'Paradigm Man'.

groups that they regard to be able to produce relevant, useful and politically viable ideas, policymakers save themselves the need to hold the entirety of the problem definitions at play in their coordinative discourse in their memory at any one time, and can instead focus on the more mundane political activity of choosing policy ideas to solve these problems that will meet the political criteria (party, electoral, institutional) that Carstensen rightly suggests impact on such choices.

There are some rare moments, however, in which Carstensen's irrationalist notion of the bricolage of problem definitions may hold some empirical purchase. This is in the immediate aftermath of a catastrophic failure in economic policy, such as the hellish fortnight faced by the Brown Government following the collapse of Lehman Brothers. The concept of crisis diagnosis (and my argument in this dissertation) relates primarily to the months and years following such an event, in which the failure in economic performance is 'diagnosed' in coordinative discourse to yield a set of problem definitions and corresponding decisive interventions. However in the immediate aftermath of such an event a decidedly less orderly mode of policymaking could plausibly obtain. This 'fire-fighting' response might see policymakers making key decisions without the time to consult widely on an appropriate response or to formulate a complete analysis of what the nature of the problem is that they are addressing. Here it is entirely possible that problem definitions are subject to a process of bricolage. Yet even in such moments this may be the exception rather than the rule. The British experience analysed in this dissertation would certainly suggest so, for although the policy ideas through which the banking crash were cauterised were clear adaptations of those used in 2007 and early 2008 to rescue individual banks (suggesting a bricolage of *policy ideas*), the problem definition underlying these interventions was coherent diagnosis of a systemic threat to the domestic and world financial system necessitating the under-writing of losses to maintain stability and restore confidence.

Conclusions

In this chapter I have outlined the distinctive features of a constructivist institutionalist approach to the analysis of political-economic change and highlighted a number of insights that existing analytical frameworks and conceptual writings can lend to the analytical framework I adopt in this dissertation. The distinctiveness of a constructivist approach in political economy arises from its conceptualisation of the political-economic agent as situated in an ideational context as well as an institutional one, and the irreducible impact of intersubjective ideas on their perceived interests and decisions. The primary contribution that a constructivist approach can make to the institutionalist analysis of political-economic change lies in its greater scope to explain the trajectory of political-economic change and a broader range of means by which change is accomplished than 'pure institutionalist' accounts. By examining the content and evolution of coordinative discourses and the construction of narratives in communicative discourses constructivist institutionalism can account for actors' interests and behaviour, while also incorporating the irreducible impact of both agency and institutional factors on this behaviour.

As the previous chapter showed, critical social democrats have articulated a persuasive account of the institutional processes that have given rise to the failure of economic performance in Britain in the post-2008 context. From this perspective, the post-2008 context represents a moment ripe for the diagnosis of crisis in which a dysfunctional growth model linked to neoliberal restructuring could be identified as the principal culprit. Yet from a constructivist perspective what is of greater importance is whether and how crisis has been diagnosed and narrated in this context. It is the outcomes of ideational processes that I empirically interrogate in order to build an account of the trajectory that the British political economy has undertaken in the post-2008 context and the scope for contingency within it. Before doing so, however, it is first necessary to empirically operationalise the concepts of crisis diagnosis and crisis narration – the purpose of the next chapter.

Chapter 3.
Conceptualisations And Methodology

In the previous chapter I have introduced a number of concepts that are core to my argument: 'crisis' (conceptualised as a moment of 'decisive intervention'), 'crisis diagnosis' through coordinative discourse, and 'crisis narration' through communicative discourse. Although they have been notionally present in existing constructivist institutionalist analytical frameworks, the concepts of crisis diagnosis and crisis narration are not generally conceptualised explicitly, or in relation to one another in a way that can be readily operationalised in empirical research. Consequently, in the first section of this chapter I revisit the concepts in order to address certain ambiguities in their specification and to empirically operationalise them. Having done so I state a series of more specific research questions that arise from these refined conceptualisations. The second section analyzes some epistemological controversies that arise when addressing these research questions and outlines the approaches I have taken to collecting and analyzing qualitative data.

1.
Conceptualisations

Decisive Intervention, Crisis Diagnosis And Crisis

From a constructivist institutionalist perspective, the way in which policymakers and opposition parties 'diagnose' economic 'symptoms' as indicative (or not) of crisis during periods of economic policy failure is a determining factor in the political-economic changes that result. If economic failure is intensifying but no decisive intervention is made, such a situation constitutes 'catastrophic equilibrium'. Yet the conditions under which either 'decisive intervention' or 'catastrophic equilibrium' obtains require further specification if they are to be empirically operationalised.

The criterion of 'decisive intervention' is central to answering these questions and to identifying the presence or absence of crisis diagnosis and crisis itself. Yet Hay's conceptualisation of this important concept is rather vague. Hay defines a decisive intervention as "a moment of thorough-going transformation, of rupture".[1] There is an ambiguity of scale inherent within this definition: just what kind of change constitutes the aforementioned? There is also an ambiguity of scope: is a decisive intervention a single act that ruptures the status quo, or a series of interventions across a range of policies and policy areas that collectively constitute a transformation? This latter possibility is likely to be the case in regard to Hay's empirical case. The Thatcher government cumulatively instituted changes across a range of economic policy areas in order to bring about the decisive intervention that its crisis diagnosis deemed necessary in the British political economy. There was no singular act of neoliberalisation. Finally, in relation to the connection between decisive intervention and the condition of crisis there is an ambiguity of actuality: does decisive intervention need to have been implemented in order for crisis to be said to obtain, or does it simply need to be professed in earnest by a government or opposition party capable of taking government? Hay attributes the condition of crisis to early 1979, prior to the election of the Thatcher governments or the achievement of the many decisive interventions that these governments undertook, suggesting that the actuality of decisive intervention is not necessary for the condition of crisis to obtain, but rather that a diagnosis of the need for decisive intervention needs to be present which is then subsequently implemented.

To rectify these ambiguities of scope, scale and actuality, I propose the following conceptualisations of decisive intervention, crisis diagnosis and crisis.

'Decisive intervention' obtains when a government conducts policy in a way that:

1. Addresses what the government diagnoses to be 'pathologies' of the institutions of political-economic governance.

[1] Hay (1999a), 'Crisis And The Structural', p.323.

2. Changes these institutions through the reform of existing institutions, the abolition of old institutions, and/or the introduction of new ones in a way that…

3. Contributes (perhaps cumulatively alongside other such interventions), through intended and unintended effects…

4. Towards a change in the ‘trajectory’ of a political economic restructuring compared to that prior to the decisive intervention being made (acting on either the ‘velocity’ or ‘spatial’ aspects of the trajectory metaphor).[2]

A ‘crisis diagnosis’, meanwhile, is:

5. The interpretation that a government or opposition party makes of economic performance failures where these give rise to the perceived need for decisive intervention, manifest as problem definitions in relevant policymaking coordinative discourses.

6. In the specific case of opposition parties who have not yet entered government (but who must do so if they are to carry out ‘decisive interventions’ as defined above), crisis diagnosis may be identified through their advocacy of decisive intervention. However the tendency of opposition parties to present even the most mundane proposals as radical and sweeping reforms is such that the analyst must exercise some judgment as to whether the proposed changes are likely to be significant to the trajectory of a political economic restructuring, a judgment that is unavoidably at its strongest in hindsight.[3]

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[2] On these aspects of the metaphor, see Footnote 1 in the Introductory chapter.

[3] The Heath government, for instance, took power on the back of rhetoric that was explicitly more oriented to the interests of business, but failed to implement any decisive interventions in government and consequently cannot be attributed a crisis diagnosis. The issue of whether the 1972 Industrial Relations Act might have constituted a ‘decisive intervention’ had it been successful is an interesting question, although not one within my scope to resolve here.

Crisis obtains where:

7. A government or opposition party in possession of a crisis diagnosis seeks to bring about the institutional changes that their crisis diagnosis deems necessary by means of electoral contestation, crisis narration and decisive intervention.

This final point warrants additional clarification. Crisis, defined here as an intersubjective perception of the need to decisively intervene, can in some sense be said to exist wherever any given group of actors perceive a crisis to be underway. Yet to leave one's operationalised definition here is not particularly useful for an analysis of political-economic change. At any given moment we can be sure that some or other actors will diagnose crisis: democratic political discourse involves the clash of competing visions, and some of these visions abhor the status quo and imply the urgent need for radical transformations. Yet it is only under certain circumstances that crisis diagnoses become relevant to the course of political-economic restructuring. These conditions are found when actors who are capable of shaping the course of political-economic restructuring diagnose crisis, and where they succeed in getting other actors to share this perception. Where a crisis is resolved through an existing constitutional process (as opposed to a revolution) these more relevant actors simply must include members of government who are capable of making policy and advancing legislation, or opposition parties who may do the same upon reaching government. This is not to say that governments and opposition parties are necessarily the original architects of the crisis diagnoses that they come to endorse, or that theirs is the only crisis diagnosis present in the context in which they govern. However for the purposes of the analysis of political-economic change and the trajectory of restructuring it is the crisis diagnoses endorsed by government actors, and the problem definitions that these crisis diagnoses contain, that are of greatest relevance to understanding the trajectory of political-economic restructuring.

Somewhat implicit in all of the foregoing is the referent of crisis – a crisis is always *a crisis of something*. In its precise particulars this is something that a general constructivist conceptualisation of crisis must remain silent on because it is the concomitant crisis diagnosis that determines the perceived nature of the crisis that it diagnoses. Yet we can spell out certain general features. Crises that impact upon the trajectory of political-economic restructuring are invariably crises of the reproduction of political economies, and historically they have occurred at moments where the performance of the capitalist economy has failed according to indicators that are believed to be important in the time and place that the crisis occurs. This was the case at certain points in the 1930s and the 1970s, conjunctures that have subsequently been interpreted as moments of crisis that gave rise to transformations in the trajectory of political-economic restructuring. I shall argue that the post-2008 context marks such a crisis moment, although one marked by the reassertion of a more aggressive trajectory of neoliberalisation in response. Returning to the point at hand, however, we can note that political-economic crises are crises in which the performance of the capitalist economy is implicated, and in which the meaning and causes of poor indicator performance are questioned and (re)interpreted. The objects of decisive interventions (that which a crisis diagnosis asserts to require transformation if the crisis is to be resolved) are the institutions of political-economic governance. This is a deliberately broad category that can include public sector agencies and government practices ('state institutions'), as well as informal institutions such as those private sector practices and organisational regularities analysed in Chapter 1. Precisely which institutions are implicated by a given crisis diagnosis, and the transformations that it deems necessary, is an open ended and contingent outcome of the process of crisis diagnosis and the sentient actors who enact it.

One issue left implicit in the discussion so far is the extent to which there needs to be change in the problem definitions that constitute a government's coordinative discourses for decisive intervention and crisis diagnosis to be said to obtain: is it possible that a crisis could be diagnosed within the bounds of existing or moderately adapted problem definitions and yet still result in interventions that are classifiably 'decisive'? There is in fact no clear answer to this in the constructivist institutionalist literature. One reason for this is that constructivist institutionalists have tended to focus on moments of categorical ideational change. It has been the objective of constructivist institutionalists to show that 'shifts' in the way that policymakers and other political-economic actors interpret their context and define the 'problems' of policymaking have shaped these transformational changes.

The post-2008 context, as the subsequent chapters show, differs from these case studies in important ways. What has occurred in Britain is a very dramatic series of institutional transformations that are of enormous significance to the trajectory of the political economy. Yet these interventions are consistent with the neoliberal restructuring ethos that I argue in the next chapter to have structured economic policymaking prior to 2008. While the scale of the problems and the instruments used to address them has changed, the definitions of the 'problems' that economic policy and political-economic restructuring is intended to address exhibit only a bounded change and remain categorically neoliberal. The result is still a change in trajectory of political-economic restructuring, but one that acts on its 'velocity' rather than its metaphorically 'spatial' aspect: Britain in the post-2008 context continues to be subject to a process of neoliberalisation, but it is a more rapid and less compromising form of neoliberalisation than that prior to 2008. It is in this acceleration of political-economic change that the profound political-economic significance of the post-2008 context lies.

Can political-economic change that accelerates an existing direction of reform be called 'decisive'? Approaches that accept or dismiss such a premise have merits and drawbacks. By defining decisive intervention only in terms of categorical changes in problem definitions we gain a very clear empirical marker of where crisis obtains: those rare circumstances where problem definitions undergo a process loosely analogous to a 'paradigm shift'.[4] Yet it also yields a highly specialised conception of crisis that would be unrecognisable to most users of the term, and which would leave us with the dubious notion that the years since 2008 have been a period of 'normal policymaking'. A conceptualisation of 'decisive intervention' in which changes in problem definitions are not specified as necessary conditions reflects a more commonly understood meaning for the term. However, there is a risk of eroding the clear line between the conditions of 'crisis' and 'catastrophic equilibrium'.

[4] Hall (1993), 'Policy Paradigms'.

This risk can be mitigated if we are precise in our use of terms. The kinds of 'indecisive interventions' sanctioned during period of catastrophic equilibrium entail on-going commitment to extant policy ideas and a reluctance to deviate from them in anything other than an adhoc and temporary way, whilst only minimal and adaptive changes to the institutional structure of the political economy are sanctioned. The goal of economic policy in such circumstances is the stabilisation and preservation of the institutional status quo – to, as it were, 'ride out' the crisis. Decisive intervention, meanwhile, involves political-economic restructuring, possibly (but not necessarily) reflecting changes in problem definitions. With this in mind, it is possible to see why the mid-1970s can be characterised as a time of catastrophic equilibrium and the post-2008 context not. Despite recurring economic policy failures, policymakers of the 1970s retained tools such as incomes policies and flirted only superficially and reluctantly with monetarist techniques.[5] The period since 2008 has been one of decisive intervention and crisis because, as I shall show in the subsequent research chapters, far-reaching changes have been made to the instruments of economic policy and the institutions of the British political economy. I therefore adopt this broader definition of decisive intervention throughout this dissertation.

Research Questions

With these conceptualisations in mind it is possible now to articulate the general research questions pertaining to 'crisis diagnosis' that I shall address in Chapters 5 and 6.

1. Do the two governments of the post-2008 context possess crisis diagnoses, or is the situation better classified as one of catastrophic equilibrium? Have the two governments of the post-2008 context sought to bring about decisive interventions?

2. If so, how do these crisis diagnoses differ in ideational content from the neoliberal problem definitions that characterised economic policymaking

[5] Hay (2001), 'The 'Crisis' Of Keynesianism'.

coordinative discourses prior to 2008, and what kind of ideational change is this indicative of? Are any changes indicative of the decline of the influence of the neoliberal restructuring ethos and the emergence in the post-2008 context of a non-neoliberal form of political-economic restructuring?

3. How do the crisis diagnoses of the two post-2008 governments differ from one another? Do they indicate convergence or divergence in the problem definitions that comprise their economic policy coordinative discourses?

Crisis Narration

Agency In Crisis Narration And The Scope Of Individual Studies

The issue of which actors constitute the mobilising agency behind the creation of crisis narratives remains under-specified in Chapter 2: although Schmidt and Hay have constructed ostensibly similar analytical frameworks they have two different 'narrators' in mind. Both regard opposition parties as the beneficiaries of crisis narration/communicative discourse during moments of transformative political-economic change; it constitutes for opposition parties a means to seek electoral support and enter government in order to enact decisive interventions. Yet for Hay it is the media that is the primary narrative producer, whilst Schmidt's concept of communicative discourse concentrates on the narratives produced by government and opposition parties. She notes that in the British polity, with its long parliamentary terms and frequently large executive majorities, communicative discourses are likely to exert an independent effect most strongly during elections as it is only at this time that public opinion is a significant constraint on the preferred actions of the government (at least outside of moments of major civil disorder).[6] Consequently, it is political parties seeking (re)election that are the primary agents of communicative discourse in Schmidt's empirical work on the UK.

These contrasting points of focus may be considered complementary: crisis narration is a complicated process in which multiple actors are likely to be

[6] Schmidt (2002),*The Futures Of.*

implicated. Crisis narratives are mediated by news organisations, and it is very probable that such organisations are themselves narrative producers: they bring to the delivery of narratives their own political interests, but also non-political ones (i.e. judgments about what kind of story will be likely to sell newspapers or attract viewers) and their own newsroom biases and cultures.[7] Yet the media also reports (as well as challenges) the narratives woven by politicians because their pronouncements themselves constitute 'news'. Opposition parties and other political organisations are also participants, contesting the government's communicative discourses and seeking to persuade the electorate of the merits of their own alternative ones. The upshot of these observations is that a full analysis of the narration of the crisis of the post-2008 context exceeds the scope of any one study, and will instead emerge from a variety of studies with different points of focus. The present study consequently makes only a modest but important contribution towards the overarching goal by focusing on the input of one kind of narrative producer: incumbent governments.

The Aims Of Research On Crisis Narration In The Post-2008 Context

Unlike Hay and Schmidt's research on the British case, my focus is not on the moment of a general election and the impact of crisis narratives on its outcome, but instead on how incumbent governments sustain and shape a sense of crisis among the general public so as to maintain support for their decisive interventions. My choice of focus here partly reflects the findings of my research into crisis diagnosis, where I find strong parallels in the ways that the two post-2008 governments have diagnosed crisis in the post-2008 context. This suggests that whilst crisis narration may very well have played a role in determining the outcomes of the 2010 general election, it has not been a factor determining whether or not decisive intervention has been implemented in the way Hay argues it to have been in 1979.

Consequently, I find the importance of crisis narration in the post-2008 context elsewhere – as a means by which governments have sought to maintain legitimacy during a major economic adjustment. The reason for this is that economic policies

[7] Hudson and Martin (2009), 'Narratives Of Neoliberalism'.

pursued by the two governments of the post-2008 context have exposed a society at the core of the world economy to something akin to a programme of 'structural adjustment', including major changes in the availability and quality of public services and social security, and the protracted decline of real incomes. While left-wing critics have pointed to class biases in the placement of the burden of economic adjustment, it remains the case that material costs have been imposed on a large swathe of the electorate. Although there are few formal mechanisms by which the electorate can prevent a government in possession of a majority from implementing its preferred policy responses, to dismiss the importance of crisis narration in the post-2008 context is to discount the importance of sustaining legitimacy in avoiding 'informal' pressure being placed on the government (in the form, for example, of large-scale protest movements). Furthermore, a failure to sustain legitimacy in the ongoing neoliberalisation of the UK political economy in the troubled post-2008 context would also have major implications for the ability of any political party to continue on this trajectory after the 2015 election. The research thus contributes to our understanding of the conditions that have led public resistance to post-2008 reform to be relatively muted, contributing towards a broader agenda that assess the role of crisis narration on this outcome.

An Engagement With The Framing Approach

When empirically operationalising the concept of crisis narration I have found an engagement with the 'framing approach' to the study of social movements to be conceptually insightful.[8] The framing approach, like the study of crisis narration and communicative discourse, seeks to conceptualise, analyze, and establish the causal importance of processes of 'persuasive mobilisation'. In the case of the framing approach, the mobilizing agents in question are organisations that organise and promote social movements, while the process in question is the formation of and recruitment of the public to what are termed 'collective action frames' – intersubjective ideas about the world that motivate political choices and

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[8] On which see R.D. Benford and D.A. Snow (2000), 'Framing Processes And Social Movements: An Overview And Assessment', *Annual Review of Sociology*, pp.611-39; D.A. Snow, et al. (1986), 'Frame Alignment Processes, Micromobilisation, And Movement Participation', *American Sociological Review*, pp.464-81; D.A. Snow and R.D. Benford (1988), 'Ideology, Frame Resonance, And Participant Mobilisation', *International Social Movement Research,* 1 (1), pp.197-217.

allegiances of the general public.[9] The collective action frame has, I shall argue, a strong affinity with the concept of crisis narrative.

The substantive conceptual contributions that an engagement with the framing approach can generate for the constructivist institutionalist perspective lie in the systematic clarity of the concepts with which the process of 'framing' is described within this literature.[10] Yet a degree of caution is necessitated when attempting to transport concepts from one framework to the other. My intention here is modest in this regard: I utilise a small number of concepts from this literature ('value amplification', 'frame bridging' and 'counter framing') to clarify and structure my empirical analysis of crisis narratives. Yet in demonstrating this transferability I maintain that the constructivist institutionalist study of crisis narration is bolstered, for an impressive array of empirical and conceptual scholarship lies behind these concepts in the social movements context and lends credence to the view that similar processes are underway in the political-economic context. This section shall briefly review the framing approach, highlighting points of commonality with Hay and Schmidt's frameworks for the study of communicative discourse and crisis narration. Following this, the concepts that will inform the present study will be examined in greater detail.

Commonalities And Differences Between Constructivist Institutionalism And The Framing Approach

Benford and Snow build upon the Goffmanian concept of the 'frame', which refers to ideational and subjective 'schemata of interpretation' through which individuals are said to access and understand their world as they act within it.[11] The 'Collective Action Frame' is an intersubjective and politically-oriented corollary of this concept. It denotes shared ideas about the world that specify the basis for shared (political) behaviours within it.[12] Collective action frames are the ideational

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[9] Benford and Snow (2000), 'Framing Processes'.
[10] A number of constructivist institutionalist analysts have already noted the affinity and potential for cross-fertilisation between the two approaches. See, for instance, Béland and Cox (2011), 'Introduction'; Béland (2009), 'Ideas, Institutions'.
[11] Goffman, E. (1974), *Frame Analysis: An Essay on the Organisation of Experience* (Harvard: Harvard University Press).
[12] Benford and Snow (2000), 'Framing Processes'.

constituents of social movements in Benford and Snow's account, serving the function of simplifying and explaining the world and specifying valued end states to their adherents. In particular, they accomplish three functions or 'core framing tasks'.[13] They provide a 'diagnostic framing' that specifies a problem that the social movement stands against and an analysis of the cause of this problem, and a 'prognostic framing', articulating a proposed solution to the diagnosed problem. Together, these may be constructed in such a way as to refute the rationale of other proposed diagnostic or prognostic framings. Finally, they offer a motivational framing, sustaining participation in a social movement. Crucially, however, the object of analysis in Benford and Snow's account is not 'frames', but the process of '*framing*' through which adherents to social movements encourage hitherto unmobilised members of society to internalise their collective action frame and support the social movement's cause.

A core concept in this process is that of 'resonance': this is the variable of collective action frames that will determine their success in mobilizing adherents.[14] As ideational agents, social movement organisations are viewed as being able to take certain actions to increase the resonance of their collective action frames with those they seek to recruit. The means by which this occurs are referred to as 'frame alignment processes'.[15] It is in these processes that the potential for synergy between the framing perspective and the constructivist analysis of crisis narration lies. The concept of the collective action frame is analogous with both the concept of 'crisis diagnosis' and of 'crisis narrative' as they have been developed here. Both represent action-oriented intersubjective ideas that can facilitate collective behaviour. The reason that two separate concepts are warranted in the political economy context and not the social movements one is due to the necessity in the former of maintaining a distinction between the government's own ideas and those they seek to mobilise others with: framing scholars generally assume social movement organisations to speak in earnest in their communicative discourses, but the same supposition cannot be made by those who study the communicative discourses of governments.

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[13] Ibid.
[14] Ibid.
[15] Snow, et al. (1986), 'Frame Alignment'.

Yet while crisis diagnoses might be analogous to a collective action frame in some respects, the analogy is stronger and more useful in relation to crisis narratives. It is necessary to note, however, that the analogy is an imperfect one because of this asymmetric assumption of earnestness on the part of the mobilizing agency, and any concepts transported from the framing approach must be reflected upon critically in this light. To signify this distinction I propose to refer to the concepts that I transport from the framing approach by slightly altered names, substituting the term ‘narrative’ for ‘frame’ to signify the different application.

Concepts To Inform The Study Of Crisis Narration

The first two concepts that I transport from the framing perspective are two ‘frame alignment’ processes. Framing scholars have identified four such processes and a body of empirical literature has grown behind all of them.[16] It is my contention that two in particular are present in an analogous form in the process of crisis narration. The first of these is ‘value amplification’.[17] This refers to the “idealisation, embellishment, clarification or invigoration” of existing beliefs in a framing communication; that is to say, incorporating widely held values into the framing communication so as to increase points of resonance.[18] This strategy is of particular relevance where movement beneficiaries are strikingly different to those they seek to mobilise, for it elevates a plane of consensus that can compensate for the different social vantage points and material experiences of the mobilizing actor and the mobilisee.[19] This can be straightforwardly applied to crisis narratives: as was noted in the previous chapter, these are likely to be constructed with reference to widely held values. The observation that such strategies are deployed when attempting to construct consensus among socially different and possibly materially unequal groups means that this particular narrative alignment strategy is likely to feature prominently in a narrative constructed to legitimise restructuring strategies in which material costs are unequally shared.

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[16] Ibid; for a review see Benford and Snow (2000), 'Framing Processes’.
[17] Snow, et al. (1986), 'Frame Alignment’.
[18] Benford and Snow (2000), 'Framing Processes’, p.624; Béland (2009), 'Ideas, Institutions’.
[19] Benford and Snow (2000), 'Framing Processes’.

The second concept on which I draw is 'frame bridging'. This refers to the strategic connection of a collective action frame to another regarding a different problem so as to mobilise those who are already mobilised around the secondary issue.[20] This could include, for example, the connection of labour or gender issues to a broader social movement so as to mobilise those politically active in these contexts. In the context of research on crisis narratives, it is plausible that 'narrative bridging' is a means by which mobilizing agencies seek to encourage or capture those mobilised around an existing politicised issue by constructing a 'bridge' between a crisis narrative and widely held interpretations of those politicised issues.

Value amplification and narrative bridging represent two conceptualisations of the way in which 'empathic' modes of interpellation operate. A second contribution that the framing perspective might make is through providing a concept with which to gain purchase on the dynamics of crisis narration. 'Counter framing' refers to the process by which collective action frames are influenced by, and are influencing of, the framing activities of opponents of a social movement. As Benford and Hunt usefully summarise, counter-framing strategies "…ward off, contain, limit, or reverse potential damage to the movement's previous claims or attributes".[21] Re-conceptualised as 'counter narration', this concept draws our attention to the cut and thrust of communicative discourse through which political parties try to neutralise the criticisms that their many opponents make of them. In the context of crisis narration, it will involve attempts to dispute, ridicule and de-legitimise alternative crisis narratives offered by political opponents including (but not limited to) opposition parties.

The concept of counter-narration can also be applied to the impact of unforeseen developments in the political-economic context that impact upon the efforts of governments to narrate a crisis in a given way. Framing perspective scholars have noted the 'dialectical' relationship of events in a context, and collective action frames that represent those events.[22] So, it seems reasonable to assume, it is the case with crisis narration. In Chapter 7 I find the biggest variable in this respect for

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[20] Ibid.
[21] R.D. Benford and S.A. Hunt (1994), 'Social Movement Counter-framing And Reframing: Repairing And Sustaining Collective Identity Claims', *Midwest Sociological Society Conference* (St Louis), quoted in Benford and Snow (2000), 'Framing Processes', p.626
[22] Ibid.

post-2008 crisis narratives has been the quarterly growth projections published by the ONS.

Research Questions

It is now possible to reconstruct an approach to the study of crisis narratives that draws on the work of constructivist institutionalists and framing scholars encountered in this and the previous chapter. Each particular text inscribed with a crisis narrative exercises a 'narrative selectivity' that foregrounds a selection of facts, interpretations and characterisations while excluding others. In doing so, it offers an interpretation of the causes and significance of the events to which the text relates. As part of a 'crisis narrative', this interpretation by definition signals the presence of a broader condition of crisis, and is situated in a broader metanarrative of the causes of and solutions to that crisis to which other texts relating to different facts and events also point. This metanarrative of crisis is inscribed with a set of policy preferences that points towards the need to support the government's proposed decisive interventions. Readers may not necessarily accept the truth of these texts or the crisis narrative that they form. Their ideological effect arises from strategies of direct and empathic interpellation through which the reader is invited to recognise their own experiences and values in the text and so internalise their contestable assertion and interpretations of crisis as lived experience. Interpellation functions through successful maximisation of resonance. Value amplification and narrative bridging represent two strategies of empathic interpellation to this end. It is possible that over a period of time crisis narratives will exhibit dynamism as their authors defensively incorporate new elements to neutralise rival crisis narratives or respond to and explain unexpected changes in the economic context to which they relate.

With this in mind, it is not individual ideological texts that are my focus in this research, but the themes that emerge across texts as components of a broader metanarrative of crisis. It is this phenomenon to which the term crisis narrative applies in my research. I ask:

1. What is the narrative selectivity of each government's crisis narrative? Which issues and facts are fore-grounded? Which are excluded? What are the central characters in the narrative's plot and how are they represented?

2. What strategies of direct interpellation are commonly invoked within the narrative? How are these used to create a sense of 'peril' and anxiety for those who can readily identify or sympathise with the subject positions that are directly invoked?

3. Is value amplification used as a strategy of empathic interpellation in the narrative? If so, how is this strategy pursued?

4. Is narrative bridging used as a strategy of empathic interpellation? If so, how is this strategy pursued?

5. What dynamics can be observed in each government's crisis narrative? What strategies of counter-narration do these suggest?

2.
Epistemological And Methodological Considerations

The foregoing conceptualisations and research questions raise a number of epistemological and methodological issues, particularly in regard to the empirical study of crisis diagnoses. This section shall review those pertaining to both sets of general research questions in turn.

The Empirical Study Of Crisis Diagnoses

The question that confronts those who would make claims about the content of governments' coordinative discourses and crisis diagnoses is how to attribute content to such phenomena when we are unable to directly observe them. In many cases we can anticipate that policymakers will be unwilling to discuss their politically sensitive perceptions with us, and it is unlikely that academics will be permitted to attend government meetings in order to sample coordinative discourses directly. [23] Consequently, it is often the case that the analyst can only access policymakers' coordinative discourses, and the problem definitions comprising them, indirectly and in mediated forms.

A clear description of how inferences and attributions have been constructed is required if claims derived from such sources are to be considered robust. Yet existing constructivist institutionalist research is sometimes found wanting in this regard: it is not always made explicit how empirical data (which has been predominantly qualitative, in the form of documents, interviews and observed behaviours) is made into inferences about the ideas of political-economic actors and the ideational content of their coordinative discourses.[24] This lack of clarity serves as an unnecessary barrier to methodological advance of the perspective. More seriously, however, it leaves all involved in constructivist political economy exposed to a hostile anti-constructivist critique – one that constructivist political economists are simply obliged to answer if the approach is to be viewed as robust.

Such a critique can be cast along two lines, but the essence of both is to call into question the very possibility of securing valid knowledge claims about the content of coordinative discourses. Firstly, a critic might point to the difficulties observing elite ideas and coordinative discourses, and the problems that this raises for judging the comparative validity of two accounts making competing claims about the content of the same coordinative discourse. Constructivist institutionalists have no direct means of 'testing' in order to adjudicate contrasting claims about the content of a coordinative discourse because the reality both purport to

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[23] Although Bevir and Rhodes have made impressive steps in this direction by conducting ethnographic observational studies of civil servants. See M. Bevir and R.A.W. Rhodes (2003), *Interpreting British Governance* (London: Routledge); R.A.W. Rhodes (2005), 'Everyday Life In A Ministry: Public Administration As Anthropology', *The American Review Of Public Administration,* 35 (1), pp.3-25.

[24] In fairness to the perspective, methodological discussion is well developed in certain accounts, however these are the exception. See, for example, N. Smith and C. Hay (2008), 'Mapping The Political Discourse Of Globalisation And European Integration In The United Kingdom And Ireland Empirically', *Journal Of Political Research,* 47 (3), pp.359-82, where the authors describe in depth the process through which they conducted an attitudinal survey of British MPs on the subject of globalisation. What is missing for the literature on constructivist political economy, however, is cross-study consideration of methodological process to compliment the kind of cross-study conceptual reviews offered by authors such as Schmidt.

describe cannot be accessed by a third party in order to determine their relative veracity.

The second critique concerns the range of evidence available to constructivist institutionalists who seek to describe the ideas and coordinative discourses of policymakers of their own time, or in the recent past. While a historian addressing similar research questions many years later might have access to numerous documentary sources (for instance private notes, de-classified documents and interviews with relevant actors freed from the constraints of office), the most abundant evidence available to constructivist institutionalists in the present tense is the information that the actors under study are prepared to put into the public domain. Knowing that such information could be scrutinised by the media and their political foes alike, policymakers can be assumed to have a strong incentive to be guarded, if not downright deceptive, about their intentions.[25] Examples of such discretion are too numerous to count – one need look only at the way in which parties guard their intended policy programmes in the run-up to the campaign period, and conversely, the promises that are broken following elections. Attempts to infer content to coordinative discourses from qualitative data that is flawed in this way would introduce into the subsequent analysis the silences, uncertainties and deceptions that the originating political actor had strategically woven into them.

It would be a sad irony if, having shown so powerfully that the interest-oriented behaviour of political actors is conceptually dependent on ideas, it were to emerge that these vital explanatory factors are unobtainable to political analysts. Fortunately, we need not make any such concession. For although points such as those above ought to be at the forefront of the minds of those engaged in this kind of analysis it would be considerably overstating their implications to rule out the possibility of making valid claims about the content of elite ideas and coordinative discourses. The epistemological writings of Bevir and Rhodes and their collaborators are highly informative in developing an approach that is able to respond to such criticisms. Although these authors advocate an analytical

[25] K. Dowding (2004), 'Interpretation, Truth And Investigation: Comments On Bevir and Rhodes', *British Journal Of Political Science And International Relations,* 6 (2), pp.136-42.

approach that is different from the constructivist institutionalist one on which my own research is based (albeit with very strong parallels), their writings on the broader issues of interpretivist epistemology are of great relevance to constructivists in all fields.[26]

Interpretivism

The first part of a defensible analysis of the content of policymakers' coordinative discourses is to adopt an appropriate degree of modesty in our epistemological goals. If our goal is to make inferences that are a one-to-one correspondence with the content of a coordinative discourse (that is to say, to name and outline accurately and completely every idea that informs government thinking on a given subject – which would of course be a monumental task) then we invite a number of challenges that we need not confront were we more modest in our goals. An alternative enterprise is to make broader inferences regarding the categorical *character* of the content of a coordinative discourse (whether it be neoliberal, or something else), and to identify the influence of particular problem definitions where the available data suffices to do so in order to substantiate our characterisation. The goal of my research is not to describe the entirety of each government's post-2008 crisis diagnosis, but rather to capture enough information about them to facilitate comparisons and categorisation in relation to neoliberalism and to each other.

The scaling of epistemological ambitions is a necessary but not sufficient step to answer the critiques posed above. A second move is to acknowledge explicitly the irreducibly interpretivist nature of the constructivist institutionalist enterprise in political economy, and to abandon the positivist pretence to be producing knowledge claims of the same category as those produced in the natural sciences. An interpretivist approach to social science research is one that recognises not simply the impact of intersubjectivity and of ideational construction on political-economic actors, but also their impact on political economists themselves.

[26] On synergies between Bevir and Rhodes' interpretivism and the constructivist institutionalism, see C. Hay (2011c), 'Interpreting Interpretivism Interpreting Interpretations: The New Hermeneutics Of Public Administration', *Public Administration,* 89 (1), pp.167-82; M. Bevir and R.A.W. Rhodes (2006b), 'Interpretive Approaches To British Government And Politics', *British Politics,* 1 (84), pp.84-112.

Following Bevir and Rhodes, it is my contention that any approach that concedes the political-economic reality to be constructed by the ideas, concepts and theories that actors bring to bear on it must make a similar concession in regard to the analysts who study these actors.[27]

From this interpretivist perspective, the knowledge that political economists produce is always and unavoidably mediated and constructed by our concepts, theories and preconceptions. There is no 'hypothetical view from nowhere' in political economy research; no means of reading documents, coding interview data or formulating a conclusion that is not informed by prior ontological assumptions about what exists to be measured, and its meaning in relation to other entities.[28] Furthermore, for constructivist institutionalists there is no means of 'testing' knowledge claims through repeated application of theories to different contexts after the manner of 'large-n' quantitative studies, because the phenomena we seek to cast inference on (intersubjective ideas and coordinative discourses in the ideational context) are unique to particular times and places.

Consequently, Bevir and Rhodes reject the positivist conceptualisation of validity, which is premised on a direct correspondence between the analyst's assertion and that which they seek to describe. All assertions regarding 'the real' are, they suggest, irreducibly *interpretations* of the real, and insofar as constructivist analysts study actor interpretations, their enterprise consists of 'interpreting interpretations'.[29] Abandoning the notion of 'political science' as a misnomer, they recast explanation as a form of 'narrative' (essentially the same form of explanation as those produced by historians) in which assertions about actor interpretations are always contingent, contestable, and hold potential for elaboration and revision.[30]

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[27] M. Bevir and R.A.W. Rhodes (1999), 'Studying British Government: Reconstructing The Research Agenda', *The British Journal Of Politics & International Relations,* 1 (2), pp.215-39; M. Bevir and R.A.W. Rhodes (2006a), 'Defending Interpretation', *European Political Science,* 5 (1), pp.69-83.
[28] On political ontology and directional dependence with epistemology, see Hay (2002), *Political Analysis*.
[29] Bevir and Rhodes (2006a), 'Defending Interpretation', p.69.
[30] Ibid.

Explicitly adopting an interpretivist epistemology allows us to go some way to answering the first of the unfriendly critiques posed above. First, it provides a philosophical position from which to be sceptical of the notion that any approach can achieve what the criticism singles out constructivist research on elite ideas and coordinative discourses for failing to do. Because political analysts produce interpretations, and because interpretations are likely to cohere with the broader worldview of the analyst that makes them, having unmediated access to elite ideas and coordinative discourses might yield no better grounds to adjudicate the comparative purchase and correspondence of two knowledge claims with 'the real'. Secondly, and lest this first point sound an invitation to epistemological relativism, adopting an explicitly interpretivist epistemology does in fact yield a basis on which to adjudicate competing knowledge claims – a different concept of validity, derived from 'criteria of comparison'.

Positivist research approaches the issue of validity through 'the logic of vindication': the notion that hypothesis testing derived from competing theories allows the predictions of one account to be proven to correspond with real facts, and the other one falsified by having been shown not to predict some aspect of the political reality it purports to describe. Interpretivist research adheres instead to the somewhat more relaxed epistemological standard of the 'criteria of comparison'.[31] These represent agreed intellectual standards with which we are able to differentiate between the epistemological status of accounts without appealing to some unmediated access to 'the real'. These include, among many potential others: honesty of analysis and exposition (i.e. not making up one's results), evidential scope, the plausibility of assumptions, the internal logical coherence of the arguments that comprise the account, and the 'fit' between the account and 'facts' that are agreed upon by advocate and critic.

Adjudicating the validity of constructivist accounts from an interpretivist perspective involves the comparison of competing interpretations of the content of elite ideas and coordinative discourses. This can take a form that is superficially similar to 'testing' in a positivist account, whereby we examine whether expected patterns of behaviour that arise from contrasting interpretations are exhibited in

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[31] Bevir and Rhodes (1999), 'Studying British Government'.

practice. A behaviour that is consistent with the ideas attributed to an actor in one interpretation and inconsistent with that of a second interpretation would favour the first. Yet such 'testing' does not yield incontestable truth, but rather a provisional preference for one contestable interpretation over another and an acknowledgment that both might be found wanting by a third interpretation at a later date. The perspective consequently rests on a form of 'inference to best explanation', a philosophical principle invoked in the natural as well as social sciences.[32]

Analytical Enterprise: Process Tracing

Parsons has observed that the distinctive feature of ideational explanation is that it emphasises contingency in processes of change.[33] As 'soft variables', ideational factors are amenable to change in a way that 'material' factors (such as the distribution of raw materials among nations) are not: in a constructivist account, things could always have been different had actors thought about the world differently. The result of conceiving of political-economic actors as sentient ideational agents is that ideas are in a state of constant, albeit often bounded, change as actors reflect critically on their experiences and adapt problem definitions through coordinative discourse. The epistemological implication of this point is that a predictive political science is not possible. As the contingent process of ideational change unfolds, the ways in which problems are defined and the way that political-economic actors behave, may change in ways that analysts cannot predict. At best, political analysts are able to offer informed conjecture as to how processes of political-economic change will unfold. These informed conjectures must rest on clear assumptions that certain key actors will continue to perceive the world in the way that they do at the present time.

Partly as a result of this, the constructivist institutionalist studies cited in the previous chapter have on the whole been oriented to a non-predictive mode of analysis and explanation called 'process tracing' (although many have done so in order to establish the truth of more general claims that various ideational

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32 Wendt (1999), *Social Theory*; Bevir and Rhodes (2006a), 'Defending Interpretation'.
33 Parsons (2007), *How To Map.*

processes that they chart 'matter'). As invoked in the constructivist institutionalist literature, process tracing involves identifying an outcome that is of interest, and then seeking to elucidate the ideational, institutional and agential processes that caused it to come about.[34] The objective is to explain why political-economic actors have behaved the way that they have, and so why they have produced the political-economic outcome that we seek to explain. Such an account can then inform future studies of different political outcomes at later points in time by explaining why institutional and ideational conditions were as they were when subsequent processes began. On this basis, constructivist institutionalists are party to a cumulative historical process of knowledge production. My own thesis occupies such a relationship with the CSDP and its ongoing institutionalist analysis of British political economy.

Qualitative Data: Assumptions And Triangulations

Acknowledging that our claims about policymakers' ideas and the content of their coordinative discourses are inherently contestable interpretations, and reconceptualising validity as arising from comparative criteria such as those cited above, allows one to address the second of the critiques noted above. If a plausible case can be made that certain kinds of data do allow one to formulate comparatively valid interpretations of the content and character of coordinative discourses then the burden of evidence shifts to the critic to demonstrate that a better interpretation can be constructed. What is demanded of the analyst is that they make clear the assumptions that underpin their analysis and interpretation of qualitative data so that criteria of comparison can be applied.

Constructivist institutionalist research is eclectic on the sources of data that it draws upon. The speech-acts of political-economic actors, various written and statistical documents that they produce, and observations of their behaviour are all frequently drawn upon. Indeed, constructivist institutionalist research places a great deal of emphasis upon behaviour as a 'datum' through which to interpret the motives and ideas of political-economic actors. A misplaced criticism that is sometimes levelled at such constructivist explanation is that it is circular, insofar

[34] Schmidt (2008), Discursive Institutionalism'.

as an appeal is made to particular intersubjective ideas to explain an actor's behaviour while at the same time holdingthat actor's behaviour as evidence that they subscribe to that intersubjective idea. The circularity is clear if the argument is rendered in consecutive propositions:

(1) Actor A did action X and not action Q because they subscribed to idea Y rather than idea Z;

(2) We know Actor A subscribed to idea Y and not idea Z because they did action X and not action Q.

Yet this critique is not fatal to a constructivist institutionalist account because of a prior ontological axiom that arrests the circularity:

(1) *A's actions are conditioned by A's ideas*;

(2) A did action X rather than action Q;

(3) Action X is consistent with idea Y, but inconsistent with idea Z;

(4) Therefore the fact that A did action X and not action Y suggests that A subscribes to idea Y and not idea Z.

It is only if the axiom itself is under challenge that such reasoning would become circular. But as Chapter 2 serves to demonstrate, models of the political-economic actor that reduce or foreclose the impact of ideas on behaviour fall victim to their own conceptual and empirical problems. Consequently, this is not a debate that I shall revisit here.

Yet whilst behavioural data provides a useful means of refining and adjudicating interpretations about which ideas an actor subscribes to, taken alone it is not always an effective way of ascertaining which ideas out of a range of possible ideas have shaped behaviour. This is because in a constructivist institutionalist account the behaviour of political-economic actors is also conditioned by a strategically selective institutional context as well as the ideational context. Institutional conditions may constrain actors into making choices that are 'sub optimal' in terms of how they define policy problems, and this can introduce a degree of ambiguity over why they have behaved the way that they have. In the debate over the character of the 'New Labour' governments encountered in the next chapter, for instance, participants are divided over whether novel features of these governments' approach to political-economic governance reflected structural constraints on otherwise social democratic intentions, or an internalisation of the neoliberal restructuring ethos. A broader examination of behavioural data can often assist in the resolution of such debates (as it does in relation to that particular debate). A sequential exposition again makes this clearer:

(1) In policy area 1, Actor A did action X and not action Q;

(2) In policy area 1, action X is consistent with both Idea Y and Idea Z;

(3) In policy area 2, Actor A did action X1 and not Q1;

(4) In policy area 2, action X1 is consistent with idea Y and inconsistent with idea Z;

(5) Therefore, the balance of behavioural evidence suggests that Actor X subscribes to idea Y and not idea Z.

Yet there remains potential for ambiguity. One might imagine a scenario in which actions X and X1 are consistent with idea W as well as idea Y, further compounding the interpretive dilemma. The potential for such ambiguities makes it useful to 'triangulate' observations of behaviour with other kinds of qualitative data and not to rely solely on behavioural observations.

My own empirical research draws on policy documents to this end. These are technical rationales for policy produced for the consumption of experts rather than the general public. Here it is necessary to articulate a key assumption underpinning my treatment of this empirical data: that such documents are, if treated with due caution and alongside observations of behaviour, generally a good means of gaining insights about the problem definitions in policymakers' coordinative discourses. My reasons are twofold. Firstly, policy documents contrast in content with documents produced for consumption by the general public. As Chapter 7 shows, the latter kind of document is characterised by non-technical and moralising arguments that seem calculated to appeal to the mean of public opinion on any given issue. Policy documents, in contrast, are produced in order to state a rationale for government policies to experts, often with the intention of eliciting feedback rather than electoral support. Consequently, there is less of an incentive for deception in such documents. Secondly, the consumers of such documents are engaged in the long-term scrutiny of government policy in their areas of interest and it is unlikely that a government could consistently and systematically mislead such actors over its definition of problems even if it had an incentive to do so. For these reasons, I make the assumption that inferences constructed from pieces of such data on relevant issues of post-2008 economic policy in combination with behavioural data will allow me to form generally accurate, *but not necessarily complete*, interpretations of the ideas that inform government thinking in the areas to which these documents relate.

My approach to analysis involves combining observations of behavioural and document-based data to characterise and, where possible, identify the problem defining ideas informing policymaking in the post-2008 context, and to formulate an interpretation of the character of the crisis diagnosis that they underpin. I hold that the inferences I build regarding the ideational content of crisis diagnoses from documentary material represents a good interpretation only insofar as it holds purchase on the decisions that these governments make. Insofar as my interpretations are consistent with the exhibited strategies of these governments in the recent past, I assume that they are a good interpretation of the content of elite ideas and coordinative discourses. If it does not then the imperative is either to gather more documentary and behavioural evidence so as to establish a better picture of the government's thinking or, if this is ineffective or impossible, to advance an interpretation based on behavioural data and what is already established about ideas in relation to other areas.

Analytical Themes

In assessing the character of the two governments' crisis diagnoses and comparing them to one another it is necessary to have a thematic basis on which to make this characterisation and comparison. My focus in this research is on economic policy as this is the area of government policy most directly implicated in the economic failures of 2007-08 and subsequent political-economic restructuring. Yet economic policy itself is too wide an area on which to compare and characterise crisis diagnoses, as it covers a great range of issues and goals. Consequently it is necessary to prioritise certain themes in order to focus my gathering of documentary data and behavioural observations. These themes must facilitate comparison between both post-2008 crisis diagnoses and the neoliberal coordinative discourse that structured economic policymaking prior to 2008, as well as comparisons between the two crisis diagnoses themselves. However, it is also necessary that these themes should be sensitive to the particularity of the diagnoses that each government has made, capturing the issues that they regarded to be 'pathologies' warranting treatment.

To arrive at these themes in a non-arbitrary manner I began by reading the budget reports and pre-budget reports/autumn statements published by each government. These documents present an overview of the economic policy and its accompanying technical rationales. From these documents five themes emerged that meet the criteria above:

1. Stagnation: incorporating the relationship between the macroeconomic variables of output/GDP, inflation and unemployment, and microeconomic preconditions of output/GDP and employment growth.

2. The public finances

3. Sectoral/microeconomic 're-balancing' (that is, a perceived need to shift the reliance of the UK away from some areas of economic activity and on to others). [35]

[35] The rebalancing metaphor is discussed further in Chapter 5.

4. Macroeconomic 'rebalancing' (that is, a perceived need to shift the composition of aggregate demand away from domestic consumption and towards business and foreign sources).

5. Financial instability and reform

With the exception of the public finances each theme relates to or contains both a 'macroeconomic' and 'microeconomic' dimension. This is reflected in the organisation of Chapter 4 and of the subject matters of chapters 5 and 6.[36]

<u>The Empirical Study Of Crisis Narratives</u>

The epistemological and methodological issues pertaining to the study of crisis narratives are more straightforward than those pertaining to crisis diagnosis because the phenomena under study are readily accessible. Yet the enterprise remains an inherently interpretivist one – analyses of crisis narratives involve looking 'under the surface' of the texts for interpellative strategies that are by no means self-evident.

There are various sources in which crisis narratives are disseminated. Crisis narration is likely to be evident in ministerial speeches; in election manifestos and party political publications; in media appearances and newspaper articles; and on government and party websites. Ideally a study would incorporate all of these sources, however the analysis of qualitative data is a particularly time-consuming process and the constraints of time do not allow me to pursue such an encompassing strategy. Consequently, it is necessary to narrow down either a portion of these documents from each category, or to focus on one category of document. I have adopted the latter approach, focusing on newspaper articles that politicians have published throughout the post-2008 context. Each category of document brings its benefits and drawbacks, however newspaper articles are the best suited because their intended audience is the general public. Political

[36] I discuss the distinction between macroeconomic and microeconomic policy in Chapter 4.

speeches made at particular events undoubtedly contain crisis narration, yet they are targeted to very specific audiences (to backbenchers, or to specific organisations that are hosting the politician as a speaker) and it can be difficult to discern from such documents what constitutes the general themes of the crisis narrative and which themes are chosen selectively to appeal to a particular audience.

The next issue is which newspaper articles to select for analysis. Initially, my approach was to select those written by the senior minister at the Business/Industry Ministry, the Treasury, and the Prime Minister. The senior ministers of these two departments were chosen because they above all others bear responsibility for economic policy and thus are central agents in attempts to legitimate it to the public. The Prime Minister's articles were investigated because it was reasoned they would need to offer a narrative coherent with their officers, and consequently would be a good guide to the general crisis narratives advanced by the government where the stylistic caprices and interests of individual ministers might have otherwise made the sample less representative. The articles for these six ministers were initially sourced through the 'NewsBank' website, which archives all newspaper articles published in the UK and allows researchers to filter their search results by author. As primary research was undertaken, it became clear that the Coalition government had articulated a crisis narrative in relation to social security that was central to the legitimisation of their broader economic strategy and decisive interventions. To gain a clearer picture of how the issue was being narrated, the sample was extended to also include the publications of the Work and Pensions Secretary of the Coalition government. At this point in my research the NewsBank website had ceased to be available, but a similar service is provided by the 'Journalisted' website and this was used to locate the articles published by this particular minister. The selection criterion for articles was that they touched upon economic circumstances or that they offered a justification of economic policy between the 3rd quarter of 2008 and the final quarter of 2013. This yielded a sample of 120 articles, of which 45 were written during the tenure of the Brown Government and 75 during that of the Coalition.

In order to levy purchase on the dynamics of the process of crisis narration the sample was divided by date of publication into quarterly segments, beginning in the third quarter of 2008, with the first article having been published in September of that year. This quarterly division is a pragmatic choice allowing me to ascertain changes in the crisis narratives over time whilst retaining enough data in each quarterly segment to track common themes between texts. A finer grain analysis might have divided texts according to months, or even weeks. Unfortunately, there were not enough texts to do so in my sample. A quarterly division facilitates some purchase on changes in the substance of narratives, and coincides with the release of quarterly GDP figures that emerged to be a major animating feature in the crisis narratives.

The next step was to analyze each individual text and to ascertain which themes within them constitute the 'meta-narratives' of crisis. Each individual article was examined in line with the research questions listed above. Notes were taken regarding the narrative selectivity employed in the individual text, which direct interpellative strategies were evident, and which statements within the articles could be interpreted as empathic strategies of interpellation. These were then compared across notes to ascertain which were common themes and which were unique to a particular text. The themes were identified through a process of comparison of the narrative selectivities employed in the individual articles and the direct and empathic interpellative strategies present within them. Through this process I reconstructed a more abstract 'story' that each government was developing between texts. Themes were classed as constitutive of the meta-narrative of crisis if they appeared in more than one text and were repeated in more than one quarter. Themes that were not developed in this way were discounted unless it was felt that their under-development contributed something significant to the analysis – such instances are highlighted in the report of my findings given in Chapter 7.

The analysis is premised on a number of initial presuppositions. The first is that government ministers collectively create consistent crisis narratives, and individual ministers who submit newspaper articles write them (or perhaps have them written for them) in a manner that is consistent with the government's broader crisis narrative. It is on the basis of this claim that it makes sense to seek more abstract themes from a sample composed of articles written by multiple ministers. This presupposition is plausible because contemporary governments employ large numbers of communications staff to ensure precisely such consistency in public communications. This assumption was born out by my analysis of the sample: although ministers elaborate on their individual portfolios in the respective articles that they author, they draw upon a discernible 'line' regarding core issues when doing so which rendered their article consistent with those articulated by their colleagues. At no point did the ministers undermine one another's claims (except in very careful and qualified terms between Coalition colleagues, a point that I discuss in Chapter 7).

The second pr-supposition is that articles published in broadsheet and tabloid newspapers can be included in the same sample despite being written with different audiences in mind. Initially my approach was agnostic on this point and I anticipated perhaps carrying out separate analyses on articles from either category. However, while I found there to be discernible differences between broadsheet and tabloid articles, when subject to the process of abstraction discussed above the arguments, narrative selectivity and interpellative strategies adopted in both kinds of article emerged to be essentially the same. The former category of articles tended to be longer, and to offer a greater depth of economic analysis when such argumentation was invoked, while the latter was shorter and couched in more prosaic and sometimes hyperbolic language. Yet both made use of the same economic and normative arguments to discuss the same events and 'characters' in the same way, and sought to directly and indirectly interpellate to the same groups ('families', 'parents' etc) in spite of the social differences that might be expected to obtain between the two readership groups. This in turn supports the notion, revisited in the conclusion of Chapter 7, that governments draw from a fairly limited narrative repertoire in a bid to widen the resonance of their narratives.

Conclusions

The conceptualisations and methodology that I propose in this chapter clarify the core concepts of my thesis and situate them in relation to the broader interpretivist, process-tracing enterprise that I hold the constructivist institutionalist analysis of British political economy to be. The value of the research lies in enriching the critical social democrats' analysis of the post-2008 context in two ways. First, it situates post-2008 political-economic restructuring in relation to crisis diagnoses and the problem definitions they contain, allowing the perspective to better interpret the trajectory of political-economic restructuring now and in the future. In particular, it examines the extent to which neoliberal problem definitions have been revised or rejected in this context, as neoliberalisation has been so central to the emergence and failure of Britain's growth model according to the CSDP. Secondly, it locates the strategies of crisis narration that post-2008 governments have deployed within this context. It is the intended and unintended outcomes of decisive intervention and narrative strategies that will in turn form the basis of future dynamics, failures and crisis episodes in the British political economy.

Chapter 4.
New Labour And Neoliberalism

In Chapter 2 I showed that, from a constructivist institutionalist perspective, the trajectory of political-economic restructuring is shaped by the problem definitions of economic policymaking coordinative discourses. In the introductory chapter and in Chapter 1 I endorsed the critical social democrats' view that the AGLM was the unintended and historically contingent outcome of the neoliberalisation of the British political economy, and suggested that the confidence bestowed upon its fragile and contradictory structure by policymakers reflected the internalisation of neoliberal problem definitions by successive governments since 1979. The claim is not, however, without controversy, as a review of the literature on the 'New Labour' governments of 1997-2007 quickly reveals. It is thus necessary to establish whether 'neoliberal' constitutes an appropriate characterisation of the problem definitions underpinning the approach to political-economic governance and restructuring overseen by the New Labour governments before proceeding any further in my enquiry. Doing so facilitates the comparison between pre- and post-2008 problem definitions undertaken in my research on post-2008 crisis diagnoses in Chapters 5 and 6.

My task in the present chapter is thus to substantiate the claim that New Labour exhibited a neoliberal character, and to ascribe content to the neoliberal problem definitions that I attribute to these governments. I draw critically upon the existing research literature on the 'New Labour' governments in order to do so. In the first two sections I explore some prominent characterisations of the New Labour governments and identify a category error in the treatment of the concept of neoliberalism within the debate, rendering it misconceived. I argue instead that much of what is held of as evidence of New Labour's 'non-neoliberalism' is in fact consistent with a characterisation of these governments as having pursued strategies of roll out neoliberalisation, and that the plausible enough claim that such strategies were adopted in pursuit of 'socially progressive' ends is not in itself evidence to the contrary. I draw attention in particular to the microeconomic policies of the New Labour government, which I argue to be more revealing for the purposes of characterisation than the macroeconomic and welfare policies that are often the central terrain of the debate. Having advanced the broad contours of a neoliberal characterisation in these preceding sections, I turn in the third section to describe in greater specificity the neoliberal problem definitions that underpinned the approach to political-economic governance and trajectory of political-economic restructuring undertaken by these governments.

A point of consensus in debates about 'New Labour' is that the Labour Party under the leadership of Tony Blair distanced itself, at least presentationally, from the policies and ideological orientations that it held earlier in the 20th century. The concept of 'New Labour' has come to denote this self-cultivated image in comparison to Labour's past. Mindful of the 'New/Old Labour' binary's inadequacy as anything other than a heuristic device, I use the term here only as shorthand to denote a specific period in the party's history: between taking government in 1997 and the onset of the crises of 2007-08.[1] New Labour entered office after a protracted 'modernisation phase' beginning with its 1983 general election defeat. Prior to this was the post-war history of the party, derogatively periodised as 'Old Labour' by New Labour spokespeople. The term 'Old Labour' is too reductive to be of use to an analysis of the Labour Party prior to 1983, for its character changed greatly between 1945 and the onset of the post-1983 modernisation phase. However it is a useful heuristic device for the present analysis. It denotes a time when the party espoused very different kinds of policies and problem definitions to the market-affirming ones favoured by the right of the party during the modernisation phase, and which were embodied in the New Labour government's economic policies after 1997. In adopting this three-part periodisation, I shall leave the ideational character of the latter Labour government between 2008 and 2010 (the Brown Government) to the subsequent research chapters.

In this chapter and Chapters 5 and 6 I make use of a distinction between 'macro' and 'microeconomic' policy as headings under which to structure comparisons between the ideational character of the coordinative discourses of pre- and post-2008 governments. Macroeconomic policy refers to economic policies that are intended to shape macroeconomic aggregates such as 'GDP growth', 'employment'

[1] For a critical appraisal of the binary that prompts this qualification, see S. Fielding (2003), *The Labour Party: Continuity And Change In The Making Of 'New' Labour* (Basingstoke: Palgrave Macmillan).

and ‘the composition of aggregate demand’. Microeconomic policy refers to those policies of (non)intervention undertaken by governments in particular parts of the capitalist economy to enhance their functioning. It is through such policies that the boundary of market and non-market resource allocation, and the private and public sectors, are positioned, and thus through which the governance of either sphere is configured. In practice the distinction between the two modes of policy is something of an artifice: macroeconomic policy is frequently conducted through microeconomic policies (for example, a decrease in VAT relative to other forms of tax in order to promote aggregate demand). Yet the distinction is useful to signify the purposes of particular policies, and thus to structure the present analysis.

1.
Perspectives On New Labour

Much of the debate concerning New Labour’s character can be accommodated within three categories. ‘Social democratic’ characterisations stress continuities with ‘Old Labour’ and/or social democracy, and characterise New Labour primarily in terms of the party’s pre-1983 past.[2] Neoliberal characterisations stress discontinuities with Labour’s past and continuities with the previous

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[2] Fielding (2003), *The Labour Party*; S. Meredith (2006), 'Mr Crosland's Nightmare? New Labour And Equality In Historical Perspective', *The British Journal of Politics & International Relations,* 8 (2), pp.238-55; P. Diamond (2004), 'Introduction', in P. Diamond (ed.), *New Labour's Old Roots* (Exeter: Imprint Academic), pp.1-28; D. Coates (2001), 'Capitalist Models And Social Democracy: The Case Of New Labour', *The British Journal of Politics & International Relations,* 3 (3), pp.284-307; M. Wickham-Jones (2003), 'From Reformism To Resignation And Remedialism? Labour's Trajectory Through British Politics', *Journal Of Policy History,* 15 (1), pp.26-45; S. Driver and L. Martell (2006), *New Labour* (Cambridge: Polity Press); M. Bevir (2000), 'New Labour: A Study In Ideology', *The British Journal Of Politics And International Relations,* 2 (3), pp.277-301; M. Rhodes (2000), 'Desperately Seeking A Solution: Social Democracy, Thatcherism And The 'Third Way' In British Welfare', *West European Politics,* 23 (2), pp.161-86; C. Annesley and A. Gamble (2004), 'Economic And Welfare Policy', in S. Ludlam and M.J. Smith (eds.), *Governing As New Labour: Policy And Politics Under Blair* (Basingstoke: Palgrave Macmillan), pp.144-60; M.J. Smith (2013), 'Globalisation And The Resilience Of Social Democracy: Reassessing New Labour's Political Economy', *British Journal Of Politics And International Relations,* 16 (4), pp.597-623. The work of Driver and Martel straddles this and the third category because the authors are keen to stress the novelty of new Labour as a ‘post-Thatcherite’ project, yet also affirm an ongoing ‘social democratic instinct’ and set of values derived from the Party’s past.

Conservative administrations.[3] Finally, there are those who suggest that New Labour was marked more by novelty than continuity with either of these possible influences. This final group of accounts includes those that cast New Labour as having sought either a synthesis or pragmatic composite of neoliberalism, social democracy and other ideational and Ideological influences into a 'third way'.[4] It also includes the work of those who reject the usefulness of the debate over the Ideological and ideational character and origins of New Labour and instead focus on what they deem to be genuinely novel practical and ideational aspects.[5] Important as the insights of the latter perspectives are, the animating question of the present thesis – the influence or not of neoliberal problem definitions – necessitates an engagement with the older debate over Ideological character.

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[3] C. Hay (1999b), *The Political Economy Of New Labour: Labouring Under False Pretences?* (Manchester: Manchester University Press); R. Heffernan (2000), *New Labour And Thatcherism: Political Change In Britain* (Basingstoke: Palgrave); B. Jessop (2006), 'The Third Way: Neo-liberalism With A Human Face?', in S. Berg and A. Kaiser (eds.), *New Labour Und Die Modernisierung Gross Britanniens* (Augsberg: Wissener Verlag), pp.333-66; S. Hall (2003), 'New Labour's Double-Shuffle', *Soundings,* 24 (1), pp.10-24; L. Panitch and C. Leys (2001), *The End Of Parliamentary Socialism: From New Left To New Labour* (London: Verso); C. Crouch (1997), 'The Terms Of The Neo-Liberal Consensus', *The Political Quarterly,* 68 (4), pp.352-60; M. Kitson and F. Wilkinson (2007), 'The Economics Of New Labour: Policy And Performance', *Cambridge Journal Of Economics,* 31 (6), pp.805-16.

[4] Driver and Martell (2006), *New Labour*; D. Richards and M.J. Smith (2004), 'The 'Hybrid State': Labour's Response To The Challenge of Governance', in S. Ludlam and M.J. Smith (eds.), *Governing As New Labour: Policy And Politics Under Blair* (Basingstoke: Palgrave Macmillan), pp.106-25; M.J. Smith (2004), 'Conclusion: Defining New Labour', in S. Ludlam and M.J. Smith (eds.), *Governing As New Labour: Policy And Politics Under Blair* (Basingstoke: Palgrave Macmillan), pp.211-25; Giddens, A. (2002), *Where Now For New Labour?* (London: The Fabian Society); S. Buckler and D.P. Dolowitz (2000), 'Theorizing The Third Way: New Labour And Social Justice', *Journal Of Political Ideologies,* 5 (3), pp.301-20; R. Prabhakar (2004), 'New Labour And The Reform Of Public Services', in S. Ludlam and M.J. Smith (eds.), *Governing As New Labour: Policy And Politics Under Blair* (Basingstoke: Palgrave Macmillan), pp.161-76; E. Shaw (2008), *Loosing Labour's Soul? New Labour And The Blair Government 1997-2007* (London: Routledge); Corry 2010, 'Labour And The Economy, 1997-2010: More Than A Faustian Pact', *The Political Quarterly,* 81 (1), pp.123-39.

[5] A. Finlayson (2009b), 'Planning People: The Ideology And Rationality Of New Labour', *Planning, Practice And Research,* 24 (1), pp.11-22; M. Freeden (1999), 'The Ideology Of New Labour', *The Political Quarterly,* 70 (1), pp.42-51; M. Bevir (2003), 'Narrating The British State: An Interpretive Critique Of New Labour's Institutionalism', *Review Of International Political Economy,* 10 (3), pp.455-80; M. Temple (2000), 'New Labour's Third Way: Pragmatism And Governance', *The British Journal Of Politics And International Relations,* 2 (3), pp.302-25; R. Lister (2001), 'New Labour: A Study In Ambiguity From A Position Of Ambivalence', *Critical Social Policy,* 21 (4), pp.425-47; P. Burnham (2001), 'New Labour And The Politics Of Depoliticisation', *The British Journal Of Politics And International Relations,* 3 (2), pp.127-49.

My focus in this section is the first and third perspectives. Importantly, both seek to elucidate and attribute an Ideology to these governments, which differs from my own objective of ascertaining the ideational character and content of their coordinative discourses on economic policy and political-economic restructuring: in the former enterprise normative ideas are more central. The term Ideology is rarely defined in this literature, but it is apparent from the contributors that it denotes for them a system of core normative and analytical ideas regarding the purpose of government that conditions the actions of leadership. My argument in response is that much of what is cited as evidence of New Labour's non-neoliberalism in this debate can also be interpreted as evidence of strategies of neoliberalisation of the 'roll out' neoliberalisation if neoliberalism is conceptualised as a restructuring ethos rather than an Ideology. Roll out neoliberalisation, recall, represents the reaction by neoliberalising governments to the economic pathologies and crisis tendencies that emerge from initial waves of roll back neoliberalisation. It refers to the processes and policies by which government tries to stabilise ongoing neoliberal restructuring in various domains and in the political economy as a whole through the construction of non-market and quasi-market 'flanking mechanisms', thereby rendering it sustainable and able to continue. Such interventions remain neoliberal because they are consistent with the thrust of neoliberalisation as a restructuring ethos aiming to expand market and market-like forms of governance, yet they can imply a greater role and activity for government in ensuring this outcome. Contrary to the perspectives I review, I argue that such strategies do not preclude a 'socially progressive' intent on the part of the government that enacts them.

Social Democratic Characterisations

Those who characterise New Labour's approach to political-economic governance as an expression of the same social democratic Ideology that they attribute to 'Old Labour' constitute a large portion of the literature. For these authors, New Labour, and the modernisation process that it emerged from, reflects a tradition of social democratic 'revisionism' that has long characterised the Labour Party.[6] In the

[6] Meredith (2006), 'Mr Crosland's Nightmare'; Bevir (2000), 'New Labour: A Study'; Diamond (2004), 'Introduction'; Fielding (2003), *The Labour Party*.

terms adopted in Chapter 2, this process involves the re-assessment of policy ideas and problem definitions in the light of new circumstances, but it is argued that essential normative ideas underpinning problem definitions remain constant.[7] Advocates of this perspective emphasise the constraints placed on the New Labour governments by a domestic and an international political economic context that had changed dramatically since Labour had last held governing power, but play down change in the party's normative orientation and, in some cases, its policy ideas too. Instead, they suggest that New Labour's apparent concessions to the post-Thatcherite political economy, its adoption of market-oriented policies and market-liberal restructuring, and its use of pro-business and anti-class rhetoric reflected unavoidable constraints and strategic choices in an attempt to maximise the space for recognisably social democratic objectives. In an explicit articulation of the thesis, Fielding calls the strategy 'accommodating to shape': the notion that by accommodating demands and practices that are in tension with the social democratic tradition New Labour was accumulating time in which to shape electoral opinion and institutional constraints in a way that favoured social democratic values and policies in the longer term.[8]

Problematically, many contributors to this perspective define social democracy so broadly as to include almost any tendency in 20th century British politics regardless of its relationship to the Party or to the late 19th century labour movement.[9] Defining social democracy as a 'reformist orientation' or by the endorsement of public services and a welfare state does not distinguish it from other distinct ideologies and traditions of thought.[10] Gamble and Wright's definition – a desire to reform social and economic institutions so as to curb perceived injustices and promote greater equality – is a great improvement, but its ahistoricity renders it problematically permissive: its terms are so broad as to

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[7] Meredith (2006), 'Mr Crosland's Nightmare'.
[8] Fielding (2003), *The Labour Party*.
[9] In a more historically informed account than some of the others reviewed here, Prezworski stresses the importance of this lineage to the development of contemporary European Social Democracy, see Przeworski (1985), *Capitalism And Social Democracy*.
[10] M. Wickham-Jones (1995), 'Recasting Social Democracy: A Note On Hay and Smith', *Political Studies,* 43 (4), pp.698-702; Smith (2013), 'Globalisation And The Resilience'; Throughout the 20th century governments influenced by all traditions of political thought have sought to reform the capitalist economy and social institutions in various ways, whilst the idea of public services is one to which the liberal tradition can also lay claim (as Beveridge himself would remind us).

accommodate a host of centre-left and, indeed, some moderate centre-right political-economic projects that lack any relevant historical connection with one another.[11] The broad disposition shared by such Ideologies to ameliorate the effects of economic and societal structure on the life-chances of individuals and groups could helpfully be termed 'progressive'. Yet a movement that makes some measurable claim to progressiveness need not be classifiably social democratic, nor need it have all (or indeed any) of its antecedents in social democratic thought.

This stretching of the concept of social democracy is often the consequence of the dubious notion that problem definitions can be revised without concomitant revision of normative ideas. As stressed in Chapter 2, analytical ideas bring with them normative presuppositions: change in one necessitates change in the other.[12] Over successive rounds of revision, it is likely that both the analytical and normative content of problem definitions inherited by a once social democratic party would change to the extent that the concept of 'social democracy' is stretched beyond its useful limits. This is especially so in cases where neoliberal problem definitions have been incorporated into a broader Ideology, for this fundamentally changes the character and 'ends' of political-economic restructuring and necessitates revision of both normative and analytical ideas amongst which it is situated – a point to which I return presently. At such a point new labels such as 'third way' become necessary (at least as heuristic devices) to denote the fact that the ideational content of an Ideology has transformed in ways that render it categorically distinct from previous incarnations.

Leaving aside the issue of where the concept of social democracy begins and ends, there is some evidence that suggests that New Labour's approach to political-economic restructuring had a stronger relationship to problem definitions espoused by the party in the past than it did to neoliberal ones, and these might be recruited to claim that the extent of New Labour's revisionism has been exaggerated. Perhaps the most powerful piece of evidence is the substantial

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[11] A. Gamble and T. Wright (1999), 'Introduction: The New Social Democracy', *The Political Quarterly,* 70 (Supplement 1), pp.1-9.

[12] On the co-transformative relationship of 'values' (normative ideas) and 'means' (analytical ideas) in Labour Party revisionism, see K. Hickson (2007), 'Reply To Stephen Meredith, 'Mr Crosland's Nightmare? New Labour And Equality In Historical Perspective'', *The British Journal Of Politics And International Relations,* 9 (1), pp.165-68.

expansion of redistribution through the social security and public services under New Labour from 2000 onwards. Despite the rhetoric of budgetary 'prudence', New Labour pursued 'good by stealth' and 'taxed and spent' more than any Labour government of the past.[13] Social security spending increased by 21.1% between 1997 and 2005 in spite of falling unemployment, whilst funding in the state education system and the NHS increased by 45% and 54% respectively.[14] Viewed at this level New Labour's practices in government appear inconsistent with the neoliberal restructuring ethos. Such redistribution impinges upon individual property rights and market relations, whilst social security spending, public service expansion all have the superficial trappings of *de-commodifying* and non-market modes of resource allocation. If this were the whole story New Labour could perhaps be argued to have pursued a (bounded) 'de-neoliberalisation'. Yet upon examination of the details of New Labour's redistributive principle, and its broader approach to public service reform, what emerges is a restructuring project that is predominantly consistent with an overarching strategy of 'roll out neoliberalisation' and the pursuit of a reformulated concept of social justice that is subordinate to the imperatives of that strategy.

Shaw offers an analysis of New Labour's redistributive principle and the conception of social justice that it served from the vantage point of 2007, comparing it with those espoused by different traditions within the party prior to modernisation.[15] This principle was premised on the promotion of a 'thin' meritocracy in which the social democratic concept of social justice (re-termed 'fairness') was redefined as equal access to initial labour market positions for those able to work ('equality of opportunity') as well as support for those unable to.[16] This conception differed markedly from that espoused by the Party in earlier decades, which was articulated as a critique of market income distributions under capitalism and as an imperative to remedy initial distributions through democratic non-market mechanisms, *as well as* to pursue a more meritocratic social pre-

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[13] R. Lister (2002), 'Doing Good By Stealth: The Politics Of Poverty And Inequality Under New Labour', *New Economy,* 8 (2), pp.65-70; Driver and Martell (2006), *New Labour*; Fielding (2003), *The Labour Party*; Smith (2013), 'Globalisation And The Resilience'.
[14] M. Mullard and R. Swaray (2008), 'New Labour And Public Expenditure', in M. Beech and S. Lee (eds.), *Ten Years Of New Labour* (Basingstoke: Palgrave Macmillan), pp.35-49.
[15] Shaw (2008), *Loosing Labour's Soul?*
[16] Ibid.

stratification.[17] For New Labour, social justice demanded that the negative (but not positive) impact of initial socio-economic location upon a person's earning potential be mitigated, and this was to be achieved through a range of policies that aimed at increasing the 'inclusion' of various marginalised social groups in the labour market. 'Exclusion' was cast as a structural socio-economic problem, with poverty and inequalities of opportunity (that is, social injustice) reproduced from one generation to the next.

Rather than de-commodifying the members of its working class constituency, New Labour explicitly sought to make them active and prosperous stakeholders in their own commodification. The role of government and state institutions in this formula was to ensure that opportunities for human capital improvement were available for those willing to take them, and to incentivise them to do so. It was to this end that an extensive infrastructure of targeted social intervention in deprived neighbourhoods, adult training and a growing degree of conditionality and scrutiny in relation to working-age benefits was deployed. Only for those incapable of work would unconditional support be available.[18] Indeed, New Labour's rhetoric of 'rights and responsibilities' and development of a 'welfare to work' approach placed a duty to labour market participation upon all working class people. This was, of course, premised on the assumption that opportunities for socio-economic advancement through labour-market participation were available to all who were physically capable of working and willing to invest sufficient time and effort in improving their human capital through the acquisition of skills – or, put differently, that the opportunity to compete in labour markets is indeed synonymous with social justice.[19]

Inequalities of outcome arising from labour markets that were 'inclusive' in this way were viewed as just. This is perhaps reflected in Labour's unwillingness to extend the redistributive principle to high earners and the wealthy.[20] Income tax

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[17] Ibid; although Shaw notes that the conceptualisation of equality and its purpose within a Labourite political economy was a battleground between competing factions within the party and that consensus was far from present within the leadership throughout the mid-20th century.
[18] Ibid.
[19] Lister (2001), 'New Labour: A Study In Ambiguity'.
[20] Shaw (2008), *Loosing Labour's Soul?*

remained at the historic low of 40%. [21] Instead, New Labour redistributed from middle-income earners to lower income earners, utilizing higher rates of national insurance, 'regressive' techniques such as fiscal drag (where tax bands are not up-rated with inflation) and a range of consumption taxes.[22] Yet the impact of the infrastructure of targeted support, public services and in-work benefits implicated in the new redistributive agenda combined to increase the percentage increase in real 'final income' (post-tax income incorporating transfer payments and the value of public services) gained by the lower deciles of the income distribution above that of the top between 1996-97 and 2006-07, in spite of the stagnation in the real median wage growth noted in Chapter 1.[23] The pursuit of labour market inclusivity and equality of opportunity in New Labour's approach to social justice consequently implied material gains for lower income earners with families.

The re-conceptualisation of social justice as inclusion and self-advancement in the labour market can be interpreted as a strategy of roll out neoliberalisation *as well as* one that responds to perceived societal injustices. This is because it explicitly responds to the politically unpalatable and economically sub-optimal outcomes of earlier strategies of 'roll back neoliberalisation', but does so in a way that preserves and builds on the advances of neoliberal restructuring that those previous strategies represent. Specifically, it responds both to the costs of labour market liberalisation and de-industrialisation for the poor and precariously employed, and also to a perceived 'market failure' in the formation of human capital.[24] Both were integrated into a single problem definition that proposed a market-conforming framing and resolution of the 'progressive's dilemma' of the competing demands of economic efficiency and social justice.[25] Labour market flexibility was deemed of importance to ensuring competitiveness, yet it was recognised that employers tend to under-invest in 'human capital' and this was deemed a barrier not simply to labour-market participation and re-employment

[21] Driver and Martell (2006), *New Labour.*
[22] P. Gregg (2010), 'New Labour And inequality', *The Political Quarterly,* 81 (s1), p.16-30.
[23] T. Sefton, J. Hills, and H. Sutherland (2009), 'Poverty, Inequality And Redistribution', in J. Hills, T. Sefton, and K. Stewart (eds.), *Towards A More Equal Society? Poverty, Inequality And Policy Since 1997* (Bristol: The Policy Press), Fig. 2.8.
[24] C. Hay (2004c), 'Credibility, Competitiveness And The Business Cycle In 'Third Way' Political Economy: A Critical Evaluation Of Economic Policy In Britain Since 1997', *New Political Economy,* 9 (1), pp.39-56.
[25] Buckler and Dolowitz (2004), 'Can Fair Be Efficient?', but we shall see they dispute the applicability of 'neoliberalism'.

prospects (and therefore social justice), but to economic performance as well.[26] By making citizens stakeholders in their own commodification and by providing opportunities and incentives to improve the quality of their own human capital, New Labour was seeking to reconcile what would otherwise be a tension between the demands of ongoing neoliberalisation for labour market flexibility and supply of appropriately re-skilled workers on the one hand, and its progressive ambitions for the welfare of citizens and social justice on the other. [27]

New Labour's preference for flexible labour markets is one of a number of areas in which the governments either reinforced or extended the institutional outcomes of previous processes of roll back neoliberalisation. Some of these, namely New Labour's orientation to industrial relations and its 'modernisation' of public services, have been held by exponents of social democratic characterisations to indicate the very opposite.[28] Regarding the first of these, New Labour's preference was for an individualised model of industrial relations in which workers were protected from exploitation by unscrupulous employers by statutory rights rather than through the collective exercise of economic power.[29] These rights, however, were carefully framed to be compatible with a flexible labour market and a macroeconomic policy architecture oriented to the control of product price inflation.[30] The prioritisation of these aspects of neoliberal restructuring impose the costs of labour market adjustment and macroeconomic management on employees in terms of job security and incomes. The principal gains for individual workers under New Labour were a minimum wage that was set in support of the control of product price inflation, enhanced maternity and paternity leave rights, and a reduction (now reversed) in the time before an employee could claim against an employer for unfair dismissal. Insofar as these reflect a departure from the norms of 'roll back neoliberalisation' by imposing new constraints on the operational liberty of firms, they do not do so at the expense of the existing realisation of neoliberal restructuring. Indeed, they serve to entrench it by

[26] Hay (2004c), 'Credibility, Competitiveness'; Buckler and Dolowitz (2004), 'Can Fair Be Efficient?'.
[27] Buckler and Dolowitz (2004), 'Can Fair Be Efficient?'.
[28] Corry (2010), 'Labour And The Economy'; Smith (2013), 'Globalisation And The Resilience'.
[29] C. Howell (2004), 'Is There A Third Way For Industrial Relations?', *British Journal Of Industrial Relations,* 42 (1), pp.1-22.
[30] Howell (2004), 'Is There A Third Way'.

regulating the potential for politically unpalatable outcomes (such as extremely low wages for vulnerable parts of the workforce) and so represent strategies of roll out neoliberalisation alongside their progressive intent.

In relation to public services, New Labour embraced (after some initial equivocation) the further 'marketisation' of public sector monopolies and the involvement of the private sector in their finance, delivery and operation. A totemic example of this changed orientation is the so-called 'Private Finance Initiative', an instrument inherited from the previous Conservative administrations through which private sector consortiums invest in public sector capital projects (and in many cases also operate and deliver the ancillary services related to them) in return for a fixed term of re-payments. Yet its political-economic implications are relatively minor when compared to the approach to 'modernisation' deployed within established public service monopolies like those that comprise the NHS.[31] In order to promote improvements in productivity New Labour enthusiastically embraced the quasi-market agenda bequeathed to it by the previous government, introducing a greater level of internal competition between hospitals for patients and funds, empowering patients to make a much expanded range of choices regarding their treatment and the places it was to be administered, and allowing private health providers to compete with NHS hospitals and secondary health services. A greater degree of financial and administrative autonomy was also devolved to 'foundation trust hospitals', and these institutions were in turn allowed to raise their own funds and compete, to a proscribed extent, in private healthcare markets.

The result has been a model of the 'welfare state' in which the boundaries between the public and private sectors, and between market and non-market forms of governance, have been blurred. This marks a departure from the view of 'the state' as the neutral arbiter of collective public interest often attributed to social democrats of the past.[32] For New Labour, it was subject to the inefficiencies, rent-seeking and stagnationary tendencies attributed to it by neoliberal critics and it was these that constituted the principal barrier to the improvement of public

[31] Shaw (2008), *Loosing Labour's Soul?*
[32] Ibid.

services.[33] The introduction of market and quasi-market forms within and between public service providers was argued to create an incentive to innovate and improve that was otherwise lacking.

Yet somewhat paradoxically, there was a strong role for central government in New Labour's welfare state as the location through which collective interest would be defined and defended. It would, after all, require the firm conviction of a 'modernizing' government to take on the entrenched interests to whom New Labour attributed the inadequate performance of public services and ensure high standards. Smith and Richards correctly characterise the outcome as a 'hybrid state', in which New Labour stopped short of internalizing the full-blown neoliberal critique of collectivist provision because of their willingness to maintain elements of both central control and newer 'partnership' approaches to delivery that include a range of nonprofit-driven voluntary sector providers as well.[34] Whether a genuinely coherent and novel form of welfare state has or can emerge from the trajectory of reform New Labour put in motion, or whether it reflects a moment in the progress towards further privatisation of public services, remains a live debate among the various perspectives examined here. From the point of view of a neoliberal characterisation, the precise form that reform of public services has taken under New Labour reflects the institutional and ideational 'sediment' with which the neoliberal restructuring ethos necessarily co-habits and which constrains and conditions its contextual expression. Neoliberal problem definition and strategies of neoliberalisation played a part in this process where market and market-like forms of governance have been deemed appropriate means to respond to the perceived failings of the post-war welfare state.

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[33] Ibid; Diamond (2004), 'Introduction'; Richards and M.J. Smith (2004), 'The 'Hybrid State'; Prabhakar (2004), 'New Labour And The Reform'.
[34] Richards and M.J. Smith (2004), 'The 'Hybrid State'; Prabhakar (2004), 'New Labour And The Reform'.

Critical Continuity Perspectives

A second perspective emphasizing the links between 'Old' and New Labour might be termed a 'critical continuity perspective'.[35] These authors argue that 'Old Labour' in government rarely lived up to it social democratic rhetoric, and that it is actually this failure to achieve social democracy that constitutes the relevant continuity between 'Old' and New Labour.[36] The view is often premised on one or other variant of the 'structural dependence' thesis which casts social democracy as a difficult and likely impossible project to bring to fruition in the medium term because of the competing requirements to maintain investment and stability in a capitalist economy and the interventions necessary to achieve social justice (understood both as 'fairness' and protection from an excessive burden of commodification): it is argued that one eventually pursues one at the expense of the other.[37] Coates argues that the electoral costs associated with economic performance failure combined with the need to sustain an electoral coalition wider than a working class base consistently conspire to push Labour governments away from the pursuit of social justice and into deflationary and commodifying economic strategies aimed at securing economic stability and growth.[38] He concludes that the difference between Old and New Labour is not one's commitment to social democracy and one's departure from it, but rather that New Labour recognised the impossibility of more expansive social democratic ambitions prior to election and scaled its objectives accordingly. Wickham-Jones is somewhat more forgiving in his assessment of New Labour's progressive

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[35] This categorisation is inspired by Legget's categorisation of social democratic analyses of New Labour. See W. Leggett (2007), 'British Social Democracy Beyond New Labour: Entrenching A Progressive Consensus', *The British Journal Of Politics & International Relations,* 9 (3), pp.346-64.
[36] Coates (2001), 'Capitalist Models And Social Democracy'; M. Wickham-Jones (2003), 'From Reformism To Resignation'; M. Rhodes (2000), 'Desperately Seeking A Solution'.
[37] Przeworski (1985), *Capitalism And Social Democracy*; for a critical reformulation see M. Wickham-Jones (2002), 'British Labour, European Social Democracy And The Reformist Trajectory: A Reply To Coates', *The British Journal Of Politics & International Relations,* 4 (3), pp.465-78.
[38] Coates (2001), 'Capitalist Models And Social Democracy'.

credentials and appeals to a less constrictive analysis of structural dependence.[39] Yet like Coates he sees New Labour's approach to economic policy and political-economic restructuring as substantially conditioned by the requirements and preferences of local and international capital.[40]

There is truth in the observation of a recurring tension between professed social democratic aspirations and economic realities in Britain. However, these authors' accounts of the nature of constraints on government in the late 1990s rest more on theoretically informed supposition than empirical evidence. It is the ideas and preferences of 'capital' that are significant in determining political-economic outcomes for these authors, yet little evidence is offered of a collective preference for New Labour's turn to more orthodox forms of economic policy on the part of any fraction of capital. Furthermore, it is demonstrably the case that the Labour Party publicly entertained far less orthodox approaches to economic policy only a short time before entering government.[41] That these ideas were not brought to fruition makes it a speculative question as to whether capital would have accepted them or not. Yet there is an important implication in this point for the present argument: in the absence of evidence to the contrary it is likely that it was New Labour's perceptions of what would and would not prove economically effective (and perhaps what capital would and would not tolerate) that shaped its choice of economic strategy and placed constraints on its progressive ambitions, not the

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[39] Wickham-Jones (2002), 'British Labour, European Social Democracy'; Wickham-Jones (2003), 'From Reformism To Resignation'; Wickham-Jones argues that a degree of space can be generated for social democratic aspirations, noting of new Labour's time in office that while there is much evidence of 'resignation and remedialism' (the idea that formerly social democratic parties confine their ambitions in government to curbing the worst social impacts capitalist economy) there is also a degree of successful but limited redistribution. From this he suggests that not all progressive aspiration need be abandoned in the face of structural dependence, although the lingering doubts of both market actors and the electorate make the kind of historical iconoclasm that characterise New Labour's relationship with the Party's past all the more important so as to generate credibility with both. Both authors, however, share the view that capital mobility and changes in the demands of the electorate served to severely constrain any social democratic aspiration that Labour might have held, perhaps more so than had been the case for 'Old Labour'.

[40] Ibid.

[41] Hay (1999b), *The Political Economy Of New Labour*; See for instance Labour Party (1994), *Winning For Britain: Labour's Strategy For Industrial Success* (London: Labour Party).

clearly articulated demand of capitalists.[42] Neoliberal coordinative discourses and problem definitions are thus likely to be implicated in the outcome.

Synthetic Interpretations

Beyond those accounts that characterise New Labour largely in terms of its relationship to Old Labour are those that characterise it in novel terms. Such accounts are more attuned to New Labour's self-characterisation as practicing a 'third way'. They examine the ways that New Labour synthesised previously opposing normative and analytical ideas into new problem definitions. Such accounts thus entertain the possible influence of ideas and problem definitions that were previously alien to the Labour party. For the present account this raises the possibility that New Labour can be characterised as a fusion of the neoliberal restructuring ethos alongside socially progressive normative ideas in the kind of parasitic relationship alluded to in the introduction: that it sought to fuse neoliberal restructuring with the pursuit of a (reformulated) concept of social justice.

As noted in the first subsection, the position is principally divided between those accounts which suggest New Labour to have formulated a coherent 'third way' through a synthesis of market-liberal and social democratic ideas, and those which suggest New Labour was characterised by ideational eclecticism, a pragmatic problem-solving orientation, and possibly an incoherence that makes it difficult to classify in existing ideal-types. Whether or not the 'progressive' element of New Labour's ideology is coherent and readily classifiable is not my primary concern here. However, I maintain neoliberal problem definitions were a consistent influence on New Labour's approach to economic policy and political-economic restructuring, and that they gave the project an element of coherency (at least in its own terms). Others, notably Buckler and Dolowitz, make a very similar argument but maintain the inapplicability of the term 'neoliberal'.[43] It is thus these authors with whom I engage in this and the following section, for it is my

[42] Wickham-Jones has incorporated this point into his own account. See Wickham-Jones (2002), 'British Labour, European Social Democracy'.
[43] Buckler and Dolowitz (2004), 'Can Fair Be Efficient?

contention that if conceptualised as a restructuring ethos rather than an Ideology the importance of neoliberal problem definitions in shaping New Labour's approach to political-economic governance becomes apparent.

Regarding the normative ideas underpinning the New Labour project Buckler and Dolowitz identify commonalities with 'social liberalism'.[44] The term denotes a broad tradition of progressive political philosophies that have their lineage in classical liberalism, but which conceptualise social justice in market-critical terms. Citing Rawls as an exemplar of this philosophy and a possible influence on New Labour, the two authors suggest that New Labour's procedural re-conceptualisation of social justice as the outcome of a 'fair' and inclusive market economy reflects the social liberal belief in the equal worth of individuals and the moral imperative that social arrangements should benefit the least well-off in the long term. In this perspective the liberal emphasis on the individual and on property rights is rendered consistent with social policy arrangements that entail a degree of redistribution in order to enhance economic opportunity for those who would otherwise be disadvantaged. It is also consistent with the provision of income to those incapable of working. To fail to embrace these meritocratic and compassionate objectives would, from this perspective, be to dismiss the equal worth of individuals. Note, however, that capitalism and the private ownership of the means of production are not seen as unjust or contributing to injustice so long as these initial preconditions of procedural justice obtain. Rather, it is the denial of access to market positions for individuals to realise their potential that can render capitalism procedurally unjust under certain circumstances.

For Buckler and Dolowitz, it is partly the influence of social liberalism that sets New Labour apart from neoliberalism as they understand it. The imposition of 'rights' and 'duties' above those implied in market exchange, and the potentially quite expansive role for government in ensuring this moral order, is deemed antithetical to neoliberalism. However, this supposed mutual exclusivity is suspect. Understood as a restructuring ethos, neoliberalism certainly has recurrent normative themes of its own, but they do not constitute a complete moral

[44] Buckler and Dolowitz (2000), 'Theorizing The Third Way'; A. Vincent (1998), 'New Ideologies For Old?', *The Political Quarterly,* 69 (1), pp.48-58.

approach in the way that Rawlsian social liberalism does. These themes include the strong anti-collectivist emphasis on the value of the individual and individual effort, of mercantile liberty, and of the individual's right of disposal in relation to earned income and property. To an extent these do stand in tension with a social liberal emphasis on the responsibility of the social whole to guarantee procedures that benefit the least well off in the longterm. However, a degree of tension has historically been a trait of 'actually existing' neoliberalisms. New Labour's approach is no less coherent than the marriage of the neoliberal restructuring ethos (and the transformative dynamism that the neoliberal dissembedding of markets implies) with socially and institutionally conservative themes comprising Thatcherism. Indeed, it is arguably more coherent: the circle is squared through the idea of meritocracy, and the notion that procedural injustice under a capitalism that fails to produce meritocratic outcomes is also a 'market failure' that will harm economic performance, thereby reconciling neoliberal practices with progressive norms.[45] The imprint of social liberalism is not, then, evidence of the absence of neoliberal problem definitions, but a means of accommodating a notion of social justice alongside a neoliberal trajectory of capitalist restructuring.

Turning to economic policies, Buckler and Dolowitz see New Labour as attempting to address anew the social democrat's dilemma noted in the previous subsection. They argue that New Labour had internalised the Thatcherite critique of post-war economic policy and accepted the post-Thatcherite political-economic settlement through which the burden of economic stability would fall on wage earners through counter-inflationary central bank and liberal labour market policies.[46] Consequently, Keynesianism and nationalisation were ruled out as a means of promoting economic efficiency whilst redistribution was constrained by the perceived need to maintain capital and high-earner friendly rates of taxation. Instead, Buckler and Dolowitz argue that New Labour turned to 'endogenous growth theory' (EGT) as a means to marry their progressive aspirations to the post-Thatcherite political-economic settlement.

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[45] Buckler and Dolowitz (2004), 'Can Fair Be Efficient?; Shaw (2008), *Loosing Labour's Soul?*
[46] Buckler and Dolowitz (2004), 'Can Fair Be Efficient?

There is no unitary theory of endogenous growth.[47] The term refers to a range of economic arguments within and beyond the neoclassical orthodoxy that posit that government investment in human capital via specific skills training, as well as investments in the development of innovative technologies and processes, can raise the trend rate of growth of an economy. The various EGTs are sceptical of the view that the liberal market economy is necessarily at an optimal resource usage equilibrium, a view that Buckler and Dolowitz ascribe to neoliberalism. Instead, EGT posits a role for government as a vital and active component in achieving this outcome through supply-side investments in (among other things) human capital, infrastructure and the technology base. Buckler and Dolowitz locate the influence of these ideas under New Labour in a microeconomic agenda centred on the promotion of the 'competitiveness' of regional economies through such investment.[48]

For these two authors the attribution of some form of EGT approach to New Labour necessarily places the character of these governments beyond neoliberalism. They argue that New Labour seized upon EGT because of its perceived potential not simply to promote higher levels of economic activity (and consequently higher living standards, employment opportunities for the population and greater revenues to fund social spending), but also because some of the policies by which it was promoted were the very ones that were perceived to ensure equality of opportunity and social justice: namely interventions designed to increase labour market inclusion. Through this integration of liberal economic policy and fairness-oriented social policy, Buckler and Dolowitz characterise New Labour as presenting a new framework through which social justice would be pursued within a post-Thatcherite liberal economy.

Many of the policies that the two authors hold as indicative of the influence of a novel EGT-inspired New Labourite political economy actually have their antecedents in the microeconomic policy of the Major government, or are

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47 Watson (2004), 'Endogenous Growth Theory'.
48 Buckler and Dolowitz (2004), 'Can Fair Be Efficient?

straightforward continuations thereof.[49] However, they may be correct to assert the novelty of New Labour's marriage of progressivist social policy aspirations with these microeconomic policies. One might add that it was through this marriage that New Labour was able to present the constraints that 'globalisation' was argued to place on social democratic ambitions as being benign: flexible labour markets were quite consistent with rising wages, improving working conditions and improved individual life-chances if their EGT-influenced approach to human capital formation could indeed attract higher levels of inward investment. Yet there is a question as to how far an endorsement of EGT reflects the absence of neoliberal influences, and how far it is actually indicative of such influence. It is to the tendency of both of the approaches reviewed so far to misconstrue evidence of the influence of neoliberalism as the opposite that the next section turns.

2.
A Misconceived Debate

The relevance of the concept of neoliberalism in characterizing New Labour's approach to political-economic governance turns on a supposed mutual-exclusivity between this category and Ideological categories such as 'Social Democracy' or 'Social Liberalism'. I argue here that such an exclusivity rests on a problematic conceptualisation of neoliberalism as though it were a coherent Ideology itself, rather than a restructuring ethos. As a restructuring ethos, neoliberalism lacks the scope of an Ideology as a coherent vision for the purpose of the exercise of governmental power. In isolation, the restructuring ethos is merely a rationale for the dissembedding and extension of market processes. It is through its parasitic integration into the conceptual framework of existing Ideologies that neoliberalism gains scope as a vision of governmental purpose able to hold traction with moderate politicians and the voting public. This opens the possibility that New Labour was a historically particular incarnation of neoliberalism, fused to reformulated concepts drawn from a socially progressive heritage.

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[49] For a historical overview of 'competitiveness' policies that highlights this, see D. Bailey and N. Driffield (2007), 'Industrial Policy, FDI And Employment: Still 'Missing A Strategy'', *Journal Of Industry, Competition And Trade,* 7 (3-4), pp.189-211.

Neoliberal characterisations of New Labour note the considerable overlap in policy and rhetoric between New Labour and the previous Conservative administrations, and they hold this as evidence of a degree of ideational convergence between the two around the restructuring ethos.[50] From this perspective it can be argued that in the course of the 'modernisation' process the Labour leadership had come to internalise neoliberal problem definitions into their coordinative discourses, thereafter accepting that the appropriate trajectory of political-economic restructuring would be oriented to an expanded realm of market and quasi-market governance. Whatever progressive ambitions the New Labour leadership had would consequently be pursued *through* the perceived constraints that these neoliberal problem definitions painted, as well as the institutional constraints arising from a post-Thatcherite political-economic settlement that would remain unreformed.[51] To be clear, the claim is emphatically not that New Labour had internalised a 'Thatcherite' ideology. What had been internalised, however, was the claim expounded by the Thatcher governments that a new phase had arisen in the development of capitalism that made neoliberal restructuring an inevitability, alongside the novel notion that such restructuring could be reconciled with a reformulated conception of social justice.[52]

The gap between this position and Buckler and Dolowtiz's is narrow: both regard New Labour as seeking to marry economic efficiency to a reformulated concept of social justice through microeconomic interventions in a market-liberal economy. The difference is that what the latter interpret as a non-neoliberal approach to political-economic restructuring is interpreted by the former as a set of 'roll out neoliberalisation' strategies. As I have already noted, New Labour's redistributive principle coheres with such an analysis regarding the supply of human capital. A similar argument can be made regarding New Labour's more general approach to microeconomic policy and its embrace of policies that Buckler and Dolowitz cast as 'EGT'. As the next section more fully explores, New Labour microeconomic policy sought to compensate for a shortage of private sector investment in public goods deemed necessary for the optimal functioning of the market economy, including

[50] Hay (2004c), 'Credibility, Competitiveness'; Jessop (2002), 'Liberalism, Neoliberalism'.
[51] Hay (1999b), *The Political Economy Of New Labour.*
[52] Ibid; Heffernan (2011), 'Labour's New Labour Legacy'.

(among other things) the formation of human capital and investment in research and development. In deploying government interventions in these and other areas, the New Labour governments were responding to failures of earlier neoliberal restructuring to resolve long-standing pathologies of the British economy (low investment and low productivity) and of the emergence of new difficulties that had emerged during neoliberal restructuring such as enduring disparities in regional output and of quality of life in de-industrialised regional economies.[53] In spite of the emergence of the ALGM, which served to stave off a politicisation of the social impact of neoliberal restructuring and mitigated what would otherwise have been much worse performance, it remained necessary for the government to address these issues and also to offer a positive vision of how a neoliberal political economy could serve the interests of all members of society. The resulting interventions were the 'flanking mechanisms' that were erected around British neoliberal political economy as it matured in the first years of the new millennium.

The characterisation of this interventionist microeconomic policy in terms of roll out neoliberalisation might appear in tension with the broader concept of neoliberalism as a restructuring ethos dedicated to extending market relations and commodification. There is a danger here, although not an insurmountable one, of conceptual stretching. To avoid such stretching it is necessary to specify the qualitatively specific kind of interventionism entailed in roll out neoliberalisation. In understanding its nature, the conceptual binaries of 'discretionary vs. non-discretionary' and 'strategic vs. non-strategic' industrial policy are useful. These categories are a development of the common two-part categorisation of government intervention as either being 'horizontal' or 'selective', with the former referring to policies that do not systematically privilege particular industries or sectors but which instead seek to improve the general business environment. When considering the relationship of particular interventions to the neoliberal restructuring ethos, however, it is more helpful to categorise them using categories that denote the degree to which the market is being expanded or supplanted as the mechanism of resource allocation in an economy, for it is the extension of market and market-like governance and resource allocation that marks out neoliberalism

[53] D. Coates (2008), '"Darling, It Is Entirely My Fault!" Gordon Brown's Legacy To Alistair And Himself', *British Politics,* 3 (1), pp.3-21.

as a distinct restructuring ethos. It is this aspect that the four-point framework proposed here is intended to capture.

Non-discretionary industrial policy is a market-facilitating form of interventionism characterised by policymakers refraining from discretionary judgment regarding the commercial viability of private sector projects. Instead, such intervention is premised on the view that the allocation of economic resources made by (correctly functioning) markets reflects an optimal assessment of the commercial viability of private sector projects. Such interventions consequently seek to correct market failures to better facilitate the market allocation of economic resources. In withholding such discretionary judgement, non-discretionary interventionism is oriented to market-led industrial development – it is a non-dirigiste approach where the role of government intervention is to facilitate an optimal environment for market-led industrial development to occur in, rather than to intentionally steer the economy towards a particular direction of industrial development.

In principle, non-discretionary interventionism limits the impact of the public sector on the trajectory of industrial development to a passive one that arises through the impact of its purchasing decisions and public service provision (for example, the impact of NHS procurement, spending and provision on markets for related goods and services), or through the kind of market-enabling supply-side policies noted by Buckler and Dolowitz. In this sense there is no 'pure' strategy of market-led industrial development free from the influence of public sector activities, for the state itself is a buyer, a producer, a rentier and a source of rules that organise markets. However governments can choose whether to utilise the impact of public sector activities and decision making to deliberately support particular suppliers, industries or technologies, or whether instead to allow market resource allocation to arbitrate the commercial viability of private sector projects. This choice reflects the difference between 'discretionary' and 'non-discretionary' intervention.

The market-facilitating nature of non-discretionary industrial policy means that it has an inherent affinity with neoliberalism. Roll back neoliberalisation is itself a form of non-discretionary intervention insofar as it places activities into the private sector and introduces markets where they were previously absent. However, non-discretionary interventionism can also encompass 'active' forms of interventionism associated with roll out neoliberalisation where non-market institutional forms are deployed as 'flanking mechanisms' to support the growing domain of market resource allocation that is the result of neoliberalisation. These interventions can be categorised as non-discretionary insofar as their objective is to facilitate the market in making judgments about the commercial viability of private sector projects, rather than for industrial policymakers to make such a judgment themselves.

Another way of stating this is to say that non-discretionary industrial policy is organised around addressing 'market failures' – scenarios in which the market economy is found to under-produce resources required by all firms in the economy, and so undermine the conditions of its own optimal reproduction.[54] There are at least two general forms that non-discretionary interventionism commonly takes. The first involves the public production of the resources that the private sector under-produces. Examples include education and skills training (a supply of human capital), transport and other civil infrastructure, and science and technology research. In areas such as these the public sector often takes a leading role in planning, organising and producing the resource in question. Neoliberalisation has seen the introduction of private ownership, private co-investment and quasi-market forms in many former public sector monopolies. As yet, however, the areas described above have not been subject to a full-scale privatisation. These kinds of intervention are non-discretionary insofar as their rationale is to sustain the broader private economy.

A second form of non-discretionary intervention involves the use of incentives to prompt the private production of resources subject to market failure. Examples include research and development tax allowances, capital depreciation allowances for manufacturing industries, and techniques for stimulating the supply of finance to small firms through what has come to be known as 'credit easing' in the post-

[54] This broad definition incorporates the many more formally specified market failures identified by the neoclassical orthodoxy in economics, such as collective action problems that impact on the production of public goods. See P. Arestis and M. Sawyer (2001), 'The Economic Analysis Underlying The 'Third Way'', *New Political Economy,* 6 (2), pp.255-78.

2008 context. In doing so the government seeks to leverage higher levels of private investment and resource production through the market system for allocating economic resources, but does not exercise discretion as to which private sector projects will develop.

Both forms of non-discretionary intervention imply a proscribed role for the policymakers as facilitating the market allocation of economic resources and market-led industrial development. By contrast discretionary forms of interventionism involve policymakers making such judgements themselves, playing the part reserved for market participants in the non-discretionary approach in order to purposefully bring about developmental outcomes that even a correctly functioning market would not have. Insofar as discretionary interventions constitute a part of a strategy to realise the government's economic policy goals it is a 'strategic discretionary' form of interventionism, often referred to as an 'industrial strategy'.[55]

The reason for the neoliberal antipathy towards strategic-discretionary interventionism is that it violates the core principle bound up in the view that market and market-like forms of governance and resource allocations are the optimal ones: the claim that competition in free markets facilitates the most efficient allocation of economic resources. The view rests on two notions. The first could be termed 'market epistemology'. This notion is similar in general form (if not conceptual specifics) to the Hayekian epistemological argument that competition in markets constitutes a 'discovery procedure' by which many rational assessments of many participating individuals are aggregated into well informed judgements about the worth and prospects of firms, technologies and industries.[56] The second is the concomitant notion – widely held in contemporary mainstream economics – that policymakers are unable to better the judgement that emerges

[55] Bailey and Driffield (2007), 'Industrial Policy'.
[56] F.A. Hayek (2002), 'Competition As A Discovery Process', *Quarterly Journal Of Austrian Economics,* 5 (3), pp.9-23.

from this market process regarding allocation of economic resources.[57] The implication of this view is that discretionary industrial policy that privileges certain industries, firms and technologies in an attempt to maximise economic policy objectives such as growth or employment will yield an inferior trajectory of economic development to that which would have emerged from a market-led approach to resource allocation. This view is further reinforced by neoliberal analyses of political economy influenced by variants of public choice theory, in which policymakers are deemed to be subject to perverse incentives that lead discretionary resource allocation to reflect political and rent-seeking logics that deviate from economically efficient ones.[58]

Discretionary interventions can also be non-strategic. In such cases they constitute *ad hoc* and often pragmatic interventions, or relate to strategies other than those pertaining to economic policy (for instance, the preservation of jobs in marginal constituencies or a perceived need to secure food security). Such intervention is no less problematic from a neoliberal perspective, yet intervention on the basis of a non-economic policy rationale does not necessarily indicate a lack of influence of neoliberal problem definitions on a government's approach to economic policy and restructuring. Rather, it suggests that in some situations these governments have prioritised other political, security or perhaps even environmental objectives above that of immediate economic efficiency.

With these and the points made in the previous section in mind, a basis emerges from which to assess the degree to which New Labour can be appropriately deemed an expression of neoliberalism. This basis is an assessment of the degree to which the approach to political-economic governance and restructuring pursued by these governments was framed by neoliberal problem definitions and, in the case of microeconomic policy, the degree to which interventions were non-discretionary in nature. It is to this task that the final section of this chapter turns.

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[57] For critical outline and discussion of these views, see R. Wade (2012), 'Return Of Industrial Policy?', *International Review Of Applied Economics,* 26 (2), pp.223-39; H.J. Chang (2011), 'Industrial Policy: Can We Go Beyond an Unproductive Confrontation?', *Annual World Bank Conference on Development Economics: Lessons From East Asia and the Global Financial Crisis* (Washington D.C.: The World Bank), pp.83-109.
[58] W. Grant (2011), 'Was There Ever An Anglo-American Model Of Capitalism?', in T. Casey (ed.), *Legacy Of The Crash: How The Financial Crisis Changed America And Britain* (Basingstoke: Palgrave Macmillan), pp.19-37.

3.
New Labour And Neoliberal Problem Definitions

Macroeconomic Policy

The macroeconomic policy approach of the New Labour governments embodied several prominent continuities and entrenchments of the approach of the previous Conservative administrations, and these in turn were significant elements of the roll back neoliberalisation of the British economy: through these means the responsibility of government to maintain ‘full employment’ and regulate the credit cycle was scaled back in favour of different priorities. The area is consequently a site of contention between those who perceive neoliberalism in New Labour and those who instead see a strategic ‘accommodate to shape’ strategy. I shall stress the underlying and distinctly neoliberal problem definitions that can be detected in New Labour’s conduct in this area and, against the notion of an ‘accommodating to shape’ logic, a distinct lack of ‘shaping’ of the economic constraints on non-neoliberal economic policy ambitions.

A widely noted continuity was the elevation of monetary policy over fiscal policy as the primary instrument of macroeconomic management, and the elevation of a stable rate of product price inflation above other macroeconomic objectives.[59] Superficially, at least, New Labour dispensed with attempts to achieve objectives relating to other macroeconomic variables (namely the rates of unemployment and economic growth) outside of recessionary moments. Fiscal policy was assigned only a passive function in macroeconomic management (through the operation of the so-called ‘automatic stabilisers’ over the course of the economic cycle or in support of monetary policy during a recession). The primary means by which the manipulation of aggregate demand was conducted was through the

[59] Hay (2004c), 'Credibility, Competitiveness And’; Arestis and M. Sawyer (2001), 'The Economic Analysis’; D. Hodson and D. Mabbett (2009), 'UK Economic Policy And The Global Financial Crisis: Paradigm Lost?', *Journal Of Common Market Studies,* 47 (5), pp.1041-61.

operations of an independent Bank of England tasked with maintaining product price stability, not incomes or employment.[60]

New Labour also continued, with some important nuances, the trend towards rules-based economic policies begun by the previous Conservative administrations. Control of monetary policy was passed to an independent Monetary Policy Committee at the Bank of England, tasked to maintain a stable rate of product price inflation (initially at 3% in the RPIX measure of inflation, then 2.5% at the CPI measure after 2003). A 'Code of Fiscal Stability' was also published in 1998 in which a number of rules to govern the conduct of public expenditure were made transparent, including a so-called 'golden rule' pledging the government to finance only investment and not current spending through borrowing over the course of the economic cycle, and a 'sustainable investment rule' pledging the government to maintain public sector net debt at a stable 40% of GDP.[61]

However New Labour took a more nuanced stance on rules-based macroeconomics than these policies might suggest. As the discussion below shall underline, New Labour spokespeople maintained from the outset that a degree of discretionary manoeuvre is required to maintain macroeconomic stability, and argued that the purpose of the framework of rules was to earn 'credibility' from financial market actors who would thereafter permit a greater degree of fiscal latitude than they might otherwise do.[62] Moreover, a certain degree of unwillingness to accept the self-imposed constraints on fiscal discretion was apparent following the first two years of New Labour government: occasional redefinitions of the economic cycle allowed current spending to be brought forward.[63] Yet while clearly not averse to public expenditure on a large scale or to exercising discretionary spending, New Labour was at pains to maintain the

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[60] For a dissenting view, engaged with below, see B. Clift and J. Tomlinson (2007a), 'Credible Keynesianism? New Labour Macroeconomic Policy and the Political Economy of Coarse Tuning', *British Journal of Political Science,* 37 (1), pp.47-69.
[61] H.M. Treasury (1998), *The Code For Fiscal Stability* (London: The Stationery Office).
[62] B. Burkitt (2006), 'Constrained Discretion: New Labour's Third Way For Economic And Social Policy?', *International Journal Of Social Economic As,* 33 (1), pp.4-10; E. Balls and G. O'Donnell (2002), *Reforming Britain's Economic And Financial Policy: Towards Greater Economic Stability* (London: Palgrave).
[63] Clift and J. Tomlinson (2007a), 'Credible Keynesianism?'; Watson (2008a), 'The Split Personality Of Prudence'.

appearance of adherence to their spending rules, bound perhaps by the degree to which the cycle could be manipulated without a loss of credibility.

Appeals to external economic constraint were something of a lynchpin in New Labour's communicative discourses on its political-economic project, exhibiting something of the 'TINA' rhetoric of the previous Conservative administrations.[64] The New Labour governments proved enthusiastic proponents of financial market liberalisation, and endorsed capital mobility and trade liberalisation. They did not seek to extend government control over the credit cycle or the allocation of credit by liberal financial markets and sought instead to capitalise on the asset-price inflation that occurred during their tenure by incorporating the ownership of speculatively priced assets into their social policy agenda.[65] Although not a process initiated by New Labour, the enthusiasm of these governments for 'light-touch' regulation and their failure to question the assumed benignity of financial innovation or the unbalanced growth model that it sustained makes clear the strength of their endorsement.[66]

Neoliberal Problem Definitions

A neoliberal characterisation of New Labour holds this macroeconomic stance to be reflective of the internalisation of problem definitions that have strong parallels with dominant 'New Keynesian' and 'Neo-Classical' approaches.[67] Although distinct, these broad schools of thought are agued to form a complementary orthodoxy on issues of post-monetarist, post-Thatcherite macroeconomic policy that prescribe the primacy of price stability as the end of macroeconomic policy, with the use of fiscal policy confined to a largely passive role in support of monetary policy objectives. In particular, the orthodoxy embodies a number of neoliberal problem definitions. A key problem defining idea here is a long-run Say's Law which, in modern guise, states that the market economy tends in the

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[64] An acronym of the slogan 'there is no alternative'. M. Watson and C. Hay (2003), 'The Discourse Of Globalisation And The Logic Of No Alternative: Rendering The Contingent Necessary In The Political Economy Of New Labour', *Policy And Politics,* 31 (2), pp.289-305.
[65] Watson (2013b), 'New Labour's 'Paradox'.
[66] Engelen, et al. (2012), *After The Great Complacence*.
[67] Arestis and Sawyer (2001), 'The Economic Analysis Underlying'; Hodson and Mabbett (2009), 'UK Economic Policy'.

long run towards a full resource use equilibrium (a state in which all available factors of production, including labour, are being put to use productively) and that macroeconomic variables tend to perform optimally relative to a given supply-side structure, *providing that a low and stable rate of product price inflation is maintained*.[68] Consequently, the Keynesian notion of the indefinite 'sub-optimal' equilibrium is ruled out by theoretical fiat and there is no rationale to the 'fine tuning' of aggregate demand. Because persistent aggregate demand shortfalls are ruled out by theoretical fiat, economic stability is seen as best achieved through the cultivation of stable inflationary expectations across the economy, as this allows consumers, producers and investors to make long term plans and enact the most efficient allocation of the resources available to them.[69] Uncertainty over the rate of inflation is therefore the primary macroeconomic problem in this view, as it brings about undulations of investment and production as market actors attempt to haphazardly gauge the likely future value of the currency on the basis of emerging (incomplete) information and revealed government preferences.

Attached to this is a second problem definition premised on the existence of a rate of unemployment dictated by the supply-side structure of the labour market, below which an accelerating inflationary dynamic emerges: the 'Non-Accelerating Inflation Rate of Unemployment' ('NAIRU'). In a seminal rendition of this idea, Friedman posits that the mechanism by which accelerating inflation occurs is the lagged effects of increases in the money supply resulting from stimulatory policies, combined with the adaptive expectations of economic agents.[70] Such agents, the argument goes, may enter the labour market as a result of stimulus, but voluntarily withdraw upon perceiving the inflationary off-setting of increased wages, and are afterwards disinclined to re-enter in anticipation of further rounds of the same process unless additional (inflationary) incentives are offered. Such a problem does not exist within the Keynesian definitions of the same problem, which in the

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[68] Arestis and Sawyer (2001), 'The Economic Analysis Underlying'; Kitson and Wilkinson (2007), 'The Economics Of New'.
[69] Hodson and Mabbett (2009), 'UK Economic Policy'; G. Brown (2001), 'The Conditions For High And Stable Growth And Employment', *The Economic Journal,* 111 (471), pp.30-44; A. Glyn and S. Wood (2001), 'Economic Policy Under New Labour: How Social-Democratic Is The Bair Government?', *The Political Quarterly,* 72 (1), pp.50-66.
[70] M. Friedman (1976), 'Inflation And Unemployment', *Nobel Memorial Lecture* (Chicago December 13, 1976).

post-war years had postulated a stable relationship between unemployment and inflation.[71]

The neoliberal definition of this problem arising from such analysis (in essence that unemployment is a supply-side problem and in a large part voluntary outside of recessionary moments, and that higher levels of unemployment should be tolerated as a means to controlling product price inflation) has implications for the policy ideas that neoliberal policymakers may utilise. Policy that seeks to raise the rate of growth or lower the rate of unemployment is relocated to microeconomic policy such as reforms to labour markets that seek to lower the NAIRU: policies that raise the cost of unemployment (through, for example, welfare conditionality), remove 'frictional barriers' to labour market adjustment, and (in later thinking on the subject) policies that raise the quality of human capital and of the business environment more generally to facilitate growth and attract demand for labour from abroad.

The NAIRU thesis that New Labour subscribed to was not identical to the Friedmanite one, as evidenced by its endorsement of this latter category of 'active' microeconomic interventions aimed at reducing the level of the NAIRU.[72] However the influence of *a* NAIRU concept on these governments' problem definition in this area is evident in the publicly articulated re-definition of unemployment as a supply-side problem, as well as these governments' tolerance of the same higher range of rates of unemployment that the Conservative administrations had.[73] Sceptical of this position, Clift and Tomlinson hold the element of plasticity in New Labour's conception of the NAIRU, and particularly their claim that it could undergo persistent rises following periods of heightened unemployment, as evidence of a latent Keynesianism in New Labour's approach to macroeconomics.[74] This is because it implies that aggregate demand manipulation is not confined to maintaining a stable rate of product price inflation, but also to maintaining levels

71 Hay (2001), 'The 'Crisis' Of Keynesianism'.
72 Clift and Tomlinson (2007a), 'Credible Keynesianism?'; Kitson and Wilkinson (2007), 'The Economics Of New'; Hodson and Mabbett (2009), 'UK Economic Policy'; Glyn and Wood (2001), 'Economic Policy Under New Labour'; Hay (2004c), 'Credibility, Competitiveness'.
73 Brown (2001), 'The Conditions For High'; Balls and O'Donnell (2002), *Reforming Britain's Economic.*
74 Clift and Tomlinson (2007a), 'Credible Keynesianism?'.

of employment during recessionary moments. Yet as I shall emphasise below, it is quite consistent with neoliberal problem definitions to utilise stimulus during a recessionary moment so as to preserve human and physical capital (Friedman's own analysis of the Great Depression made exactly such a prescription, although it was to be a purely monetary stimulus).[75]

External Constraint

The notion of 'credibility' is at the heart of New Labour's macroeconomic stance and the need to secure it was cast as a core problem facing economic policymakers by New Labour spokespeople.[76] It featured prominently in the legitimation of the macroeconomic policy architecture that these governments had adopted.[77] Yet there is a degree of ambiguity about exactly what conception of 'credibility' lay at the root of this problem definition.[78] This arises because the operational independence of the Bank of England was presented publicly in terms drawn from a derivative of public choice theory centred on the existence of a 'political business cycle' – the 'rational expectations' thesis.[79] By the logic of this approach, only severe forms of institutional de-politicisation can serve to ensure the credibility of governments in the eyes of market participants, and so ensure macroeconomic stability.[80] Yet there is another definition of the problem that better accounts for New Labour's own stance. For Mosley, governments obtain 'credibility' by satisfying a (possibly quite small) number of historically contingent

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[75] Hodson and Mabbett (2009), 'UK Economic Policy'.
[76] Balls and O'Donnell (2002), *Reforming Britain's Economic.*
[77] Watson and Hay (2003), 'The Discourse Of Globalisation'; D. Coates and C. Hay (2001), 'The Internal And External Face Of New Labour's Political Economy', *Government And Opposition,* 36 (4), pp.447-71.
[78] Some possible interpretations are reviewed in Clift and Tomlinson (2007a), 'Credible Keynesianism?'.
[79] Hay (2004a), 'The Normalizing Role'.
[80] Hay (2004c), 'Credibility, Competitiveness'; on rational expectations and its place alongside other neoliberal arguments of the 1970s, see Blyth (2002), *Great Transformations*. As Blyth observes, the positions is actually at odds with the notion of the NAIRU, which rests on a conceptualisation of the political-economic actor as having 'adaptive' expectations instead.

preconceptions that market actors hold regarding what constitutes 'good' policy.[81] Governments need do no more, and a government aware of this might purposefully and strategically cultivate market confidence/credibility in this way. This is achieved through certain policy concessions to market sentiments of which central bank independence is one. In this view New Labour's acts of institutional 'depolitisisation' (such as central bank independence and other forms of rules-based macroeconomic policy) and the maintenance of conservative spending plans were strategically motivated to court market confidence and did not reflect the internalisation of a full-blooded rational expectations thesis.

For Clift and Tomlinson it is this latter 'strategic' conception of credibility that constituted New Labour's problem definition on the matter. They note the familiarity of key policymakers with Mosely's thesis, and although this piece of evidence alone is circumstantial, it is also true that the strategic conception of credibility chimes more closely with New Labour's own articulation of the 'constrained discretion' noted above.[82] The 'flexibility' with which New Labour approached its own rules also favour this interpretation: while advocates of the rational expectations thesis might plausibly point to New Labour's manipulation of the definition of the business cycle as evidence of the existence of a political business cycle, this conduct does rather militate against the view that the New Labour Governments subscribed to the view that the elimination of all discretion was necessary to ensure credibility.[83]

A closely related and equally important theme in New Labour's communicative discourses on macroeconomic policy is the notion of external constraint, manifest in the form of appeals to an un-disaggregated process of 'globalisation'.[84] Here again there is ambiguity regarding the way that the problem was defined in New Labour's coordinative discourses, for two quite distinct problem definitions were

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81 L. Mosley (2000), 'Room To Move: International Financial Markets And National Welfare States', *International Organisation,* 54 (4), pp.737-73.
82 Clift and Tomlinson (2007a), 'Credible Keynesianism?'.
83 Hay (2004a), 'The Normalizing Role'.
84 Watson and Hay (2003), 'The Discourse Of Globalisation'.

publicly articulated.[85] In one discourse globalisation was a non-negotiable process placing constraints on the social policy ambitions of the government (although these were cast as benign constraints because it was claimed that social justice and high levels of employment were consistent with them within the economic policy architecture that New Labour had adopted). In the other, globalisation was cast as a fragile political project that required and merited defence from potential challenges, and it was argued that other governments needed to be encouraged to embrace the opening up of their economies so as to realise its benefits. This second problem definition is no less neoliberal than the first because of its assertion of the straightforward benignity of economic openness and its intellectual heritage among enthusiasts of free trade and capital market liberalisation. Yet the two propositions are, of course, contradictory.

There can be little doubt that New Labour was an enthusiastic proponent of open market economies, as is shown by the international advocacy of free trade and open capital accounts.[86] This then raises the question of what constraints, if any, the New Labour governments believed globalisation pose? It could plausibly be suggested that the role may have changed over the course of the Labour Party's modernisation. Once in office, however, New Labour had come to embrace a strategic conception of credibility and understanding of external economic constraint, as evident in the notion of 'constrained discretion' discussed above. The considerable expansion of public spending that occurred under New Labour suggests that 'small government' was not perceived to be a demand of international financial markets.[87] Through control of inflation and the appeasement of market sentiment through totemic acts such as the granting of operational independence to the Bank of England, the New Labour governments sought credibility, knowingly retaining a high degree of policymaking autonomy. How then to account for New Labour's claims to the contrary? One possibility is that these governments appealed to external economic constraint as part of a strategy for public expectations management, and a way to shield their

[85] Ibid; M. Watson (2002b), 'Sand In The Wheels, Or Oiling The Wheels, Of International Finance? New Labour's Appeal To A 'New Bretton Woods'', *The British Journal of Politics & International Relations,* 4 (2), pp.193-221.
[86] Watson (2002b), 'Sand In The Wheels'.
[87] Shaw (2008), *Loosing Labour's Soul?*

macroeconomic stance from the demands for yet greater levels of public spending.[88]

A Death Exaggerated?

The argument so far suggests that continuities in the macroeconomic policy approaches of the New Labour governments and their Conservative predecessors reflected the internalisation of neoliberal problem definitions. They were not foisted upon the New Labour governments by external economic forces (although *perception*s of the demands of external economic forces and domestic producers conditioned by neoliberal problem definitions are likely to have played a key role), but rather was endorsed and enacted in its own terms. However, this neoliberal characterisation is contested. Clift and Tomlinson argue that New Labour's supposed rejection of Keynesian problem definitions has been over-stated.[89] The reluctance of the New Labour governments to engage in overtly full-employment oriented demand management is viewed by the authors as reflecting the very type of strategic credibility enhancement noted above: a concession on the parts of these governments that financial actors would no longer deem 'fine tuning' or the running of substantial budget deficits to be credible under conditions of heightened capital mobility, given the international orthodoxy that such policies will lead to accelerating inflation.[90] Instead, Clift and Tomlinson argue that New Labour had come to prioritise its pursuit of strategic credibility over fine-tuning, but continued to 'coarse tune' the economy when it was perceived to be at a sub-optimal equilibrium rather than risking the longer-tem pathologies that Keynesian problem definitions suggested would result from allowing such a scenario to persist.

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88 Watson and Hay (2003), 'The Discourse Of Globalisation'; Burnham (2001), 'New Labour And'.
89 Clift and Tomlinson (2007a), 'Credible Keynesianism?'; B. Clift and J. Tomlinson (2007b), 'Complexity.
Constraint And New Labour's Putative Neo-Liberalism: A Reply To Colin Hay', *British Journal Of.*
Political Science, 37 (2), pp.378-81.
90 This is an instance of the 'accommodate to shape' logic attributed to New Labour's strategy in Fielding (2003), *The Labour Party*.

This view has some parallels with New Labour's publicly stated rationale for 'constrained discretion', although it is far from clear that a Keynesian rejection of Say's Law lies at the root of the latter argument. Clift and Tomlinson's thesis draws on a number of early theoretical pronouncements from the New Labour Treasury. They note that certain ideas associated with the new-Keynesian/neo-monetarist macro-economic orthodoxy, such as the 'crowding out' thesis, did not figure prominently in the public communications of New Labour ministers. They also note the recurring, if somewhat ambiguous, appeals to financial and economic 'instability' in New Labour communicative discourse. From this they surmise the possibility that New Labour continued to perceive endogenous sources of instability in international financial markets and an independent long-term role for depressed aggregate demand in exacerbating low levels of economic activity following an endogenous or exogenous financial shock.

The contrast between this interpretation and the neoliberal characterisation is reflected in the combative exchange between the two scholars and Hay.[91] For their part, Clift and Tomlinson suggested that the expansion in public services expenditure following the first New Labour term might be interpreted in light of its counter-cyclical potential: the resulting job creation could, they suggest, have formed part of a concerted strategy to maintain consumer demand during the post-9/11 and post-'dotcom bubble' period, mitigating any longer-term suboptimal equilibrium that might have resulted. Speaking against this view, Hay suggested such a move might equally be seen in light of the political rather than the economic cycle: a strategic investment in the outcome of the 2001 and 2005 general elections which was deemed practical because of the credibility 'earned' over the previous years.[92] Both sides felt obliged to concede that the available evidence could sustain both interpretations in the absence of a set of unambiguously stagnant economic circumstances in which the New Labour governments' willingness to coarse tune might be observed.

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[91] Hay (2004c), 'Credibility, Competitiveness'; C. Hay (2007), 'What's In A Name? New Labour's Putative Keynesianism', *British Journal Of Political Science,* 37 (1), pp.187-92; Clift and Tomlinson (2007a), 'Credible Keynesianism?'; Clift and Tomlinson (2007b), 'Complexity, Constraint'.

[92] Hay (2004a), 'The Normalizing Role'; Hay (2007), 'What's In A Name?'.

However, the whole debate may be somewhat misconceived. Upon inspection Clift and Tomlinson's operational criteria of 'Keynesianism' differs markedly from that Hay's and overlaps with what Hay would consider to signal neoliberal problem definitions. Clift and Tomlinson empirically identify New Labour's supposed Keynesianism through two conditions: a willingness to utilise fiscal policy in a counter-cyclical role during times of deflationary pressures, and an analysis of financial markets and a liberal international economy that sees a capacity for endogenous instability that might bring about a recession. This contrasts with a more conventional understanding of Keynesianism which locates the distinctiveness of the approach in its rejection of Say's Law and a belief that macroeconomic policy has a role to play in maintaining full resource utilisation at all times, not simply in stagnant or recessionary moments. A willingness to utilise stimulus of either the fiscal or monetary variety (or both) to preserve productive and human capital during a downturn is not unique to Keynesian approaches but is something endorsed by most contemporary economic theory, including Friedman's own monetarist writings.[93] The difference between Keynesian and neo-Keynesian/neoclassical approaches is that the latter endorses Say's Law and consequently sees stimulus as an exceptional policy for use in unusual circumstances.

The two authors do not produce adequate evidence of such a rejection. The writings of Gordon Brown that they cite in evidence of the proposition show an acceptance that a low employment, low growth equilibrium could in principle occur in historically exceptional circumstances and that counter-cyclical stimulus is required to ward off such an event.[94] But there is also an explicit rejection of the notion that such events were likely in the historical conditions in which he wrote, and a scepticism that Say's Law is violated in anything other than very exceptional circumstances. He identifies 'long-term stability' to be the appropriate goal for macroeconomic policy in all other circumstances, and the prescription offered is a macroeconomics premised on the pursuit of credibility, the control of inflation and a microeconomic definition of the problem of unemployment. Neither do the examples of 'coarse tuning' that the authors point to suggest a rejection of Say's

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[93] Hodson and Mabbett (2009), 'UK Economic Policy'.
[94] Brown (2001), 'The Conditions For High'.

Law because they take place precisely when the economy was perceived to be under deflationary pressure. Consequently, their account does not refute an interpretation of New Labour's macroeconomic approach as being framed around neoliberal problem definitions.

Clift and Tomlinson are not unaware of the centrality of Say's Law to debates over the presence or absence of Keynesianism. Their suggestion is that New Labour's apparent embrace of Say's Law was largely the product of strategic acquiescence and the fortune to preside over a non-depressionary period, rather than a belief in the general applicability of the law. Yet if it were truly the case that New Labour perceived the economy thus or feared endogenous instability in international financial markets then we would expect to see a long-term component to the strategic behaviour that Clift and Tomlinson attribute to them. In other words, if an 'accommodate to shape' logic was at play in New Labour macroeconomics, as the authors implicitly suggest, then we would expect to find evidence of 'shaping' of political, economic and institutional constraints that reflects Keynesian problem definitions. In particular, we would expect to find these governments seeking to secure international consensus on greater regulation of capital mobility in the same way that Keynes himself did so as to enhance the scope for demand management and limit the potential for financial instability. The notion of a distinctive Keynesian coordinative discourse on macroeconomic policy might find consequently find some support in New Labour's orientation to financial markets.

A Faustian Pact?

A popular metaphor among journalists depicting the relationship between New Labour and financial markets is of a 'Faustian pact': a decade of growth and expanding public spending bargained for the liberal regulation of a financial services industry that would eventually bring down Britain's growth model. Yet the metaphor may not be entirely appropriate. Mephistopheles was at least clear on the terms of his master's services and, crucially, the timescale of repayment. If New Labour policymakers were strategically silenced Keynesians who perceived a threat of endogenous instability in financial markets then they would likely have inferred the inevitability of a future financial crisis for themselves, making their signing of the contract in the way that they did a rather nihilistic act (I would argue implausibly so). Yet if their coordinative discourses in this area were influenced by neoliberal problem definitions that assert the allocative efficiency and stability-promoting nature of liberal financial markets and financial innovation then they would not have perceived any such risk.

Engelen et al. offer an account of the ideas that facilitated elite complacence on financial sector activities in the years preceding the financial crisis, all of which nurtured a profound confidence in the benignity of liberally instituted financial markets.[95] The authors group these ideas under the headings of 'Bernanke's Story' and the 'Social Value of Finance Narrative'. They locate the origins of these ideas among financial lobbyists and 'econocrats' (particularly academic economists at the nexus of central banks) in the post-Thatcher era, and argue that Treasury policymakers so comprehensively internalised them that they entirely constituted the governments' coordinative discourses on matter of financial regulation policy.

The ideas Engelen et al trace are problem definitions that support the institutionalisation of liberal financial markets. The first is the notion that 'financial innovation' (innovative products and processes within the financial services industry) is an unambiguously positive thing because of its supposed capacity to allow risk to be managed more effectively, thereby freeing up capital for investment that would otherwise have been tied to risk management and increasing the efficiency of capital allocation to the household and non-financial private sectors. Securitisation was attributed this capacity and celebrated as having 'democratised credit' by making it more widely available to consumers who might not otherwise have been eligible. In this there is the imprint of efficient market theory, which attributes a capacity to *correctly functioning* financial markets to incorporate all available information, and consequently to reflect rational calculations by market participants through which risk is distributed safely.[96] The upshot of these problem definitions is that providing market discipline and competition was ensured, Britain's permissive approach to financial

[95] Engelen, et al. (2012), *After The Great Complacence.*

[96] An excessive confidence in efficient market theory is also identified as an implicated factor by the Financial Services Authority in its own valedictory on the financial instability of 2007-2008. See A. Turner (2009), *The Turner Review: A Regulatory Response To The Global Banking Crisis* (London: Financial Services Authority).

regulation would enhance, not undermine, financial stability and the functioning of the productive economy. Financial regulation was thus re-cast as a microeconomic problem to be pursued at the firm level, rather than a macroeconomic problem to be pursued through the purposeful regulation of asset prices by means such as the manipulation of the credit cycle. This is reflected in the transference of financial regulatory responsibilities to the FSA which had, until 2009, no explicit objective to ensure systemic stability of the financial system as a whole.

The problem definition is far removed from the Keynesian one attributed to New Labour by Clift and Tomlinson, in which financial instability is cast as an endogenous property of financial markets because financial market actors are seen to rely as much on convention and hubris as rational calculation in conditions of constant information uncertainty.[97]

The second set of ideas identified by Engelen et al. are rather more instrumental than theoretical. They constitute the belief that the liberal regime of financial regulation is at the root of the British financial services industry's international competitiveness and prosperity, and that this prosperity is pivotal to the country's prosperity. The upshot of this problem definition in a context where a liberal regime of financial market regulation is seen to increase financial stability is that economic policy must in no way jeopardise the 'competitiveness' of the financial services industry if economic policy objectives are to be achieved.

It is the centrality of liberally instituted financial markets to the political economy New Labour presided over that lends credence to the view that they had internalised problem definitions attributed to them by Engelen et al. New Labour's endorsement of the light touch approach and advocacy of it in international fora suggest New Labour's problem definitions in relation to financial regulation were at odds with the Keynesian view attributed to them by Clift and Tomlinson. Moreover, through the integration of citizens into financial markets through asset-based welfare New Labour made a clear commitment to the view that house and

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[97] On which see Blyth (2002), *Great Transformations*; W.W. Widmaier (2003), 'The Keynesian Bases of a Constructivist Theory of the International Political Economy', *Millennium Journal of International Studies*, 32 (1), pp.87-107.

share prices were on a sustainable upward trajectory rather than subject to inflationary pressures arising from a credit boom and speculative mania.

Now, to be sure, a good political rationale can be made for New Labour's embrace of liberal finance markets. I have noted in Chapter 1 that the ALGM, which was yielding good performance of key indicators for a time, depended upon financial innovation and the expansion of credit. Watson has also observed that the entrenchment of capital mobility internationally served to bolster the UK's precarious balance of payments position during New Labour's tenure.[98] Furthermore, the integration of speculatively priced financial assets into social policy through asset-based welfare represented a 'loss free' and non-redistributive means of delivering material gains to middle class voters. Yet it is far from plausible that a government possessed of a genuinely Keynesian assessment of financial markets would have deemed these advantages sustainable and therefore worth the risk.

Microeconomic Policy

The microeconomic policy approach of the New Labour governments is less prominent in the literature on New Labour, but it is an equally important and arguably rather more complex feature. As noted above, there was an active and interventionist quality to New Labour's approach to industrial and labour market policy, and a fusion of both with a progressivist social agenda. The question asked here is where these sit in relation to the ideal-typical categories of discretionary/non-discretionary and strategic/non-strategic intervention, for upon this rests their categorisation as strategies of 'roll out neoliberalisation'.

Non-Discretionary Microeconomic Policies

New Labour lacked an encompassing national discretionary level industrial strategy and was (rhetorically at least) committed to a non-discretionary (and thus classifiably neoliberal) approach to microeconomic reform framed around the related goals of 'competitiveness' and the attraction of foreign direct investment

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98 Watson (2002b), 'Sand In The Wheels'.

(FDI).[99] The party distanced itself from what it cast as the outdated 'Old Labour' notions of nationalisation, 'protectionism' and 'picking winners' in the run up to the 1997 general election.[100] These were deemed both ineffective and impossible in a context of globalisation. Instead, New Labour embraced many of the changes that the previous Conservative administrations had undertaken.[101]Like so many other aspects of the New Labour project, industrial policy was subject to a rebranding, becoming 'competitiveness policy' instead, and the promotion of 'competitiveness' became the leitmotif of New Labour microeconomics.[102] The precise conceptualisation of 'competitiveness' with which the New Labour governments worked was somewhat vague, variably denoting productivity growth, supply-side conditions that would allow British firms to compete internationally, the attractiveness of regions to inward investors, and the degree to which the national economy was capable of reconciling rising real incomes with the production of goods and services that would withstand foreign competition.[103]

The policies through which the competitiveness agenda was expressed amount to a comprehensive non-discretionary approach to industrial policy and supply-side reform framed around perceived market failures. Interventions sought to promote 'entrepreneurialism' (an intangible property in which the British political economy was said to be deficient), and to address market failures in 'innovation' (the development of new technologies and processes); skills (the supply of human capital), infrastructure and industrial finance. These sat alongside the other aspects of competitiveness policy more readily classifiable in terms of 'roll back neoliberalisation' such as the safeguarding of competition as a spur to innovation, and the maintenance of flexible labour markets in which employees could be quickly hired and dismissed as market conditions changed. Together, these constituted so-called 'drivers of growth' that constituted, for New Labour, the appropriate means by which to pursue higher levels of growth and employment.[104]

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[99] Hay (2004c), 'Credibility, Competitiveness'; D. Williams (2010), 'Industrial Policy', *Local Economy,* 25 (8), pp.612-21; J. Payne and E. Keep (2011), 'One Step Forward, Two Steps Back? Skills Policy In England Under The Coalition Government', *SKOPE Research Papers* (Cardiff: SKOPE, Cardiff University).
[100] Hay (1999b), *The Political Economy Of New Labour.*
[101] Bailey and Driffield (2007), 'Industrial Policy'.
[102] Hay (2004c), 'Credibility, Competitiveness'.
[103] Bailey and Driffield (2007), 'Industrial Policy'.
[104] Kitson and Wilkinson (2007), 'The Economics Of New Labour'.

These interventions were co-constitutive with the FDI agenda because it was assumed that the improved business environment that they brought about would attract investment from mobile multinational producers in the UK that would contribute further to competitiveness through the introduction of new technologies and skills. [105]

Intervention in the formation of human capital was something of a theoretical and practical lynchpin in New Labour's political economy as the means by which economic efficiency was to be married to a progressive agenda.[106] Here, as it is in relation to innovation as well, the market failure in question was perceived to be one of under-investment in a public good, necessitating public investment and production.[107] Yet consistent with the broad contours of EGT and Say's Law-influenced problem definitions that organised this and other areas of New Labour's economic policy coordinative discourse there is also an appeal to a 'supply-push' effect.[108] The notion was that firms would respond to higher levels of publicly provided human capital by utilizing skilled employees to move to higher value business strategies, enabling higher levels of employment and GDP growth.[109] Consequently further and higher education establishments were a major spending priority for these governments throughout their time in office, and were one of the principal beneficiaries of New Labour's expanding levels of public spending following the 2001 election.[110] Ambitious targets were set for university intake while programmes such as the 'train to gain' scheme and Individual Learning Accounts sought to utilise government subsidies to leverage employer and employee investments in vocational qualifications as part of an expanded adult education agenda.

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105 Bailey and Driffield (2007), 'Industrial Policy'.

106 E. Keep and K. Mayhew (2010), 'Moving Beyond Skills As A Social And Economic Panacea', *Work, Employment And Society,* 24 (3), pp.563-77; Payne and Keep (2011), 'One Step Forward'; 2010; J. Krieger (2007), 'The Political Economy Of New Labour: The Failure Of A Success Story?', *New Political Economy,* 12 (3), pp.421-32.

107 Keep and Mayhew (2010), 'Moving Beyond Skills'; Arestis and Sawyer (2001), 'The Economic Analysis Underlying'.

108 Payne and Keep (2011), 'One Step Forward; Kitson and Wilkinson (2007), 'The Economics Of New Labour'.

109 Payne and Keep (2011), 'One Step Forward; With its endorsing of the Lietch Review of Skills in 2006, the New Labour governments cast public investment in the formation of human capital as *the* major lever at the disposal of governments to positively influence the rate of economic growth and job supply in – see Keep and Mayhew (2010), 'Moving Beyond Skills.

110 Mullard and Swaray (2008), 'New Labour And Public Expenditure'.

Labour made a positive virtue of the status of 'innovations' as (ultimately) non-excludable public goods because of their capacity to 'spill over' and enhance productivity among multiple firms and sectors.[111] In response to the relative decline of UK business expenditure on research and development as a percentage of GDP, the incoming Labour government implemented 'R&D Tax Credits' to SMEs in 2000, and then in 2002 extended these to larger businesses.[112] These tax credits allowed firms to offset expenditure on research and development against taxation to a more generous extent than other capital investment allowances. New Labour policy on innovation also substantially benefited the 'research base', constituted in the UK by the publically financed nexus of research councils and universities. The science budget had increased by £2bn by the end of their first term.[113]

A less prominent feature of the New Labour government's approach to competitiveness policy was the recognition of market failures impacting on industrial finance, particularly regarding investment in small and medium-sized firms (SMEs).[114] Whilst not perceiving the pathological relationship that critical social democrats assert to exist between liberal financial markets and non-financial businesses, these governments did acknowledge systematic problems in the provision of loans and venture capital to SMEs, and in the rate of business investment more generally.[115] The former problem was attributed to the risk profile of such ventures, which was seen as making small firms unappealing borrowers for many banks, and from informational asymmetries that both restricted firms' awareness of sources of venture capital and restricted the willingness of higher risk investors to participate. This led to the identification of a role for government in stimulating the supply of private finance to such

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111 Kitson and Wilkinson (2007), 'The Economics Of New Labour'.
112 S. Bond and I. Guceri (2012), 'Trends In UK Berd After The Introduction Of R&D Tax Credits', *Centre For Business Taxation Working Papers 12/1* (12/1; Oxford: Oxford University).
113 Glyn and Wood (2001), 'Economic Policy Under New'.
114 Bailey and Driffield (2007), 'Industrial Policy'; R. Huggins and N. Williams (2009), 'Enterprise And Public Policy: A Review Of Labour Government Intervention In The United Kingdom', *Environment And Planning C: Government & Policy,* 27 (1), pp.19-41.
115 Department Of Trade And Industry (1998), *Building The Knowledge Driven Economy: The 1998 Competitiveness Whitepaper* (London: The Stationery Office).

ventures.[116] Measures included government guaranteeing of loans made to SMEs through the small loans guarantee scheme and investments including a suite of publicly-backed venture capital funds – notably the nine ‘regional venture capital funds’ and the related six ‘enterprise capital funds’ – which were mandated to invest in SMEs on a commercial basis in order to leverage further private sector investment. The New Labour governments also continued to incentivise business investment through fiscal policy using a variety of ‘capital allowances’, through which firms could offset a portion of capital equipment depreciation against taxes.

Discretionary Microeconomic Policies

What these interventions have in common is their non-discretionary nature. They achieve economic policy objectives through the enabling of market processes and market resource allocation. The competitive, correctly functioning market economy is positioned as the arbiter of worthwhile private sector projects and the rudder of industrial development. As such, these interventions and the arguments offered for them are quite consistent with the neoliberal problem definitions regarding microeconomic policy and a microeconomic strategy of roll out neoliberalisation. However it must be conceded that some of New Labour’s microeconomic policies do not fit this pattern and are identifiably discretionary in nature. On the basis of such observations, particularly where it relates to defence industries, some dissenting voices have gone so far as to suggest the presence of a strategic discretionary industrial policy instead.[117]

Before entering this debate it is necessary to clarify a few potentially misleading points of contention. A criticism of non-discretionary industrial policy (rightly) made by those who advocate strategic discretionary forms of intervention is that no industrial policy is ‘purely’ non-discretionary in the sense of having a completely sector-neutral impact.[118] By necessity, a degree of tailoring of non-

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116 H.M. Treasury (2003), *Bridging The Finance Gap: Next Steps In Improving Access To Growth Capital For Small Businesses* (London: The Stationery Office).
117 S. Lee (1999), 'The Competitive Disadvantage Of England', in K. Cowling (ed.), *Industrial Policy In Europe: Theoretical Perspectives And Practical Proposals* (London: Routledge), pp.88-117; S. Lee (2010), 'Necessity As The Mother Of Intervention: The Industrial Policy Debate In England', *Local Economy,* 25 (8), pp.622-30.
118 Chang (2011), 'Industrial Policy’.

discretionary interventions to the needs of the economy as it is presently constituted is implied in the conduct of such a policy. It is seen, for instance, in the design of a national curriculum that favours some general skill sets over others. It is also evident in the creation of organisations such as the Manufacturing Advisory Service, which have long used public funds to address sector-specific market failures arising from informational asymmetries in manufacturing markets. Yet such interventions were not in themselves reflective of a discretionary approach – they do not involve policymakers making discretionary judgments about the merits of private sector projects in relation to economic policy objectives, but instead compensate for problems that firms in a particular sector disproportionately face owing to the nature of the activity undertaken in that or other sectors. For those who would ascribe strategic discretionary industrial policy to the New Labour governments it is necessary to show that such efforts formed part of a broader dirigiste strategy to shape the trajectory of economic development in which policymakers play a discretionary rather than market-enabling role.

With this point in mind we are able to address several red herrings that might otherwise influence our characterisation of New Labour. One such false lead is found in the tendency of the New Labour governments to react to the threat of closure of major employers by utilising the influence of public officials and deploying public funds. Such was the case in the failing Rover brand in 2000 and 2005. Interventions such as these are certainly discretionary, yet they are not strategic. Were this the case then we would anticipate a systematic quality to such investments in accordance with a coherent strategy. Instead, they represent an ad hoc and reactive form of intervention, reflecting unforeseen events rather than a broader set of preferences for the direction of industrial development. This reactive quality has a long pedigree in British industrial policy.[119] It is likely that such interventions reflect the political interests of the incumbent government (in the case of Rover, avoiding the controversy arising from the demise of a historic British brand and the loss of jobs in Labour-supporting constituencies).[120] It should be born in mind that even ardently neoliberal Thatcher governments

[119] Bailey and Driffield (2007), 'Industrial Policy'.
[120] Ibid.

responded to the politically problematic threat of unemployment in marginal constituencies and the demise of symbolically significant British brands in ways that are at odds with broader industrial policy.

Some have also pointed to ongoing subsidy support for inward investors, particularly those in the automotive industry, as evidence of a dirigiste bone within New Labour's industrial policy.[121] Many of the details of these kinds of subsidy are not in the public domain, yet Girma et al. give some insight into their scale, reporting $30,000 per worker spent on attracting Samsung production to the northeast of England, and $50,000 spent attracting Siemans.[122] Again however, these discretionary responses are better interpreted as reactive rather than strategic: in this case a reaction to the realities of the open economy that New Labour championed to domestic and international audiences alike as it sought to attract FDI. The difficulties that these macroeconomic realities impose on the maintenance of coherence for a non-discretionary industrial policy is demonstrated in Bailey and Driffield's rather unedifying example of two English regions engaging in a bidding war to attract investment from Acer: the quality of a national or regional business environment is no guarantee of inward investment, and sometimes additional incentives are required.

In other areas a less reactive approach is evident, such as the consistent granting of privileged support and ministerial advocacy to firms involved in the manufacture of weapons.[123] In this, New Labour followed the conduct of its Conservative predecessors. Yet, importantly for the present argument, it is far from clear that the strategic imperatives implicated in such interventions related primarily or even directly to economic policy objectives, but may in fact represent the need of the 'warfare state'.[124] Such was very likely the case in one of the more notable cases of discretionary intervention undertaken by neoliberal governments in Britain – the Al Yammama arms deal.[125] Yet there was more at stake in the deal

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121 Williams (2010), 'Industrial Policy'.
122 S. Girma, D. Greenaway, and K. Wakelin (2001), 'Who Benefits From Foreign Direct Investment in the UK?', *Scottish Journal Of Political Economy,* 48 (2), pp.119-33.
123 S. Lee (2008), 'The British Model Of Political Economy', in M. Beech and S. Lee (eds.), *Ten Years Of New Labour* (London: Palgrave Macmillan), pp.17-34.
124 Ibid.
125 Williams (2010), 'Industrial Policy'.

than the success of a British arms exporter and the industry to which it belonged. Such instances are heavily intertwined with diplomatic and national security considerations, and the 'problems' that such policies intend to solve are not necessarily ones of economic policy.

Yet not all discretionary aspects of New Labour's industrial policy can be dismissed as red herrings. Two features stand out as distinctly strategic expressions of discretionary industrial policy: the nine English Regional Development Agencies (RDAs) and the Technology Strategy Board (TSB). The RDAs reflected a devolving strand in New Labour's approach to political-economic governance. They assumed responsibility for a range of industrial policy and regional policy functions (although not to the same extent as those devolved to the Scottish government). Each agency was charged with promoting the economic performance of their region and attracting inward investment to it, formulating regional economic strategies for this purpose. Many of these were simply regionally-attuned applications of the non-discretionary competitiveness oriented interventions discussed above. Examples of such interventions include the provision of regionally-attuned business advice and networking opportunities, promotion of the government's 'enterprise education' agenda, and raising the profile of the region to prospective inward investors.

However a second aspect of their regional economic strategy making has a more discretionary bent. Underpinning many of their interventions was the notion of the geographically bounded 'cluster'. The 'cluster' is a once-vogue concept denoting groups of interlinked firms in close geographical proximity to one another. These inter-linkages manifest either 'vertically', through their positions in the supply chains of particular industries, or 'horizontally' across industries and sectors through requirements for similar tangible or intangible inputs (technologies, skills or the like).[126] RDAs were to be tasked to judge which clusters were central to the economic development of their regions and to prioritise their needs through the agency's industrial policy capacities. Interventions to this end included co-financing collaborative projects undertaken between firms to create research,

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[126] Department Of Trade And Industry (2003a), *A Practical Guide To Cluster Development* (London: The Stationery Office).

development and proto-typing facilities (discussed further in Chapter 6); directly grant-financing projects undertaken by individual firms in order to promote the competitiveness of the cluster as a whole; and channelling funds granted from the EU level to both of these ends. Such an approach is both strategic and discretionary in the sense that it is policymakers' judgments about which clusters and private sector projects are most likely to yield an optimal trajectory of economic development and secure the government's economic policy objectives.

The willingness of the New Labour governments to sanction such intervention demonstrates that something more complex than an out-an-out rejection of strategic discretionary industrial policy. Yet the significance of this observation for a characterisation of New Labour should not be overstated. While RDAs represented a *potential* infrastructure by which a nationally coherent discretionary industrial strategy might have been delivered, it is not clear that this potential was realised or that it was ever intended to be realised. The development of regional economies under New Labour was, critics charge, marred by a persistent lack of national coordination among the regional economic strategies of the nine RDAs prior to 2008, leading to the inefficient replication of interventions and competition among regions.[127] This reflected the absence of a national equivalent of the RDAs' regional economic strategies through which regional discretionary interventions could be aggregated for the purposes of national-level economic policy objectives. Paradoxically Bailey and Driffield also note that the New Labour governments did appear to set rather tight constraints on the areas in which the RDAs were permitted to exercise strategic discretion, serving to compound the repetition of functions.[128] Yet these national-level preferences did not amount to anything like a national dirigiste strategy of supply-chain construction or regional specialisation for the purposes of establishing national comparative advantages as a strategic discretionary approach implies.[129]

The view that the discretionary capacity of the RDAs was not a central feature of New Labour's industrial policy is given further weight by the fact that the strategic

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[127] Bailey and Driffield (2007), 'Industrial Policy'.
[128] Ibid.
[129] Kitson and Wilkinson also note this limited focus on a small number of high tech industries, see Kitson and Wilkinson (2007), 'The Economics Of New Labour'.

discretionary capacity of the RDAs was not extensively resourced by central government. The total annual funds allocated to the nine agencies was around £2.3bn. Each individual RDA's funds would then be allocated among the agency's various functions, many of which did not relate to discretionary intervention at all.

The RDAs were, at most, a proto-strategic strand to New Labour's discretionary interventionism. Yet the presence of an infrastructure by which discretionary industrial strategy might be delivered is rendered more significant by a second: the Technology Strategy Board. This agency exists to facilitate the private research and development of innovative products and processes within the UK economy. Unlike the research councils, it operates primarily by funding and co-investing with firms in private sector projects. It seeks to overcome collective action barriers that are judged to impact upon research and development investment by funding primarily multi-firm collaborations on projects of mutual interest. The board operates a 'challenge led' approach through which it seeks private sector proposals for projects that utilise and develop 'platform technologies'. These proposals are then *judged* by the board on the basis of whether or not they hold the potential to a positively impact on the productivity, economic and employment growth potential of the UK economy.

The TSB became an independent agency in 2007. For two years previously the TSB's forerunner (a committee within the Business/Industry Ministry) had conducted a similar role and had already established the TSB's technological strategy. This committee in turn had its roots in a review undertaken earlier in the decade.[130] The report documents show a shift in emphasis towards a strategic and discretionary approach as a means to overcoming a so-called 'innovation gap' between invention and commercialisation. The 'problem' identified here is similar to that for which the non-discretionary interventions into 'innovation' are directed: namely of a tendency for the private sector to under-invest in research and development. Yet the problem is defined in rather different terms: not as a shortfall in investment arising from the status of innovations as public goods, but rather the need for industrial policymakers to identify and actively support

[130] Department Of Trade And Industry (2003b), *Competing In The Global Economy: The Innovation Challenge* (London: The Stationery Office).

emerging 'disruptive' (in the Schumpeterian sense) technologies and products to ensure British firms realise their economic benefits and are at the forefront of their commercialisation. In this 'diagnosis' industrial policymakers are attributed the epistemological resources with which to judge the importance of emerging technologies, the developmental value of private sector projects and, implicitly, a conceptualisation of what the direction of industrial development ought to be. Both features are an anathema to neoliberal problem definitions.

The Significance of Strategic Discretionary Strands

Like the RDAs, the TSB is subject to funding constraints that place boundaries on its scope as an instrument of discretionary intervention: TSB annual funds were around £3-400mn. Yet the TSB is perhaps a rather more significant manifestation of strategic discretionary approach than the RDAs because it represents a coherent national level strategy, and because it purposefully aims to bring to fruition private sector projects and a trajectory of development that might not have been brought to fruition had the market been the arbiter of developmental prospects. The TSB and, to a lesser extent, the RDAs, thus pose an interesting interpretive question regarding the character and content of New Labour's economic policy coordinative discourses. On the one hand they suggest the presence of problem definitions that are at odds with neoliberal ones – namely that the pursuit of optimal economic performance demands that the government make allocative decisions, arbitrate developmental prospects and purposefully shape the trajectory of industrial development. These are precisely the beliefs that New Labour disavowed publicly as being 'Old Labour' and incompatible with a globalised economy. On the other hand, the financial resources made available limited the scope of strategic discretionary industrial policy, and the bulk of microeconomic policy was non-discretionary in nature and premised upon problem definitions that assert the need to enable market resource allocation. Whilst not necessarily contradictory in practice, the two approaches do suggest the presence of contrasting problem definitions: one would expect a government that attributed to itself the capacity to carry out strategic discretionary industrial policy to have committed greater resources across a greater range of issue areas in which related problems were acknowledged to exist (for example, by addressing shortfalls in the provision of finance to SMEs through a national investment bank which could align investments to those of the TSB).

The question thus arises as to why the strategic-discretionary strand remained relatively under-developed? One possible means of answering this question is to disaggregate economic policy coordinative discourse along departmental lines and to analyse the problem definitions informing industrial policymakers separately from those informing macroeconomic policy (largely the preserve of the Treasury). Insofar as the non-neoliberal problem definitions informing the strategic-discretionary agenda were confined to the Business/Industry Ministry then the under development of the strategic-discretionary strand may reflect the differing priorities of the two groups of economic policymakers, and an actual or latent conflict between them arising from the institutional dominance of the former over the latter. There is a good historical precedent for such a claim: the Treasury and the Business/Industry Ministry's departmental forebears have long been at odds over the issue of discretionary interventionism and the deployment of public resources in industrial modernisation, with the Treasury tending to favour financial and monetary orthodoxy and utilising its control of macroeconomic policy priorities to subordinate industrial interventionism to these ends.[131] Under New Labour this divergence in problem definitions was revealed anew – *to a limited extent*.

The adherence of the New Labour Treasury to neoliberal problem definitions is suggested by the approach to macroeconomic policy described above. Furthermore, it also retained control of a number of industrial policy interventions, including the regional venture capital funds and the various fiscal concessions made to businesses in order to promote R&D and capital investment. I would suggest that it is not coincidental that these are non-discretionary in character, for such interventions are quite consistent with the neoliberal problem definitions implicit in its broader approach.[132] The Business/Industry Ministry meanwhile also pursued non-discretionary interventions and its agenda was

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[131] C. Clifford (1997), 'The Rise And Fall Of The Department Of Economic Affairs 1964-69: British Government And Indicative Planning', *Contemporary British History,* 11 (2), pp.94-116; P. Kerr (1999), 'The Post-War Consensus: The Woozle That Wasn't', in D. Marsh, et al. (eds.), *Postwar British Politics In Perspective* (Cambridge: Polity Press), pp.66-86.
[132] Bailey and Driffield (2007), 'Industrial Policy'.

predominantly in coherence with the broader neoliberal approach to political-economic governance attributed to New Labour thus far. Yet its willingness to sanction a limited number of strategic-discretionary measures suggests that certain non-neoliberal problem definitions were entertained in relation to innovation and (to a more limited extent) regional development that were inconsistent with the neoliberal ones held by the Treasury because they attributed capacities and responsibilities to policymakers that are markedly non-neoliberal. In this view the coordinative discourses of macroeconomic and industrial policymakers differed in small but categorically significant ways.

The extent to which the relatively limited expression of strategic discretionary interventionism under New Labour was the product of a conflict between the two departments is not something that the existing literature on New Labour equips us to adjudicate with any certainty. The Treasury under New Labour was, as it had been the past, the more institutionally endowed of the two departments. Lee suggests that its powers had proportionally increased within the macroeconomic policy framework that New Labour enshrined because it granted Treasury personnel new means of control over departmental spending through means such as line-by-line budgetary reviews.[133] The restriction of the strategic-discretionary agenda might thus be interpreted as the result of the funding constraints placed upon the Business/Industry Ministry by a Treasury that saw little value in expanding the budgets of strategic-discretionary organs. As noted already, were it not for these constraints our intuitive expectation of industrial policymakers who attributed to themselves the capacities implicit in the strategic-discretionary approaches would be to have intervened across a wider range of areas and channelled more funding into the existing instruments. The result would have been a rather different trajectory of political-economic restructuring to the neoliberal one in evidence under New Labour.

Naturally, in the absence of the counterfactual or evidence of an inter-departmental conflict such a statement is unavoidably speculative. Yet it does point to an important and firmer conclusion: a *latent* conflict existed between approaches to political-economic governance premised on neoliberal and non-

[133] Lee (2008), 'The British Model'.

neoliberal problem definitions, centred on the degree to which spending priorities associated with the former conflict with those of the latter. If non-neoliberal problem definitions were indeed confined to the Business/Industry Ministry then such a conflict was latent within New Labour. In chapter 6 I argue that this latent conflict has been visibly actualised as the fiscal demands of a neoliberal crisis diagnosis have served to constrain a strategic-discretionary agenda that has expanded in scope.

What significance, then, ought we to attribute to these non-neoliberal problem definitions in our characterisation of New Labour? Certain elements of the 'Huttonite moment' in Labour Party thinking during the early 1990s appear to have survived into office with less moderation than is sometimes supposed.[134] Yet the extent of these pre-neoliberal continuities and the radicalism of the Business/Industry Ministry in relation to New Labour's wider approach should not be exaggerated. There is little evidence of an internalisation of the more radical proposals of the 1990s' Industry Forum; a substantive 'stakeholderism' was never entertained; and in other issue areas the ministry was an enthusiastic proponent of neoliberal problem definitions as seen by its endorsement of flexible labour markets and its antipathy to contrary directives emanating from the EU.[135] Moreover, the testimony of some insiders points to an ongoing hostility on the part of some Business/Industry Ministry officials to an expansion of the strategic discretionary agenda as of 2009, suggesting that the department was itself divided on the necessity of such interventions.[136] The vision of political economic restructuring that New Labour industrial policymakers sanctioned was consequently not far removed from that of the Treasury's endorsement of the post-Thatcherite political-economic settlement, but involved a different, discretionary framing of certain problems. The trajectory of political-economic restructuring that emerged from New Labour's time in office was therefore a neoliberal one in the aggregate.

[134] N. Thompson (1996), 'Supply Side Socialism: The Political Economy Of New Labour', *New Left Review,* 1 (216), pp.37-54.
[135] Thompson (1996), 'Supply Side Socialism'; Krieger (2007), 'The Political Economy'; Howell (2004), 'Is There A Third Way'.
[136] P. Diamond (2011), 'Governing As New Labour: An Inside Account Of The Blair And Brown Years', *Political Studies Review,* 9 (2), pp.145-62.

Conclusions

I have argued that New Labour was both neoliberal and committed to socially progressive notions, but also that there were certain non-neoliberal problem definitions present in these government's coordinative discourses on economic policymaking as well. This renders the governments' character complex: both neoliberal, and *more than* neoliberal. However by conceptualising neoliberalism as a restructuring ethos rather than an Ideology, and by adopting a departmentally disaggregated view of coordinative discourses, it can be seen how these contrasting elements in New Labour's approach to political-economic governance need not lead us to view New Labour as incoherent, or non-neoliberal. At the centre of New Labour's political economy was an approach to economic policy and political-economic restructuring that was predominantly framed in terms of neoliberal problem definitions. The result was an entrenchment of the post-Thatcherite political-economic settlement and the deployment strategies of roll out neoliberalisation through which it sought to contain some of the economic dysfunctions arising from earlier neoliberal restructuring of the British economy. This approach to economic policy framed and constrained New Labour's progressive agenda, which sought to address social injustice *through* instruments that were predominantly consistent with this approach. That this synthesis was achieved in policy design (if not in practice) means that New Labour can be characterised as both an expression of neoliberalism and of progressivism without any contradiction.

The strategies of roll out neoliberalisation undertaken by these governments also placed at least a latent constraint on the development of strategic discretionary policies that were premised on rather different problem definitions. There was no synthesis between this agenda and the neoliberal one because the two share different, antagonistic problem definitions. In the event, it was strategies of roll out neoliberalisation that formed the mainstays of New Labour's approach to political-economic governance. Consequently, the presence of non-neoliberal problem definitions and a limited range of interventions that reflect them are not of significance to the characterisation of New Labour developed in this and the previous chapter.

Yet this aspect is not insignificant to our understanding of the trajectory of political-economic restructuring in the post-2008 context. Its significance lies in its very presence: non-neoliberal problem definitions were available to policymakers in the event that the neoliberal approach to political-economic governance adopted by the New Labour governments ever came under strain. In the subsequent research chapters I shall argue that this is, in essence, exactly what has occurred in the post-2008 context. I argue that the non-neoliberal problem definitions have served as resources with which the Business/Industry Ministry has constructed a non-neoliberal crisis diagnosis and an expanded strategic-discretionary agenda, and that the ongoing power of the Treasury and its preference for a neoliberal crisis diagnosis has been instrumental in shaping the post-crisis trajectory of UK economic development. It is to arguments such as these that the following research chapters now turn.

Chapter 5.
Post-2008 Crisis Diagnosis: A Macroeconomic Perspective

The purpose of this chapter is to examine, compare and interpret the crisis diagnoses of the two post-2008 governments where they pertain to macroeconomic policy, and to consider their implications for our understanding of the trajectory of post-2008 political-economic restructuring. The analysis is structured according to four themes: the core macroeconomic triad of growth, (un)employment and inflation; the public finances; macroeconomic rebalancing (which in this context pertains to the composition of aggregate demand) and financial stability. In the subsequent chapter I examine the microeconomic policies of the two governments along the related themes of growth, unemployment and sectoral rebalancing (which in that context pertains to the rebalancing of the composition of economic activity).

Much of the public and academic debate concerning change and continuity in post-2008 political-problem definitions and restructuring has focused on macroeconomic policy. Some have entertained the possibility of a moment of ideational rupture and contingency in late 2008, and in some accounts even a brief but thwarted resurgence of Keynesian ideas.[1] Others have posited straightforward continuity arising from either the formation of a neoliberal crisis diagnosis or a state of catastrophic equilibrium.[2] Most of these contributions focus primarily on the issue of 'deficit reduction verses fiscal stimulus' and do not consider how the diagnosis of a range of issues that confronted post-2008 governments might influence our characterisation of them. I examine a range of themes here to ask whether the conclusion that a crisis diagnosis has emerged is warranted and, if so, how the problem definitions that constitute it might be characterised.

[1] A. Kaya and G. Herrera (2014), 'Why The 2008 Crisis Was A Bad Crisis For New Ideas', *Journal Of International Relations And Development,* Online Pre-Publication (DOI: 10.1057/jird.2014.8); Smith (2013), 'Globalisation And The Resilience'.
[2] M. Blyth (2013), *Austerity: The History Of A Dangerous Idea* (Oxford: Oxford University Press); Hodson and Mabbett (2009), 'UK Economic Policy'; Hay (2011a), 'Pathology Without Crisis?'; Cf. C. Hay (2013b), 'Treating The Symptom Not The Condition: Crisis Definition, Deficit Reduction And The Search For A New British Growth Model', *The British Journal Of Politics And International Relations,* 15 (1), pp.23-37.

What emerges from the present analysis is a considerable degree of similarity (but not identity) between the two governments' crisis diagnoses, and between these and pre-2008 neoliberal problem definitions regarding economic policy and political-economic restructuring. These diagnoses point their subscribers to decisive interventions that have reconfigured the relationship between public and private sector activity and responsibility in a range of areas, changes that I argue facilitate a thoroughly neoliberal strategy for macroeconomic adjustment by means of wage deflation, the placation of perceived financial market sentiment and a tentative re-regulation of the credit cycle. I argue that this constitutes a new phase in the neoliberalisation of the British political economy, premised on new strategies of roll out and roll back neoliberalisation and a faster, 'deeper' trajectory of restructuring than prior to 2008.

These arguments do, of course, suppose that a comparison can be made between the two governments' crisis diagnoses. The political economic circumstances that they confronted – the early and latter post-2008 contexts – were indeed characterised by important differences, namely the eruption of the Eurozone crisis and the end of the deep recession of 2009. However in many important respects the contexts have posed similar challenges to policymakers. Both governments confronted recession (or in the Coalition's case, three consecutive quarters of zero but not consecutively negative growth), and the threat of a return to recession has haunted the Coalition's time in office. Both presided over falling real wages and uncertain prospects of employment, while the stated goal of a 'rebalancing' of the composition of economic activity and the structure of aggregate demand is yet to be achieved.[3] The financial reforms proposed by the Brown Government had been truncated and were largely unimplemented by the time the Coalition came to office, meaning that financial instability was also an issue over which the Coalition has had to formulate policy. In sum, the context that the Coalition government has administered has been one of stagnation, not recovery, and the economic pathologies and uncertainties within it are sufficiently similar to those confronted by the Brown Government as to make a comparison along the selected themes appropriate.

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[3] C. Berry (2013), 'Are We There Yet? Growth, Rebalancing And The Pseudo-Recovery', *SPERI Papers* (7; Sheffield: SPERI, University Of Sheffield).

The macroeconomic interventions and crisis diagnoses of both governments must be viewed in the context of a sustained decline in real wages that is unprecedented in the history of modern British capitalism.[4] Between June 2008 and September 2014 there have been just 4 months in which average weekly earnings rose at or above the rate of inflation.[5] The mean pay cut was 10.3%, while lower skilled workers experienced an average cut of 13.5%.[6] Whilst aggregate demand is a recurring theme in those aspects of the two governments' crisis diagnoses examined in Sections 1, 2 and 3, neither government has cast this deflationary labour market adjustment as a problem. Stimulus measures in 2008-2010 and 2012 onwards have sought to stabilise it, yet the month-on-month falls in real earnings have been continually tolerated and have not featured prominently in either government's assessment of the economic context. I suggest this pattern of non-intervention is quite consistent with the neoliberal problem definitions that I identify as underpinning the two governments' post-2008 economic strategies. These stress the importance of labour market flexibility and adjustment to macroeconomic stability and growth. The two governments' macroeconomic strategies are to incorporate and manage wage-deflationary macroeconomic adjustment.

1.
<u>The Relationship Between Growth, Employment And Monetary Policy</u>

The three themes of economic growth, unemployment and monetary policy pressures constitute the core 'triad' of macroeconomic policy issues that early advocates of neoliberalism sought to problematise as they engaged the ideas underpinning Keynesian macroeconomics.[7] In the context of arguments that see the imprint of (thwarted) ideational change or contingency in the aftermath of the

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[4] A claim put by the TUC drawing upon Bank of England Data. <u>Trades Unions Congress (2014)</u>, 'UK Workers Suffering'.
[5] The figure reflects mean weekly earnings minus bonuses. <u>Office For National Statistics (2014)</u>, *Economic Review, December 2014* (London: The Stationery Office), Fig 6.
[6] <u>Ibid</u>, p.8.
[7] <u>Blyth (2002)</u>, *Great Transformations*; <u>Peck and Tickell (2007)</u>, 'Conceptualising Neoliberalism'.

financial sector instability of 2008 this is an interesting theme along which to examine post-2008 crisis diagnoses, specifically that of the Brown Government.

<u>Brown Government</u>

Had the problem definitions that structure these aspects of macroeconomic policymaking changed in the post-2008 context, we would expect this change to be apparent in the re-ordering of macroeconomic goals. Those who suggest that the Brown Government (either through thwarted contingency or ad hoc 'inter-paradigm borrowing') briefly deployed Keynesian ideas and policies in effect predict such an outcome. In such a case we would expect to see evidence of a rejection of Say's Law and the NAIRU concept, and the prioritisation and targeting of growth rates and employment levels through macroeconomic means.

The adjudication of this debate is complicated by the fact that the Brown Government presided over a deflationary and recessionary context. As noted in Chapter 4, where the economy is 'out of equilibrium' Keynesian and neoliberal prescriptions are similar, with both asserting the need for stimulus measures to preserve viable businesses through the downturn and to limit the degradation of physical and human capital until growth returns. Despite this ambiguity, the findings reported here do nevertheless favour an interpretation of the Brown Government's crisis diagnosis as being characterised by continuity with the problem definitions inscribed in the pre-2008 neoliberal coordinative discourse.

Fiscal And Monetary Stimulus

From December 2007, the Bank of England adopted a loose monetary policy, acknowledging the threat of deflation. In October 2008 the monetary stimulus was ratcheted up, with the base rate falling from 4.5% to 0.5% in the space of five months. At this point, with little room left for monetary policy to combat deflation, the government authorised the use of the Bank's recently established 'Asset Purchase Facility' as an instrument of unorthodox monetary stimulus – the policy of so-called 'quantitative easing'. Successive rounds have since increased the size of the APF to £375bn. However by the end of 2008 the Brown Government had concluded, along with other parties to the G20 summit of November that year, that the global and domestic economies had entered a profound recession that exceeded the capacity of monetary policy alone to respond to. The response in Britain was a period of expansionary fiscal policy in the form of a fiscal stimulus programme, outlined in the December *2008 Pre-Budget Report.*[8]

The programme amounted to around a £20bn fiscal loosening. Factoring in the 'passive' fiscal loosening that arises through the operation of the 'automatic stabilisers' (that is, support for aggregate demand in the economy arising from unemployment benefits and the like as economic conditions deteriorate), the counter-cyclical fiscal support provided by the package was around 5% of GDP.[9] Such conduct of macroeconomic policy was unprecedented in the UK's recent economic history, although not large by the international standards of the time.[10] The package consisted of three broad measures. The first was a yearlong cut in VAT from 17.5% to 15%. A tax cut was justified as the primary vehicle because of the speed with which such a measure could be introduced and withdrawn.[11] Capital spending – perhaps more readily associated with the grand fiscal stimulus projects in the US of nearly a century earlier – performed a secondary role. £3bn of capital spending was brought forward from the fiscal year 2010-11 to 2008-09 and 2009-10. A range of discretionary spending measures were also undertaken as part of the package to provide support to the household and private non-financial sectors, including a range of mortgage and tax reliefs.

Unemployment rose sharply in the last quarters of 2008, continuing to rise until the end of 2011.[12] The government's response was to strengthen its unemployment policy in a number of ways. The 'Future Jobs Fund' (FJF) was the most novel, encompassing as it did new responsibility on the part of the government to counter the impacts of prolonged unemployment through the direct manipulation of demand in the labour market. The FJF provided subsidies for the

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[8] H.M. Treasury (2008), *Pre-Budget Report 2008: Facing Global Challenges: Supporting People Through Difficult Times* (London: The Stationery Office).
[9] H.M. Treasury (2010b), *Budget Report 2010 (March): Securing The Recovery* (London: The Stationery Office), paragraph 2.6.
[10] International Monetary Fund (2009a), *Update On Fiscal Stimulus And Financial Sector Measures, April 26, 2009* (Washington D.C.: International Monetary Fund).
[11] Treasury (2008), *Pre-Budget Report 2008*, paragraph 2.40.
[12] British Broadcasting Corporation (2014a), 'Economy Tracker'.

creation of 170,000 jobs for those who had been in receipt of Job Seekers Allowance for more than six months. 120,000 of these jobs were allocated to under-25s. During the election of 2010, the Labour Party pledged to increase the number of FJF placements to 200,000, and to extend eligibility for the scheme to all adults out of work for more than two years.[13] While the FJF represents a novel demand-side intervention, most of the unemployment policies of this time were of a more familiarly neoliberal hue, targeting 'frictional' barriers so as to facilitate rapid labour market adjustment. These measures included a substantial boosting of the 'Job Centre Plus' architecture, with 15,000 civil servants deployed to administer it and a 'rapid response' service being established to deal with large-scale redundancies. Also in this vein, a 'better off through work' tax credit was established to incentivise labour market participation. The tax credit established a principle that those previously in receipt of Job Seekers Allowance would have an income £40 a week higher than they would have had on benefits upon entering work. Finally, and on a longer time horizon, there was a strengthening of the existing public sector interventions in human capital formation. This last category of intervention is discussed in greater detail in the next chapter.

A 'Keynesian' Stimulus?

The demand-side orientation of the stimulus and FJF programmes are novel in the recent history of UK economic policy, and they both have a certain intuitive association with Keynesianism. But although unprecedented in recent times, the fiscal stimulus was a foreseen possibility in the economic policy architecture of New Labour. As we saw in Chapter 4, the rationale with which New Labour presented its *Code for Fiscal Stability* was the cultivation of 'credibility' with financial market actors so as to render short periods of expansionary fiscal policy possible during a downturn. The bolstering of demand during a recession through monetary and fiscal policy was thus a foreseen but unrealised possibility, and I have argued in Chapter 4 that it was no less neoliberal for that. In the *Pre-Budget Report* of 2008, the government drew on the very same argument as the basis for its stimulus policy, but this time claimed that a sufficient foundation of credibility

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[13] Labour Party (2010), *A Future Fair For All: 2010 Election Manifesto* (London: Labour Party).

had been established for the programme to prove effective as a *short-term* measure.[14] The rationale offered for these demand-side interventions was precisely to preserve viable businesses, the quality of human capital and the livelihoods of citizens during what the government expected to be a short period of poor economic performance.[15] The time-limited and exceptional nature of the stimulus was stressed from the outset: the makings of what would become Labour's proposal for a deficit reduction programme during the 2010 general election were already outlined in the *2008 Pre-Budget Report*, and were elaborated further six months later in the *2009 Budget Report*.[16] It was argued from this early point that an indefinite departure from the normal conduct of fiscal policy (i.e. the nominally 'cyclically balanced' and passive regime of the New Labour governments) would result in a loss of market confidence in the government's finances that would simply neutralise the effect of the stimulus.[17]

Although superficially displaying the strongest trappings of a Keynesian 'make work scheme' out of all post-2008 interventions, the FJF was similarly conceptualised in relation to existing neoliberal problem definitions through which unemployment is cast as a microeconomic supply-side problem under normal economic conditions. The scheme was articulated as a means to avoid the damaging impact of prolonged unemployment on human capital and the prospects for the inclusion of citizens in labour markets once the economy recovered.[18] Consequently, it represents an internally coherent strengthening of New Labour's reconciliation of 'efficiency' and 'fairness' through labour market inclusion, and would do so even if it had not been executed in a recessionary moment. In many respects it is an archetypal strategy of roll out neoliberalisation: a means through which government seeks to ensure the legitimacy and correct functioning of flexible labour markets by mitigating their negative impact on citizens/human capital without resorting to de-commodifying or market-constraining strategies.

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[14] Treasury (2008), *Pre-Budget Report 2008*, paragraphs 1.6 and 2.115.
[15] Ibid, paragraphs 2.30-2.32, 4.1 and 5.36; Treasury (2010b), *Budget Report 2010 (March),* paragraph 5.6.
[16] Treasury (2008), *Pre-Budget Report 2008*, paragraph 1.8; H.M. Treasury (2009a), *Budget Report 2009: Building's Britain's Future* (London: The Stationery Office), paragraphs 2.63-2.73.
[17] Treasury (2008), *Pre-Budget Report 2008*, paragraph 2.40
[18] Treasury (2010b), *Budget Report 2010 (March)*, paragraph 5.6.

Both the FJF and the broader stimulus programme are thus quite consistent with the neoliberal problem definitions attributed to Labour in Chapter 4. Although the Brown government did not offer any formal estimate of the NAIRU, the interventions reflected the view that the downturn would exert a 'scarring' effect on human and physical capital which in turn would have negative implications for the non-inflationary growth and employment potential of the economy once it returned to a state of full resource utilisation. Nowhere in the Brown Government's economic policy choices, commentary or forecasts do we find evidence for the claim that the shortfall in demand was expected to last beyond the short-term, casting doubt on any notion that the concepts of Say's Law or the NAIRU had ceased to organise the government's thinking on the relationship between growth, unemployment and monetary policy.

Exactly how the Brown Government would have approached macroeconomic policy as the economy came out of recession and entered the long period of stagnation that has characterised the post-2008 context is, of course, something we cannot know. However, we can gain a certain degree of insight into what might have transpired in 2010-11 by observing the nature of the Brown Government's deficit reduction plan and the proposed timing of the withdrawal of demand-side support – the topic of the next section.

Coalition Government

No equivalent debate exists in relation to the Coalition Government. Indeed, the government was quite explicit about its commitment to neoliberal macroeconomic orthodoxy: a stable rate of product price inflation and a balanced budget was deemed the cornerstone of macroeconomic stability *under normal economic conditions*, and it was from such a regime that the highest levels of growth and employment consistent with the economy's microeconomic structure were held to obtain.[19] Consistent with this view, wherever the Coalition has addressed unemployment it has treated it as a microeconomic and supply-side problem, to be responded to through skills policy, welfare reform and labour market liberalisation. The Coalition's tolerance of a protracted period of wage deflation can also be viewed in this regard as quite consistent with an ongoing commitment to a NAIRU problem definition.

However, the Coalition's tolerance of a higher rate of inflation throughout much of the period poses an interesting question as to the relationship it assigns to these variables. Throughout the post-2008 context the Monetary Policy Committee has judged acting on inflationary pressures and withdrawing monetary stimulus to pose a greater risk to macroeconomic stability than allowing it to continue. The withdrawal of demand represented by the Coalition's deficit reduction programme might be interpreted as a counter-inflationary measure, yet I argue below that it is better interpreted as a means of securing credibility and growth instead. This is because since 2011 the Coalition has itself fashioned new expansionary monetary policy instruments through its policy of 'credit easing'. As I discuss in Section 3, this has implications for the de-politicisation of monetary policy in Britain, as the Coalition appears to have actively re-cast monetary policy as a de facto quasi-discretionary instrument of economic expansion. Yet such a strategy is consistent with the view that stimulatory policies are an appropriate response when the economy is out of its presumed equilibrium state.

[19] H.M. Treasury (2010c), *Budget Report 2010 (June): Responsibility, Freedom, Fairness: A Five Year Plan To Re-Build The Economy* (London: The Stationery Office), paragraph 1.27; a similar statement is made in the opening chapter of subsequent budget reports and autumn statements, the principal difference being a growing emphasis on the necessity of various 'credit easing' measures along side quantitative easing for the meeting of monetary policy objectives from *Autumn Statement* of 2011 onwards, an issue to which I turn in the next section. H.M. Treasury (2011a), *Budget Report 2011* (London: The Stationery Office), paragraph 1.9; H.M. Treasury (2011c), *Autumn Statement 2011* (London: The Stationery Office), paragraph 1.44; H.M. Treasury (2012a), *Budget Report 2012* (London: The Stationery Office), paragraph 1.3; H.M. Treasury (2012b), *Autumn Statement 2012* (London: The Stationery Office), paragraph 1.26; H.M. Treasury (2013a), *Budget Report 2013* (London: The Stationery Office), paragraph 1.25.

2.
Public Sector Finances

The issue of deficit reduction is central to political, public and academic debates in the post-2008 context. Fiscal consolidation represents perhaps the most decisive post-2008 intervention because of its impact on the range of issues for which government is able to take responsibility.

The Brown Government

In 2009 the Brown Government became more vocal in its assessment of the need for fiscal consolidation as a necessary condition of recovery. The *Pre-Budget Report 2008* had made a temporary alteration to the budgetary rules in which New Labour governments had conducted macroeconomic policy so as to facilitate the stimulus programme. The 'Temporary Fiscal Operating Rule', allowed a departure from the general commitments comprising the 1998 *Code*, but committed the government to a programme of fiscal consolidation in the medium and long term so as to restore 'sustainable public finances'.[20] The transition from one mode of fiscal policy to the other was to occur at the Chancellor's discretion, resting on the judgment that the recovery path of the economy had become self-sustaining. The stability of the financial markets and the anticipated normalisation of credit conditions were to be integral to this judgment.[21] In the Pre-Budget Report of 2009 and the Budget Report of 2010 the government began to articulate their fiscal consolidation programme in more detail. At the time of the *Pre-Budget Report 2009* the view of Treasury forecasters was that growth would return in 2010, followed by a period of above trend growth in 2011. It was deemed that the criteria for fiscal consolidation would be met during the course of the fiscal year 2010-11, and that consolidation could begin in 2011-12 in spite of growth having been lower than forecast in Budget 2009.[22] The consolidation was envisioned as bringing about a year-on-year decrease in cyclically adjusted deficit with the target of cutting PSNB by more than 50% by the fiscal year of 2013-14. At the time it was

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[20] Treasury (2008), *Pre-Budget Report 2008,* paragraph 2.102.
[21] Treasury (2009a), *Budget Report 2009,* paragraphs 2.23-2.30.
[22] H.M. Treasury (2009b), *Pre-Budget Report 2009: Securing the Recovery: Growth and Opportunity* (London: The Stationery Office), paragraph 2.70.

believed that this would bring about a balanced cyclically-adjusted budget by the fiscal year 2017-18.

Fiscal consolidation was to be brought about by a mixture of tax rises and spending growth cuts, at a ratio of one third to the latter's two. As well as cuts to departmental budgets (the details of which the government remained guarded over, having declined to hold a comprehensive spending review prior to the election), the non-tax component of the deficit reduction plan included a public sector pay freeze in which senior public sector salaries would be frozen, and the rest subject to caps of 1% (or 2% for the armed forces). The achievement of these targets and timeframe was legislated in the Fiscal Responsibility Act (2010). Under the act a change in fiscal policy would ostensibly require primary legislation, and a failure to achieve the targets would trigger parliamentary scrutiny and the production of a new fiscal consolidation plan. Yet on close inspection the act was carefully worded. Although not widely commented upon at the time, it bound the government to its fiscal consolidation plan only insofar as it was deemed consistent with the broader *Code for Fiscal Stability*.[23] This in turn committed the government to operating a fiscal policy consistent with 'high and stable levels of growth and employment'. The extent to which the primary legislation would actually have been required for a discretionary suspension of the fiscal consolidation programme is thus open to speculation.

As with fiscal stimulus, the argument for consolidation was articulated within the terms of the *Code for Fiscal Stability* and its stress on credibility and constrained discretion. The action that the government perceived the context to demand was not deficit reduction *per se*, but the articulation of a credible commitment to deficit reduction at a future time. An orthodox argument was appealed to in articulating the dangers of not committing to fiscal consolidation. It was suggested that without a firm commitment to pay back sovereign debt, financial market confidence would soon give way and investors would demand greater compensation for holding

[23] T. Dolhpin and A. Lent (2011), *Deficit Reduction Averaging: A Plan B For Fiscal Tightening* (London: Institute for Public Policy Research).

sterling denominated securities, harming macroeconomic stability, consumers and businesses.[24]

Yet for the Brown Government the credibility of such a commitment was contingent upon the conditions for recovery noted above being in place. The reservation of Chancellery discretion, and the presumption that financial markets already invested the government with sufficient credibility for macroeconomic policy to move from stimulus to consolidation on the proposed timetable, suggests a potentially rather relaxed perception of the constraints posed by the deficit on the part of the Brown Government. In practice, however, the commitment to deficit reduction that the government deemed credible was actually a very inflexible one. History has shown the government to have been extremely over-confident in its recovery forecasts. Although Labour shadow ministers would later boast of the little discussed 'back door' in the Fiscal Responsibility Act observed above, a better analogy might be a fire escape: the abandonment of its fiscal strategy during the long stagnation of the next three years would have caused a hypothetical re-elected Brown Government great embarrassment, and could have done much to erode the financial market confidence that it saw itself as requiring if further stimulus was to be carried out. The target of an over 50% reduction in PSNB – an unadjusted aggregate – made the plan particularly susceptible to the economic climate that would follow because the operation of the automatic stabilisers would count against it.

The failure to incorporate a longer period of discretion into their deficit reduction programme, or an explicit means of suspension should economic conditions deteriorate, suggests that the Brown Government really believed that the economic cycle would turn decisively upwards in 2010. This confidence is, of course, quite consistent with the ongoing influence of the pre-2008 neoliberal problem definitions on the government's crisis diagnosis. From this viewpoint recession is always a short-term phenomenon provided correct macroeconomic policy is observed in downturn and recovery. The government did not consider a

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[24] Treasury (2009b), *Pre-Budget Report 2009*, paragraph 2.63; Treasury (2008), *Pre-Budget Report 2008*, paragraph 2.32.

protracted period of inadequate demand to constitute a risk because the concepts of Say's Law and the NAIRU had never ceased to be an influence on its thinking.

Coalition Government

The nature of the threat that the Coalition identifies in this area is similar, but not identical, to that identified by the Brown Government. Yet neither has the role of deficit reduction in the Coalition's crisis diagnosis been static, and a change of emphasis over time revealed in this theme suggests that the degree of divergence between the two governments' crisis diagnoses narrowed around the end of 2011. In light of this change I discuss the two phases under separate sub-headings.

Coalition Macroeconomic Crisis Diagnosis Prior To 2012

Prior to 2012 the elimination of the budget deficit formed the lynchpin of the Coalition's strategy for macroeconomic stability and macroeconomic rebalancing of the UK's demand structure. The demand side interventions of the Brown Government were consequently wound up. In their place, the '*Emergency Budget*' of 2010 announced a plan to eliminate the government deficit by 2015-16, bound by a fixed commitment that debt would fall as a percentage of GDP by the same year. Indeed, the plan actually envisioned the budget balanced a year earlier than this. Approximately 75% of the consolidation was to be accounted for through spending reductions over the course of five years. At the time of the 2010 *Comprehensive Spending Review*, this was deemed to require spending reductions of £81bn, with only a few select areas being 'ring fenced' (namely the health, foreign aid and science budgets).[25]

In some respects the Coalition can justly claim to have enacted a more economically sensitive approach to deficit reduction than its Labour predecessor.[26] Under the Coalition the burden of deficit reduction was placed on the 'cyclically adjusted current deficit' – a measure which, unlike the Brown Government's target,

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[25] H.M. Treasury (2010e), *Spending Review 2010* (London: The Stationery Office), paragraph 1.11.
[26] Treasury (2010c), *Budget Report 2010 (June),* paragraph 1.18; Dolhpin and Lent (2011), *Deficit Reduction Averaging.*

would permit the operation of the automatic stabilisers during a second recession without requiring the government to concede the loss of its fiscal path.[27] Indeed, the Coalition was well aware that the immediate implication of its fiscal strategy would be to constrain domestic consumption demand, bringing with it the economic and political risks implied in a second recession.[28] Yet in the two years to 2012 the Coalition demonstrated a strong inclination to persevere with its 'Plan A' in spite of these risks. When placed alongside the falling wage costs that characterised the period, the Coalition's pre-2012 macroeconomic strategy can thus be characterised as a highly ambitious deflationary macroeconomic adjustment softened only by the effects of ongoing monetary stimulus.

It is here that the divergence between the Coalition's pre-2012 crisis diagnosis and the Brown Government's becomes apparent. As already noted, the latter regarded the economic risk of recession as a risk to the UK's future economic fortunes because of the potential impact on the long-run growth potential of the economy. The Coalition, by contrast, was initially less concerned with this risk, viewing a rapid private sector and export-led recovery as the likely outcome of their deflationary adjustment strategy.[29] Given the economic risks and political costs of failure, an interesting question is thus raised as to the cause of these diverging assessments of the economically necessary and politically possible. From a constructivist perspective it suggests a differing *interpretation*.

The factor that accounts for these differing interpretations is the brief internalisation by the Coalition of the so-called 'expansionary fiscal consolidation

[27] Although the fiscal year of reckoning – 2015-16 – at this point represented an inflexible constant in the OBR's assessments of the likelihood of the government meeting its fiscal mandate.
[28] Treasury (2010c), *Budget Report 2010 (June),* Box 1.3.
[29] Ibid, paragraphs 1.7-1.8; Department For Business Innovation Skills (2011), *The Plan For Growth* (London: The Stationery Office).

thesis' (EFCT).[30] Succinctly stated, the thesis posits the existence of an empirical regularity between spending reduction-based fiscal consolidation focused on transfer payments, public sector wages and public services on the one hand, and a rapid return to growth and decline in debt on the other. The mechanism through which this is said to function is an 'expectations channel': that is, that the rational assessments of consumers and businesses regarding future levels of taxation and interest rates amid a decisive signal of governmental commitment to such a fiscal path will result in an increase in spending and investment that exceeds the deflationary impact of tight fiscal policy.[31] The prescription of the thesis is that a signalled intention to make reductions in public spending of this kind is at its most credible during a downturn, and thus that governments should proceed to fiscal consolidation at once, rather than waiting for signs of recovery to appear (the inverse of the Brown Government's proposal).

Blyth casts the EFCT as the latest iteration of the 'dangerous idea' of austerity – the notion that withdrawing public sector and consumer demand is an appropriate response to recession.[32] He identifies the work of the 'Bocconi School', particularly that of Alesina and his collaborators, as having supplied the EFCT analysis that has since been deployed by European Union institutions, finance ministers and governments since early 2010 in support of deflationary adjustment strategies. The Coalition's pre-2012 deficit reduction strategy certainly conforms well to its dictates both in its scale and in the rapid, clear and decisive signal of the government's intent (which, from a broadly Keynesian perspective, might have been expected to have deflationary effects in and of itself).[33] Moreover, the Coalition directly appealed to Alesina and Perotti's 1995 paper in the 2010 *Comprehensive Spending Review*, whilst IMF research that drew on this work was

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[30] F. Giavazzi and M. Pagano (1990), 'Can Severe Fiscal Contractions Be Expansionary? Tales Of Two Small European Countries', in O.J. Blanchard and S. Fischer (eds.), *NBER Macroeconomics Annual 1990, Volume 5* (Cambridge, MA: MIT Press), pp.75-122**;** A. Alesina and R. Perotti (1995), 'Fiscal Expansions And Adjustments In OECD Countries', *Economic policy,* 10 (21), pp.205-48**;** A. Alesina and S. Ardagna (1998), 'Tales Of Fiscal Adjustment', *Economic Policy,* 13 (27), pp.488-545**;** A. Alesina and S. Ardagna (2010), 'Large Changes In Fiscal Policy: Taxes Versus Spending', in J.R. Brown (ed.), *Tax Policy And The Economy, Volume 24* (Chicago: The University of Chicago Press), pp.35-68**;** for critical discussion and historical context see Blyth (2013), *Austerity: The History*.
[31] Alesina and Ardagna (1998), 'Tales Of Fiscal Adjustment'; Alesina and Ardagna (2010), 'Large Changes In Fiscal'.
[32] Blyth (2013), *Austerity: The History*.
[33] Ibid.

also cited in the *Emergency Budget* in support of the view that fiscal consolidation would promote growth.[34] More generally, the purported confidence-enhancing effects of deficit reduction were repeatedly asserted in all budget reports and autumn statements prior to 2012.[35]

The demonstrable familiarity of the Coalition Treasury with the ECFT, the conformity of the deficit reduction plan to its prescriptions, and the high-risk nature of the strategy (at least when viewed from the point of view of the more established neoliberal problem definitions which advocate stimulus measures) suggests that a stimulatory effect was indeed the expected outcome of the deficit reduction plan.[36] The endorsement of the EFCT by the Coalition served to configure the role of deficit reduction in its crisis diagnosis as *the means* to stabilise and stimulate economic activity, for it was only on the basis of this belief that the political and economic risks of such immediate and decisive fiscal consolidation could be prudently set aside. This in turn implies a degree of ideational divergence in the coordinative discourse of the pre-2012 Coalition Government when compared to that of the Brown Government and New Labour governments before it. While the EFCT is quite consistent with the broader neoliberal restructuring ethos, it departs from the more 'neo-Keynesian' infused

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[34] Treasury (2010e), *Spending Review 2010, paragraph* 1.8; Treasury (2010c), *Budget Report 2010 (June), paragraph* 1.32; The IMF report in question is International Monetary Fund (2009b), *United Kingdom: Staff Report For The 2009 Article IV Consultation* (Washington D.C.: International Monetary Fund).

[35] Treasury (2010c), *Budget Report 2010 (June),* Box 1.3; Treasury (2010e), *Spending Review 2010, paragraph* 1.8; Treasury (2011a), *Budget Report 2011, paragraph* 1.9; Treasury (2011c), *Autumn Statement 2011, paragraph* 1.47.

[36] One avenue of future research that may further re-enforce this conclusion would investigate the role of the think-tank Policy Exchange in informing and influencing Conservative Party coordinative discourses on economic policy. Pautz has noted the exchange of personnel between the two organisations, the closeness of the organisation to David Cameron, and the research carried out by the organisation on several prominent coalition policies prior to the Coalition taking government, including free schools and certain aspects of the welfare reform agenda. See H. Pautz (2013), 'The Think Tanks Behind 'Cameronism'', *The British Journal Of Politics & International Relations,* 15 (3), pp.362-77. To this list, we might also add the deficit reduction plan, certain features of which (such as the ratio of cuts to tax rises) were foreseen in a series of documents that the think-tank produced over the course of 2009 and early 2010 under the heading 'Controlling Public Spending'. The work of Alesina and Ardanga features in the arguments offered in these reports, and this may indicate one possible channel by which the EFCT came to influence Conservative and then Coalition coordinative discourses on macroeconomic policy. See Policy Exchange (2009), *Controlling Spending And Government Deficits: Lessons From History And International Experience* (London: Policy Exchange).

neoliberal problem definitions of the New Labour governments in its antipathy to stimulus measures during macroeconomic disequilibrium.

Macroeconomic Policy 2012 Onwards

From the last months of 2011 the macroeconomic strategy of the Coalition government underwent a substantial reconfiguration, transitioning to one centred (overtly) on stimulating the supply of credit to the private and household sectors, and (covertly) on the reflation of the housing market and the resumption of privatised Keynesianism (the latter of which I take up in the next section). From the time of the 2012 budget a change can be discerned in the arguments offered as a rationale for macroeconomic strategy: appeals to the EFCT and growth-enhancing properties of fiscal consolidation ceased. Instead, the rationale offered for consolidation was primarily as a means of avoiding a debt crisis and providing a necessary condition of macroeconomic stability from which economic and employment growth could later emerge. [37]

This reconfiguration in the Coalition's arguments, alongside policy changes noted presently, suggests the decline of the EFCT as an influence on the government's economic policy coordinative discourses and a re-diagnosis of macroeconomic circumstances. The reason for the EFCT's declining influence is likely to have reflected economic performance: it would have become apparent to the government, as it had to an increasingly impatient IMF, that the strategy had failed to produce the stimulatory effect that its authors had once attributed to it.[38] The final quarter of 2011 saw the beginning of three quarters of consecutive zero or negative GDP growth. The balance of trade position underwent little improvement, despite a substantial depreciation of sterling.[39] The promised renaissance of manufacturing showed no signs of materialising. Once the EFCT ceased to be a

[37] Treasury (2012a), *Budget Report 2012, paragraphs* 1.43-1.45; Treasury (2012b), *Autumn Statement 2012, paragraphs* 1.39-1.41; Treasury (2013a), *Budget Report 2013, paragraphs* 1.45-1.46; H.M. Treasury (2013c), *Autumn Statement 2013* (London: The Stationery Office), *paragraphs* 1.65-1.66.
[38] Reauters (2012), 'IMF Renews Call On UK To Boost Growth, But Osborne Gets Austerity Backing', <http://uk.reuters.com/article/2013/07/17/britain-imf-idUKL9N0CP05E20130717 >, accessed 04/09/2012.
[39] Office For National Statistics (2013), *Explanation Beyond Exchange Rates: Trends in UK Trade Since 2007* (London: The Stationery Office).

conditioning factor on the Coalition's expectations of the outcomes of its macroeconomic strategy the government was forced to acknowledge the same economic and political risks of protracted stagnation that the Brown government had perceived, and a corresponding imperative to adopt a rather different macroeconomic stance. Against calls from across the political spectrum to adopt a 'Plan B' for economic recovery the Coalition protested the need to continue with 'Plan A' – by which it meant simply maintaining the path of fiscal consolidation.[40] However, the plan was indeed changed, and in a way that is broadly consistent with a reversion to pre-2008 problem definitions: a return was made to discretionary (primarily monetary) stimulus.

The Coalition attributed the UK's poor economic performance over the course of late 2011 and 2012 in part to headwinds from the Eurozone and the impact of fuel inflation.[41] However, another economic pathology was also moved to the foreground of the Coalition's argumentation at around this time: the restricted supply of credit to the non-financial economy.[42] A perceived deficiency in the supply of bank lending to business and households had been a feature of the Coalition's commentary on the post-2008 context from the time it took office. In early 2011 the Coalition had continued the Brown Government's practice of using what were in effect voluntary lending targets for the 'nationalised' banks, formalising these in the so-called 'project Merlin' agreements. However, by late 2011 the Coalition had concluded that a deficient supply of lending to businesses, which it attributed to the impacts of the euro-zone crisis, was constraining the growth of firms (particularly SMEs) and was hampering a private sector-led recovery.[43]

The government's response, and the core of its post-2012 macroeconomic strategy, has been a programme of 'credit easing'. In general terms, credit easing

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40 The Guardian (2012), 'Dear George Osborne, It's Time For Plan B, Say Top Economists', <http://www.theguardian.com/politics/2012/aug/17/top-economists-advice-george-osborne>, accessed 05/09/2012.

41 Treasury (2012b), *Autumn Statement 2012, paragraphs* 1.18-1.21; Treasury (2013a), *Budget Report 2013 paragraphs* 1.7 and 1.15-1.19.

42 Treasury (2012a), *Budget Report 2012, paragraphs* 1.61-1.65; Treasury (2012b), *Autumn Statement 2012, paragraphs* 1.16, 1.22 and 1.28-1.31.

43 Treasury (2011c), *Autumn Statement 2011, paragraphs* 1.67-1.68; Treasury (2012b), *Autumn Statement 2012, paragraphs* 1.18-1.20.

refers to government efforts to limit the risk exposure of lenders. The Coalition has implemented this principle through three methods: by offering guarantees on lending to consumers and businesses; by facilitating access to cheaper wholesale lending to private banks; and by deploying public funds in commercially-operated investment funds. The last of these, as we have seen in Chapter 4, has a long precedent in microeconomic policy. The former two, however, are novel instruments in a macroeconomic policy setting.[44] With the stimulatory potential of quantitative easing having failed to materialise to a sufficient extent, credit easing represents a concerted effort by the government to direct private bank lending into the non-financial economy in order to raise business investment and consumer demand.[45] Through this turn to credit easing the pace of the wage-deflationary adjustment strategy has been moderated, and an element of short-term stimulus brought in.

There are two distinct aspects to the credit-easing programme. The first of these, on which the remainder of this section dwells, are policies targeting the flow of credit to businesses, mortgage borrowers and consumers. The second - the 'Help to Buy' scheme of 2013 – has sought specifically to increase the supply of mortgage credit. The macroeconomic policy implications and motives of this second scheme are addressed in the following section.

The use of credit easing in support of macroeconomic policy was announced in the *Autumn Statement* of 2011. The initial form was the 'national loan guarantee scheme' (NLGS), which used public funds to guarantee a selected group of banks' own borrowing on the proviso that the saving facilitated was passed on to lending to businesses with a turnover of less than £51mn. £20bn was committed to the scheme, from which the government expected to see up to a 1% fall in the costs of borrowing for such businesses. A second scheme – the 'business finance partnership' – sought to stimulate the provision of non-bank finance to SMEs through a government-private £1bn co-investment in managed loan funds that lend directly to SMEs and 'Mid-Cap' firms. The government defended its deficit

[44] A small firm loan guarantee scheme (since expanded into the 'Enterprise Finance Guarantee) predates 2008, but it is better thought of as a non-discretionary industrial policy because it had no macroeconomic stimulatory intent until the post-2008 context.
[45] Treasury (2012b), *Autumn Statement 2012, paragraph* 1.30.

reduction programme from the fiscal implications of this policy by offsetting the new guarantees against others that had alreadybeen made available to the Bank of England's asset purchase facility.

The NGLS was subsequently superseded by the larger 'funding for lending scheme' (FLS). The FLS is a monetary policy rather than fiscal-monetary intervention, operated by the Bank of England. The scheme permits commercial banks to swap certain assets for treasury bills in order to raise funds more cheaply than would otherwise be the case. Beyond an initial allowance (estimated to be around £68bn at the time the policy was announced), the quantity of funds that could be accessed by participating banks was linked to the growth in net lending to households and private non-financial firms, thus incentivizing banks to expand lending to the non-financial economy. The scheme has been extended twice – in late 2013 and 2014. The 2013 extension removed the incentives for mortgage lending a year earlier than planned, a rather significant event that is discussed in the final section, whilst the 2014 extension subsequently focused the incentive entirely upon SME lending.[46]

The choice of a novel set of monetary stimulatory instruments is likely in part to be a consequence of the terms in which the earlier failed macroeconomic strategy was articulated: having constructed a communicative discourse so unswervingly premised on the *absolute and unavoidable necessity* of immediate deficit reduction the political costs of a 'U-turn' are likely to be very high indeed, particularly in a context where the opposition has consistently called the government's economic competence into question (on which see Chapter 7). Yet a degree of undisclosed fiscal loosening has in fact taken place since 2012, evident in a slowing of the decline of borrowing as a percentage of GDP from 2011-12 onwards and the repeated revisions of the government's deficit reduction target that culminated in the concession of the original 2010 fiscal mandate.[47] The goal of eliminating the structural deficit is now projected long into the next parliament.

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[46] Bank Of England (2013), *Funding For Lending Scheme Extension: Explanatory Note* (London: Bank of England); M. Carney (2014), *Letter To The Chancellor Of The Exchequer, 02/12/2014* (London: The Stationery Office).
[47] See ONS and OBR data plotted in J. Portes (2014), 'Fiscal Policy, "Plan A" And The Recovery: Explaining The Economics', <http://niesr.ac.uk/blog/fiscal-policy-plan-and-recovery-explaining-economics#.VLaoyqNTsuJ>, accessed 20/12/2014, Chart 1.4.

As Chapter 2 highlighted, from a constructivist perspective economic performance failure, particularly when associated with a particular approach to economic policymaking, provides the conditions in which actors can become more receptive to new ideas and the reconstitution of problem definitions. Yet while the Coalition has moderated its highly rationalist assumptions about the effectiveness of deficit reduction as a stimulant of economic activity, there is little evidence in this particular theme of a categorical change in the character of coordinative discourse. The government retains a strong neoliberal belief in the allocative efficiency of markets: the assumption underpinning the strategy of credit stimulus is that, once the price was reduced, there would be demand for credit from firms seeking to grow. Consequently (and perhaps unsurprisingly) the Coalition continues to reject the notion that a deficiency of aggregate demand can be anything but a short-term malady of the economy providing correct monetary conditions are maintained. This, along with the choice of a market-based method of allocating this credit, means that the programme is thus quite consistent with the neoliberal problem definitions attributed earlier to the Brown and New Labour governments. What has been witnessed is a reversion from one form of neoliberal macroeconomic strategy to another.

3.
Re-balancing

Both governments of the post-2008 context have emphasised the 'rebalancing' of the UK economy, away from what was characterised as a flawed and unsustainable model of growth, towards a sustainable and 'balanced' one.[48] Both have appealed to the 'rebalancing' metaphor in multiple contexts, including the public finances (the proportion of borrowing to revenues in public spending), the composition of economic activity (the proportions of financial and public sector activity to non-financial private sector activity in GDP and employment figures), and the structure of aggregate demand (the relative proportions of consumer, foreign, business and public-sector spending and investment in the composition of aggregate demand). It is the latter that is my emphasis here, for it is a specifically macroeconomic issue.

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[48] Froud, et al. (2011), 'Rebalancing The Economy'.

The second is addressed in the following chapter, which addresses microeconomic dimensions of post-2008 crisis diagnoses. Along this theme we directly encounter the two post-2008 governments' orientation to Britain's pre-2008 growth model and their hopes for a transition to a new one premised on export demand and higher levels of business investment.

Brown Government

In the case of the Brown Government, the rebalancing metaphor generally referred to the structure of aggregate demand.[49] In a context of impaired household spending it was envisioned that sterling depreciation and growth in export sectors would contribute towards such a rebalancing as recovery commenced.[50] Yet the government apparently saw no need to decisively intervene to bring this outcome about. Instead, and in line with the neoliberal problem definitions of the New Labour governments on the same issue, the government's discussions treated rebalancing as an automatic outcome of an open and liberally instituted market economy as external economic conditions changed: that in the long run an open and liberal market economy would tend towards a sustainable balance of trade position.[51] The conditions of an orderly rebalancing of demand, and the improvement of the trade account, were thus already thought to be present in late 2008, with no imperative to, for example, purposefully manipulate the price of the currency. [52]

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[49] Treasury (2008), *Pre-Budget Report 2008*, paragraphs 2.55 and A.77; Treasury (2009a), *Budget Report 2009,* paragraphs 2.20, 4.19 and B.75; Treasury (2009b), *Pre-Budget Report 2009*, paragraphs 2.31 and A.57; Treasury (2010b), *Budget Report 2010 (March)*, paragraphs 2.14 and B.48 As time wore on the rebalancing metaphor was used in relation to the relative weight of public and private spending, perhaps reflecting the increasing role that the deficit was playing in the Brown government's crisis diagnosis, see Treasury (2009b), *Pre-Budget Report 2009*, paragraph A.45; Treasury (2010b), *Budget Report 2010 (March)*, paragraph 2.14.

[50] Treasury (2008), *Pre-Budget Report 2008,* paragraphs A.76-A.90; Treasury (2009a), *Budget Report 2009*, paragraphs B.106-B.111; Treasury (2009b), *Pre-Budget Report 2009*, paragraphs A.96-A.112; Treasury (2010b), *Budget Report 2010 (March)*, paragraphs B.58-B.66.

[51] B. Clift and J. Tomlinson (2008), 'Whatever Happened To The Balance Of Payments 'Problem'? The Contingent (Re)Construction Of British Economic Performance Assessment', *The British Journal Of Politics & International Relations,* 10 (4), pp.607-29.

[52] Treasury (2008), *Pre-Budget Report 2008,* paragraph A.77; Treasury (2009a), *Budget Report 2009* , paragraph 2.20; Treasury (2009b), *Pre-Budget Report 2009*, paragraph A.57; Treasury (2010b), *Budget Report 2010 (March)*, paragraph B.48.

Yet the government's broader economic policy suggests a more complicated set of intentions than these observations do if taken in isolation. A series of interventions (or perhaps more accurately, non-interventions) undertaken in the housing and financial markets were arguably inconsistent with its stated desire to allow a rebalancing of demand to occur. These interventions share a common feature: they reenforce some of the institutional conditions that underpinned house price inflation and privatised Keynesianism in the Anglo-liberal growth model. Insofar as this represents a deliberate strategy it would suggest that a rebalancing of Britain's demand structure was not an immediate priority for the Brown Government.

Policy In The Service Of House Price Inflation?

The government acknowledged that the UK housing market had not been on a sustainable price trajectory prior to 2007, and that housing production had been subject to constraints which had led demand to outpace supply in some parts of the country.[53] This had been the conclusion of the government's own *Barker Review* four years earlier.[54] In response to these supply-side constraints, and also as a means of stimulating economic activity, the government undertook a number of measures aimed at supporting the construction industry. These included a £7.5bn package of discretionary spending aimed at bringing 112,000 'affordable homes' and 15,000 private sector new-builds to completion over two years, as well as 4000 new-built units of social housing. Yet insofar as this approach was only part of the temporary stimulus measures of 2008-09 it did not constitute a 'decisive intervention' to arrest the supply-side conditions of house price inflation or address their underlying causes. A shared equity scheme aimed at first-time buyers of newly built homes ('home buy direct') was arguably a more consistent response in this respect, yet its purpose was to facilitate access to housing at

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[53] Treasury (2010b), *Budget Report 2010 (March)*, paragraphs 5.58, 5.59 and Box B5; Unsurprisingly, the term 'bubble' is not used. However, that the Brown Government considered prices in the relatively subdued post-2008 housing market to be approximating their long-run averages suggests that the rapid growth of the previous five years was viewed as an inflationary aberration.
[54] K. Barker (2004), *Review Of Housing Supply: Delivering Stability: Securing Our Future Housing Needs* (London: The Stationery Office).

present price levels and so did not constitute an intervention in the service of housing market adjustment.

The emphasis of housing market intervention fell on the demand side. During the recession of 2008-09 the government implemented a number of emergency measures to support mortgage holders who were at risk of financial distress.[55] Attempts were made to secure lending commitments from the banks that had been taken into public ownership during the financial crash of 2008.[56] To further boost access to the housing market at its present values the government temporarily raised the threshold at which stamp duty is paid by £50,000 (a measure later increased further and extended by the Coalition). Given the circumstances in which it found itself, it is perhaps not surprising that the government chose to defend the supply of mortgage credit and the housing market from a disorderly adjustment: de-stabilizing 'feedback loops' operating between over-leveraged households with uncertain income prospects and holders of mortgage debt were identified as posing a threat to financial and macroeconomic stability.[57] Yet insofar as it acted in this way without an alternative means of facilitating macroeconomic adjustment the Brown Government was acting in a way that militated against the rebalancing of the demand structure that it elsewhere advocated.

More generally, Watson observes that the government's approach to financial reform (discussed at greater length below) defended the financial market conditions that had facilitated the expansion of credit that underpinned privatised Keynesianism prior to 2008.[58] The government resisted calls from the Bank of England Governor to countenance the ring-fencing of the deposit taking and retail operations of universal banks. In doing so, it claimed to be defending the conditions for financial innovation and the broadening of access of households to borrowing and investment opportunities.[59] The government also remained committed to the practice of residential mortgage securitisation as a means of funding mortgage lending. While acknowledging the role that the secondary

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[55] See Treasury (2009a), *Budget Report 2009,* Box 5.6 and paragraphs 5.66-5.71.
[56] Ibid, paragraphs 3.38-3.39.
[57] Ibid, B.113; Treasury (2009b), *Pre-Budget Report 2009*, Box 2.1.
[58] Watson (2013a), 'The Welfare State Sources'.
[59] Ibid; H.M. Treasury (2009c), *Reforming Financial Markets* (London: The Stationery Office), paragraphs 5.31-5.38.

markets for securitised debt had played in the near-collapse of the banking system, it was asserted that greater transparency, standardisation and a wider investment base would render securitisation a safe funding source for mortgage lending.[60]

What these interventions and non-interventions have in common is their defence of the institutional bases of rising levels of demand in a supply-constricted housing market, with potentially inflationary implications. The question thus arises as to what the government's motives were in carrying out these interventions, and whether or not they constitute an overt strategy to revive privatised Keynesianism? For Watson, it is more readily interpretable as a defence of the asset-based welfare agenda and in the context of the political costs of a failure to maintain house prices.[61] If correct, this would suggest that there was no intentional strategy to revive privatised Keynesianism, for a strategy of asset-based welfare is premised on the contrary assumption that capital gains will be treated as savings or as capital for long-maturity investments, rather than diverted to consumption spending or held to offset falling savings (as privatised Keynesianism implies). Others are sceptical of the degree to which the government remained ignorant of privatised Keynesianism and suggest it to have formed a conscious part of the New Labour governments' approach to political-economic governance even prior to 2007-2008.[62] The evidence examined here does not permit a firm conclusion one way or the other, yet it can be concluded that the Brown Government was reluctant to decisively intervene to alter the institutional conditions that had sustained privatised Keynesianism, and thus that it was likely that a (possibly unintentionally) revived privatised Keynesianism would have resulted from the government's strategy in this area.

Coalition Government

By contrast the pre-2012 phase of the Coalition's macroeconomic strategy can be identified as a decisive intervention in support of macroeconomic rebalancing. The Coalition anticipated a rapid rebalancing to be the result of its 'expansionary fiscal

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60 Treasury (2009b), *Pre-Budget Report 2009*, paragraphs 3.11-3.12; Treasury (2010b), *Budget Report 2010 (March)*, paragraph 3.32.
61 Watson (2013a), 'The Welfare State Sources'.
62 Hay (2011a), 'Pathology Without Crisis?'.

consolidation'. Interestingly, the crisis diagnosis prior to 2012 foregrounded a critique of the pre-2008 growth model that bears striking similarity to that advanced by the critical social democrats examined in Chapter 1. A number of key elements are shared, including an acknowledgment that a positive feedback effect between a financial bubble and a supply-constricted housing market had yielded an unsustainable house price bubble.[63] Falling household savings and consumer and private sector indebtedness were also linked to economic growth, suggesting an awareness of privatised Keynesianism, or at least the role of consumer indebtedness in sustaining demand prior to 2007.[64] Finally, the Coalition noted the dependence of employment and private sector activity in certain regions on the expansion of the public sector – and somewhat counter-intuitively used this as a justification for public sector retrenchment and deficit reduction.[65] This "unbalanced growth model" was said to have upheld an ultimately unsustainable dynamic of economic growth that, when the flow of credit contracted, left the UK particularly exposed to the global recession.[66] The result was said to be the growing balance of trade deficit and high levels of public and private indebtedness that posed an imminent risk to macroeconomic stability and recovery.

Yet this is about as far as the agreement between the Coalition government and the critical social democrats goes. Viewed through the prism of neoliberal problem definitions, a rather different set of causes and solutions are attributed to these problems. For the Coalition, the unbalanced growth model prior to 2008 was almost entirely the result of government complacency in regard to public spending and financial sector oversight. The solution to the problems, thus defined, is fiscal consolidation, public sector retrenchment, and improved market discipline within liberally instituted financial markets. The neoliberal faith in the rapid adjustment of resource-efficient markets contrasts to the critical social democrat belief in the possibility of indefinite stagnation due to deficient aggregate demand, inadequate industrial policy and pathological finance-industry relations.

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[63] Department For Communities and Local Government (2011), *Laying The Foundations: A Housing Strategy For England* (London: The Stationery Office), paragraphs 85-86.
[64] Treasury (2010c), *Budget Report 2010 (June)*, paragraphs 1.1-1.6; Treasury (2011a), *Budget Report 2011*, paragraphs 1.1-1.7.
[65] Ibid, paragraphs 1.1-1.7.
[66] Ibid.

The return to stimulus in late 2011 creates a tension in the Coalition's crisis diagnosis. While continuing to profess the importance of fiscal consolidation and macroeconomic rebalancing, the Coalition's approach to credit easing and its housing, planning and financial reform policies serve to shore up the conditions for the very growth model that it criticised its Labour predecessors for presiding over. The Funding for Lending Scheme sought initially to increase the supply and lower the price of secured lending to individuals as well as to businesses, and was not instituted in such a way as to prioritise the latter until 2013. Indeed, until this time the stimulation of domestic consumer demand was an explicit objective of the policy. The 'Help to Buy' scheme, discussed presently, serves to stimulate demand in the housing market by lowering the cost of credit to mortgage borrowers. Intervening to lower the cost and increase the supply of lending available for domestic consumption stands in tension with the Coalition's project of macroeconomic adjustment, and, moreover, reverts to a structure of demand that the government had previously defined as pathological. This, I suggest, is indicative of an intentional revival of privatised Keynesianism as a short-term political and economic palliative to the longer-term strategy of wage-deflationary adjustment.

Help to Buy

Given the role that the Coalition had identified for house price inflation and housing market volatility in the production of macroeconomic instability, a demand-side stimulus of the housing market seems a most unlikely intervention to have undertaken. Yet an unprecedented housing market stimulus was announced in the 2013 Budget – the 'Help to Buy' scheme. The scheme followed the general form of the government's other credit easing interventions, granting government guarantees of £12bn on new lending in defined markets – in this case on high loan-to-value mortgage lending – in addition to a £3.5bn programme of equity loans intended to cover up to 20% of house purchases. The scheme was to unfold in two phases between 2013 and 2017. The first restricted support to first-time buyers buying newly built houses. The second phase, which became operational in 2014, extended support to buyers of existing homes worth up to £600,000.

The rationale offered for the Help to Buy scheme was two-fold. Firstly, it was said to fulfil a 'fairness' objective by assisting the increasing number of UK citizens excluded from home ownership due to inflated house prices. The scheme addressed what was perceived to be a high-price/low-transaction equilibrium that was exacerbating generational barriers to housing market entry.[67] However (and perhaps counter-intuitively in what the Coalition conceded to be a supply-constricted market) the second rationale offered for the Help to Buy scheme was as a *stimulant of the supply* of newly built housing.[68] The logic of this statement is clear enough in the first phase of the programme, which targeted the purchase of newly built properties.[69] However, it is less obvious how the second phase would work to this end. To understand the logic behind the context of the Coalition's claim it is necessary to set it in the Coalition's broader assessment of the causes of the 'supply gap' in the housing market.

The Coalition's *Housing Strategy* touches on three broad factors to which the lack of housing supply in England and Wales is attributed. The first relates to the lack of output of the house building industry, and to a tendency for development to stall on sites where planning permission has already been granted. The Coalition attributes this to the historic volatility of the UK housing market. Uncertainty over the future value of land and of output is argued to mute the house building industry's responsiveness to demand.[70] The volatility of the housing market is in turn attributed to a lack of oversight of credit creation in the UK's mortgage markets.[71] To address the problem the Coalition has established a 'Financial Policy Committee' at the Bank of England, tasked with conducting discretionary regulation of the credit cycle and granted powers to impose area-specific counter-cyclical credit controls on what it deems to be excessive credit growth (a change discussed at greater length in the next section). This apparatus was deemed to be an effective solution for managing a destabilising expansion of mortgage credit in the UK.

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[67] DCLG (2011), *Laying The Foundations*, paragraph 14.
[68] Treasury (2013a), *Budget Report 2013*, paragraph 1.36.
[69] It was noted, however, that the onset of the scheme coincided with a rise in house prices in general, suggesting its impact went beyond newly built properties through, perhaps, its confidence enhancing effects.
[70] DCLG (2011), *Laying The Foundations,* paragraph 10.
[71] Ibid, paragraphs 12, 17, 93, and 95.

The second factor relates to the supply of land available for development, and the maldevelopment of some of the land that is made available. This is partly attributed to the imposition of home building targets on local authorities by central government, which is said to have led to substandard types and level of land release and an oversupply of homes that do not match those which buyers demand.[72] A lack of community involvement in the planning process is also said to have contributed to this outcome, and to have led to greater levels of opposition to development where this outcome could have been avoided.[73] Finally, 'excessive regulation' of the house building industry is cited.[74] In response the Coalition made a number of interventions. Centrally given targets for house building were abolished. The *National Planning Policy Framework* streamlined guidance to local authority planners, required them to make rolling five-year land release plans, and established the norm that local authorities would make an 'assumption in favour of sustainable development' (defined in terms of its capacity to promote economic growth).[75] A suite of measures that created financial and material incentives for local authorities and communities to co-operate with the new guidelines accompanied the reform of the planning process.[76] Finally, a range of provisions increased community involvement in selecting sites for development and development options. This included the introduction of 'Neighbourhood Development Plans', the community 'Right to Build', and 'Neighbourhood Development Orders', all of which were intended to facilitate communities and community organisations in granting planning permission independently of the local authority on the assumption that this participatory approach would facilitate raised output.[77]

If these reforms to the planning process and financial oversight regimes are taken into account then it is possible to see how the Coalition could make the argument that a demand-side intervention into the housing market was consistent with both

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[72] Ibid, paragraph 80.
[73] Ibid, paragraph 16.
[74] Ibid, paragraph 81.
[75] Department For Communities And Local Government (2012), *National Planning Policy Framework* (London: The Stationery Office), paragraph 14.
[76] DCLG (2011), *Laying The Foundations,* paragraphs 59 and 64.
[77] Ibid, paragraphs 56 and 66.

rising housing supply, a return to equilibrium house prices and macroeconomic stability: the institutional factors that were deemed to make housing a volatile element in the British economy were being addressed concurrently to the stimulus. Yet there is an important caveat to note here: to the extent that these interventions are indeed effective means to resolve the supply constraints and threats to macroeconomic stability bound up in the British housing market, they are not short-term solutions. They are at best medium-term measures, and are more likely long-term ambitions. It is only in the longer term that the plans of local authorities would be comprehensively updated in the light of the new financial incentives; that a culture of engagement in the planning process could be established among local communities; and that construction companies would become more confident in the future value of their housing output. Admittedly, a number of shorter-term measures were undertaken, including funding and expedited planning permission for stalled developments and a pledge to release enough land from public sector land banks to support 100,000 homes over the 2010 spending review period. Yet it is unlikely that any of these could have been imagined to have been sufficient to raise annual housing output from ten-year net annual average of 162,000 to the 232,000 per annum that the government itself estimated would be necessary to meet the shortfall in supply by 2033.[78] The interventions can only be described as 'decisive' in a cumulative and non-immediate sense.

With this in mind it seems most unlikely that the government can have believed the short-term results of the Help to Buy scheme would be anything other than inflationary. That the Coalition did little to moderate the scheme in light of the sharp rise in house prices over the course of 2013 and 2014 or the growing concern among technocrats and commentators (discussed below) further adds to the notion that this is in fact the intended outcome.[79] Some potential tensions between this and the Coalition's broader macroeconomic policy agenda are addressed in the following section.

A Safer Privatised Keynesianism?

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[78] Ibid, paragraph 1.

[79] On house prices over the course of 2013 and 2014, see Nationwide (2014), *Nationwide Houseprice Index Press Release December 2014* (Swindon: Nationwide).

The foregoing has significant implications for how we interpret the Coalition's approach to macroeconomic rebalancing. A short-term policy of housing market reflation might – and likely does – serve a number of strategic agendas for the Coalition, including possible electoral ones. However, the fact that the Coalition had articulated a link between consumer/household debt and economic growth and were elsewhere seeking to raise consumer demand through credit easing makes it highly unlikely that the issue of growth did not play into their strategic thinking when pursuing what was, in effect, the platform for consumer borrowing and further rounds of home equity release. I therefore conclude that there is an undisclosed element to the Coalition's broader post-2012 macroeconomic strategy of credit easing: the short-term resumption of privatised Keynesianism. The failure of the pre-2012 macroeconomic strategy gave way to a grudging concession that the deflationary adjustment that the government had embarked upon was a longer-term project than they had hitherto believed. In this context a temporary resumption of privatised Keynesianism serves as a palliative for the negative economic and political consequences of its broader project of macroeconomic adjustment once the EFCT thesis ceased to be an influence and the Coalition was forced to recognise anew the risks of human and physical capital degradation in a prolonged recession.

There is undoubtedly an element of risk involved in the Coalition's strategy in a context of interest rate uncertainty and an already highly leveraged household sector. Yet these attempts to temporarily and pragmatically resume privatised Keynesianism take place within a reformed framework of discretionary 'macro-prudential' regulation of the credit cycle that, at least from a neoliberal perspective, can be expected to render the new macroeconomic strategy less risky than would otherwise be the case. What is more, the significance of the change in strategy to the trajectory of the British political economy should not be overstated. Rebalanced macroeconomic adjustment remains the stated objective. The ongoing tolerance of declining real wages suggests that this is still being pursued, albeit through a longer-term strategy of moderated wage-deflationary adjustment rather than expansionary fiscal consolidation. The return to privatised Keynesianism thus represents an uneasy compromise between competing economic and political objectives: a slowing of adjustment in the interests of mitigating the perceived economic and political risks of too rapid a withdrawal of demand.

4.
Financial Instability

The financial instability of 2007-2008 dramatically exposed the fragility of the pre-2008 growth model. Neoliberal restructuring and the dynamics of financialisation to which it gave rise are strongly implicated in this failure of economic performance. It is here perhaps more than anywhere else that the New Labour governments' faith in the self-stabilizing and allocative-efficient properties of markets was found wanting in the post-2008 context. Consequently an analysis along this theme is particularly instructive in charting the fate of neoliberal problem definitions in the post-2008 context.

Brown Government

The response of the government to the emergence of financial instability in 2007 came in three distinct phases: the first in 2007, where the failures of individual banks such as Northern Rock were treated on a case-by-case basis and no failure of the overall system was perceived to have occurred; a second during the 'panic of 2008' in which the government adopted a system-wide approach and sought to guarantee the solvency of the UK banking system; and a contrasting third phase in 2009 in which a conservative approach to financial reform was adopted and efforts turned to shoring up the liberal, lightly regulated and privately owned financial system in a form as closely approximating that of before 2007 as possible.[80] The immediate bailouts were the product of desperation – a crisis-driven 'cauterizing' of a financial sector caught in a 'death cycle' of illiquidity and insolvency so as to preserve the supply of money to the economy (although I suggested in Chapter 2 that this too might be seen as consistent with a neoliberal coordinative discourse, albeit one confronting unexpected circumstances). It is the third phase that I

[80] Engelen, et al. (2012), *After The Great Complacence.*

examine here, as it is in this that we see a coherent diagnosis and policy response begin to emerge.

It was during the second phase that the Brown Government moved to cauterise the ongoing financial turmoil. A 'three-pronged attack' was adopted in coordination with the Bank of England. A £200bn facility was established to ease liquidity problems while an additional £250bn of guarantees were made on interbank lending. Finally, a £50bn recapitalisation fund was established for the purchase of equity. It was under this package that the Royal Bank of Scotland and Lloyds Banking Group were taken into public ownership. A further round of public bailouts followed in 2009. In mid 2011 the National Audit Office reported a peak public sector exposure of nearly £1.2tn, although many were in the form of guarantees that were not necessarily utilised. £123.9bn was in fact transferred from the public sector to private and formerly private banking firms in the form of loans and equity purchases.[81] An arms-length holding company – 'UK Financial Investments' (UKFI) – was then established to oversee the government's stakes in its newly acquired banks. The company was responsible to the Treasury, from which part of its staff were drawn. UKFI was tasked to *maximise shareholder value* for it's one stakeholder, the British state, while ensuring as swift a return to private ownership as was consistent with financial stability. This 'fund manager' function largely marks the bounds of UKFI's role in the post-2008 political economy: the banks themselves retain independent management and commercial strategies, continuing to operate as though in the private sector. The new public sector area of the UK's financial markets is in reality a quasi-private sector one.

During 2009, the government's proposed approach to reform began to emerge. Its contours were outlined in the *Financial Reform White Paper* of 2009, although these were truncated and only partly legislated due to the onset of the 2010 general election. The *White Paper* did contain one major discontinuity with pre-2007 financial market policy: a proposed return to discretionary credit control (what has come to be termed 'macro-prudential regulation').[82] All parts of the

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[81] National Audit Office (2011), *The Comptroller And Auditor General's Report On Accounts To The House Of Commons: The Financial Stability Interventions* (London: The Stationery Office), paragraphs 4-5.
[82] Treasury (2009c), *Reforming Financial Markets*.

tripartite infrastructure for financial regulation (the Treasury, Bank of England, and Financial Services Authority) were given an explicit objective to maintain financial stability, and a new organ – the Council for Financial Stability – was established to bring their efforts together. The principal method of macro-prudential regulation was to be the use of discretionary and rules-based counter-cyclical capital and liquidity controls (the basis of which was to be developed at a later date) and a leverage ratio. These would be separately applied to those firms that the FSA identified to be 'systemically significant financial institutions'.

On the 'micro-prudential' side (that is, the incentivisation and regulation of behaviour within and between firms) the government's proposals centred on enhancing 'market discipline'. Measures to this end included the introduction of a 'special resolution regime' in the Banking Act (2009) and moves towards the institution of compulsory 'Recovery and Resolution Plans', both of which were intended to increase shareholder exposure in future bank bailouts by establishing a procedure for the speedy isolation and rescue of the retail deposit-taking parts of banking firms in the event of insolvency. The government also announced its intention to institute a similar scheme for non-retail entities such as investment banks. The powers of the FSA were judged to be generally sufficient to carry out micro-prudential regulation, and the government endorsed the agency's plans for 'enhanced supervision'. The government also made some conservative reforms to the system of executive remuneration. These included the use of longer-term instruments and the requirement that an 'advisory' (i.e. non-binding) vote be held on remuneration decisions by shareholders.

The reform proposals are conservative, serving primarily to introduce 'flanking mechanisms' where market failures have been identified. Three overarching and distinctly neoliberal assumptions emerge from the *White Paper* that represent categorically-related developments of the problem definitions attributed to the New Labour governments in Chapter 4. The first of these is that under conditions of market discipline 'light touch' regulation (and now counter-cyclical capital controls) are sufficient to ensure the stability of financial markets. While the government offered no definition of market discipline in the *White Paper*, it is apparent from its discussion that it adhered to a conventional conceptualisation in this context: market discipline obtains where there is sufficient transparency over firm's positions and the composition of financial products for rational investors to make informed choices, and where these choices and the threat of firm failure is a sufficient incentive for shareholders and firm executives to make decisions that are consistent with firm, market and economic stability. The Brown Government viewed failures in market discipline and resulting lack of prudence by firms to be the prime cause of the banking crisis of 2008 both in the UK and US.[83] The failure of firms to manage their risk profiles in a prudent way was variably attributed to the distorting effects of executive remuneration, poor risk modelling, a lack of shareholder oversight and implicit guarantees to 'universal banks' engaged in both retail and investment activities.[84] While the range of actions controlled through micro-prudential regulation was to increase, this stopped short of a fundamental structural reform of the kinds of business activities open to large financial firms.

The depth of the government's commitment to this view is demonstrated in its hostility to the Bank of England proposal that a limited form of structural separation be instituted in which retail operations are 'ring-fenced' (that is, separately capitalised and subject to their own capital adequacy standards).[85] These were rejected as outweighing the benefits such institutions brought to the economy (succinctly, that they increased the supply of credit by intermediating between capital markets and retail lending markets, and achieved economies of scale).[86] Instead, a minimalist programme was advanced in which it was argued that improved market discipline and the FSA's proposals for more intrusive regulatory practices within its existing powers would suffice to remove perverse incentives.

Yet for all the orthodoxy of this view, the claim that 'macro-prudential' regulation is necessary to ensure stability marks a degree of novelty. This is because it involves the explicit concession that even well-functioning financial markets are *inherently* pro-cyclical (both in terms of cycles in financial markets themselves, and in relation to the economy as a whole), and that a market failure thus exists

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[83] Treasury (2009c), *Reforming Financial Markets,* paragraphs 3.2 and 5.1-5.3.
[84] Ibid, paragraphs 3.2-3.17.
[85] On the public statements exchanged between the Chancellor and the Governor of the Bank of England during this debate, see Watson (2013a), 'The Welfare State Sources'.
[86] Treasury (2009c), *Reforming Financial Markets*, paragraphs 5.31-5.38.

whereby rational market participants are unable to manage the build up of system risk.[87] This was deemed something for which government should now take responsibility. The tendency for a cyclical oversupply of credit was attributed to poor epistemological assumptions in risk modelling and a general collective action problem of markets in which it becomes irrational to bet against an upswing over a sustained period of time. In this sense the Brown Government departed from New Labour's rosier assumptions about the informational efficiency and increasing stability of 'innovative' financial markets. Yet this is hardly a Keynesian analysis either. A rationalist conception of the market actor is very much retained, but, in the manner of other strategies of roll out neoliberalisation, a 'market failure' has been identified requiring a market-complementing response from the government. To this end, the use of counter-cyclical capital controls was sanctioned in principle, although no concrete proposal was made for the form such a regime would take.[88] Moreover, this was qualified by the assertion that international consensus on design and implementation would be necessary before such reform could be undertaken.[89]

A second argument underpinning the *White Paper* marks a striking continuity: the view that a benign relationship exists between the prosperity of a liberally regulated financial sector on the one hand, and the private non-financial, household and public sectors on the other.[90] No connection was made between shareholder value maximisation and industrial malperformance (as the formation of UKFI as a quasi-private fund manager attests).[91] Furthermore, the assumption of the allocative efficiency of liberal financial markets remains intact, and was a core argument offered against proposals for a Glass-Steagall separation. [92] The view was retained that financial 'innovation' would improve the performance of liberal financial markets still further, and that the general impact of financial sector innovation would be positive for both households and business through the improvement of the efficiency of capital allocation and the 'democratisation of

[87] Ibid, paragraphs 3.41-3.50 and 6.37-6.74.
[88] Ibid, paragraphs 6.37-6.74.
[89] Ibid, paragraph 6.76.
[90] Ibid, paragraphs 1.4-1.5, 1.6-1.9 and Box 1.A.
[91] Engelen et al. (2012), *The Great Complacence*.
[92] Treasury (2009c), *Reforming Financial Markets*, paragraphs 5.33; although as the next chapter shows, there is something of tension here with the government's microeconomic crisis diagnosis.

credit'.[93] This demonstrates a continuing commitment to the view that credit expansion was a sustainable and, through correct macro-prudential regulation, a manageable, safe and desirable outcome of the liberal market economy.

The final assumption underpinning the *White Paper* is that these benign effects depend to a high degree on maintaining the 'competitiveness' of Britain's financial services industry (where 'competitiveness' appears to denote the attractiveness of Britain as a place to locate financial services and conduct financial transactions).[94] This competitiveness is in turn held to arise from a number of comparative advantages, of which the regulatory regime is one.[95] The *White Paper* closely paralleled the report that the Government commissioned by the financial sector insider Bischoff. Indeed, where it relates to the revenue and trade benefits of the liberal financial sector a great deal of the report is quoted near verbatim in the *White Paper*, suggesting the enormous influence that financial sector interests had both in defining the problems facing the UK's financial systems and devising their solutions.[96] Significantly, it was argued that in order to maintain the competitiveness of the UK's financial sector it was necessary and desirable to trade off measures aimed at immediately improving financial stability.[97] A pragmatic compromise between prosperity and the risk of macroeconomic instability was consequently viewed as inevitable and acceptable.

Coalition Government

The Coalition's approach to financial reform is consistent with the Brown Government's broad diagnosis of the same issue. However the Coalition has (or is) put into practice two decisive interventions that reveal a greater willingness to intervene unilaterally: the ring-fencing of retail banks, and the establishment of a discretionary macro-prudential regulation authority with the power (now realised

[93] Ibid, paragraphs 3.38; 6.32.
[94] Ibid, paragraphs 1.1-1.34.
[95] Ibid, paragraphs 1.13-1.22.
[96] Engelen, et al. (2012), *After The Great Complacence;* W. Bischoff (2009), *UK International Financial Services: The Future* (London: The Stationery Office).
[97] Treasury (2009c), *Reforming Financial Markets,* paragraphs 5.35 and 6.76.

in practice) to exert discretionary control over the credit cycle. The Coalition endorsed the view of the Independent Commission on Banking that retail banks should be legally and operationally distinct entities, 'ring-fenced' within their respective banking groups and subject to separate capital adequacy requirements.[98] Moreover, a higher rate of capital adequacy requirement is to apply to British banking firms than the international norm, in principle reaching 17% of a large retail bank or 'Globally Systemically Important Bank's' (GSIB's) risk-adjusted assets as defined under the Basel accords. The portion of this additional 'primary loss absorbing capital' not accounted for by equity and other Basel-sanctioned forms will be comprised of a form of bond subject to statutory 'bailing-in' at times of distress (that is, a conversion to equity for the purposes of absorbing loss). Ring-fenced banks will be prohibited from providing and utilizing all but a narrow range of derivative products and were curtailed in the dealing they might have with wholesale and capital markets and firms outside of the European Economic Area. The securitisation of a bank's own lending assets is permitted, but not secondary participation in these or other securities markets, whilst the leveraging of wholesale funds was to be subject to the Basel III leverage ratio. The position does, in principle, allow retail business strategies along similar lines to those prior to 2007-2008, but with the operational independence, loss absorbing capacity and reduced exposure to capital market losses intended to lessen the likelihood of such business models leading to a public bail-out or contributing to the transmission of systemic risk.

The Coalition has also re-drawn the former tripartite regime of financial regulation, bringing micro-prudential regulation 'in house' to the Bank of England through the Prudential Regulation Authority and the Financial Conduct Authority. However, the most significant of these changes (and of particular significance to the Coalition's post-2012 economic strategy) is the establishment of the Financial Policy Committee (FPC) at the Bank of England. The committee is tasked with conducting discretionary macro-prudential regulation to achieve financial stability (subject to the government's economic policy) by identifying and neutralizing systemic risk not ascertained by the market. At its hands is a range of counter-

[98] J. Vickers (2011), *Independent Commission on Banking: Final Report* (London: The Stationary Office).

cyclical instruments, including general counter-cyclical requirements to limit credit growth across the economy and sectoral capital requirements that can be used to limit particular areas of bank lending such as commercial property, residential property and inter-firm exposures.[99]

These financial market reforms represent considerable discontinuities with the extremely permissive approach to financial markets prior to 2008. Yet as with the Brown Government before it, the changes wrought by the Coalition are indicative primarily of ideational continuity and of minimally adapted neoliberal problem definitions. The central problems afflicting British financial markets are understood to be a lack of market discipline, and a tendency to pro-cyclicality over the course of the credit cycle.[100] Unlike the Brown Government, the Coalition reasons that ring-fencing of retail operations is required as well as resolution plans, but the reasoning behind ring-fencing remains the implicit insulation from market discipline that large banks are perceived to enjoy.[101] The new discretionary architecture for macro-prudential policy represents the concession of a problem – systemic risk – that was absent prior to 2007 when it was assumed that 'financial innovation' was supplanting the need for such intervention. Yet it remains rooted in the rationalist analysis of financial markets evidenced by the faith in market discipline. The overarching assumption remains intact that the market allocation of financial resources ensures an optimal allocation, providing market discipline is maintained and the credit cycle is not permitted to over-extend itself. The relationship between capital markets and banking firms' business strategies is consequently addressed in quite conventional terms (market discipline), whilst the pathological relationship between capital markets and non-financial businesses identified by critical social democrats is not regarded as a problem at all.

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[99] P. Tucker, S. Hall, and A. Pattani (2013), 'Macroprudential Policy At The Bank Of England', *Bank Of England Quarterly Bulletin,* 2013 (Q3), pp.192-200.

[100] H.M. Treasury (2012c), *Banking Reform: Delivering Stability And Supporting A Sustainable Economy* (London: The Stationery Office), paragraphs 1.2-1.3 and 1.11-1.12; H.M. Treasury (2011b), *A New Approach To Financial Regulation: The Blueprint For Reform* (London: The Stationery Office), paragraphs 1.3-1.4; although the purported inability of the tri-partite regime to effectively respond to this pro-cyclicality is singled out in the Coalition's diagnosis as the underlying cause of cyclical instability, rather than the emphasis on market participants in the *2009 Whitepaper*. This perhaps reflects the Brown Government's incumbency at the time of the financial crash and a concomitant desire to downplay its own responsibility.

[101] Treasury (2012c), *Banking Reform*, paragraph 1.11.

Both the Coalition and the Brown Government's approaches to financial reform can be considered strategies of roll out neoliberalisation. They are reactive to 'market failures' revealed in practice by events, and seek to sure up the conditions in which the expanded realm of financial businesses in Britain could be profitably reproduced. Moreover, they can be seen as pivotal macroeconomic reforms in the service of ongoing neoliberalisation of the economy as a whole. Both stabilise the bases of privatised Keynesianism as a short-term strategy to sustain levels of output and growth, whilst also seeking to neutralise the threat to macroeconomic stability that the financialisation of the British and international economies had been revealed to pose.

The new institutional endowment of the Bank of England has given rise to a new dynamic in Treasury-Bank relations and a potential contradiction in the Coalition's macroeconomic strategy arising from the simultaneous pursuit of privatised Keynesianism and discretionary macro-prudential regulation. Through 2013 and early 2014 the Bank found itself drawn into controversy surrounding the Help to Buy Scheme as a number of commentators raised concerns about the implications of the scheme for macroeconomic stability given its inflationary potential.[102] Following this criticism the FPC was tasked in September 2013 with reviewing the Help to Buy Scheme on an annual basis. Whilst cautiously endorsing the Help to Buy scheme, the FPC moved to impose moderate credit controls on mortgage lending in June 2014, utilizing its discretionary powers to place a 15% limit on the proportion of a lender's mortgage portfolios with a loan-to-income ratio of more than 4.5%.[103] The Governor was also vocal about his views on the potential threat posed to macroeconomic stability by ongoing structural issues in the British housing market.[104] As was noted in this discussion of the FLS above, the previous year the Bank had secured a 'bilateral agreement' with the Treasury for mortgage lending to be excluded from the ongoing phases of the FLS. Points such as these

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[102] Some of this critical commentary is recorded in The Guardian (2014), 'Help To Buy One Year On', *The Guardian* (16/03/2014).
[103] Bank Of England (2014), *Financial Stability Report, June 2014* (London: Bank Of England).
[104] British Broadcasting Corporation (2014b), 'Bank Of England's Mark Carney Warns On Housing Market', <http://www.bbc.co.uk/news/business-27459663>, accessed 15/06/2014.

signal a tension, and latent contradiction, between the mandate of the FPC and the Coalition's strategy to bring about short-term growth through a revived privatised Keynesianism: the success of the latter depends on the FPC not exercising more stringent credit controls. The impact of this on subsequent crisis diagnosis and the opportunities it may open up for rival coordinative discourses will be interesting to say the least, but the outcome of such a process can only be guessed at the present time.

Conclusions

The macroeconomic approaches of both post-2008 governments are marked by important discontinuities with problem definitions and macroeconomic policies that existed prior to 2007-2008. Three interventions in particular stand out as being 'decisive' ones by the terms laid out in Chapter 3: the re-introduction of discretionary credit controls, the structural ring-fencing of retail and investment banking activities, and the public sector retrenchment that follows from the policy of fiscal consolidation. Both, in different ways, aim to promote macroeconomic stability by re-configuring the boundary of public and private sector responsibility through new strategies of roll back and roll out neoliberalisation. Equally significant for our interpretation of the two governments' crisis diagnoses are several continuities with problem definitions prior to 2007-2008. The decision not to intervene in support of wages after the initial fiscal stimulus programme is one such 'decisive continuity'. The crisis diagnoses in which these decisive interventions and non-interventions are arranged stresses the need for a rebalanced growth model and a transition to external sources of demand. The decisive interventions noted above aim at the creation of macroeconomic stability to this end and facilitate a wage-deflationary macroeconomic adjustment. This, in essence, is how the two post-2008 governments have diagnosed and responded to the post-2008 context in macroeconomic policy.

The crisis diagnoses of the two governments are marked more by continuity than change, and those changes that have occurred are of a bounded nature that reflect an adaptation rather than a rejection of neoliberal problem definitions. The perceived relationship between macroeconomic variables has not changed, yet changes in the economic context are perceived to demand the reduction of government spending on an unprecedented scale to maintain financial market confidence and promote long-term macroeconomic adjustment. The withdrawal of public sector demand and employment alongside falling real wages is not seen to pose a threat to economic recovery because there is strong confidence that the private sector (correctly facilitated through neoliberal microeconomic and macroeconomic policies) possesses the dynamism to fill this gap and respond to new sources of demand. Deficit reduction and the tolerance of real wage deflation consequently constitute a strategy of roll back neoliberalisation at the level of macroeconomic policy. The instantiation of discretionary credit controls can be interpreted in a similarly neoliberal light, but in this instance as a strategy of roll out neoliberalisation. It responds to a market failure revealed through the outcomes of earlier processes of roll back neoliberalisation (the inability of 'innovative' liberalised financial markets to manage systemic risk). It seeks to facilitate the correct functioning of the market mechanism for allocating financial resources, rather than to supplant or direct it in a purposeful way. Insofar as the government's assessments of the vitality of the private sector in filling the gap left by withdrawing public sector demand is correct, this constitutes a growth strategy: the medium-term result would indeed be a shift in the structure of aggregate demand as business investment, and subsequently export demand, come to occupy the position previously held by domestic consumption.

The pursuit of macroeconomic rebalancing through wage-deflationary adjustment is, however, a longer-term goal that exists alongside shorter-term measures aimed at preserving physical and human capital and political support while the economy is perceived to be out of equilibrium. There is a tension between these two goals; a trade-off is being made between long and short-term economic and political imperatives. For the Brown Government, this was chiefly accomplished through the use of a short fiscal stimulus, with the government supremely confident that recovery and a rebalancing of demand structure would be secured in 2011. The Coalition Government ambitiously cast aside the perception of such short-term constraints under the influence of the EFCT, but resumed this point of view from the end of 2011. The response has been the deliberate and strategic resumption of privatised Keynesianism as a stimulatory instrument alongside attempts to stimulate lending to businesses. Like the Coalition, the Brown Government also defended the institutional bases of privatised Keynesianism, yet it is not clear whether this is best interpreted as an imperative arising from economic policy, social policy, or simply a need to consolidate political support. The interpretation is more clearly made in reference to the Coalition because it identified the role of privatised Keynesianism in its analysis of the barriers to macroeconomic rebalancing. In both cases, however, these decisions undermine the coherency of the broader recovery strategy by augmenting the disposable incomes of households and so delaying rebalancing, whilst also creating a latent risk to financial stability by stimulating further household leveraging in a context of declining real incomes.

The degree to which one considers the short-term resumption of privatised Keynesianism to be a calculated risk in response to short-term economic and political risks or a reckless gamble for political support depends greatly on the confidence one has in the new regime of macro-prudential regulation. The willingness of the FPC to utilise its discretionary powers suggests that a degree of confidence is warranted, yet the political and economic costs of a slow down in privatised Keynesianism and acceleration of wage-deflationary adjustment that might result from more assertive utilisation of macro-prudential regulation could prove crisis-inducing in and of itself until such a time as the vaunted 'rebalanced' 'private sector-led' growth model emerges. The broader strategy of wage-deflationary adjustment and the crisis diagnosis on which it rests itself is highly questionable from the point of view of the CSDP. Its success depends on the degree to which the assumptions of private sector vitality and the stability of conservatively reformed financial markets are warranted. Should they be found wanting, as critical social democrats essentially predict through their emphasis on pathological financial-productive capital relations, then it is a recipe for stagnation or worse.

Late 2013, the point at which the present analysis closes, is likely to have been far from marking the end of the process, contrary to the hopes of politicians of all hues. It remains to be seen whether these decisive interventions will succeed in moving Britain on to a new growth model, give rise to a period of catastrophic equilibrium in which such contradictions intensify but no alternative form of intervention is forthcoming, or instead create the conditions in which an alternative crisis diagnosis might rise to prominence.

Chapter 6.[1]
Post-2008 Crisis Diagnosis: A Microeconomic Perspective

In this chapter I examine, compare and interpret the crisis diagnoses of the two post-2008 governments where they relate to microeconomic policies, further developing the interpretation begun in the previous chapter. Microeconomic policies position the boundary of public and private sector activity and non-market and market resource allocation, and are therefore very informative when characterising the trajectory of political-economic restructuring and assessing the influence of neoliberal problem definitions. I make this analysis by focusing on three areas of microeconomic policy where in Chapter 4 I have identified the influence of neoliberal problem definitions in the political economy of New Labour: labour market policy, welfare reform policy and industrial policy (broadly defined as 'competitiveness policy', and so including skills, innovation and industrial finance policies).

The analysis is guided by those themes outlined in Chapter 3 that are relevant to microeconomic policy: the question of growth/stagnation, of employment, and of the 'rebalancing' of the sectoral composition of the British economy. However the chapter is structured differently to the previous one in order to accentuate its central finding. This is that the two governments have both pursued microeconomic strategies in response to the post-2008 context that are readily categorised in neoliberal terms (as new strategies roll back and roll out neoliberalisation), as well as a third set of strategies pertaining to some aspects of industrial policy that are qualitatively non-neoliberal in nature. It is the substantiation and interpretation of this finding and its implications for a characterisation of post-2008 coordinative discourses that is my chief concern in this chapter. I discuss what I submit to be strategies of roll back neoliberalisation, roll out neoliberalisation, and a non-neoliberal form of strategic discretionary interventionism under respective headings. I argue that these contrasting strategies reflect the simultaneous existence in government of two contrasting

[1] The argument in this chapter incorporates and extends that which I made in M. Craig (2015), 'Post-2008 British Industrial Policy And Constructivist Political Economy: New Directions And New Tensions', *New Political Economy,* 20 (1), pp.1-19.

crisis diagnoses, one neoliberal and one not, that encompass contrasting problem definitions and imperatives for decisive intervention that are in tension with one another in practice.

An important preliminary to this discussion is to note that industrial policy is unevenly devolved in the UK, with the Welsh and (more so) the Scottish and Northern Irish administrations possessing their own powers in relation to economic development. Some of the changes noted in this chapter therefore impact principally upon England and Wales, or upon England alone. It would be necessary to inquire after sub-national variations in policy and their economic outcomes if a complete account of restructuring in the post-2008 context were to be offered, for tensions may exist between practices at different levels of government that could potentially shape future constitutional conflicts. Such an analysis, while an important avenue for future research, exceeds the scope of the present study that, like the critical social democratic perspective to which it speaks, is primarily concerned with the coordinative discourses in central government. Consequently, it is the crisis diagnoses of Westminster governments that are my concern here.

1.
Roll Back Neoliberalisation

Strategies of roll back neoliberalisation involve the extension of the domain of the political economy subject to private ownership and market or quasi-market governance and resource allocation, and the concomitant withdrawal of public responsibility and disciplining of non-market institutions and forms of association. The interventions reviewed in this section have such features in common. The rationale underpinning them is that government and the public sector constitutes, in one way or another, a hindrance to the efficient functioning of market processes, and that they are thereby implicated in sub-optimal economic growth, employment and compositional balance. Whilst I have argued in the previous chapter that both governments have committed to or implemented strategies of roll back neoliberalisation at the macroeconomic level through their commitments to deficit reduction, it is principally the Coalition that has expressed and put into practice a corresponding microeconomic strategy. The strategy is strongly evident in labour market liberalisation, corporate tax reduction and welfare reform policies.

Labour Markets

The wage-deflationary stance shared by both post-2008 governments amounts to a practical application of the doctrine of labour market flexibility during a time of economic stress. Both governments credited the liberal labour market regime in the UK with limiting unemployment in the post-2008 context, with the resulting decline in real wages cast as the price of adjustment.[2] Such an analysis is consistent with the ongoing influence of the neoliberal problem definitions attributed to New Labour in Chapter 4. Moreover, as we saw in Chapter 5, a public sector analogue of private sector wage deflation over the period has formed part of the deficit reduction strategies of both governments through the instigation of public sector pay freezes.

The Coalition has, however, gone rather further than this passive approach to labour market adjustment and has set about the further neoliberalisation of Britain's labour markets. It has done so first and foremost by further empowering employers in relation to their employees through reforms to employment law and the statutory institutions that govern industrial relations. The period of employment before which an employee can claim for unfair dismissal has been raised from 12 to 18 months, and a cap of 12 month's earnings has been placed on such claims. An enormous economic barrier has been erected against claims of unfair dismissal at the employment tribunal through the introduction of application and hearing fees that amount under most circumstances to £1,200, whilst public funding for witnesses' expenses has been withdrawn. Concomitantly, the Coalition has expressed a preference for non-statutory forms of dispute reconciliation between employers and employees through free ACAS conciliation

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[2] Treasury (2010b), *Budget Report 2010 (March),* paragraphs 5.5 and B.57; Department For Business, Innovation And Skills (2013a), *Employment Law Review: Progress On Reform* (London: The Stationery Office), paragraph 1.13.

and the introduction of 'settlement agreements' as a route by which dismissal can proceed where an employment tribunal case might otherwise have been brought.

A second agenda has been to create new forms of employment relationship. A new category of 'employee shareholder' has been introduced: a form of private sector employment contract in which the worker voluntarily forgoes certain statutory employee rights in return for at least £2,000 of company shares. The foregone rights include those relating to unfair dismissal, statutory redundancy pay, the right to request flexible working, and some statutory rights to request training time. However, whilst new rights have in principle been gained for individual employees, the overarching change that these reflect is the substantial increase in the powers of employers to dismiss employees. The rationale underpinning all of these changes is that greater labour market flexibility favours higher rates of economic growth and employment in the long run, particularly in relation to SMEs.[3] This in turn reflects a neoliberal definition of the problem that labour markets pose to the resumption of growth in GDP and employment. The Coalition's framing of the problem lays emphasis not so much on the actual institutional structure of the labour market, but rather on employers' perceptions of it. The Coalition asserts that the UK labour market is actually highly flexible, but also that perceptions of the potential costs of employment regulation and the outcomes of the employment tribunal are disincentives to taking on new employees and expanding production.[4]

Taxation

In the post-2008 context the Brown Government deviated little from its existing programme of tax reform, centred on the simplification of the structure of taxation rather than substantial changes in the rate or base.[5] The government continued to highlight competitiveness as an organising objective of its tax policies, but did not move to alter the main rate of corporation tax. By contrast, the Coalition has undertaken substantial reform of the rates of business taxation. In the Emergency

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[3] DBIS (2011a), *The Plan For Growth,* paragraph 1.61; Department For Business, Innovation And Skills (2012a), *Employment Law Review: Annual Update 2012* (London: The Stationery Office), paragraph 1.5.
[4] Ibid, p.6.
[5] H.M. Treasury (2010a), *Tax Framework For Business* (London: The Stationery Office).

Budget of 2010 it committed to a 4% reduction in corporation tax, and subsequently committed to a further 4% reduction by 2015. The initial reform package also saw a 2% reduction in the previous government's planned rate of small profits tax. Indeed, concomitant reductions in personal taxation (such as the abolition of the 50% tax band for earners of more than £150,000 per annum) have shown the Coalition to have a preference for lower rates of taxation in spite of its macroeconomic policy emphasis on fiscal consolidation. The burden of deficit reduction and macroeconomic adjustment thus falls on public spending, shaping the deficit reduction programme as a yet more decisive intervention by magnifying the changes in public sector activity that it necessitates.

Like the reforms made to the labour market, these reforms are thus oriented to an expansion of the realm of private sector resource allocation. The rationale underlying these changes draws on two related arguments about the economic effects of lower rates of corporation tax, neither of which is novel in the neoliberal canon. The first is that high rates of corporation tax are a 'drag' on economic and employment growth because they reduce incentives for businesses to invest and take on additional staff.[6] It is reasoned that lower rates would increase these incentives (reminiscent of, but not identical with, the 'Laffer curve' arguments of the 1970s and '80s). Secondly, the Coalition appeals to a 'global race' argument, citing the declining relative competitiveness of Britain's tax regime and appealing to such competitiveness as an important determinant of inward investment from increasingly mobile capital.[7] It follows from this analysis that, all other things being equal, the lower rates of corporation and income tax would act to increase the non-inflationary levels of growth and employment that the microeconomic structure of the UK economy could sustain.

Welfare Reform

The Coalition has made far-reaching reforms to the system of social security. Whilst falling beyond the present argument's immediate focus on economic policy, an examination of this area is revealing of the government's view of the causes of

[6] DBIS (2011a), *The Plan For Growth,* paragraph 1.17.
[7] Ibid, pp.3-4 and paragraph 1.17.

unemployment in the post-2008 context. Moreover, the area has also been a major source of savings in the Coalition's pursuit of deficit reduction (measures relating to working-age benefits comprised over £20bn of the Coalition's deficit reduction plan during the period under study). For the Coalition, the system is deemed among other perceived faults to disincentivise labour market participation and so contribute to unemployment – the problem of so-called 'welfare dependency' whereby the excessive generosity, perverse incentives and an insufficiency of conditionality within the system of working age benefits are said to disincentivise transition from benefits to waged work.[8] This in turn is regarded as needlessly constraining of economic growth through the 'loss of human potential' that it engenders where human capital is degraded from prolonged disconnection from the labour market (so-called 'scarring effects'). In laying the blame for a lack of labour market participation on the presumed rational choices of out-of-work individuals, and on the failure of the government to provide necessary incentives, the Coalition makes a straightforwardly neoliberal framing of unemployment as a supply-side problem of the labour market arising from distortions introduced by government.

The Coalition's response has encompassed a great number of qualitative and quantitative changes to the system of working-age benefits in order to incentivise and coerce labour market participation. The benefits to which working-age people are entitled have been limited through the tightening of eligibility criteria and the introduction of a number of 'caps'. One such cap has reduced the total amount of benefits to which working-age households are entitled to £500 per week for couples and £350 for single-person households – the average income of a British family at the time of the cap's introduction. A further cap has been placed specifically on housing benefit, limiting it to £250 for a one-bedroom property or £400 for a four-bedroom or larger property (to be seen in the context of some regional economies in the UK where households were in receipt of more than 200% of these amounts). More generally, the up-rating of benefits and tax credits was held below the rate of inflation from April 2013.

[8] Department Of Work And Pensions (2010), *Universal Credit: Welfare That Works* (London: The Stationery Office), pp. 9-13 and pp.25-28.

Qualitative changes in the nature of the social security system instantiated by the Coalition have seen it encompassing a much greater degree of conditionality on the receipt of benefits and a wider scope for benefit-related sanctions than has hitherto been the case. Various voluntary work experience elements of the previous system of social security have been hardened into compulsory 'work for your benefits' programmes in which those deemed at risk of long-term unemployment (and the associated 'scarring' of human capital) face the loss of benefits for non-participation. A much harder line has been taken on those in receipt of incapacity-related benefits with the introduction of work capability assessments to re-assess the mental and physical capacity of existing long-term claimants for work.

Whilst among the most controversial measured introduced by the Coalition, its programme of social security reform is arguably a straightforward continuity with a trajectory of reform begun under New Labour and inherited from the Brown Government. This claim is necessarily somewhat speculative as the Brown Government did not survive in office to undertake a full programme of reform. However, we can gain some further insights into the government's future intentions from the *Welfare Reform White Paper of 2008* and the subsequent Welfare Reform Act of 2009. These reveal some strong parallels with the Coalition's own programme.

The act sanctioned the pilot use of mandatory 'work for your benefits' schemes as a means of combating the degradation of human capital in the long-term unemployed.[9] It also sanctioned greater conditionality on lone parent claimants.[10] The argument offered in the *2008 White Paper* situated these changes amid New Labour's social security reform agenda, but also underlined the threat human capital degradation and a prolonged rise in unemployment during the anticipated recession as part of their rationale.[11] The solution that was endorsed in the *White Paper* was greater 'personalised support' by a competing mixture of public/private sector providers (reminiscent of reforms since enacted by the Coalition), but also

[9] Department Of Work And Pensions (2009), *Explanatory Notes To The Welfare Reform Act 2009* (London: The Stationery Office), paragraphs 9-10.
[10] Ibid, paragraphs 11-14.
[11] Department Of Work And Pensions (2008), *Raising Expectations And Increasing Support: Reforming Welfare For The Future* (London: The Stationery Office), paragraph 7.

the placing of a greater burden of responsibility on claimants through increased use of sanctions and compulsory work-related activities. Although space was given over in the *White Paper* to discuss other factors of long-term unemployment such as drug dependency, the assumption remained largely intact that unemployment is a supply-side phenomenon of the labour market for which increasingly 'active' and re-commodifying labour market policies are the appropriate response. It therefore seems likely that the direction, if not the speed and intensity, of social security reform under a re-elected Brown Government would have been similar to that of the Coalition.

2.
Roll Out Neoliberalisation

The examples of roll back neoliberalisation under the Coalition are not exhaustive. For instance, one could also consider the re-establishment of enterprise zones as a tool of regional development, or the privatisations that have taken since 2010 (some of which, such as that of the Tote, were planned by the Brown Government). Whilst the Brown Government was less inclined to deploy strategies of roll back neoliberalisation in microeconomic policy over the course of 2009-10, its stated approach to social security reform suggests that at least some such strategies would have been countenanced had the government been re-elected in 2010.

Turning now to the two governments' approaches to industrial policy, there is evidence of a greater convergence in diagnosis and approach. The interventions examined in this section are strategies of roll back neoliberalisation: the deployment of new market-supporting institutions and the strengthening of existing ones in response to already perceived and newly identified market failures. The case studies examined in this subsection are vocational skills, industrial finance and trade finance policies. The former category of interventions featured prominently in literature regarding New Labour's microeconomic approach, the latter less so. Both, however, are central in the two post-2008 governments' microeconomic strategies, alongside infrastructure planning and 'innovation' policy (a category that includes both university research funding and policies designed to support and incentivise private sector research and development).[12]

Skills Policies

In most respects the Brown Government's approach to skills policy was strongly reminiscent of New Labour's, framed around a presumed 'supply-push' effect of publicly financed human capital formation through the existing architecture of the state education system. In the post-2008 context the central 'pathology' identified in relation to skills was the same one identified in the 2006 *Leitch Review of Skills*: a vocational training system that under-produces skilled workers and that is insufficiently responsive to employer demand.[13] In the post-2008 context these were recruited to the government's analysis of the barriers to the resumption of rebalanced growth and higher levels of employment.

The response largely built on existing infrastructure. The government tasked UKCES, the employer-led sector skills councils, and the RDAs with contributing towards an annual national skills audit and regional skills strategies that would inform delivery of training within local further education colleges. In response to the *Leitch Review's* emphasis on a 'vocational skills deficit' in Britain, the government announced plans to revive the stagnant institution of the workplace apprenticeship. It pledged to double the number of apprentices within two years, investing an initial £16mn to this aim, a figure that was to rise to £115mn by 2014-15.

A third aspect of the government's response warrants separate mention: the pledge to establish a 'Skills Funding Agency' in 2010 tasked, among other functions, with directing public funds towards skills training in a number of strategically prioritised sectors that industrial policymakers had judged to hold particular potential for future growth and employment. £100mn was to be

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12 Department For Business, Innovation And Skills (2009a), *Building Britain's Future: New Industry, New Jobs* (London: The Stationery Office); DBIS (2011a), *The Plan For Growth.*
13 S. Leitch (2006), *Prosperity For All In The Global Economy: Final Report Of The Leitch Review Of Skills* (London: The Stationery Office); Department For Business, Innovation And Skills (2009b), *Skills For Growth: The National Skills Strategy* (London: The Stationery Office), paragraphs pp.22-23.

available to the agency to this end. This forms part of a distinct strategic discretionary agenda in the industrial policy that I address at length in the next section.

The Coalition also identified a lack of demand responsiveness in the system of skills training as a problem demanding redress, yet it attributed this to the very fact that such training had in recent history been planned, financed, designed and delivered in public sector institutions according to central government targets.[14] The Coalition's vocational skills strategy centres on the apprenticeship, with the government pledging a 50% increase in the funding of such courses and improvements in their quality (the government has stipulated that they must entail a workplace setting and training to the 'level 3' standard which the government believed to yield similar life-time earnings to that of a degree). Changes have occurred in relation to both the 'demand side' and 'supply side' of vocational training. On the demand side, a system of subsidised loans similar to those used in higher education have been introduced for adult (age 24+) vocational training on the principle that such training should be considered an investment in future private income. On the supply side, among other measures, the Coalition has emphasised the need for greater employer involvement in the design and delivery of training and have conducted a number of experiments to this end. Initially a £41mn public investment was made in a 'Growth and Innovation Fund' that, alongside £55mn of private investment, sought to leverage new employer-led training initiatives. The scheme was later joined by a £340mn 'Employer Ownership Pilot' (EOP) scheme that incentivises and leverages greater employer investment in the design and delivery of vocational training. Both reflect the view of UKCES – the government's advisory body on skills policy – that employer-led partnerships should constitute the directing force of future vocational training design and delivery.[15]

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[14] Department For Business, Innovation And Skills (2010a), *Skills For Sustainable Growth* (London: The Stationery Office), pp.4-5.

[15] For an articulation of this view in relation to EOP, see UKCES (2011), *Employer Ownership Of Skills: Securing A Sustainable Partnership For The Long Term* (London: The Stationery Office).

The existence of a so-called 'finance gap' in the provision of various kinds of finance to SMEs is another market failure against which non-discretionary interventionism has long been deployed in the UK.[16] Rather than depart from their overarching commitment to liberal financial markets in light of this market failure, the New Labour governments deployed public funds in commercially operated funds at the national and regional levels to leverage higher rates of private sector investment *through* liberal financial markets. In matters of trade finance interventions have been more direct. For most of the 20th century the UK's Export Credits Guarantee Department (ECGD) has provided publicly subsidised trade insurance and finance to British exporters subject to due diligence tests and a mandate to operate at no net cost to the public sector, a role that it retained through the 1980s and '90s despite the neoliberalisation of other areas of the political economy. The effectiveness of these non-discretionary interventions has long been the subject of criticism, with the ECGD in particular singled out for favouring large firms and projects over small ones.[17]

Both post-2008 governments have responded to their context by strengthening and expanding these non-discretionary interventions. The rationales offered by the two governments on the matter are actually very similar: a 'finance gap' in the provision of loans and equity to SMEs is perceived to negatively impact the growth and employment potential of the UK economy in the medium and long term, and it is claimed that the gap is structural and would *continue to impact in this way when credit conditions normalise*.[18] The analysis of market failure is consistent with that made by New Labour before 2007-08, incorporating informational asymmetries between capital market financiers and firms, and a missmatch between the risk appetites of banks and the growth ambitions of small companies.[19] Yet at times

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16 DTI (1998), *Building The Knowledge Driven Economy.*

17 Commons Business, Innovation And Skills Select Committee (2010), *Business, Innovation and Skills Committee Inquiry into Government Assistance to Industry: Submission by The Corner House* (London: The Stationery Office).

18 DBIS (2009a), *New Industry*, paragraph 3.25; DBIS (2011a), *The Plan For Growth*, paragraph 1.29.

19 DBIS (2009a), *New Industry*, paragraph 3.25; Department For Business, Innovation and Skills (2013b), *Building The Business Bank: Strategy Update* (London: The Stationery Office), pp.7-10

these policy documents hint at some more fundamental recognition. It is noted that UK financial firms have become increasingly oriented to large leveraged transitions, and that a growing demand for finance had, and would again, operate to the detriment of growth and employment in the SME sector.[20] It is also noted that the flotation of the 3i Corporation – once the UK's major source of growth capital to non-listed firms – had seen the firm move into larger leveraged acquisitions and away from the provision of capital to SMEs.[21] This is quite consistent with the critical social democrats' own analysis of the impact of capital demands upon the business strategies of financial firms, and its implications for levels of productive investment in the British economy. While the post-2008 governments' sanguine attitude to financial reform precludes that they had come to the same conclusion, it is nevertheless interesting to note that they identified the same outcomes as constituting policy-relevant problems.

By mid-2009 a policy response that cohered with this analysis began to emerge. Some of the most prominent measures targeting SME lending in the post-2008 context are actually temporary counter-cyclical measures designed to bolster lending to the non-financial private sector until credit conditions normalise. These include the Enterprise Finance Guarantee (EFG), an expansion of the previous Small Firm Loan Guarantee Scheme that admits larger firms than its predecessor and offers 75% guarantees on lending of up to £1mn. Another example is the EFG's trade finance corollary the Export Enterprise Finance Guarantee, introduced by the Coalition. Schemes such as these are best situated amid the two governments' macroeconomic stimulatory agendas because they are explicitly temporary credit-easing measures, in spite of their unforeseen longevity (the EFG was originally envisioned as lasting into 2010, but has been repeatedly extended in subsequent budgets). The measures focused on here instead are longterm changes to the architecture for non-discretionary intervention in trade and industry finance that

[20] DBIS (2009a), *New Industry*, paragraphs 3.24-3.25; V. Cable (2012a), 'Speech by the Secretary of State for Business, Innovation and Skills: Industrial Strategy: Cable Outlines Vision for Future of British Industry', *Speech Given at Imperial College London* (London, 11/09/2012).
[21] H.M. Government (2009), *Building Britain's Future* (London: The Stationery Office), p.51; Department For Business, Innovation and Skills (2013b), *Building The Business Bank: Strategy Update* (London: The Stationery Office), p.12.

reflect responses to what are perceived as structural rather than cyclical pathologies.

The Brown Government established two large privately and commercially operated funds. The first – the 'Growth Capital Fund' – is a £200mn public sector investment made on the recommendation of Chris Rowland, former head of 3i.[22] The fund provided growth capital to SMEs with a turnover of £1-25mn in the form of mezzanine debt, and it was hoped that it would leverage a total of £500mn before beginning to invest. The second was the UK Innovation Investment Fund, an initial £150mn public investment into two commercially operated funds, which were mandated to make subsequent investments in a range of specialist venture capital funds with a background in providing equity to high technology firms over 12-15 years. The two sides of the fund together totalled £330mn at their first close. Both of these interventions are delivered through existing liberal financial market structures, in which government played the role of a fund investor to stimulate further supply of private sector investment.

The Coalition has added further interventions on top of these. The emergency budget of 2010 allocated £25mn of public funds to a new Enterprise Capital Fund (ECF) intended to provide early stage risk capital to small firms. Overall, the Coalition has increased backing to the ECFs by £200mn. A 'business angel co-investment fund' was also established through a joint government and private sector bid to the government's Regional Growth Fund, and the government pledged a further £50bn to the scheme in 2013-14. In a larger-scale investment, the 2012 *Autumn Statement* introduced the £1.2bn 'Business Finance Partnership', which exists to stimulate non-bank channels of lending to SMEs through private and quasi-private sector funds.

However, perhaps the most striking of the Coalition's interventions has been the establishment of a 'Business Bank'. The Business Bank resembles an unimplemented decision by the Brown Government to establish a stand-alone entity called 'UK Finance for Growth' to provide a coherent front end to non-

[22] C. Rowlands (2009), *The Provision Of Growth Capital To UK Small And Medium Sized Enterprises* (London: The Stationery Office).

discretionary interventions in industrial finance. However, as well as administering the existing £2.9bn portfolio of non-discretionary industrial finance interventions, the Business Bank has been allocated an additional £1bn with which to expand the supply of long-term SME finance and stimulate greater diversity in the markets for industrial equity, credit and debt in the UK. As a non-discretionary measure, the Business Bank does not provide finance to SMEs directly but instead uses public money to alter incentive structures within the existing liberally instituted financial markets, leveraging and stimulating private sector investment. While the bank remains at an early stage of development, a £300mn scheme to promote non-traditional lending firms has been announced that will draw on the Bank's additional funding. The Coalition continues to announce proposals in this vein, suggesting that the finance gap remains to be resolved in the opinion of policy makers. These proposals include the creation of a further mezzanine fund within the Business bank, and for the bank to implement new forms of small business finance securitisation.

The downturn of 2009 also saw a cyclical restriction in the supply of trade finance. The Brown Government undertook a number of counter-cyclical interventions into these markets, including a temporary Letters of Credit scheme at the ECGD. In addition to this cyclical issue, both the Brown Government and Coalition have also identified a structural shortage of trade finance as posing a barrier to the rebalancing of the British economy's sectoral composition and demand structure because of the barrier it presents to the growth of SMEs that might otherwise adopt export-oriented growth strategies.[23] In response, the Coalition has made the Letters of Credit Guarantee Scheme introduced by the Brown Government a long-term service of the ECGD, now rebranded as UK Export Finance (UKEF). A number of further guarantee schemes were introduced to cover working capital and tender and contract bonds, while UKEF's insurance services were extended to cover non-capital goods. UKEF's remit was also expanded to insure trade with creditworthy buyers in non-OECD countries.

[23] DBIS (2009a), *New Industry*, paragraph 3.35; Department For Business, Innovation And Skills (2011b), *Trade And Investment For Growth* (London: The Stationery Office), paragraphs 1.17 and 3.43.

3.
Strategic-Discretionary Industrial Policy In The Post-2008 Context

The strengthening and expansion of non-discretionary interventions in the post-2008 context represents a recognition that market failures are more numerous and of a greater scale than had hitherto been acknowledged. Yet as non-discretionary forms of intervention they are consistent with neoliberal problem definitions and may be interpreted as strategies of roll out neoliberalisation. Alongside the instances of roll back neoliberalisation noted above, these suggest a microeconomic strategy that conforms with the broader macroeconomic strategy discussed in the previous chapter: as a strategy to secure an improved and more competitive business environment for market-led industrial development and macroeconomic adjustment to occur in. In each intervention examined so far the market is prioritised as the allocator of economic resources and the rudder of industrial development. Where government has taken on new responsibilities, it has done so in order to facilitate market resource allocation.

This interpretation is not, however, an accurate characterisation of the entirety of both governments' microeconomic agendas. A third tendency reveals a strategic discretionary element. Both governments have purposefully and directly co-invested in private sector projects where they have judged that the market will not yield such investment. They have done so on the basis of discretionary judgments about the capacity of these projects to support economic policy objectives in relation to growth, employment and compositional rebalancing, and more generally on the basis of an argument that asserts the *possibility and desirability* of policymakers adopting such a role. In the limited sites where this tendency has been expressed it has configured the boundaries between public and private sector responsibility, and market and non-market resource allocation, rather differently to the non-discretionary interventions discussed thus far, yielding an expanded and qualitatively different role for industrial policymakers in purposefully shaping the trajectory of industrial development. Insofar as such a role acts to supplant rather than facilitate market resource allocation even to a prescribed extent, the policies and the problem definitions on which they are premised are non-neoliberal.

The Problem Definition Underpinning Post-2008 Strategic-Discretionary Industrial Policy

The rationale for this strategic discretionary tendency is found within publications and policies originating from DBIS. Under the stewardship of both post-2008 governments DBIS has published a number of documents outlining what has been termed an 'industrial *strategy*'. The new agenda was first signalled under the Brown Government in late 2008 and early 2009. The Business Secretary Peter Mandelson made a number of speeches in which he reflected on the role of industrial policy and called for 'market-driven industrial activism' in the UK.[24] The substance of this analysis was provided in a series of documents published under the heading of '*New Industry, New Jobs*'. These cumulatively elaborated how the department would coordinate with the various agencies of industrial policy to accelerate the development of a number of strategically prioritised 'sectors' and technologies with the intention of bringing about higher rates of economic growth, employment and a more balanced sectoral structure than would otherwise be achieved.[25] Concomitantly, the government published the cross-departmental '*Building Britain's Future*' strategy that, among other things, pledged the government to a more proactive and growth-focused stance on the use of diminishing public spending.[26]

A similar shift is evident in the argumentation and policymaking of the Coalition Government, but it was less vocal in its embrace of strategic discretionary industrial policy until late 2011. From this date the Business Secretary Vince Cable made a number of high profile speeches in which a strategy was outlined that

[24] P. Mandelson (2008c), 'Globalisation, Government And Britain's Economic Future', *Hugo Young Lecture* (London, 03/12/2008); P. Mandelson (2008a), 'A New Industrial Activism', *RSA Lecture: The Royal Society For The Encouragement Of Arts, Manufactures And Commerce* (London, 17/12/2008).

[25] DBIS (2009a), *New Industry*; Department For Business, Innovation And Skills (2009c), *Jobs For The Future* (London: The Stationery Office); Department For Business, Innovation And Skills (2009d), *Partnerships For Growth* (London: The Stationery Office); Department For Business, Innovation And Skills (2010b), *New Industry, New Jobs: One Year On* (London: The Stationery Office); Department For Business, Innovation And Skills (2009e), *The Strategic Investment Fund: Interim* Report (London: The Stationery Office); Department For Business, Innovation And Skills (2010c), *Going For Growth* (London: The Stationery Office)

[26] Government (2009), *Building Britain's Future*.

bears strong similarity to that of the Brown Government.[27] This was followed by the publication of a range of sector-oriented strategy documents in 2013.[28] However in spite of its comparatively recent rise in visibility, strategic discretionary industrial policy has been a feature of the Coalition's industrial policy from the outset.

These documents contain arguments and policies of both a non-discretionary and strategic discretionary kind as part of broader growth-oriented microeconomic agendas. It is the strategic discretionary features, however, that are the most novel in these documents. They relate to a number of strategically prioritised 'sectors', and areas of technology impacting within and between them. The term 'sector' – ever an ambiguous signifier – is used in a specific way here, referring to groups of industries making use of similar technologies, subject to common market failures or supplying similar markets, rather than to broad areas of economic activity ('manufacturing', 'services', the 'non-financial private sector', etc) or portions of the economy's demand structure (the 'household sector', the 'public sector', etc).[29]

The argument for strategic discretionary industrial policy is very similar between the two post-2008 governments, suggesting a convergence of problem definitions. They make three broad claims. The first is that there are opportunities for the UK to realise higher rates of economic growth and employment through the development of certain sectors, but that the realisation of these opportunities can at times be unnecessarily obstructed when developmentally critical projects within these sectors receive insufficient investment.[30] The nature of the problem identified here is characterised through the established concept of 'market failure'.

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[27] V. Cable (2011a), 'Speech By The Secretary Of State For Business, Innovation And Skills: The Role Of Industrial Policy In Shaping The Economy', *Speech Given At The 'Ideas Space', Policy Exchange* (London, 26/10/2011); V. Cable (2012b), 'Speech By The Secretary Of State For Business, Innovation And Skills: Industrial Strategy: Next Steps', *Speech Given To The Institute For Public Policy Research* (London: 27/02/2012); Cable (2012a), 'Speech: Cable Outlines'; Department For Business, Innovation And Skills (2012b) *Industrial Strategy: UK Sector Analysis* (London: The Stationery Office); Department For Business, Innovation And Skills (2014a), *Industrial Strategy: Government And Industry In Partnership: Progress Report* (London: The Stationery Office).
[28] The basis on which the government would select sectors with which to conduct strategic discretionary relationships was detailed in DBIS (2012b), *Industrial Strategy*.
[29] Ibid.
[30] DBIS (2009a), *New Industry,* paragraphs 1.18 and 5.8; DBIS (2012b) *Industrial Strategy*, pp.4-6 and pp.25-31; Cable (2012a), 'Speech: Cable Outlines'.

However there is an important change in the way the concept is appealed to: it is conceded that market failures can impact asymmetrically on particular sectors, and that in such circumstances there are grounds to offer privileged support to the affected sectors *if they are judged to hold scope for economic growth and higher levels of employment in the future* (from which their status as 'strategic sectors' arises).[31] Interventions in this vein provide investment at what are deemed to be developmentally critical junctures in which the market has failed to provide what are judged to be viable private sector projects with sufficient investment. They therefore seek to facilitate industrial development that would not otherwise have happened, capturing advantages in terms of growth and employment that would otherwise have gone to the country's economic competitors. Whilst not departing from a general commitment to non-discretionary interventionism, a role for strategic discretion is being asserted to secure outcomes that non-discretionary industrial policy would alone be insufficient to secure.

This claim is necessarily premised on a second and logically prior one: the claim that it is in fact possible for industrial policymakers to identify strategic sectors with potential to promote broader economic policy goals, and to identify commercially viable private projects within sectors that market actors have collectively missed through which to promote their development. The claim is, in effect, a rejection of the notion of market epistemology and a qualified loosening of the notion of policymakers being subject to perverse incentives that I argued in Chapter 4 is bound up in neoliberal microeconomics and its hostility to discretionary interventionism. Against the notion that perverse incentives and informational constraints prevent policymakers from forming a better assessment of developmental prospects than the collective market judgment, the rationale for post-2008 discretionary industrial policy states that under certain specific circumstances the opposite is true, and that it is necessary for policymakers to ensure investment is provided in projects that the market mechanism of resource allocation has not selected for development.[32] For both post-2008 governments

[31] DBIS (2009e), *The Strategic Investment Fund,* p.10; DBIS (2012b), *Industrial Strategy,* pp. 25-26.
[32] DBIS (2009a), *New Industry*, paragraphs 2.1-2.11, 5.3, 5.5, and 5.8; DBIS (2010c), *Going For Growth* (London: The Stationery Office), p.41; Cable (2012a), 'Speech: Industrial Strategy'; Cable (2012b), 'Speech: Next Steps'. DBIS (2014a), *Industrial Strategy: Government*, p.1; DBIS (2012b), *Industrial Strategy,* p.1, p.7, p.20.

the basis for policymakers to identify and adjudicate such developmental prospects is a dispassionate assessment of the UK's existing comparative advantages and productive strengths alongside consideration of likely changes in patterns of global demand, and consultation with market participants in order to glean developmental opportunities and potential barriers to their realisation.[33] It is through such a process that the two governments both claim to have arrived at a strikingly similar assessment of strategically important sectors that merit strategic discretionary intervention.

The final step in the argument is the claim that under the circumstances noted above industrial policymakers can and should make discretionary interventions and allocate resources to private sector projects in ways that the market has not in order to realise the potential of strategic sectors to contribute to economic policy goals.[34] That is to say, government should become a proactive agent purposefully participating in processes that shape the course of industrial development, doing so in ways that they judge conducive to the government's economic policy goals. This reconceptualises the relationship between 'the state' and the private sector, with the former being seen as co-constitutive of the process by which economic growth and development is obtained alongside the market allocation of resources. This contrasts to the non-discretionary objective of ensuring an optimal business environment for market resource allocation and market-led economic development to unfold in. Both governments make a similar argument to this end: that industrial policy invariably exerts an impact on industrial development, and that what the new policies amount to is utilising an inevitable influence in a strategic way that is useful from the perspective of economic policy.[35]

However, the appropriate scope of strategic discretionary policy remains limited in this problem definition. Both governments have maintained that it is only in instances where barriers to developmental opportunities are deemed to exist *and* where discretionary intervention is deemed able to overcome such barriers that

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[33] Ibid; DBIS (2009a), *New Industry*, paragraphs 5.5-5.6; DBIS (2014a), *Industrial Strategy: Government*, p.1.
[34] DBIS (2009a), *New Industry,* paragraphs *5.2, 5.6 and 5.7*; Cable (2012a), 'Speech: Industrial Strategy'; Cable (2012b), 'Speech: Next Steps'.
[35] DBIS (2009a), *New Industry*, paragraph 1.17; DBIS (2012b), *Industrial Strategy*, pp.6-7.

discretionary intervention can or should be sanctioned.[36] The market continues to be celebrated as the best general means of resource allocation. Consequently, what is being advanced is not a rejection of market-led industrial development in favour of some comprehensive dirigiste alternative (for example, a purposeful economic restructuring through the selective public provision of industrial finance). Yet the argument does amount to a proposal to incorporate an element of dirigiste policy alongside market-led industrial development insofar as it represents a refusal to allow the opportunities identified by industrial policy makers to remain unrealised in the face of contrary judgments by the market.

Post-2008 Strategic-Discretionary Industrial Policy In Practice

The two governments' strategic discretionary industrial policies are strikingly similar in practice. As noted, both have formulated and published national strategies pertaining to prioritised sectors. Secondly, both have established large national-level funds to finance a variety of discretionary interventions in prioritised sectors. Finally, both have adopted a similar pattern of discretionary intervention encompassing three distinct types of investment: direct co-investment in private sector research and development projects; the core financing of multi-firm development and proto-typing facilities known as 'technology innovation centres' ('TICs'); and direct capital co-investments in the projects of particular firms within strategically prioritised sectors.

Between May 2009 and December 2009 the Brown Government published a series of strategy documents relating to the life sciences, low carbon industries, advanced manufacturing industries, composite materials and plastic electronics sectors.[37] The primary beneficiaries of discretionary interventionism outlined in these documents were a range of 'high value' 'advanced manufacturing' industries:

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[36] DBIS (2009e), *The Strategic Investment Fund*, p.4; DBIS (2012b), *Industrial Strategy*, p.36.

[37] Department For Business, Innovation And Skills (2009f), *Advanced Manufacturing Strategy* (London: The Stationery Office); Department For Business, Innovation And Skills (2009g), *Low Carbon Industrial Strategy* (London: The Stationery Office); Department For Business, Innovation And Skills (2009h), *Life Sciences Blueprint* (London: The Stationery Office); Department For Business, Innovation And Skills (2009i), *The UK Composites Strategy* (London: The Stationery Office); Department For Business, Innovation And Skills (2009j), *Plastic Electronics: A UK Strategy For Success* (London: The Stationery Office).

pharmaceuticals, aerospace, automotive, the offshore wind supply chain; the civil nuclear supply chain; and the tidal energy supply chain; as well as a range of industries for whom the 'platform technologies' of industrial biotechnology and plastic electronics were deemed significant.

Around this time the government also published details of the approach whereby the diffuse agencies of government with responsibility for the formation and delivery of industrial policy would coordinate with one another in a national framework for discretionary intervention within these sectors.[38] *Partnerships for Growth* pledged to align the work of RDAs and local authorities to the national strategy for strategic discretionary industrial policy. In doing so the document addressed the long-standing criticism that British industrial policy is fragmented and incoherent, making at least a declaration of intent that discretionary interventionism would be coordinated according to a national strategy.[39]

Since 2012 Coalition has also drawn up strategies in relation to prioritised sectors, each reflecting the formation of a 'long-term partnership' with the sector through a 'sector council' comprised of representatives of the affected industries.[40] Its choices of sectors closely parallel the Brown Government's, including aerospace, automotive, life sciences, the nuclear energy supply chain, and the offshore wind

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[38] DBIS (2009d) *Partnerships for Growth.*
[39] Bailey and Driffield (2007), 'Industrial Policy, FDI'.
[40] Department For Business, Innovation And Skills (2013c), Lifting Off: Implementing The Strategic Vision For Aerospace (London: The Stationery Office); Department For Business, Innovation And Skills (2013d), *UK Strategy For Agricultural Technologies* (London: The Stationery Office); Department For Business, Innovation And Skills (2013e), *Driving Success: A Strategy For The Growth And Sustainability Of The UK Automotive Sector* (London: The Stationery Office); Department For Business, Innovation And Skills (2013f), *Construction 2025: Industrial Strategy For Construction* (London: The Stationery Office); Department For Business, Innovation And Skills (2013g), *Information Economy Strateg*y (London: The Stationery Office); Department For Business, Innovation And Skills (2013h), *International Education Strategy: Global Growth And Prosperity* (London: The Stationery Office); Department For Business, Innovation And Skills (2011d), *Strategy For UK Life Sciences* (London: The Stationery Office); Department For Business, Innovation And Skills (2013i), *Nuclear Industrial Strategy* (London: The Stationery Office); Department For Business, Innovation And Skills (2013j), *Offshore Wind Industrial Strategy* (London: The Stationery Office); Department For Business, Innovation And Skills (2013k), *Oil And Gas: Business And Government Action Plan* (London: The Stationery Office); Department For Business, Innovation And Skills (2013l), *Growth Is Our Business: A Strategy For Professional And Business Services* (London: The Stationery Office); The precise organisation of each sector council differs from sector to sector, and the government does not proscribe a particular form of organisation, see DBIS (2014a), *Industrial Strategy: Government And Industry*.

supply chain, as well as the information and communication sector, agricultural technology, the oil and gas supply chain, construction, international education and the professional and business services sectors. While the publication of strategy documents is a recent development, it was prefigured to an extent in the original growth strategy published in 2011.[41] Although the document was dominated by proposals for non-discretionary forms of interventionism a substantial second part was given over to a discussion of the more specific needs of several of the sectors noted above. Shortly thereafter, a 'framework' document outlining discretionary interventions in advanced manufacturing industries was published, as was a similar document in relation to the life-sciences sector.[42] With these points in mind it can be said that a sectoral focus has been an ever-present aspect of the Coalition Government's approach to industrial policy, but one that has been expanded and become increasingly prominent since the beginning of 2012 and the failure of the initial deflationary macroeconomic strategy.

Both governments have also made use of large centrally administered funds to finance certain strategic discretionary interventions. The Brown Government established the Strategic Investment Fund (SIF) in the *2009 Budget*. Initially with funds of £750mn, it was later boosted to £1bn six months later. The fund was to operate over two years. Allocative decisions were made by DBIS in consultation with other government departments, regional development agencies, and the TSB. The fund was intended primarily to provide finance to private sector projects that developed or exploited 'platform technologies' that the government had judged to be relevant to multiple strategic sectors, as well as providing finance to other government initiatives such at the TSB or to non-discretionary initiatives such as the UKIIF. The unifying thread of SIF investments was in their addressing market failures that obstructed what DBIS judged to be viable developments where public investment was judged able to promote economic and employment growth, and 'sustainable balanced recovery'.[43] Discretionary investments were largely allocated to projects in advanced manufacturing sectors, with the two largest

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[41] DBIS (2011a), *The Plan for Growth*.

[42] Department Of Business, Innovation And Skills (2011), *Growth Review Framework For Advanced Manufacturing* (London: The Stationery Office); Department For Business, Innovation And Skills (2011d), *Strategy For UK Life Sciences* (London: The Stationery Office).

[43] DBIS (2009e), *The Strategic Investment Fund*, p.3-4.

recipients being aero-space and offshore wind industries (receiving 38% and 19% of the initial £750mn respectively).[44]

The SIF also contained a secondary function as a means of centrally administered discretionary regional policy. One of the fund's aims was to accumulate a geographically diverse portfolio of assets so as to ensure a balanced regional distribution of economic benefits accruing to the investments.[45] The closest institutional parallel to the SIF in the Coalition's discretionary industrial policy agenda – the Regional Growth Fund (RGF) – serves primarily as a means of regional policy, offsetting the funds being withdrawn from the RDAs as they were abolished and serving the objective of "[helping] areas at risk of being particularly affected by public spending cuts".[46] It was thus closely linked from the outset to the government's attempts to promote a geographical rebalancing of the UK's structure of private sector activity. However, the fund now has the broader description of "helping companies throughout England to create jobs", and "stimulating enterprise by providing support for projects and programmes with significant potential for economic growth, leveraging in significant private sector investment and creating additional sustainable private sector employment".[47] The fund has been used, in effect, as an instrument of strategic discretionary industrial policy because the criteria with which bids are judged are their capacity for sustainable private sector growth and job creation.[48]

From an initial £1.4bn the fund has grown to £3.2bn that will have financed six successive rounds by 2016. The fund is intended to leverage additional private sector investment through the co-financing of single or multi-firm investment in capital, training or research and development projects. The fund has also contributed towards the establishment of a range of 'programmes' – secondary initiatives that utilise RGF funds to create secondary allocation processes that

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[44] Ibid, p.9.
[45] Ibid, p.10.
[46] Department For Business, Innovation And Skills (2010d), 'Press Release: £1Billion Fund To Help Regional Business (29 June 2010)', <https://www.gov.uk/government/news/1-billion-fund-to-help-regional-business>, accessed 12/01/12.
[47] Department For Business, Innovation And Skills (2013m), *Regional Growth Fund: Annual Monitoring Report 2013* (London: The Stationery Office), p.6.
[48] The others are additionality, value for money and state aid compliance

contribute to the RGF's objectives. As with the SIF, RGF monies have also been contributed towards non-discretionary 'access to finance' schemes targeting SMEs.

Unlike the SIF, the RGF is not directly linked to the Coalition's sector strategies, and those administering the fund do not actively seek out prospects for investment. Instead, the fund is open to bids made by firms, local enterprise partnerships, as well as public sector bodies seeking to establish secondary funding programmes, providing there is at least a 1:1 matching of public funds. Private sector bids are reviewed and advisory selections made by a panel chaired by Michael Heseltine according to criteria noted above. Yet although the Fund's relationship to the eleven industrial strategies is less direct than the SIF's was to the Brown Government's strategic documents, in practice the fund has systematically favoured some of these strategically prioritised sectors. Of the £744mn discretionary allocations reported in the Fund's 2013 annual monitoring report, 24.5% were allocated to projects in the aerospace and automotive sectors; 17% to projects in other manufacturing sectors (likely to include life-science manufacturing, although a disaggregation of this percentage is not available); 10% went to 'energy schemes' that included the development of low carbon technologies; while 14% went to non-manufacturing activities including business services.[49] Consequently, both the RGF and the industrial strategies form part of a broader strategic discretionary industrial policy agenda centred on the development of a similar group of industries. In this respect the RGF mirrors the alignment of regional discretionary industrial policy and national level objectives envisioned in the Brown Government's *Partnerships for Growth*, but with the regional policy aspect moved to the national level.

Post-2008 strategic discretionary industrial policy comprises a range of qualitatively distinct kinds of intervention. Some of these have amounted to little more than sector or industry-focused enhancements of the existing non-discretionary industrial policies (for example, the provision of additional higher education funding in areas of research deemed relevant to a preferred industry, or

[49] DBIS (2013m), *Regional Growth Fund 2013*, p.14; the use of the fund to support strategically prioritised sectors was made more explicit in the subsequent 2014 monitoring report, see Department For Business, Innovation And Skills (2014b), *Regional Growth Fund: Annual Monitoring Report 2014* (London: The Stationery Office).

additional market intelligence provided through organisations such as UKTI or the Manufacturing Advisory Service).[50] Others, however, have involved government and government agencies co-investing in private firms for the development and commercialisation of specific areas of technology, or in the creation of new productive capacity in particular firms and supply chains. It is on direct co-investments by government in private sector projects that the present analysis focuses, for it is in this kind of intervention that post-2008 strategic discretionary policy differs most overtly from neoliberal microeconomic problem definitions.

These forms of direct investment have fallen into three principal categories. The first is an expansion of the pre-2008 practice of providing public finance to private sector projects to develop and commercialise 'innovations' (i.e. new products and production processes) through the TSB. Whilst the Board is as an independent body, in practice its assessment of strategically important areas of technology closely mirrors the assessment of strategically important sectors formed by central government: a (non-exhaustive) range of examples include 'high value manufacturing', life sciences, the construction industry, agricultural technology, low carbon transport, and enabling technologies in advanced materials (including advanced composites). Furthermore, both post-2008 governments have either invested additional resources into the TSB to facilitate funding competitions in areas congruent to their broader industrial strategies, or have undertaken coordinated co-investments with the board in areas of mutual priorities. Under the Brown Government, for instance, the TSB made a £25mn investment in the Rolls Royce-led SAMULET project as part of the advanced manufacturing strategy. The 'Aero-Space Technology Institute' – a £2bn matched public and private-financed programme of R&D funding in the aerospace sector established as part of the Coalition's aerospace industrial strategy – finances TSB competitions for private sector R&D projects and business-academia collaborations.[51] New 'Catalyst' funds, which combine funding from the research councils and TSB in private sector-academia collaborations, have also been established as part of the Coalition's industrial strategies: a £70mn agri-tech catalyst and a £180mn biomedical catalyst. More generally, the annual budgets of the TSB have increased under the Coalition,

[50] Many such interventions are detailed in two government's strategy documents cited above.
[51] The fund has also been used to finance expansion to national centers discussed below.

reaching £440mn by 2013-14.[52] Discretionary intervention of this kind can thus be seen to have expanded in the post-2008 context.

Beyond the TSB, direct grants have also been made by central government to individual firms and to consortiums of firms for the purpose of researching and developing certain technologies and products. As part of its *Advanced Manufacturing Strategy*, the Brown Government committed £45mn to Rolls Royce for research and development of low carbon engine designs. The Coalition has made numerous investments in individual firms' research and development projects through the RGF, a tendency discussed further below.

The second category of discretionary intervention is public sector investment in a variety of national TICs based around a particular area of technology or economic activity deemed of strategic importance. TICs exist in a variety of forms, but their basic rationale and defining feature is to facilitate access to capital equipment, technical expertise and market intelligence for firms seeking to research, develop and demonstrate new products or processes in the area to which the centre relates. This is done in response to the perceived market failure that lies between early stage technological research and late-stage product development (the so-called 'valley of death'), allowing firms to undertake R&D projects and demonstrate products that they might otherwise lack sufficient investment or incentives to undertake.[53] Public sector investment in TICs is not unique to the post-2008 context; prior to 2008 some RDAs co-invested with universities and private firms to establish such centres.[54] However, in the post-2008 context TICs have become increasingly common features of the *national* landscape of strategic discretionary industrial policy, with new investments in existing centres and the establishment of new ones in relation to strategically important sectors.

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[52] Cf. Technology Strategy Board (2010), *Delivery Plan: Financial Year 2010-11* (London: The Stationery Office); Technology Strategy Board (2012), *Delivery Plan: Financial Year 2012-13* (London: The Stationery Office); Technology Strategy Board (2013), *Delivery Plan: Financial Year 2013-14* (London: The Stationery Office).
[53] H. Hauser (2010), *The Hauser Report: The Current And Future Role Of Technology And Innovation Centres In The UK* (London: The Stationery Office).
[54] OneNorthEast, for example, co-invested in the NAREC, while Yorkshire Forwards co-invested in the formation of the University of Sheffield's AMRC.

Under the Brown Government the approach was particularly prevalent in relation to the government's efforts to develop industries in low carbon energy generation supply chains. SIF funds were used to finance an £11.5mn expansion of the National Renewable Energy Centre (NAREC) to demonstrate large wind turbine blades, and an £8mn expansion for onshore marine energy testing facilities. The government also invested £9.5mn in 'WaveHub' – a large-scale tidal electricity generation testing facility – and committed £10mn of financing for smaller scale offshore testing. The approach was also apparent in the Brown Government's interventions to develop the domestic civil nuclear industry. It contributed £15mn alongside Rolls, Forgemasters and the University of Sheffield, towards the establishment of the Nuclear Advanced Manufacturing Research Centre with the intention of nurturing a group of thirty firms able to develop and manufacture necessary components for the industry. £12mn was co-invested in the establishment of a National Composites Centre, with an additional £6mn made available to the TSB to develop bids that might utilise the centre.[55] A £12mn investment was also made in the expansion of an industrial biochemistry demonstrator in the northeast of England.

Under the Coalition the approach has reached a new level with the consolidation of existing publicly funded TICs and the establishment of new ones into a coherent network, now re-branded as 'catapults' and re-organised to reflect the national level assessment of technological priorities. This systematic approach was a legacy of the *Hauser Report*, originally commissioned by the Brown Government, which stressed the need for greater public investment and the creation of a systematic TIC infrastructure.[56] In response, the Coalition established seven catapult centres in relation to strategically prioritised areas of technology: high value manufacturing (which combines, among others, the existing NAMRC, AMRC and National Composites centres as well as a National Biologics Manufacturing Centre established as part of the life sciences industrial strategy); cell therapy; digital economy; future cities; offshore renewable energy; satellite applications and transport systems. Subsequently, two further catapults have been confirmed

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55 Advanced composites had been deemed an important strategic 'platform technology' for the government's ambitions to develop the aerospace and renewable energy generation industries.

56 Hauser (2010), *The Hauser Report:*

relating to precision medicine and energy systems. The initial public investment in the catapult network was £200mn, of which £140mn was allocated to the High Value Manufacturing Catapult. Since 2010 further public investments of £239mn have been made in the network. The catapult centres operate 'with a commercial mindset', drawing around a third of their funding from the firms who utilise their facilities, as well as raising another third through collaborative bids with private firms to access public and private competitively allocated funds. The final third is provided as core funding by the TSB.

The TSB and TICs both represent a means of addressing a perceived market failure between innovation and commercialisation, utilising the public sector to bring about the demonstration of innovative products so that private investment might be attracted. The discretionary or non-discretionary status of TICs as instruments of industrial policy is not as clear-cut as the TSB's competition model of investment because industrial policymakers do not necessarily exercise discretion as to which projects utilising the centre are likely to be commercially successful. If established everywhere that the 'valley of death' is identified, the Catapult programme would have parallels with non-discretionary interventions. However in practice the approach of the two governments to TICs is a strategic discretionary one because they have been established selectively in sectors and areas of technology that industrial policymakers deem strategically significant.[57]

This distinction aside, the rationale underpinning both the TSB's funding competitions and the Catapult Centres retains a strong faith in the efficiency of the market economy as the general means of resource allocation and rudder of industrial development, providing that specific early-stage barriers to the commercialisation of developmentally significant technologies are breeched. The final category of discretionary interventionism, however, demonstrates that the barriers against which the discretionary industrial policies of both governments are deployed extend beyond the facilitation of research, development and demonstration of private sector projects in strategic sectors. This third kind of intervention involves the making of direct capital grants and loans to finance the

[57] H. Hauser (2014), *Review Of The Catapult Network: Recommendations On The Future Shape, Scope And Ambition Of The Programme* (London: The Stationery Office).

expansion of firms in strategic sectors in order to develop their productive capacity and to strengthen the domestic supply chains.

Under the Brown Government this approach was particularly apparent in relation to the 'low carbon energy' supply chain in the UK, the rationale for which was to capture opportunities for growth from national and international moves towards low-carbon energy infrastructure as well as facilitating the UK's own transition.[58] Part of a £45mn package of finance to Rolls Royce as part of the advanced manufacturing strategy was for the creation of a civil nuclear production facility, and an (ultimately ill-fated) £80mn loan was approved to Sheffield Forgemasters for the same purpose.[59] In relation to the development of an offshore wind manufacturing industry, £60mn was invested in the adaptation of former port sites to manufacturers' needs, and £30mn was invested in the development of test sites by two large firms in the industry. Beyond the automotive assistance programme (which was a temporary and arguably an events-driven piece of policy pragmatism), £20.7mn of further assistance was offered to Nissan to develop a factory for the production of low carbon vehicles. Aerospace was another major beneficiary of the Brown Government's discretionary capital investments. SIF funds were allocated in support of the construction of three new facilities at Rolls Royce for the production of aerospace related goods. The government also made direct loans to Airbus (£340mn) and GKN (£60mn) to finance the development of the A350XWB aircraft, which was to be a beneficiary of advances in the advanced composites that the government was elsewhere supporting as a platform technology. A £113mn launch investment was made in Bombardier Aerospace for the development of advanced composite wings.

The Coalition has also made direct discretionary investments from the centre. In mid-2011, for example, a £22mn loan was made to finance the production of the Augusta Westland AW169 helicopter (along with a £10mn grant from the TSB for two R&D projects at the firm). However the predominant means by which such intervention occurs under the Coalition is the RGF. Of the 121 private and private

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[58] DBIS (2009f), *Advanced Manufacturing Strategy*; DBIS (2009g), *Low Carbon Industrial Strategy.*

[59] The incoming Coalition government later withdrew the loan, although it has since offered the firm a £32mn loan from the RGF.

sector linked grants made in the Fund's first two rounds for which details are publicly available, 64% were capital investment projects that involved the expansion of a firm's productive capacity, and the current fifth round is explicitly focused on such projects.[60] The RGF has also supported a secondary initiative that is of note in its own right. The £345mn Advanced Manufacturing Supply Chain Initiative (AMSCI), initially a LEP-led programme since taken up as a national instrument, seeks to support the development and competitiveness of domestic supply chains around strategic manufacturing sectors with the objective of securing the growth and employment benefits accruing to such activities. The initiative makes grants and loans to collaborative projects between two or more firms that have secured a commitment of a 'tier one' firm in their supply chain. Bids are judged according to the support they offer for government policy on economic, social and environmental axes. Like the RGF, it finances R&D, training and capital investment projects.

The Significance Of Post-2008 Strategic-Discretionary Industrial Policy

These practices of strategic discretionary industrial policy in the post-2008 context, and the argument offered for them, occupy an uneasy relationship with the macroeconomic policy discussed in the previous chapter and those policies examined in the first two sections of this chapter. These, I have argued, are suggestive of neoliberal problem definitions and new strategies of neoliberalisation, stressing as they do the efficacy of an expanded and better facilitated realm of market resource allocation as a means of obtaining economic policy goals. This market-positive assessment holds expanded public borrowing, market failures impacting on the credit cycle, and a microeconomic structure in need of further liberalisation and non-discretionary interventionism as imperatives for intervention. In this view the private sector is cast as capable of bringing about rebalanced, economically sustainable and stable growth and employment. The strategic discretionary agenda, by contrast, points to the possibility and desirability of a discretionary role for industrial policymakers, and casts such a role as necessary insofar as the benefits of strategic discretionary intervention for promoting rebalanced economic growth and employment would

[60] See the Appendix

otherwise go unrealised. Furthermore, it makes a (sometimes implicit) case for the further expansion in this role by pointing to similar practices on the part of competitors – a point to which I return presently.[61] From a neoliberal perspective the role is both unnecessary and anathema.

The arguments and interventions comprising the two agendas are not necessarily contradictory, in spite of their differing emphases in relation to institutional change and the role of industrial policy. Indeed, post-2008 strategic discretionary industrial policy has been articulated in relation to deficit reduction as though both were necessary – the latter being a prerequisite of macroeconomic stability on which the former builds.[62] In principle such a diagnosis of the post-2008 context could be coherent: industrial policymakers might pursue their role of strategic discretion within an otherwise expanded private sector and amid cuts in public spending, *insofar as sufficient resources are made available to them to do so*. Put differently, the two agendas are contradictory only to the extent that one constrains the other.

There are good reasons to think that a contradiction does indeed exist. Succinctly, the strategic discretionary agenda as it is articulated and constituted in the post-2008 context implies a different set of budgetary priorities to those exhibited by either government. The importance assigned to discretionary interventionism in the arguments offered for it implies at the very least a ring-fencing of the budget available to industrial policymakers (that is, of DBIS's budget), and more plausibly an increase – at least if international comparisons are anything to go by. The French Strategic Investment Fund, established in 2008, is worth nearly £16bn (€20bn). The strategic discretionary public-private partnerships established by the French government with industries around priority areas of technology (an approach not dissimilar to the sectoral one pursued by British governments) last

[61] The Brown Government makes a direct appeal to the development of similar industrial policy agendas by competitor states as a justification of strategic discretionary interventionism, see DBIS (2009a), *New Industry*, paragraph 1.11. The Coalition is more circumspect about the transferability of practices; see DBIS (2012b), *Industrial Strategy*, p.8. Both governments have, however, pursued practices analogous to prominent features of French and German industrial policies through their sectoral approaches, emphasis on technology development through TICs, and their use of centralised funds. As I note later, however, these instruments receive significantly greater quantities of public funding in the French and German contexts than their UK equivalents do.
[62] DBIS (2009a), *New Industry*, paragraph 1.2; DBIS (2011a), *The Plan For Growth.*

between 5 and 10 years and each involve annual public funding of €30-50mn (around £22-37mn) per annum.[63] The longevity of these interventions is clearer and more secure than their parallels in Britain, which have been boosted from budget to budget without long-term commitment. The well established German Fraunhofer Institutes, the model for the Catapult Network, receive core public funding of around £600mn per annum and are able to leverage large quantities of further private sector finance, whereas the Catapult Network received around 25% of this level of public funding in 2013-14 and is still to develop a comparable volume of private finance.[64]

Points such as these would imply expansionary preferences for advocates of the strategic discretionary agenda and, insofar as these are shared more broadly across other government departments, an expanding trajectory to the embryonic interventions. Instead, the department responsible for these aspects of industrial policy has been a repeated target for spending reductions during the Coalition's time in office. The DBIS's expenditure limit for 2011-12 to 2014-15 was reduced by nearly 30% in the *2010 Spending Review* (the second largest departmental expenditure limit reduction in that review) and by a further 6% for 2015-16 in the *2013 Spending Review*.[65] DBIS was also the largest contributor to the initial £6.2bn round of spending reductions announced by the Coalition prior to the 2010 spending review, with a cut of £836mn or nearly 4% of its budget.[66] An analysis of comparable precision is of course not possible for the Brown Government because it had deferred the finalisation of departmental spending packages until after the election. However, assuming a similar ring-fencing of health, science and international aid budgets, it is most likely that DBIS would have faced restricted spending under a re-elected Labour government. In this counterfactual future, we can speculate that the severity of these restrictions would likely rest on the degree of stagnation that occurred in the years to 2013 under the Brown Government's

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[63] CBI (2015), 'Industrial Strategy: France', <http://www.cbi.org.uk/media-centre/case-studies/2012/03/industrial-policy-france/>, accessed 15/01/2015.
[64] Hauser (2014), *Review Of The Catapult.*
[65] Treasury (2010e) *Comprehensive Spending Review 2010*; H.M. Treasury (2013b), *Spending Review 2013* (London: The Stationery Office); R. Crawford, et al. (2011), 'Public Spending Cuts: Pain Shared?', *IFS Green Budget 2011* (London: Institute for Fiscal Studies), pp.130-62.
[66] H.M. Treasury (2010d), *Press Notice Pn 04/10: Government Announces £6Bn Of Savings In 2010-11* (London: The Stationery Office).

own macroeconomic strategy, and the resolve of the leadership in maintaining the path of overall departmental spending reductions proposed in 2009 within such a context. As I noted in the previous Chapter, a decisive change of fiscal tack would not have been easy. Such speculation aside, it is clear that both post-2008 governments have pursued macroeconomic stances that are hostile to the scale of the strategic discretionary agenda. The shrinking of funds available to industrial policymakers therefore demonstrates a tension in practice between strategic discretionary industrial policy and broader economic policy.

This in turn reinforces the notion that what we are witnessing is two contradictory sets of problem definitions regarding industrial policy. What is deemed a problem demanding institutional change and a reconfiguration of the relationship between the public and private sectors in one is made a secondary priority and a source of savings in the other. Put differently, this amounts to the claim that different sections within the governments of the post-2008 context have constructed two contrasting crisis diagnoses, yielding contrasting (but under some circumstances, pragmatically aligned) approaches to economic policy and imperatives for decisive intervention. The first of these crisis diagnoses is the neoliberal one described in the previous chapter. The second, located among industrial policymakers at DBIS, remains only embryonic and is found in the arguments offered for strategic discretionary industrial policy. From the perspective of this embryonic diagnosis a paucity of strategic discretionary intervention reduces Britain's potential of rebalanced growth and employment, yielding an imperative for decisive intervention in the form of new or expanded institutions and interventions with which to deliver strategic discretionary intervention. The crisis diagnosed exceeds the scope of the neoliberal crisis diagnosis, defining a 'problem' in the paucity of existing industrial policy that the neoliberal diagnosis does not acknowledge. Such a problem definition is qualitatively and categorically distinct from a 'neoliberal' one because it rejects market epistemology and the notion that the private sector should be the allocator of economic resources and the sole directing force of industrial development. Instead, it explicitly accepts a role for industrial policymakers in this regard, rather than confining their role to that of creating an optimal business environment.[67]

It should be noted, however, that it is only in relation to the problem definition regarding the role of industrial policymakers practicing strategic discretionary interventionism and the budgetary priorities that follow from it that the two diagnoses are in tension. The strategies of roll back and roll out neoliberalisation undertaken by the two governments need find no opposition from subscribers to the non-neoliberal crisis diagnosis insofar as resources for discretionary interventionism are assured, for they too may perceive labour market inflexibility and the like to constitute barriers to recovery. There is consequently significant potential for consensus in microeconomic policy between subscribers to the contrasting diagnoses, a point to which I return presently.

This notion of two contrasting crisis diagnoses operating in tension with one another forms the basis of my conclusion in this chapter. However, before drawing this conclusion and reflecting on its implications for my broader research questions it is first necessary to establish whether or not these strategic discretionary industrial policies amount to as novel and significant a change in British industrial policy as the argument offered for them suggests. A critical appraisal of the agenda's significance might characterise it instead as a politically expedient accessory to a neoliberal strategy for economic recovery. The relatively modest sums committed to the strategy could be interpreted as either an ad hoc stimulus measure designed to support manufacturing industries through the downturn (one at odds with neoliberalism because of its discretionary elements, but perhaps adopted out of some crisis-driven inter-paradigm borrowing), or a strategy to reap the political dividend of being seen to take constructive action in a context characterised primarily by reductions in public spending, or perhaps both.

This critical appraisal finds support in the limited funds available for this strategic discretionary agenda and its relative paucity when compared to the scale of the

[67] If we were to further stretch the concept of neoliberalism to accommodate strategic discretionary interventions as well as non-discretionary interventions then it would place the concept in danger of simply being a synonym for 'capitalism'. It would no longer be clear what separates this form of capitalism from any other.

interventions in other countries from which it draws inspiration. The actual spending decisions associated with it would seem at best a partial realisation of the agenda. A second supporting point is that the funds from which much of the finance for the strategic discretionary agenda is drawn have been time-limited interventions. It was not envisioned that funds like the SIF, RGF and AMSCI would be indefinitely available following recovery. They were expanded in subsequent budgets following their creation on an ad hoc basis, suggesting that their scale and temporal scope was not finalised, but there is nothing to suggest that this dynamic would continue indefinitely. Insofar as the kinds of direct capital co-investment noted above were to become a persistent feature of British industrial policy, the funds with which it is achieved would eventually have to originate within DBIS's departmental budgets – the very budgets under constraint from the governments' macroeconomic stance. In short, the status of such interventions as 'decisive interventions' is far from confirmed.

Yet to locate the significance of the strategic discretionary agenda in post-2008 industrial policy only in the size of the funds allocated to it is to unduly disregard its broader significance, particularly in a policymaking environment that has been prejudicial to public spending of all kinds. If, as I have suggested, the crisis diagnosis that these interventions reflect is in tension with a neoliberal crisis diagnosis and associated strategies of neoliberalisation then it is little surprise that the funds available to realise it are limited and contingent, and that the agenda remains an embryonic one. Rather, the significance of the agenda lies in the articulation of a coherent rationale for strategic discretionary interventionism *in such a context*, and in the fact that this rationale and associated interventions built upon an existing strategic discretionary strand in British industrial policy that was noted in Chapter 4. It suggests a desire for decisive intervention on the part of its advocates because the kinds of intervention it sanctions were not previously exercised beyond the area of innovation policy, but were subsequently entrenched and extended in a coherent manner. The corresponding investments were not designed to leverage short-term gains (as we might expect from a strategy devised to generate only a short-term economic or political dividend) but were early stage and capital investments for which the benefits in terms of growth and employment would be realised over the long-term. Whilst the agenda's limited realisation precludes the claim that decisive intervention has been made, the coherence of the limited expression of the strategic discretionary agenda with existing practices suggests that it represents (to its subscribers within government at least) something more than a political or economic expedience. Rather, it suggests the embryonic form of decisive intervention, contained by hostile macroeconomic policy.

An interesting point arising from these paragraphs is that the strategic discretionary agenda in the limited form to which it has been expressed could in principle be a point of consensus between subscribers to a neoliberal and non-neoliberal crisis diagnosis. In the short-term at least, subscribers to the neoliberal crisis diagnosis could anticipate a moderate political dividend from the announcement of those strategic discretionary interventions that resources permitted to be realised, and perhaps also bolstered confidence among manufacturers in regional economies from which the public sector was rapidly divesting in other respects. For subscribers to a non-neoliberal crisis diagnosis this represents the closest approximation of the kinds of intervention that they deem necessary, as well as a position from which to argue for the expansion of the agenda. The impact of the non-neoliberal crisis diagnosis that the strategic discretionary agenda reflects can thus be seen as reflecting the opportunistic influence of a 'rival coordinative discourse waiting in the wings'. This interpretation finds support in the correlation of the expansion of the strategic discretionary agenda (in financial and institutional terms) with moments where deficit reduction has become contested in public and political debate. The Brown Government established its expanded strategic discretionary agenda over the course of 2009, at the very moment in which the deficit became a key political issue in the run up to the 2010 general election. The agenda had a lower profile role in the Coalition's economic policy until 2012, coinciding with what was then regarded as a 'double dip' recession and a flurry of public criticism of the government's macroeconomic stance.

Conclusions

Thus I conclude that the strategic discretionary interventions analysed in Section 3 suggest the presence of two crisis diagnoses – a neoliberal one and an embryonic non-neoliberal one – that have exerted unequal and separate, but at times pragmatically aligned impacts on the nature of post-2008 economic policy. The two crisis diagnoses differ on the question of the role of industrial policy makers in bringing about economic policy goals of rebalanced growth and employment and on the kind of political-economic restructuring that these goals imply. Specifically, they differ on the possibility and desirability of strategic discretionary intervention and the creation and financing of institutions through which it can be practiced. There have been sections within both governments of the post-2008 context, associated with DBIS and the making of industrial policy, that have drawn upon non-neoliberal problem definitions regarding these questions and have constructed an embryonic crisis diagnosis that calls for an expanded strategic discretionary industrial policy.

It remains to consider why this outcome has come about, and what its implications are for my research questions. One question concerns the factors that could explain the ideational cleavage. Previous studies of ideational change at times of crisis have, following Hall, tended to point to elections as the mechanism by which new crisis diagnoses are carried into government, as discussed in Chapter 2. Yet in the post-2008 context the two governments show great ideational convergence in both the neoliberal aspects of their economic policies and the non-neoliberal strategic discretionary agenda in industrial policy. An obvious way of explaining this cleavage in the present Coalition Government would be to point to the presence of two distinct political parties in government. This explanation finds some support in the presence of a Conservative Chancellor and a Liberal Democrat Business Minister, the latter being a long-time advocate of less orthodox approaches to industrial policy than his New Labour and Conservative counterparts. The problem definitions subscribed to by personnel in positions of leadership (an ideational-agential factor) play an irreducible role in a constructivist institutionalist explanation. However, calls for a stronger and more discretionary industrial policy extend beyond the Liberal Democrat ranks, as the involvement of Michael Heseltine and David Willetts in enacting the strategic discretionary agenda serves to remind us. What is more, there are prominent defenders of the neoliberal crisis diagnosis among the Liberal Democrat ministers at the Treasury, such as Danny Alexander. Secondly, reducing the tension in economic policy to the presence of multiple parties in government does not explain why the same tension was evident in the policymaking of the Brown Government. Consequently, the presence of the ideational cleavage does not reduce to contrasting priorities on the part of the two parties comprising the Coalition Government.

A different explanation that addresses this crosscutting of party lines within the Coalition has already been mooted in Chapter 2. It addresses the impact of departmental boundaries on coordinative discourses and crisis diagnosis. In Chapter 4 I observed that a more issue-constrained strand of the strategic discretionary industrial policy agenda was already present in DBIS's departmental forebear prior to 2008, manifest from 2003 onwards in New Labour's approach to technology policy. The problem definition at the heart of this agenda – a perceived need for industrial policymakers to proactively identify and support areas of private sector research and development that they judge to hold potential for promoting broader economic policy objectives in the future – is reflected in the argument for post-2008 strategic discretionary industrial policy. In the post-2008 context, however, the general problem definition has been broadened to other stages of private sector activity and articulated as a more general strategy for economic performance maximisation. This correspondence of the earlier and later approaches suggests that existing ideas were drawn upon and developed by industrial policymakers at DBIS as they devised a policy response to the stagnatory post-2008 context. The commonality between the industrial policy agendas of the two separate post-2008 agendas also supports this view. The ideational origins of the post-2008 strategic discretionary agenda in industrial policy can be attributed to a departmental location as well as being bolstered by the arrival of sympathetic personnel such as Vince Cable and Peter Mandelson. Existing problem definitions served as an ideational resource with which policymakers constructed an embryonic non-neoliberal crisis diagnosis.

Conversely, the neoliberal crisis diagnosis can be located first and foremost at the Treasury. It is the Treasury that has enforced a macroeconomic strategy of ‘austerity’ and concomitant spending restraint on departments such as DBIS, as well as bearing responsibility for financial market reform and the conservative approach taken in this area. In this respect the Treasury in the post-2008 context can be seen as continuing a historical preference for fiscal orthodoxy.

An emphasis on departmentally-demarcated problem definitions, crisis diagnosis and policy preferences holds the potential to explain the partial implementation in practice of the strategic discretionary agenda in the post-2008 context. As noted in Chapter 4, a tension has historically existed between the Treasury and industrial policymakers since specific ministerial portfolios were created for the latter in the 1960s. At times of economic stress the tension has been resolved in favour of macroeconomic priorities. Factors that might be appealed to in explaining this historic tension include both institutional bureaucratic-political ones (a desire by the Treasury to maintain its privileged position in relation to economic policy) and ideational ones (in particular the Treasury’s historical commitment to fiscal orthodoxy and the Business/Industry Ministry’s historical tendency to countenance more resource-intensive and discretionary forms of intervention). Such factors would also appear to be at play in the post-2008 context. The testimony of Brown Government insider turned scholar Diamond makes explicit reference to a bureaucratic-political conflict between the Treasury and advocates of discretionary industrial policy, although he also notes hostility to an expansion of discretionary interventionism in ways perceived to resemble the practices of the 1960s among officials within the Department for Business, Enterprise and Regulatory Reform (one of DBIS’s two departmental forerunners).[68] Whilst the degree of ideational divergence is thus likely to have been narrower than in past conflicts, the analysis presented in this chapter and Chapter 4 does suggest an ongoing divergence in problem definitions between the two departments.

In the post-2008 context, as in the past, the Treasury holds the institutional balance of power, and it is for this reason that the neoliberal crisis diagnosis and the decisive interventions that it implies have trumped those of the non-neoliberal

[68] Diamond (2011), 'Governing As New Labour’.

crisis diagnosis. The pragmatism of neoliberal policymakers after 2012, witnessed in the turn by the Coalition to credit stimulus, may account for the (by recent British standards) substantial resources given over to the strategic discretionary agenda. Under certain circumstances the priorities of subscribers to either crisis diagnosis meet in similar policy ideas, and it is therefore likely that resources will coalesce around policy ideas where there is least divergence. The two large discretionary funds – the SIF and the RGF – are an example of such a convergence in policy ideas from contrasting problem definitions: serving both as a temporary pragmatic measure and an opportunity to make long-term strategic discretionary investments. Yet despite these points of resonance, the embryonic non-neoliberal crisis diagnosis will continue to be subject to the constraints imposed on it by the neoliberal one. So long as the ideas concerning discretionary industrial policy remain confined to coordinative discourses at DBIS it is unlikely that sufficient resources will be allocated to the strategic discretionary agenda to bring it to the status of a decisive intervention.

This analysis returns me to the issue of the contrasting emphases of constructivist institutionalists on crisis and non-crisis moments encountered in Chapter 2. There I suggested that the assumption that government becomes a collective actor at times of crisis is too readily made by constructivists focusing on crisis moments, and that concepts more readily applicable to the latter moments could hold scope for elucidating the process of crisis diagnosis where a single diagnosis fails to become 'hegemonic' among policymakers within government. In particular, I suggested that Kingdon's emphasis on departmental boundaries in relation to problem definition and policy formation might extend to the process of crisis diagnosis. Insofar as the findings here support the view of a departmentally bounded process of crisis diagnosis, a primary question for further research is to further substantiate our understanding of this mode of crisis diagnosis by empirically exploring the policy communities surrounding the Treasury and DBIS. Conceptually speaking, an animating question for this research should be to ask what it is about the post-2008 context that might have contributed to the failure of either crisis diagnosis to become hegemonic within government. A more general consideration of this research in comparison with other research on crisis diagnosis may facilitate some general propositions about the conditions under which crisis diagnosis is likely to take either a hegemonic or departmentally bounded mode, and the relative frequency of either outcome.

The foregoing analysis also raises a number of other questions for further research. The first of these relates to the comparative validity of the interpretation constructed here, which could be further established or challenged on the basis of research on the disaggregated impact of fiscal and trade policies in relation to the compositional structure of the UK economy. These areas of policy are the preserve of the Treasury. If, as I have suggested above, a neoliberal crisis diagnosis and corresponding coordinative discourse were predominant in the New Labour and post-2008 Treasury then we would expect to see no relationship between supportive fiscal policy and the sectors strategically prioritised in the strategic discretionary industrial policy pursued by DBIS. Instead, we would expect to find only non-discretionary forms of fiscal assistance through, for example, tax relief offered to small firms and fixed capital depreciation allowances for manufacturing firms. If instead subsequent research were to discover such a systematic discretionary relationship in this form of policy then this would have significant implications for our understanding of ideational change in the post-2008 context that are contrary to the conclusions drawn here, and possibly the characterisation of New Labour endorsed in Chapter 4.

A further avenue of research is to explore the relationship between future developments in the economic context and the non-neoliberal problem definitions presently manifest in the strategic discretionary agenda. The critical social democratic perspective strongly suggests that 'sustainable', rebalanced growth and employment is unlikely to be the outcome of further neoliberalisation of the British political economy, and that financial instability and prolonged stagnation remain risks. Should these or other structural frailties be realised, the constructivist institutionalist perspective discussed in Chapter 2 would lead us to expect that further ideational 'windows of possibility' may open. These are conditions that support critical reflection on existing problem definitions by the actors wedded to them, and thus the possibility of a growing number rejecting neoliberal problem definitions in favour of the embryonic non-neoliberal crisis diagnosis that presently constitutes a 'rival coordinative discourse waiting in the wings'. Furthermore, should such a window of opportunity open, it raises the possibility of a re-articulation of the non-neoliberal problem definitions underpinning the strategic discretionary agenda, possibly in ways that are more critical of the neoliberal crisis diagnosis that it sits alongside. The relative fates of the neoliberal coordinative discourse and its rival will be an illuminating object of inquiry for understanding the subsequent trajectory of the British political economy.

A final avenue of further research concerns the relationship between the strategic discretionary agenda and the institutional constraints imposed upon industrial policymakers by the state aid rules of the European Union. Presently, government is constrained in the scale and nature of strategic discretionary industrial policy by these rules, and must apply for approval from the Commission where a departure is made from the relatively limited range of permissible forms of intervention sanctioned under them. The rules are more permissive where intervention relates to regional policy and research and development projects, both of which are common themes in the approaches of both governments in this area.[69] One interesting question for further research that seeks to more fully outline the nature of contemporary British industrial policy would be to determine to what extent these institutionally structured constraints and opportunities have shaped the form that strategic discretionary intervention has taken in Britain to date. Furthermore, in a period in which Britain and other member states are reconsidering their relationships to the union and the role of European institutions in their political economies, it may prove informative to study the position Britain adopts on the supranational regulation of industrial policy. The advocacy of either continuities or changes in such regulation could therefore prove an instructive means of assessing the importance of the strategic discretionary approach and its associated problem definitions to the coordinative discourses of future governments involved in such renegotiation.

[69] Department For Business, Innovation And Skills (2013n), *State Aid: The Basics* (London: The Stationery Office).

Chapter 7.
Post-2008 Crisis Narratives

In this chapter I turn from the analysis of crisis diagnosis to the analysis of crisis narration. I report the findings of the research undertaken on 120 newspaper articles written by ministers in the two post-2008 governments. The analysis reveals the combative use of contrasting communicative discourse by the two governments in spite of the high degree of convergence in their respective neoliberal and non-neoliberal crisis diagnoses. The first and second sections outline the crisis narratives constructed by the Brown and Coalition Governments respectively. In the third section I analyse the interpellative strategies at play in these crisis narratives in greater depth, comparing and contrasting the ways in which they are designed to create resonance between the interpretations and policy preferences inscribed within them and the lived experiences of readers. In the conclusion I offer a number of more general considerations about the narration of crisis in light of this research, and discuss avenues for future research.

1.
The Brown Government's Crisis Narratives

Rather than building a perception of crisis where it was absent, the task facing the Brown Government in late 2008 and early 2009 was to manage and shape an already widespread sense of crisis in a way that deflected criticism and bolstered public perceptions of its economic competence. The dramatic turn in Britain's fortunes had occurred after ten years of Labour government, so it is unsurprising that an overarching narrative of 'blame deflection' dominated ministerial newspaper publications on economic events in this period. Succinctly stated, the blame deflection narrative re-asserted the New Labour/Brown Government's economic competence both before and after the crash and attributed the economic collapse to factors beyond their control. To do so it draws upon negative public perceptions of financial market actors, New Labour's communicative discourse of benign globalisation, and a series of favourable self-comparisons with the Conservative Party. Emerging from the narrative is a careful qualification of the possibility and desirability of transformative financial reform. Consequently the narrative can be seen as an attempt to stabilise public support in existing institutions in a context ripe for claims of the necessity of decisive intervention – an inverse of the role generally played by crisis narratives.

From July 2009 onwards a new crisis narrative emerged alongside the earlier one. It asserted that a tentative recovery had been established, but that it was threatened by an impending crisis of Conservative misrule. The narrative locates a new crisis in the form of a possible Conservative victory at the 2010 general election and presents this as an impending ethical and economic catastrophe. The narrative is dominated by comparisons of the Labour and Conservative Party on the grounds of their commitment to 'fairness' and their economic competence. Not coincidentally, this narrative emerged at around the time of the Brown Government's mid-2009 concession that spending cuts would form part of its fiscal consolidation strategy. Having made this concession, the new crisis narrative built presentational differences between the quite similar decisive interventions being advocated by the two parties and sought to disrupt the impression that Conservative charges of economic incompetence had been correct all along.

The Blame Deflection Narrative

The blame deflection narrative was structured along three themes. The first addressed the issue of why the government had tolerated and celebrated what had now emerged to be a fragile financial architecture. In response, the narrative stressed that the banking crisis had originated from outside the UK and that the country had been subject to an exogenous shock for which the regulatory architecture in Britain was not responsible.[1] Alongside this claim was a re-assertion of the New Labour discourse on 'globalisation' as a virtuous yet fragile international political-economic project, with a series of articles identifying

[1] A. Darling (2008a), 'Shocks To System Show Need For Fresh Answers', *The Financial Times,* 09/10/2008; G. Brown (2008a), 'Fairness Is Still Our Guide: Only New Labour Can Help Businesses And Families Through This Economic Turbulence ', *The Guardian,* 20/09/2008; G. Brown (2008b), 'We Must Lead The World To Financial Stability', *The Times,* 10/10/2008; G. Brown (2008c), 'Stakes Could Not Be Higher, This Is Moment Of Truth', *The Sunday Mirror,* 12/10/2008; G. Brown (2008e), 'I'll Give Help When You Need It', *The News Of The World,* 23/11/2008; A. Darling (2009a), 'Era Of Risk Is Over', *The Sunday Telegraph,* 08/02/2009; P. Mandelson (2009b), 'Free Trade Is The Gateway To Recovery', *The Times,* 06/03/2009; G. Brown (2009b), 'We Won't Pay For Bankers' One-Way Bets', *The Times,* 18/02/2009

'protectionists' as a threat to global recovery and asserting the virtues of globalisation.[2] The government argued that multilateral constraints arising from a globalised international economy meant that New Labour could not pursue unilateral strengthening of financial regulation without foregoing the benefits of globalisation for the country, and that maintaining these benefits remained a priority in the aftermath of the crash. It was conceded that international financial regulation had not kept pace with developments in the industry, but that this 'global problem' had then, as it continued to in the post-2008 context, demanded a multilateral solution.[3]

Alongside this theme was a second one that addressed those that the government cast as bearing blame for the crash: a small number of irresponsible financial market actors. There is a clear recruitment of some of the resentful assessments of financiers made by critical commentators around the time of the crash: the narrative endorses the view that they had behaved in an irresponsible and morally questionable way, and had failed to maintain a compact of trust with society.[4] Yet the endorsement of these views is carefully qualified. The economic contribution of the City was played up and the numbers of deviant financial market actors

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[2] Darling (2008a), 'Shocks To System'; Brown (2008a), 'Fairness Is Still Our'; P. Mandelson (2008b), 'New Labour Has Had To Adapt Its Economic Policy To Suit The Times', *The Independent,* 05/12/2008; P. Mandelson (2009a), 'Four Sober Steps On The Road To Recovery', *The Times,* 31/01/2009; A. Darling (2009b), 'The Banks Are To Blame For This Crisis', *The Independent,* 10/02/2009; Mandelson (2009b), 'Free Trade Is'; G. Brown (2009d), 'The Special Relationship Is Going Global', *The Sunday Times,* 01/03/2009; P. Mandelson (2009c), 'Globalism Has Been Good For Everyone', *The Daily Telegraph,* 01/04/2009; P. Mandelson (2009g), 'Europe Needs Action, Not Quiet Consensus', *The Financial Times*, 23/11/2009; P. Mandelson (2010a), 'Korean Miracle Shows The Power Of World Trade Deals', *The Daily Telegraph,* 17/03/2010.

[3] Darling (2008a), 'Shocks To System'; Brown (2008b), 'We Must Lead'; Mandelson (2009a), 'Four Sober Steps'; Brown (2008c), 'Stakes Could Not'; A. Darling (2009d), 'Only A Global Fix Will Do', *The Guardian,* 10/03/2009; G. Brown (2009c), 'We Will Put People First, Not Bankers', *The Observer,* 22/02/2009; G. Brown (2009e), 'New Global Economy Calls For New Era Of Financial Regulation', *The Sunday Telegraph,* 15/03/2009; A. Darling (2009g), 'The Cure Is Working', *The Guardian,* 30/08/2009; A. Darling (2009j), 'A Strong City Is Not Just In Britain's Interests', *The Times*, 02/12/2009; G. Brown (2009k), 'How We Can Restore Trust in Financial Institutions', *The Financial Times*, 08/11/2009

[4] Darling (2008a), 'Shocks To System'; Brown (2008b), 'We Must Lead'; Darling (2009b), 'The Banks Are To Blame' ; Brown (2009b), 'We Won't Pay'; G. Brown (2009f), 'This Is London's Big Chance To Lead The World Out Of Crisis', *The London Evening Standard,* 30/03/2009; Darling (2009f), 'Time For System To Change' ; A. Darling (2009i), 'After Lehmans' Fall, We Must Look Beyond The Banks', *The Observer,* 13/09/2009; Brown (2009h), 'I'm Determined To Protect Families; Brown (2009k), 'How We Can Restore Trust'

played down, recasting the scale of the problem from one of an entire industry to one of a few participants who responded to perverse incentive structures that would now be subject to reform (although the government still frequently singled out 'the banks' as bearing responsibility).[5] The argument about multilateral constraints and the virtues of globalisation was invoked alongside these arguments against calls for decisive reforms of financial regulation: the government claimed to be unable to undertake decisive reform until multilateral agreement was made, and that it would be remis if it did.

The final theme in the blame deflection narrative responds to Conservative criticism of the government's economic competency. It does so by in turn calling into question the Conservatives' economic competence, stressing the seriousness of the economic circumstances and the corresponding skill and success of the government's response. In particular, post-crash policies were linked to the preservation of employment and security of homeownership, and with having staved off a risk to the economic prospects of the young.[6] The purportedly perilous consequences of failing to respond in the way the government was doing was directly connected to certain social groups – predominantly 'families' and

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[5] Brown (2008c), 'Stakes Could Not'; Brown (2009b), 'We Won't Pay'; Brown (2009c), 'We Will Put People First'; Brown (2009e), 'New Global Economy'; Darling (2009g), 'The Cure Is Working'; Darling (2009j), 'A Strong City Is Not Just'; Brown (2009k), 'How We Can Restore Trust'

[6] A. Darling (2008b), 'My Reasons', *The News Of The World,* 12/10/2008; Darling (2009a), 'Era Of Risk'; Darling (2009c), 'The Banks Are To Blame'; G. Brown (2009a), 'I Will Help UK Car Firms', *The Birmingham Mail,* 30/01/2009; Brown (2009b), 'We Won't Pay; Brown (2009c), 'We Will Put People First'; Brown (2009e), 'New Global Economy'; Brown (2009f), 'This Is London's Big Chance'; A. Darling (2009e), 'China And Us - A New Cultural Revolution', *The Times,* 11/05/2009; Mandelson (2009c), 'Globalism Has Been' Darling (2009g), 'The Cure Is Working'; A. Darling (2009h), 'There Is Going To Have To Be Slower Growth In Public Spending', *The Independent,* 09/09/2009; P. Mandelson (2009d), 'Underdog Is Ready To Bite Back', *The News of the World,* 02/08/2009; P. Mandelson (2009e), 'Osborne's Crass Political Cross-Dressing', *The Guardian,* 12/08/2009; G. Brown (2009i), 'Britain Has Every Reason to be Proud of Its Young People this Summer', *The Mirror,* 02/09/2009; G. Brown (2009j), 'A New Era Of Global Economic Co-Operation ', *The Daily Telegraph,* 17/09/2009; A. Darling (2009k), 'Our Priority Must Now Turn To How We Ensure Economic Expansion', *The Western Mail*, 10/12/2009; A. Darling (2009l), 'A Risk To Our Very Future', The Guardian, 31/12/2009; G. Brown (2010a), 'An Age of Aspiration Can Benefit Everyone', The Observer, 03/01/2010; P. Mandelson (2010b), 'How Cameron Became One Of The Great Ignored', *The Independent*, 10/04/2010; P. Mandelson (2010c), 'Don't Gamble Away The Recovery', *The Independent*, 02/05/2010

'businesses' (or variations such as 'hard-working families').[7] Against this self-characterisation of economic competency, Conservative criticism was identified as reflecting the prioritisation of partisan political interest and a reckless commitment to an inflexible 'small state' ideology that predisposed them to spending cuts regardless of the economic and socio-economic consequences.[8]

The Narrative Of Impeding Conservative Misrule

The first theme comprising this narrative asserts that owing to the government's fiscal and financial interventions a recovery had been established that would be self-sustaining if the government's policy was allowed to play out to its allotted timescale.[9] The particular crisis that the narrative points to is the undoing of this recovery and, more generally, of societal wellbeing, should the Conservative Party win the 2010 general election and instigate a change in macroeconomic policy. The narrative is set out through a series of favourable comparisons between the Brown Government and its Conservative competitors along two overarching themes. The first of these continued the unfavourable characterisation of Conservative economic competence established in the previous narrative. As well as attributing

[7] Brown (2008a), 'Fairness Is Still Our'; Brown (2008b), 'We Must Lead'; Brown (2008c), 'Stakes Could Not'; Darling (2008b), 'My Reasons'; A. Darling (2008c), 'Breaking The Rules', *The Birmingham Post,* 30/10/2008; G. Brown (2008d), 'This Is A Defining Moment, But We Can Emerge Stronger ', *The Daily Telegraph,* 18/10/2008; Brown (2008e), 'I'll Give Help'; Darling (2009a), 'Era Of Risk'; Darling (2009b), 'The Banks Are To Blame'; A. Darling (2009c), 'Banks Must Clean Balance Sheets And Rebuild', *The Financial Times,* 25/02/2009; Brown (2009a), 'I Will Help UK Car Firms'; Brown (2009b), 'We Won't Pay; Brown (2009f), 'This Is London's Big Chance'; A. Darling (2009f), 'Time For System To Change', *The News Of The World,* 05/07/2009; Darling (2009g), 'The Cure Is Working'; Darling (2009h), 'There Is Going To'; Darling (2009i), 'After Lehmans' Fall'; Mandelson (2009d), 'Underdog Is Ready'; G. Brown (2009h), 'I'm Determined To Protect Families ', *The Mirror,* 02/07/2009; Brown (2009i), 'Britain Has Every Reason'; 43; Darling (2009k), 'Our Priority Must Now Turn'; Darling (2009l), 'A Risk To Our Very Future'; Brown (2010a), 'An Age of Aspiration Can'; Mandelson (2010c), 'Don't Gamble Away'; G. Brown (2010b), 'Only a Vote for Labour Will Ensure We Don't Get the Tories', The Daily Record, 06/05/2010

[8] Brown (2008a), 'Fairness Is Still Our'; Brown (2008e), 'I'll Give Help'; Brown (2009a), 'I Will Help UK Car Firms'; Darling (2009g), 'The Cure Is Working'; Darling (2009i), 'After Lehmans' Fall ; Mandelson (2009e), 'Osborne's Crass Political'; Darling (2009l), 'A Risk To Our Very Future'; P. Mandelson (2009f), 'Low Carbon Is At The Forefront Of The Government's Agenda', The Guardian, 09/09/2009; Brown (2010a), 'An Age of Aspiration Can'; Mandelson (2010c), 'Don't Gamble Away'; Brown (2010b), 'Only a Vote for Labour'

[9] Darling (2009g), 'The Cure Is Working'; Darling (2009h), 'There Is Going To; Darling (2009i), 'After Lehmans' Fall'; Brown (2009j), 'A New Era Of Global'; Darling (2009l), 'A Risk To Our Very Future'; Brown (2010a), 'An Age of Aspiration Can'; Brown (2010b), 'Only a Vote for Labour';

a danger to the recovery, parallels were drawn between Conservative economic policy and ideology in the 1980s and '90s and contemporary Conservative criticism of the Brown Government's economic policy, implying that undesirable outcomes of these historic parallels would be repeated.[10]

Alongside this theme was developed a third that stressed purported ideological differences between the two opposing parties. The narrative cast the Brown Government as being guided by a set of deeply held principles and a contrasting view of the role of government to that held by the Conservatives. Interestingly, the Conservatives are also cast as being highly principled, although these principles are cast in an unattractive light, as we shall see presently. Elements of this theme were also present in the earlier blame deflection narrative where the government stressed the rigidly principled nature of its responses to financial instability, but it was from mid-2009 that this emphasis on principles came into its own. This distinction confers a rather more exciting significance on the 2010 election than the analysis presented in the previous two chapters would suggest: as a decisive moment in the trajectory of British political economic history and a choice between two competing visions of the country's future, rather than a choice between two very similar recovery strategies.

Characterizing its own ideological position, the Brown Government asserted that its economic policy choices were structured primarily by 'fairness', a concept inherited from New Labour (although it was not explicitly defined). The evidence of the government's commitment to 'fairness' was its purported privileging of the interests of certain social groups to which it directly appealed in the articles: predominantly 'families' and 'businesses', but with reference also made to 'parents'

[10] Brown (2009a), 'I Will Help UK Car Firms'; G. Brown (2009g), 'What Europe Must Do To Build Recovery', *The Financial Times,* 27/05/2009; Darling (2009g), 'The Cure Is Working'; Brown (2009i), 'Britain Has Every Reason'; Mandelson (2010b), 'How Cameron Became'

and the interests of the young.[11] Responding directly to the macroeconomic debate that characterised much of the 2010 election, the Government claimed that it would be able to reduce the deficit 'fairly'; privileging the aforementioned, preserving of public services and being more proactive in protecting the recovery.[12]

This is contrasted to the purported threat of a Conservative victory. Central to this was the claim that the Conservatives were motivated in their approach to deficit reduction by a 'small state' ideology and a desire to favour the wealthy to the general detriment of the social groups to which the government claimed to be committed.[13] Cameronite claims to have modernised the Conservative Party were dismissed as a front masking the continuing dominance of a small state faction to which Cameron himself was said to belong.[14] The purported danger of Conservative victory amplified through the use of rather striking hyperbole that appears in both tabloid and midmarket/broadsheet papers: a 'gleeful, whetted appetite' and 'ideological zeal' for 'deep and savage cuts', 'cruelly and immorally' prioritizing tax cuts for the wealthy over public services whilst favouring policies

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[11] Brown (2008a), 'Fairness Is Still Our'; Brown (2008b), 'We Must Lead'; Brown (2008c), 'Stakes Could Not'; Darling (2008b), 'My Reasons'; Darling (2008c), 'Breaking The Rules'; Brown (2008d), 'This Is A Defining Moment; Brown (2008e), 'I'll Give Help'; Darling (2009a), 'Era Of Risk'; Darling (2009b), 'The Banks Are To Blame'; Darling (2009c), 'Banks Must Clean'; Brown (2009a), 'I Will Help UK Car Firms'; Brown (2009b), 'We Won't Pay'; Brown (2009f), 'This Is London's Big Chance'; Darling (2009f), 'Time For System To Change'; Darling (2009g), 'The Cure Is Working'; Darling (2009h), 'There Is Going To'; Darling (2009i), 'After Lehmans' Fall'; Mandelson (2009d), 'Underdog Is Ready'; Brown (2009h), 'I'm Determined To Protect Families; Brown (2009i), 'Britain Has Every Reason'; Darling (2009k), 'Our Priority Must Now Turn'; Darling (2009l), 'A Risk To Our Very Future'; Brown (2010a), 'An Age of Aspiration Can'; Mandelson (2010c), 'Don't Gamble Away'; Brown (2010b), 'Only a Vote for Labour'.

[12] Darling (2009g), 'The Cure Is Working'; Darling (2009h), 'There Is Going To'; Brown (2009i), 'Britain Has Every Reason'; Darling (2009k), 'Our Priority Must Now Turn'; Mandelson (2009f), 'Low Carbon Is'; P. Mandelson (2009h), 'Growth Will Pay Our Way Out Of Debt', *The News Of The World*, 06/12/2009; Mandelson (2010b), 'How Cameron Became'; Mandelson (2010c), 'Don't Gamble Away'; Brown (2010b), 'Only a Vote for Labour'.

[13] Brown (2008a), 'Fairness Is Still Our'; Brown (2009a), 'I Will Help UK Car Firms'; Darling (2009g), 'The Cure Is Working'; Mandelson (2009d), 'Underdog Is Ready'; Mandelson (2009e), 'Osborne's Crass Political'; Brown (2009i), 'Britain Has Every Reason'; Mandelson (2009f), 'Low Carbon Is' (small state); Mandelson (2010b), 'How Cameron Became'; Mandelson (2010c), 'Don't Gamble Away'; Brown (2010b), 'Only a Vote for Labour'

[14] Darling (2009g), 'The Cure Is Working'; Mandelson (2009e), 'Osborne's Crass Political'; Mandelson (2010b), 'How Cameron Became'.

that would 'consign people to the scrap heap'.[15] Having framed the election thus, the Brown Government claimed that it was entering the 2010 electoral campaign principally to preserve the country from this crisis of impending Conservative misrule.

2.
The Coalition Government's Crisis Narratives

The Coalition took office intending to immediately begin an aggressive fiscal consolidation, but at a time when economic indicators were generally improving. The Brown Government had already claimed (however hubristically) that recovery was secured providing macroeconomic policy was not reset, so it was necessary for the Coalition to construct a sense of economic crisis anew. In doing so it has drawn first and foremost on the 'deficit crisis narrative' that had been the mainstay of the Conservative Party's election campaign. This narrative has infused the Coalition's communicative discourse in relation to many areas of policy. Its essence is that the previous Labour governments had so badly mismanaged public sector finances that by 2010 they posed an immediate and severe risk to economic stability, necessitating immediate fiscal consolidation across government. The two-fold effect was not only to characterise deficit reduction as an unavoidably necessary decisive intervention, but also to displace blame for the consequences on to the Labour Party.

The deficit crisis narrative also provided a resource with which retrenchment in the activities of other departments could be justified. Yet in the case of the reform of working-age benefits it was not deemed sufficient. Instead, elements of the deficit crisis narrative were drawn into a second one that constructs an ongoing crisis of fairness and cost in the system of 'welfare' – the 'Crisis of Welfare Narrative'. Reductions in the budget for working-age benefits announced in 2010 and the Autumn Statement 2012 comprised over 20% of the cuts to spending growth that the Coalition aimed to achieve by 2015-16, and have thus constituted a crucial decisive intervention upon which the broader macroeconomic strategy is premised. Consequently, the two crisis narratives re-inforce one another in

[15] Respectively, Mandelson (2009d), 'Underdog Is Ready'; Mandelson (2010c), 'Don't Gamble Away'; Brown (2010b), 'Only a Vote for Labour'; Darling (2009g), 'The Cure Is Working'.

asserting the necessity of related decisive interventions. The crisis of welfare narrative asserts a structural rather than a cyclical crisis of the system of social security benefits, arising from the purportedly excessive generosity of incentives and manifest in the unfairness of the 'benefits culture' that it is said to sustain. Like the deficit crisis narrative, the welfare crisis narrative has been an enduring one. However its terms remained mostly stable, with the principal dynamic element being the particular aspect of social security that the government was addressing at any particular moment. This began with housing benefit and the aggregate quantity of working-age benefits a household was entitled to, and thence to benefits paid to council house tenants, conditionality on young claimants and sickness/incapacity benefits.

The Deficit Crisis Narrative[16]

The deficit crisis narrative was comprised of three themes. The first asserted the Coalition had taken power at a moment of impending economic disaster; that a loss of confidence in sovereign borrowing was immediately imminent. The threat was articulated (perhaps surprisingly) in technical and economic terms: failure to immediately establish confidence in the government's financial position through fiscal consolidation would, it is claimed, lead to a spike in interest rates that would in turn disrupt household and business finances and return the country to

[16] The Coalition uses the terms 'debt' and 'deficit' largely inter-changeably in its crisis narratives. Debt is the more frequently used of the two, likely because it holds a greater significance to those not versed in financial terminology. However what is generally being discussed is the budget deficit. Consequently I refer to the crisis narrative by this term.

recession.[17] The threat was further articulated through direct references to the interests of various social groups whose interests it was claimed would be compromised: predominantly the same couplet of 'families and businesses' appealed to by the Brown Government, as well as less directly through a stress on the dangers posed to jobs, homeownership and the economic prospects of the young.[18] Conversely, it was claimed that action to appease the sentiment attributed to financial market actors would bolster confidence and promote recovery. The effect, insofar as these claims are accepted, is to render fiscal consolidation a contextually proscribed necessity and remove the notion that macroeconomic policy was the product of choice.

A second theme is comprised of a number of spurious equivalences between circumstances facing households and peripheral eurozone economies on the one hand, and the British government on the other. Frequent references were made to European economies undergoing debt crises during the period, particularly Greece, Italy and Portugal, with the unqualified implication that similar

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[17] G. Osborne (2010b), 'We Have To Slash Our Massive Debt Now', *The Sun,* 25/05/2010; G. Osborne (2010c), 'Debt Is The Spectre That Haunts The G20 Feast', *The Times,* 05/06/2010; G. Osborne (2010e), 'We've Shown The World That Britain Is Back In Business', *The Evening Standard,* 28/06/2010; G. Osborne (2010g), 'A Stronger UK Starts Today', *The Express On Sunday,* 24/10/2010; G. Osborne (2011a), 'Europe Must Start Putting Its House In Order', *The Financial Times,* 05/01/2011; G. Osborne (2011f), 'UK PLC Is On Mend', *The Sun,* 07/06/2011; G. Osborne (2011g), 'The Three Lessons Of The Euro Crisis', *The Sunday Telegraph,* 24/07/2011; G. Osborne (2011h), 'Britain Is Leading The Way Out Of This Crisis', *The Daily Telegraph,* 08/08/2011; G. Osborne (2012e), 'We Will Not Prop Up Europe's Banks', *The Sunday Telegraph,* 10/06/2012; G. Osborne (2012f), 'This Is How The Coalition Is Committed To Putting The Economy - And Wales - Back On Track', *The Western Mail,* 23/07/2012; G. Osborne (2012h), 'Hard Times Will Pay Off Later', *The Sun,* 02/12/2012; G. Osborne (2013a), 'Loss Of Triple A Only Redoubles Our Resolve To Carry On With The Recovery Plan For Britain', *The Sun,* 24/02/2013; G. Osborne (2013b), 'My Budget Will Be Tough But It Will Help People Who Work Hard', *The Sun,* 17/03/2013; D. Cameron (2010d), 'The New Politics Is Bold And Above All It Is Working', *The Sunday Telegraph,* 05/09/2010; D. Cameron (2010e), 'We're Using Your Money The Right Way', *The Western Mail,* 29/10/2010; D. Cameron (2011c), 'Giving You A Chance To Play Your Part In Society', *The Western Mail,* 05/03/2011; D. Cameron (2011f), 'Yes To Treaty Change - But Only On Our Terms ', *The Times,* 07/12/2011; V. Cable (2011d), 'Private Recovery Can Create Growth Potion', *The Financial Times,* 17/02/2011

[18] G. Osborne (2010a), 'We're In A Mess', *News Of The World,* 16/05/2010; Osborne (2010b), 'We Have To Slash'; Osborne (2011g), 'The Three Lessons'; G. Osborne (2011i), 'Fix This Euro Crisis With The Smack Of Firm Government', *The London Evening Standard*, 14/11/2011; Osborne (2012f), 'This Is How The Coalition'; G. Osborne (2012g), 'Obama Proves You Can Win In Tough Times ', *The Times*, 13/11/2012; Osborne (2013a), 'Loss Of Triple A'; Osborne (2013b), 'My Budget Will Be'; Cameron (2010d), 'The New Politics'; Cameron (2011c), 'Giving You A Chance'; D. Cameron (2011e), 'Whenever Nick And I Speak, We Agree On One Thing - We Are Here For Five Years', *The Daily Mail*, 08/05/2011

consequences would follow from a failure to enact the Coalition's macroeconomic preferences.[19] Images of anxious elites, mass demonstrations and deadlocked negotiations in southern Europe were widely broadcast during the first three years of the Coalition's term, and would likely have formed part of the lived experiences of the conjuncture for many in Britain. A similar feature has been the use of a range of 'household' analogies and metaphors in the articulation of the deficit crisis narrative. Through these an equivalence is drawn between the exercise of responsible budgetary prudence by ordinary citizens and that of the government and public sector. Examples include the repetition of the need for one to 'live within one's means', to 'keep one's house in order' and to 'fix the roof while the sun is shining', whilst the deficit was at times equated to the 'nation's credit card' or 'cheque book' and deficit reduction to 'belt tightening' following a period of excessive spending.[20]

A third theme in the deficit crisis narrative locates responsibility for the purported crisis and corresponding macroeconomic stance with the Brown Government. This is achieved through a series of favourable comparisons between the Coalition and the Brown Government, stressing the former's economic competence and disinclination to political opportunism. The Labour Party is cast as bearing a seldom-qualified responsibility for the entirety of the deficit and nearly all of the UK's post-2008 economic woes. It is repeatedly stated that the deficit constitutes a

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[19] Osborne (2010a), 'We're In A Mess'; Osborne (2010b), 'We Have To Slash'; Osborne (2010d), 'A Budget To Fix The Wrecked Economy'; Osborne (2011f), 'UK PLC Is On Mend'; Osborne (2011h), 'Britain Is Leading'; Osborne (2011i), 'Fix This Euro Crisis'; G. Osborne (2012a), 'It's A Crisis Of Confidence, Not Of Capitalism', *The Financial Times*, 27/01/2012; Osborne (2013a), 'Loss Of Triple A'; Cameron (2010d), 'The New Politics'; Cameron (2011c), 'Giving You A Chance'; Cameron (2011e), 'Whenever Nick And I'
[20] Osborne (2010a), 'We're In A Mess'; Osborne (2010c), 'Debt Is The'; Osborne (2010d), 'A Budget To Fix The Wrecked Economy'; Osborne (2010g), 'A Stronger UK Starts Today'; G. Osborne (2011c), 'Anger Won't Create A Job', *The Sun*, 10/02/2011; G. Osborne (2011d), 'I'll Get Britain Working Again', *The News Of The World*, 20/03/2011; G. Osborne (2012d), 'The Storm Rages But The IMF Says We're On Track', The Evening Standard, 22/05/2012; G. Osborne (2012i), 'We're On The Right Road And There's No Way Back', *The Sun*, 02/12/2012; Osborne (2013b), 'My Budget Will Be'; D. Cameron (2010c), 'The Pain - And The Prize - Before Us', *The Sunday Times*, 08/08/2010; Cameron (2010e), 'We're Using Your Money

'mess' left by Labour as a result of macroeconomic mismanagement.[21] The mess is ascribed principally to incompetence on the part of the Brown Government and its predecessors, but also on occasions to a prioritisation of party interest over national economic health.[22] The Coalition characterises itself as comprised of sober pragmatists united in the recognition of the necessity of fiscal consolidation. The inscribed assertion of competency is occasionally reinforced through appeals to a variety of international and domestic organisations who are cast as 'epistemic authorities', particularly the IMF.[23]

Two additional features of the crisis of deficit narrative warrant further comment. The first relates to the fact that the Coalition, unlike the Brown Government, has drawn upon its central crisis narrative over an extended period of time. It is consequently possible to discern a variable quality to the way that it is articulated. There is a clear correlation between this variation and the performance of GDP: at moments when GDP figures improved, the Coalition ascribed this improvement to its macroeconomic strategy, whilst deteriorating GDP figures were (paradoxically) recruited to underline the necessity of this macroeconomic stance. Through this dual-faceted use of the deficit crisis narrative the Coalition sought to contain and neutralise public perception that an alternative macroeconomic stance might be

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[21] Osborne (2010b), 'We Have To Slash'; Osborne (2010d), 'A Budget To Fix The Wrecked Economy'; Osborne (2010e), 'We've Shown The World; G. Osborne (2010f), 'Only Way To Make Britain Stronger', *The Sun*, 21/10/2010; Osborne (2010g), 'A Stronger UK Starts Today'; G. Osborne (2011b), 'A Single Icy Month Must Not Put Us Off Balance', *The Evening Standard*, 25/01/2011; Osborne (2012f), 'This Is How The Coalition'; Osborne (2012g), 'Obama Proves You Can'; Osborne (2013a), 'Loss Of Triple A'; D. Cameron (2010a), 'I Know The Deal Is Right', The News Of The World, 23/05/2010; Cameron (2010d), 'The New Politics'; D. Cameron (2011b), 'How We Will Release The Grip Of State Control', *The Daily Telegraph*, 21/02/2011; Cameron (2011e), 'Whenever Nick And I'; V. Cable and E. Pickles (2010), 'A Recovering Economy Requires Local Remedies', *The Financial Times*, 05/09/2010.

[22] Osborne (2010a), 'We're In A Mess'; Osborne (2010b), 'We Have To Slash'; G. Osborne (2010d), 'A Budget To Fix The Wrecked Economy', *The Sun*, 15/06/2010; Osborne (2010f), 'Only Way To Make Britain'; G. Osborne (2010h), 'Our Plan Is Working And We're Out Of Danger Zone', *The Sun*, 30/11/2010; G. Osborne (2012c), 'This Is Injury Time, Europe Has To Act Now', *The Sunday Times*, 20/05/2012; Osborne (2012d), 'The Storm Rages But'; Osborne (2013b), 'My Budget Will Be'; Cameron (2010d), 'The New Politics'; D. Cameron (2010f), 'Before Protesting, Students Need To Get The Facts Straight', The Evening Standard, 20/11/2010; Cameron (2011e), 'Whenever Nick And I'; V. Cable (2010b), 'United In Austerity: This Budget Is Tough', *The Guardian*, 23/06/2010.

[23] Osborne (2010e), 'We've Shown The World; Osborne (2010g), 'A Stronger UK Starts Today'; Osborne (2011b), 'A Single Icy Month'; Osborne (2011f), 'UK PLC Is On Mend'; Osborne (2011h), 'Britain Is Leading'; Osborne (2012c), 'This Is Injury Time'; Osborne (2012d), 'The Storm Rages But'.

possible. The first 'moment of crisis' identified in the deficit crisis narrative was the first few months following the 2010 general election. Having made the majority of its budgetary commitments by the fourth quarter of 2010 the Coalition claimed that crisis had been averted, *for the time being*.[24] This important qualification is reflected in the way in which the government reacted to two major setbacks, both heralded by disappointing growth figures. In the first quarter of 2011 and, more seriously, during the 'almost double-dip recession' of 2012 (with three consecutive quarters of zero or negative growth from Quarter 4 2011), the narrative emphasised the immediacy of the threat of deficit crisis with corresponding allusions to European economies to head off calls for a 'Plan B' (a term that quickly established itself as the central slogan among commentators critical of the Coalition's approach).[25] The strategy was again deployed in early 2013 when the UK lost its vaunted 'triple A' credit rating.[26] By contrast in the second half of 2010 and 2011, and from late 2012 onwards, the narrative emphasised a causal relationship between improving growth figures, economic recovery and austerity to reinforce the necessity of its continuity.[27] As economic figures continued to improve through 2013 the deficit crisis narrative became less prominent as the government has sought to accentuate the recovery it claims to have created, yet it

[24] Osborne (2010e), 'We've Shown The World; Osborne (2010f), 'Only Way To Make Britain'; Osborne (2010g), 'A Stronger UK Starts Today'; Osborne (2010h), 'Our Plan Is Working'; Osborne (2011a), 'Europe Must Start; D. Cameron (2010b), 'We'll Transform Britain By Giving Power Away', *The Daily Telegraph*, 12/07/2010; Cameron (2010d), 'The New Politics'; Cameron (2010f), 'Before Protesting, Students'; Cable and Pickles (2010), 'A Recovering Economy'.
[25] Osborne (2011b), 'A Single Icy Month'; A19, Osborne (2012a), 'It's A Crisis Of Confidence', G. Osborne (2012b), 'Beware The Risks Of The Rush To Regulate', *The Financial Times*, 22/02/2012, Osborne (2012c), 'This Is Injury Time', Osborne (2012d), 'The Storm Rages But', Osborne (2012e), 'We Will Not Prop'; Osborne (2012f), 'This Is How The Coalition'; Cameron (2011c), 'Giving You A Chance'; D. Cameron (2012b), 'We Disagree - But That Won't Stop Us', *The Sunday Times*, 15/07/2012;Cable (2011d), 'Private Recovery Can'; V. Cable (2011h), 'This Week At WorldSkills London', *The Sun*, 05/10/2011; V. Cable (2012c), 'We're In It For The Long Haul - Stop Looking For A Quick-Fix Solution', *The Times*, 12/06/2012
[26] Osborne (2013a), 'Loss Of Triple A'
[27] Osborne (2010e), 'We've Shown The World, Osborne (2010f), 'Only Way To Make Britain', Osborne (2010g), 'A Stronger UK Starts Today', Osborne (2010h), 'Our Plan Is Working'; Osborne (2011a), 'Europe Must Start; Cameron (2010d) 'The New Politics'; Osborne (2011e), 'UK Is Working'; Osborne (2011f), 'UK PLC Is On Mend', Osborne (2011h), 'Britain Is Leading'; Cameron (2011e), 'Whenever Nick And I'; V. Cable (2011e), 'Striking A Balance: Economic Growth Versus Fiscal Discipline', *The Financial Times*, 04/04/2011, 27, 28, 30, D. Cameron (2013a), 'Conservatives Will Battle For Britain's Future', *The Daily Telegraph*, 02/05/2013

seems highly probable that further deteriorations in economic growth will see it return.

The second aspect of the deficit crisis narrative bearing further comment is its co-articulation with a number of other communicative discourses targeting the distinct electoral constituencies of two parties. Unlike the Brown Government, the Coalition's central crisis narrative is a largely negative one: it paints a dangerous and uncertain context, and celebrates the necessity of a decisive intervention in the form of fiscal consolidation that imposes costs on a large part of the electorate. It is likely for this reason that the deficit crisis narrative sits alongside several inter-related stories that stress a more positive purpose for the Coalition.

There is a bifurcation between the secondary discourses appealed to by the Liberal Democrat Business Secretary on the one hand, and the Conservative Chancellor, Prime Minister and Work and Pensions Secretary on the other. The welfare crisis narrative, to which we turn presently, is one such secondary discourse. Another one, particularly associated with the Prime Minister but reflected in the articles of the other Conservative ministers, centred around economic and social renewal and the re-invigoration of civil society captured in the amorphous notion of the 'big society'.[28] Statements that comprise this narrative are dominated by a stress on the transfer of responsibility and power to individuals and 'communities' and contain a readily discernible scepticism of the public sector. The positive purpose ascribed to the Coalition by Vince Cable relates much more to the opportunities arising from a rejuvenation of manufacturing and a geographical rebalancing of the UK economy that he argued would result from the Coalition's economic policy

[28] Cameron (2010a), 'I Know The Deal'; Cameron (2010b), 'We'll Transform Britain'; D. Cameron (2011a), 'Have No Doubt, The Big Society Is On Its Way', *The Observer*, 13/02/2011; Cameron (2011b), 'How We Will Release'; Cameron (2011e), 'Whenever Nick And I'; Cameron (2012b), 'We Disagree - But'

agenda.[29] A similar emphasis is present in the articles authored by the Conservative ministers, yet what is distinct about Cable's articles is that the Welfare Crisis and Big Society narratives do not feature prominently, if at all. Indeed, in one article he goes so far as to assert the presence of two rather different diagnoses of the post-2008 context on the part of the two parties, with the Conservatives cast as more sceptical of public spending and services whilst the Liberal Democrats are presented as reluctantly austere due to the fiscal position inherited from Labour.[30]

This uneven emphasis and carefully articulated statement of difference is likely to be an aspect of crisis narration unique to coalition governments, and in turn is likely to arise from the need for each party to project a distinct identity to supporters and potential voters. Yet whilst these narratives differ in emphasis, they at no point contradict one another or the policies that they relate to. Instead, they represent different attempts to mobilise readers to the same policy programme. Perhaps the most important thread uniting these narratives is the deficit crisis narrative itself, which is articulated by all of the authors whose articles I have examined and underpins the other narratives that they appeal to. It is the supposed imminence of a debt crisis that provides a basis of absolute economic necessity to otherwise rather idealistic goals of the big society and or the rejuvenation of manufacturing, whilst these goals in turn reinforce the palatability of the deficit crisis narrative through proposing a 'silver lining' to the retrenchment. The deficit crisis narrative is consequently the lynchpin of Coalition ideology.

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[29] V. Cable (2010a), 'When Government Must Get Out Of The Way ', *The Sunday Times*, 20/06/2010; V. Cable (2010c), 'Putting New Businesses Back At Forefront Of British Economy', *Western Morning News*, 29/06/2010; Cable and Pickles (2010), 'A Recovering Economy'; V. Cable (2010d), 'If Government Can Do Its Bit, I Believe British Business Has The Capacity, Energy And Ambition To Help Create A More Prosperous Future For All ', *The Daily Telegraph*, 06/11/2010; V. Cable (2011b), 'Region's Vital Role In Export-Led Recovery', Western Morning News, 03/02/2011; V. Cable (2011c), 'Merlin: Our Bonus For British Business', *The Guardian*, 10/02/2011; Cable (2011d), 'Private Recovery Can'; Cable (2011e), 'Striking A Balance'; V. Cable (2011f), 'We'll Rip Red Tape', *The Sun*, 14/04/2011; V. Cable (2011g), 'Where We Agree To Differ On Restoring The Economy', *The Financial Times*, 11/06/2011; Cable (2011h), 'This Week At WorldSkills'; V. Cable (2011i), 'Put Aside The Whinging: The Threats To The City From Banking Reform Are Overstated', *The Guardian*, 21/12/2011; Cable (2012c), 'We're In It For'

[30] Cable (2011g), 'Where We Agree To Differ'

Crisis Of Welfare Narrative

The crisis of welfare narrative is constituted by three themes. The first specifies the nature of this crisis as a structural rather than cyclical one. Although appeals to the deficit crisis narrative frequently sit alongside those to the welfare crisis narrative, the problem identified as being in need of decisive intervention in the latter is one of a 'benefits culture' of chronic long-term claimancy. The benefits culture is characterised as simultaneously unfair to those who finance it and detrimental to the long-term interests of claimants.[31] It is consequently the structure of the system itself that the Coalition cast as the motivation for its interventions, although it appeals to the deficit crisis narrative in a secondary role in order to assert that reform is now unavoidable.

The nature of this structural crisis is outlined in a second theme. The theme attributes the rising costs of the system to what is implied to be a very large group of long-term claimants (particularly the long-term unemployed), alongside fraud, error and inefficiency. The overwhelming focus of the narrative is, however, these long-term claimants. The current benefits system is said to have emerged over the thirteen years of Labour government, with a large and growing number of

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[31] Osborne (2010f), 'Only Way To Make Britain'; Osborne (2010g), 'A Stronger UK Starts Today'; Osborne (2010h), 'Our Plan Is Working'; Osborne (2012a), 'It's A Crisis Of Confidence'; Cameron (2010a), 'I Know The Deal'; Cameron (2010c), 'The Pain - And'; Cameron (2013a), 'Conservatives Will Battle'; D. Cameron (2013b), 'Crazy Situation Where You Earn More On Benefits Than You Do At Work Ends NOW', *The Sun*, 07/04/2013; I. Duncan-Smith (2010a), 'Why These Reforms Will Bring Hope, Not Despair', *The Daily Mail*, 09/11/2010;I. Duncan-Smith (2010b), 'Breaking The Deadly Grip Of Dependency', *The Sunday Telegraph*, 26/12/2010; I. Duncan-Smith (2011a), 'Brussels Poses Serious Threat To Our Welfare Reforms', *The Daily Telegraph*, 30/09/2011; I. Duncan-Smith (2011b), 'We'll Make Work Worth It', *The Guardian*, 06/10/2011; I. Duncan-Smith (2012a), 'Fairness For The Taxpayer, And For The Claimant', *The Independent*, 12/02/2012; I. Duncan-Smith (2012b), 'The Delusions Of X Factor And Sneering Job Snobs Who Betray The Young', *The Daily Mail*, 20/02/2012; I. Duncan-Smith (2012c), 'I Won't Let Welfare Be A Lifestyle Choice', *The Daily Mail*, 15/07/2012; I. Duncan-Smith and G. Osborne (2012), 'George Osborne And Iain Duncan Smith Set Out How They Will End The 'Something For Nothing' Culture', *The Daily Mail*, 08/10/2012.; I. Duncan-Smith (2012d), 'We've Bought Fairness Back To Welfare', *The Daily Telegraph*, 20/12/2012; I. Duncan-Smith (2013b), 'Britain Cannot Afford The Spare Room Subsidy', *The Daily Telegraph*, 07/03/2013; I. Duncan-Smith (2013c), 'We'll Go Further To Tackle Benefits Culture', *The Daily Telegraph*, 24/04/2013; I. Duncan-Smith (2013d), 'I'm Proud Of Our Welfare Reforms', *The Guardian*, 28/07/2013; I. Duncan-Smith (2013e), 'For Those Eyeballing Benefits As A One-Way Ticket To Easy Street, I Have A Wake-Up Call For You: Those Days Are Over!', *The Daily Mail*, 11/08/2013; I. Duncan-Smith (2013f), 'We Will Stop People Coming Here To Claim Benefits', *The Times*, 13/12/2013

claimants making indefinite claims on a range of conditional benefits whilst *choosing* not to pursue employment opportunities that would make them ineligible for these benefits.

Long-term claimants are spoken about in two quite distinct ways within the narrative. The first refers to claimants who have allegedly become 'trapped' in the benefits culture because of perverse institutional arrangements whereby the material costs of seeking employment opportunities outweigh the benefits.[32] The group is treated with a degree of sympathy and assigned a degree of victimhood: the welfare system is said to have 'failed them', 'trapping' them in a life bereft of freedom and self-respect.[33] This in turn allowed the government on occasions to characterise its own reforms as 'progressive' by lifting such claimants out of victimhood and constraint, and allowing them to return to work. The second group – comprised in the imaginary of the narrative as those who are defrauding the benefits system or are bent on not seeking employment opportunities under any circumstances – is characterised in an altogether less sympathetic light.[34] A number of articles position migrants as a significant portion of this problem.[35]

The behaviour of these claimants, and the expanding costs arising from it, is cast as unfair to people in paid employment (frequently identified as 'hard-working

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[32] Osborne (2010f), 'Only Way To Make Britain'; Osborne (2010g), 'A Stronger UK Starts Today'; D. Cameron (2010g), 'Why £7.5m A Year Will Help Give Every Child A Change', *The Sun*, 10/12/2010; Cameron (2011c), 'Giving You A Chance'; Cameron (2013b), 'Crazy Situation Where'; Duncan-Smith (2010a), 'Why These Reforms'; Duncan-Smith (2012a), 'Fairness For The Taxpayer'; Duncan-Smith (2012c), 'I Won't Let Welfare'; Duncan-Smith and Osborne (2012), 'George Osborne And'; Duncan-Smith (2012d), 'We've Bought Fairness'; Duncan-Smith (2013c), 'We'll Go Further To'; Duncan-Smith (2013d), 'I'm Proud Of Our'

[33] Duncan-Smith (2010a), 'Why These Reforms'; Duncan-Smith (2011b), 'We'll Make Work Worth'; Duncan-Smith (2012a), 'Fairness For The Taxpayer'; Duncan-Smith and Osborne (2012), 'George Osborne And'; Duncan-Smith (2012d), 'We've Bought Fairness'; Osborne (2010f), 'Only Way To Make Britain'.

[34] Osborne (2010f), 'Only Way To Make Britain'; Cameron (2010a), 'I Know The Deal'; Cameron (2011e), 'Whenever Nick And I';D. Cameron (2012a), 'I Get The Message – But Reform Takes Time', *The Daily Telegraph*, 07/05/2012; Cameron (2012b), 'We Disagree - But'; D. Cameron (2013c), 'Free Movement Within Europe Needs To Be Less Free', The Financial Times, 26/11/2013; Duncan-Smith (2011b), 'Brussels Poses Serious'; Duncan-Smith (2012c), 'I Won't Let Welfare'; Duncan-Smith (2012d), 'We've Bought Fairness'; Duncan-Smith (2013e), 'For Those Eyeballing Benefits'.

[35] Duncan-Smith (2011b), 'Brussels Poses Serious'; Duncan-Smith (2012d), 'We've Bought Fairness'; Duncan-Smith (2013f), 'We Will Stop People'; Cameron (2013c), 'Free Movement Within'.

families', or sometimes through the broader notion of 'taxpayers'). Claimants are said to unjustly enjoy privileges in relation to housing, income and family planning that are financed but not enjoyed by those in work.[36] It is in this juxtaposition of the relative incomes and opportunities of long-term claimants who have allegedly made socially irresponsible choices and working people who have made socially responsible choices that the crisis is said to lie. The reduction and retargeting of resources given over to benefits through the tightening and shortening of eligibility criteria would thus simultaneously ensure 'fairness' by adjusting the relative incomes of claimants and non-claimants, whilst also incentivizing and coercing long-term claimants into allegedly plentiful employment opportunities that would reduce the burden of social security spending.

A final theme placed the blame for the 'benefits culture' on the New Labour and Brown Governments. These Labour governments are painted as having chosen not to reform the system prior to the onset of recession, and as actively contributing to the problem by increasing spending so as to secure populist favour and avoid political costs of reform.[37] This draws upon and reinforces the notion of Labour's fiscal impropriety established in the deficit crisis narrative. On other occasions Labour are cast as holding a similar stance towards welfare reform to the Coalition but lacking in the resolve to pursue it, suggesting that Labour's criticism of the reforms was opportunistic.[38]

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[36] Osborne (2010f), 'Only Way To Make Britain'; Osborne (2010g), 'A Stronger UK Starts Today'; Osborne (2012g), 'Obama Proves You Can'; Osborne (2012h), 'Hard Times Will Pay'; Osborne (2013b), 'My Budget Will Be'; Cameron (2010a), 'I Know The Deal'; Cameron (2013a), 'Conservatives Will Battle'; Cameron (2013b), 'Crazy Situation Where'; Duncan-Smith (2010a), 'Why These Reforms'; Duncan-Smith (2010b), 'Breaking The Deadly'; Duncan-Smith (2011b), 'Brussels Poses Serious'; Duncan-Smith (2011b), 'We'll Make Work Worth'; Duncan-Smith (2012a), 'Fairness For The Taxpayer'; Duncan-Smith (2012c), 'I Won't Let Welfare'; Duncan-Smith and Osborne (2012), 'George Osborne And'; Duncan-Smith (2013b), 'Britain Cannot Afford'; Duncan-Smith (2013d), 'I'm Proud Of Our'; Duncan-Smith (2013e), 'For Those Eyeballing Benefits'; Duncan-Smith (2013f), 'We Will Stop People';

[37] Osborne (2010f), 'Only Way To Make Britain'; Osborne (2010g), 'A Stronger UK Starts Today'; Osborne (2010h), 'Our Plan Is Working'; Cameron (2010a), 'I Know The Deal'; Duncan-Smith (2010a), 'Why These Reforms'; Duncan-Smith (2012a), 'Fairness For The Taxpayer'; Duncan-Smith (2012c), 'I Won't Let Welfare'; Duncan-Smith and Osborne (2012), 'George Osborne And'; Duncan-Smith (2012d), 'We've Bought Fairness'; Duncan-Smith (2013d), 'I'm Proud Of Our'.

[38] Duncan-Smith (2010a), 'Why These Reforms'; Duncan-Smith (2012a), 'Fairness For The Taxpayer'; Duncan-Smith (2012b), 'The Delusions Of X'; Duncan-Smith (2012c), 'I Won't Let Welfare'; Duncan-Smith (2013e), 'For Those Eyeballing Benefits'.

3.
Analysis

In all four of the crisis narratives described above one can observe the kind of selective, interpellative, dynamic and ideological communication that is captured in the concept of crisis narration. The techniques by which the narrative's authors have sought to gain this mobilizing effect can be made explicit, analysed and compared by utilizing the concepts discussed in Chapters 2 and 3: narrative selectivity, direct interpellation, empaphic interpellation through value amplification and narrative bridging, and counter-narration.

Narrative Selectivity

Narrative selectivity refers to the privileging of certain facts and interpretations in a narrative and the downplaying of others, creating a partial and selective interpretation of a more complex reality. It is a fairly obvious trait of political communication that inconvenient truths will be played down, yet what is clear from these post-2008 crisis narratives is how brazen narrative selectivity actually is and the thoroughly ironic consequences that can result.

The 'Deflection of Blame Narrative' highlighted the 'globalisation' of financial markets and the corresponding constraints that this places on unilateral reform initiatives in order to explain the government's lack of preparedness for the financial instability of 2007-08. Yet in doing so it 'deselected' the fact that the New Labour governments had extolled the virtues of this process to other governments and had been sanguine about the benefits of financial innovation. The 'crisis of impending Conservative misrule' narrative omits the content of Labour's proposed approach to fiscal consolidation (the comprehensive spending review was to be delayed until after the election), leaving little evidence on which to base the claim that Labour's approach to deficit reduction would be 'fairer' than a Conservative one.

The 'debt crisis narrative' deselected improving economic indicators in 2010 when foregrounding the deficit and asserting the immediate imminence of economic ruin. The crises unfolding in southern Europe were selected for inclusion and held up in an oft-unqualified way as though a relevant comparison with Britain, excluding contrary information about the very different economic situations in these countries. In characterizing Labour as chronically and cynically fiscally irresponsible over the course of its term, the debt crisis narrative excludes the fact that the Conservative Party had advocated a very similar fiscal position to that of the New Labour government prior to 2007, whilst the ritualistic repetition that the deficit and other economic problems were the 'mess that Labour left' appear in most instance to discount the fact that a financial crash of historic proportions had occurred less than two years earlier.

In the crisis of welfare narrative, the division of low and middle-income people into 'deserving' and 'undeserving' categories (as seen in the distinction between working people vs. trapped claimants vs. dishonest claimants) detaches the issue of long-term claimancy from the many social, economic and physiological factors that might cause it. Instead, it selectively reduces it to an issue of moral bankruptcy and idleness. Another selective omission in the narrative is the bleak prospects for finding long-term employment in the post-2008 context, particularly for the young. The narrative implied that there was a ready supply of jobs to soak up the undeserving poor if only they could be correctly incentivised, a contestable claim in a context where the rate of unemployment only began a sustained downward trend towards pre-2008 levels in mid 2013.[39] Moreover, during a time of fluctuating and frequently deteriorating economic indicators and falling real incomes there was a real potential that the very readers who the narrative sought to mobilise would themselves become claimants of benefits that were being capped. This potential was, naturally, omitted from the narrative.

What the foregoing makes clear is that narrative selectivity is driven by an instrumental logic – facts that are useful are selected (along with some that have a spurious significance at best), whilst those that are not useful are simply left aside.

[39] See ONS unemployment data plotted in British Broadcasting Corporation (2014a), 'Economy Tracker'.

This is unsurprising, however it does suggest an important insight into the nature of crisis narration: choices about what is included and excluded reflect principles other than factual rigour or plausibility. Assuming that the governing principles of selection also reflect what the architects of crisis narratives believe will be persuasive, this in turn suggests that they believe the persuasiveness of crisis narratives to arise from factors other than the quality of their analysis. An alternative possibility is that narrative selectivity is governed by the opportunities to deploy the interpellative strategies discussed in Chapters 2 and 3, which persuade through the construction of resonance between distant and disparate events, and the lived experiences of ordinary citizens. As the remainder of this section shows, the narratives are rich with such techniques.

Direct Interpellation

Direct interpellation functions by placing subject positions with which readers may identify into the narrative and portraying these as having certain interests or being subject to certain threats. Direct interpellation is evident to some extent in all narratives. In the blame deflection narrative, crisis of impending conservative misrule narrative and the deficit crisis narrative the most common direct appeal is to ‘families’, ‘hard working families’ or ‘families and businesses’ when elucidating the various dangers or disadvantages that the respective crises are said to impose. The latter couplet was by far the most common. What all of these categories have in common is their scope: a very large number of readers will either belong to a family unit and/or be employed by or own a business. The less frequent appeals to the interests of ‘young people’ serves a similar function, for it calls for the identification of young people or parents.

The predominant means of direct interpellation in the welfare crisis, meanwhile, is found in an even larger category of people: the sizeable portion of the population who are or have been employed (denoted through appeals to ‘people who work for a living’ and other formulations of the same). The narrative depends to a great extent on the success of this strategy of direct interpellation, explicitly juxtaposing the ‘unfair’ behaviour of long-term claimants with the frustrating economic position of low and middle-income working households during the period of falling real incomes – circumstances with which a large portion of the readership could be expected to have directly experienced in the straitened circumstances of the post-2008 context. It is of course unlikely that the narrative would hold much resonance with the lived experiences of those who do not readily fit into this category, such as long-term claimants themselves.

What the foregoing suggests is that strategies of direct interpellation are not sophisticated in government-produced crisis narratives and draw upon a very limited number of subject positions. They are calculated to be very inclusive, and presumably this is precisely because this increases the number of readers for whom it will be possible to directly relate to the preferred subject position in the narrative. This in turn reflects the demands of centrist democratic politics – the encompassing categories reflect the encompassing cross-sectional constituencies that centrist parties must mobilise.

The welfare crisis narrative is unusual alongside the other ones examined here as being the only one where direct interpellation is so systematically important to the narrative in the overwhelming majority of instances examined. In the others, the strategy operates as a supplementary strategy that supports a broader empathic mode of interpellation. Such strategies solicit agreement and create resonance with the lived experiences of the reader through more subtle interpellative techniques.

Value Amplification

One such interpellative technique is value amplification. This technique involves the framing of the narrative around widely held normative values.[40] In the blame deflection narrative the shifting of blame away from government and on to financial market actors is partly achieved through a characterisation of financial market actors as being irresponsible and greedy, traits that are widely disapproved of. It is more strongly present in the crisis of impending conservative

[40] Whether this is intentional, unintentional, or both is an interesting question, although not one I can categorically adjudicate here. Given the care that is taken in the presentation of crisis narratives it is a plausible assumption that the technique is deliberate, and I proaceed here on the basis of this assumption.

misrule narrative, in which the 'unfairness' of Conservative priorities is asserted. Underlying this is the claim that a set of 'common sense' values likely to be held by a great many readers are being violated – in the latter case the imperative to distribute the burden of shared problems fairly by privileging the least well-off and to protect the wellbeing of the young. Direct interpellations can double up in this regard to the extent that a reader who does not occupy the subject position appealed to (for instance, a person with no children or any surviving family) has internalised widely held values that render the subject positions inscribed in the narrative (parents, families) as ones worthy of sympathy and support.

A similar strategy of value amplification occurs in the crisis of debt narrative, where the same emphasis on 'fairness' is activated but in support of a different set of policies in the context of the supposed immediacy of a debt crisis. Yet the deficit crisis narrative includes another interesting value-amplifying feature: the use of 'household metaphors'. Household metaphors can function to create resonance with lived experiences because they explain economic policy in terms of the ordinary citizen's own domestic finances. These domestic finances are not simply common sense: underlying them are a set of norms and values emphasizing the importance of prudence, of self-reliance and financial self-sufficiency, and of the virtues of taking responsibility for and bearing the consequences of over-spending. By narrating the debt crisis as though the public sector was a household that had over-spent and was now 'tightening its belt', the Coalition sought to 'activate' these values in the reader and use these to guide them towards the narrative's conclusions on appropriate fiscal policy.

Interestingly, the gap between the ideal financially literate 'welfare citizens' that were implied by New Labour's asset-based welfare agenda and the reality of many citizens' financial prudence revealed by the subsequent financial instability suggests that these norms and values may not have been as keenly endorsed by the population as their importance to the debt crisis narrative would suggest. Yet the Coalition could reasonably speculate that the experiences of many households of over-leverage and balance sheet adjustment in the post-2008 context would increase the resonance of such norms and values after the event. For those households who had directly or indirectly experienced a fall in consumption as a result of deleveraging or unemployment the reality of the need for 'belt tightening' and of safeguarding one's creditworthiness would be all too familiar, and its extension onto the public sector's finances perhaps all the more compelling.

Of the narratives presented here, it is the crisis of welfare narrative in which the strategy of value-amplification is most prominent. Central to it is the dual normative emphasis on the value of 'work' (equated as labour market participation in the narrative) and the corresponding reprehensibility of accepting income that one has not earned through labour market participation or which arises from the earned incomes of others. It is on the basis of this simple normative proposition that long-term claimants are rendered undeserving. Through narrative selectivity the other socially valorised responsibilities that such claimants might bear (such as parenthood or a long-term care role) are excluded, facilitating the narrative's central conclusion that long-term claimants should under no circumstances receive more than those in work.

Narrative Bridging

What the foregoing suggests is that the authors of crisis narratives incorporate simple normative arguments into their crisis narratives that are calculated to have a wide appeal. Yet such appeals are only effective insofar as the values appealed to are indeed widely shared. We can readily imagine that individuals may possess other normative commitments that would disrupt the intended effects of these normative strategies and lead the reader to more nuanced conclusions. A recipient of the crisis of welfare narrative, for instance, might be predisposed through their own value system to sympathise with the socially disadvantaged, yielding a disagreement with the policy preferences inscribed in the narrative. One means of ensuring a broad effectiveness in the value amplifying features of a narrative, as well as increasing the likelihood that the conclusions it proposes will be accepted, is to connect it ('bridge') to a more established narrative that exists within the society in which it is articulated.

A strategy of narrative bridging can be noted in both the crisis of conservative misrule narrative and in the welfare crisis narrative. In the case of the former, the equation of the present-day Conservative Party's values and policy preferences to those of the 1980s and 1990s activates the very potent and polarizing memory of the Thatcher governments. In particular, it conforms to a centre-left political narrative of those governments recognisable to many in Britain, which characterises them as having celebrated market acquisitiveness and 'greed' and as having held the unemployed in contempt even as they presided over economic processes that decimated communities and livelihoods.[41] Although this broader narrative is well known, attitudes towards Thatcher vary widely.[42] The actual impact that this bridging strategy has is likely to vary depending on whether or not the reader agrees with it. The message would appear designed largely to rally Labour's core constituents, particularly in northern constituencies where the physical and social evidence of 1980s' and 1990s' de-industrialisation and unemployment are still very much in evidence. It is interesting to consider how constituents in the south of the UK might have received such a message. The Thatcher governments drew important electoral support from such groups.[43] Here, perhaps, the bridge would be less successful. However the second aspect of the narrative – the calling into question of Conservative economic competence – may have held more purchase as it stressed alleged risks posed in the Conservative approach to deficit reduction to employment and homeownership. Consequently the two components of the narrative together extend its socio-economic and geographical reach.

The welfare crisis narrative also represents a bridge. Its terms – the division of the poor into 'undeserving' and 'deserving' categories based on their fitness for work and labour market participation – has its antecedents in the 19th century.[44] The *30th British Social Attitudes Survey* found a similarly negative assessment of the plight of long-term claimants to be widespread in contemporary British society.[45]

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41 For a paradigmatic recital of its terms, see R. Seymore (2013), 'An Obituary From Below', *Jacobin,* April 2013.
42 ICM (2013), *The Guardian Mrs. Thatcher Poll* (London: ICM).
43 J. Peck and A. Tickell (1995), 'The Social Regulation Of Uneven Development: 'Regulatory Deficit', England's South East, And The Collapse Of Thatcherism', *Environment And Planning A,* 27 (1), pp.15-40.
44 Garthwaite, K. (2011). 'The Language of Shirkers And Scroungers?' Talking About Illness, Disability And Coalition Welfare Reform', *Disability & Society*, *26* (3), pp.369-372.
45 Park, A., et al. (2013), *British Social Attitudes 30* (London: NatCen), Table 2.4.

The crisis of welfare narrative consequently represents a straightforward recruitment of an existing set of attitudes to long-term claimants.

In both of these narratives a bridge is made to a more widely held pre-existing social narrative. Narrative bridging also plays a role in the two other narratives, although a less pivotal one. The blame deflection narrative carefully bridges to a set of negative propositions about the banking industry, recruiting popular sentiment following the collapse in positive attitudes towards the industry during the immediate aftermath of 2008.[46] The government claimed to understand and, to a qualified extent, share the anger of those who blamed financial market actors for the deterioration of economic circumstances, but sought to mitigate calls for decisive intervention in this area of political economy through the very same narrative in which this theme was incorporated. Similarly, a number of texts comprising the debt crisis narrative make a link between New Labour's alleged fiscal irresponsibility and incompetence prior to 2008 and that which is alleged to have characterised Labour governments in the 1970s – an appeal to the same thirty year old crisis narrative studied by Hay.[47]

Dynamics Of Crisis Narration

Crisis narration is a dynamic process, occurring over time and in response both to events and the development of opponents' crisis narratives. This dynamism is captured in the notion of 'counter narration'. The clearest example of this is the narrative of impending Conservative misrule, which is arguably in and of itself a counter-narrative in response to conservative criticism of the Brown Government's economic policy. By mid-2009 the Conservatives had consolidated what would become the deficit crisis narrative and had attacked the government for failing to concede the need for cuts to spending growth (the slogan 'deficit denier' made a mercifully brief appearance in the political lexicon around this time). Although the government had not explicitly denied the need for deficit reduction, the mid-2009 concession that cuts would form part of a Labour fiscal consolidation strategy risked the appearance of a change in policy given their

[46] Ibid, Table 0.1.
[47] Hay (1996), 'Narrating Crisis'.

earlier playing up of fiscal stimulus as evidence of their competence. The response, the 'impending crisis of Conservative misrule narrative', functions as a ripost to the Conservative position by incorporating both fiscal stimulus and deficit reduction and stressing the risks inherent in the opposition's implementation of the latter.

New elements can be dynamically incorporated into particular narratives in response to changing events as well as to narrative challenges from opponents. Indeed, the blame deflection narratives and the deficit crisis narrative suggest that these processes are actually inter-linked, with opponents seizing upon negative economic developments and forcing the government to reconsolidate its narrative. The strategy of counter-narration in the blame deflection narrative was straight forward enough: it reinforced the government's economic competence by pointing to Conservative opposition to fiscal stimulus as evidence of their corresponding economic incompetence, thereby turning the charge around. The deficit crisis narrative achieved the same effect by linking the issues of economic growth to deficit reduction during moments when reported GDP figures fell to or below zero, meeting calls from critical commentators for a 'Plan B' (and more qualified calls from Labour for a clearer growth strategy) with the claim that deficit reduction *was* a growth strategy. Both recovery and deterioration pointed to the need for ongoing fiscal consolidation in this narrative. As GDP figures improved this in turn served to facilitate a ripost to the policy proposals of opponents as having been short-sighted, no doubt triggering the development of their narratives too. Interestingly, the strategy of counter-narration utilised on the occasion of both downturns was broadly the same, suggesting a certain mechanical quality to narrative design. Whether the strategy proved more or less persuasive the second time constitutes an interesting question for further research.

Strategies of counter-narration are also visible in particular texts that comprise the crisis of welfare narrative, although they do not achieve the systemic quality of the others. One example included the invention of the category of the 'sneering job snob' as a characterisation of those who opposed the government's youth training schemes on the grounds of that they prepared young people primarily for low-paid work of uncertain duration.[48] The lack of an overarching strategy to defend the

[48] Duncan-Smith (2012b), 'The Delusions Of X'.

narrative from critique beyond the claim to be 'freeing' those 'trapped' on benefits perhaps suggests a degree of confidence in the persuasiveness of the narrative by its authors that was not found in the others examined here.

Conclusion

The research reported here shows that the concepts discussed in Chapters 2 and 3 hold purchase on political communication in the post-2008 context and enable its analysis. Four separate crisis narratives linked to post-2008 economic policy are clearly discernible. The mode of political communication denoted by the crisis narrative concept is clearly visible: both governments have sought to link the decisive interventions that their crisis diagnoses entail to stories about the post-2008 context that encourage the perception of crisis. The concepts that I have taken from Hay's work and the framing perspective allow us to compare, contrast and analyze the mechanisms by which politicians attempt to construct resonance between crisis narratives and the lived experience of the readers. The present research does not extend to the question of the narrative's success in shaping public opinion, or to the broader processes through which a particular crisis narrative becomes hegemonic. However, it is an important step towards this enterprise because the crisis narratives produced by politicians are likely to be important instruments and objects of contestation in such processes.

By way of a conclusion I shall consider what light my analysis shines on the nature of crisis narration as a process. It will be necessary for further research on crisis narration in different spatial and temporal contexts to be carried out before it is possible to say with greater certainty whether these points are general features of crisis narration, or whether they are features unique to the British post-2008 context. In this spirit, I shall consider some of the opportunities for further research that the present research has opened up.

Firstly, my analysis suggests that crisis narratives do not operate in isolation from other narratives in a government's communicative discourse that tell a positive story about its purpose. These are not 'crisis narratives' because they do not encourage the perception of crisis, yet they often feature alongside the crisis narrative within a particular text. The Coalition Government is particularly rich in this regard, having developed narratives of social transformation and economic renewal alongside the deficit crisis narrative. This is likely to be in part because crisis narratives are often negative stories in which decisive interventions are presented as unfortunate necessities rather than the political choices. Crisis narratives can therefore make governments look somewhat weak and at the mercy of circumstance unless accompanied by a story of positive purpose. It is possible that such associations are particularly necessary where decisive intervention imposes costs on citizens: a story that describes a 'better tomorrow' as a consequence of the pain of reform can potentially mitigate the loss of legitimacy. Yet this is not always the case. The welfare crisis combines both a story of the unavoidable necessity and a positive and deliberate purpose to the government's actions in a single narrative – the resolution of purported unfairness.

A variable feature of crisis narratives that can be noted from the sample examined here is their 'level of generality': how specific they are to a particular policy area. The deficit crisis narrative does not refer to a single decisive intervention, but rather to a suite of such interventions that would be necessitated by the government's fiscal agenda. To the extent that the narrative is successful in persuading readers of the necessity of deficit reduction, this arguably increases its power as it can then be applied in support of reforms in a number of policy areas, or alongside other more area-specific crisis narratives (as it was with the welfare crisis narrative). The welfare crisis narrative was, although complementary, considerably more specific. The crisis of impending Conservative misrule narrative, in contrast to both of these, was not intended to mobilise support for or against reforms across policy areas or in particular policy areas, but against a particular electoral choice. Yet it existed at a similar level of generality to the crisis of debt narrative, and its themes were mobilised to create a sense of crisis in relation to both social and economic policy. The relative successes of high generality and low generality crisis narrations, and whether they are typically deployed together or represent potentially contrasting approaches, is something that further research may shed light on.

The crisis narratives examined here are overwhelmingly about governments and opposition parties. This supports Schmidt's assertion that communicative discourse is shaped by the institutional context in which it is articulated: in a majoritarian democratic system where government is historically passed between two political parties the major threat to an incumbent government comes from the other large party.[49] Legitimacy rests upon discrediting one's opponents and constructing a crisis in such a way that they are either responsible for a crisis or constitute a crisis in and of themselves. This is so even (or perhaps particularly) when the decisive interventions being advanced by the two parties are essentially very similar. The fact that the Coalition Government includes a third party is an interesting development in this regard, and the occasional and careful attempts made by the two parties to distance themselves from one another and appeal to distinct electoral constituencies while retaining a coherence with their respective crisis narratives may attest to the challenges of narrating a crisis as a Coalition.

The analysis above suggests that narrative selectivity is governed more by convenience and the opportunity to deploy the rhetorical interpellative techniques than it is the need to make a rigorous analysis. If the latter were the case, there would presumably be no difference in the justification offered in policy documents and in documents produced for public consumption. In contrast to this, we find that policy documents contain rigorous (if contestable) economic argumentation whilst crisis narratives are composed of altogether weaker arguments that make questionable assertions about events and other actors, often on the basis of scant evidence and with ironic consequences.

Yet while crisis narratives are often far from convincing to an informed observer, the fact that they are produced at all does suggest that their authors believe them capable of having a persuasive effect. To the extent that this is true, this implies that this effect arises from the interpellative techniques that they employ. This in turn implies that opponents of a crisis narrative must do more than point to its factual inaccuracies, silences or tenuous conclusions to disrupt any persuasive effect that it may or may not achieve. Instead, they must construct persuasive 'counter-narratives', employing the same kind of interpellative techniques used in

[49] Schmidt (2002), *The Futures*.

the construction of crisis narratives in order to disrupt their persuasive effect – what I have referred to as 'counter-narration'. The dynamic incorporation of new defensive elements into some of the crisis narratives examined above suggests that opponents are sometimes successful in doing this, for these are moments where the governments themselves have engaged in counter-narration to shore up their crisis narratives.

Yet such moments are relatively infrequent. This is surprising; given the lack of analytical rigour present in crisis narratives it is likely that informed commentators are constantly calling them into question, whilst opposition parties presumably advance their own contrasting communicative discourses replete with similar rhetorical techniques in an effort to wrestle legitimacy away from the government. This raises the interesting question of under what conditions opponents of a crisis narrative are likely to be successful in advancing their counter-narratives and disrupting crisis narratives. No decisive answer can be given here, although a number of impressions arise from my findings that could prove fruitful avenues for further research. One possibility is that opponents are able to exploit public sympathy for certain groups that are impacted negatively by economic policy in order to question the legitimacy of a government's narrative. The incorporation of the 'sneering job snob' into the otherwise very stable crisis of welfare narrative betrays an anxiety on the part of the narrative's authors to deflect criticism of the impact of reform on young people in a way they did not in relation to other groups categorised as 'undeserving poor'.

Yet the small sample of crisis narratives here would suggest the greater prominence of a different, more prosaic consideration: perceptions of a government's economic competence. The Brown Government articulated its second crisis narrative at the point that a Conservative critique had been established which struck at the basis of the government's initial claims to economic competence – fiscal stimulus. The nascent deficit crisis narrative held fiscal largesse to be evidence of the very opposite and called for immediate reversal of fiscal policy. At this juncture the government felt obliged to respond to the Conservatives by creating a new crisis narrative that questioned both the Conservative's motives and economic competency in making the critique. The earlier blame deflection narrative also centred on economic competency. Likewise, the dynamics of the debt crisis narrative varied according to GDP performance, with the Coalition adapting it as circumstances deteriorated.

Both instances were ones in which *particular* indicators of economic performance become politicised. The negative performance of indicators in general is not, it appears, sufficient to prompt governments to develop their crisis narratives. GDP growth (or the lack thereof) is what prompted defensive dynamics in the deficit crisis narrative, whilst falling real wages cited in Chapter 5 did not (in spite of attempts by the TUC to politicise this indicator during the period). This prompts two of the most interesting avenues for future inquiry arising from this chapter.

The first relates to whether any one particular actor (be it a political party, business association or campaign group) can succeed in politicizing a particular indicator, and what role the media would play in such a process. For instance, it is an interesting question as to whether or not it was the Conservative Party's deficit crisis narrative that caused the Brown Government to perceive the deficit to have become politicised and to articulate the crisis of impending Conservative misrule. As was noted in Chapter 2, the way that a set of events are remembered as a crisis by the general public is likely to be the product of a complex process of narrative contestation rather than the product of any one particular actor. Moreover, Hay's work draws our attention to the importance of the media in the process of crisis narration. The role of the media in drawing attention to and interpreting particular economic indicators is likely to be a crucial mediating factor in the shaping of crisis narratives. Here a greater engagement with sociological frameworks for the analysis of media narration and political mobilisation (such as the framing approach highlighted in Chapter 3) and their findings is likely to be very fruitful.

A second question is the degree to which governments respond to actual shifts in public opinion when modifying their crisis narratives during moments of indicator politicisation, or whether it is simply the perception that public opinion might shift that prompts the process. At stake here is the effect that crisis narratives actually have on public opinion, and the directionality of that effect. Seabrooke, for instance, has argued that the process is not a uni-directional one in which legitimacy (or, by extension, indicator politicisation) is ‘proclaimed’ by elites.[50] Rather, ‘everyday politics’ are an important contributing factor to such a process and shape both the narratives and policy responses that policymakers are able to advance in a given context. This would suggest that changes in public opinion are an important factor in shaping the dynamics of crisis narration and politicizing indicators. More broadly still, the question cuts to the heart of the core assumption of constructivist institutionalist research on crisis narration: that the process of crisis narration (however complex and bi-directional it is conceptualised to be) does shape public opinion.

In sum then, there is much yet to learn about crisis narration. This analysis does not address the full scope of these issues – it is unlikely that any one study could. Yet it does contribute towards this broader goal by demonstrating the applicability and utility of a range of concepts as a means of analyzing crisis narratives and crisis narration and pointing towards a range of avenues for future research. It is to the broader contributions of my dissertation in totem that we now turn in the concluding chapter.

[50] Seabrooke (2007), 'The Everyday Social’.

Conclusion

My thesis has investigated a sample of a turbulent and ongoing conjuncture in the British political economy. Adopting a constructivist institutionalist perspective and corresponding interpretivist epistemology, I have turned my focus to the construction of crisis in the post-2008 context – its diagnosis and narration – situating the outcomes of these processes among the institutional conditions and dynamics analysed by the critical social democratic perspective. My analysis has revealed a more complex and contested process of change than a focus on institutional processes alone does. In so doing it highlights, and contributes to the analysis of, the scope for contingency and categorical change in the nature of political-economic restructuring in this ongoing conjuncture. By way of a conclusion I reflect upon the analysis in light of the critical social democratic perspective and several enduring issues in the study of British political economy, as well as summarising the principal avenues for further research that it opens up.

I have revealed the diagnosis of crisis to be a more complicated and contested process in the post-2008 context than analyses which stress the tendency of neoliberalism to 'fail forwards' might have led us to believe. Neoliberal problem definitions have not emerged entirely unchallenged: a 'rival coordinative discourse waiting in the wings' has been articulated in relation to crisis in the form of a strategic discretionary framing of post-2008 industrial policy and the problem definitions that it reflects. These problem definitions are not new to the post-2008 context, yet they challenge some of the shortcomings of neoliberal restructuring as highlighted by the critical social democratic perspective. Specifically, they highlight the under-performance of the productive economy, and they stress the essential co-creation of economic growth by the private sector and the state through the exercise of both market resource allocation *and* strategic-discretionary oversight by industrial policymakers. This contrasts with neoliberal microeconomic problem definitions, which constrain the role of industrial policy to expanding the realm of market resource allocation, ensuring the conditions for commodification, and responding to the tendency of the private sector to undermine or under-produce the conditions of its own reproduction. From the former perspective the framing of the crisis in the post-2008 context as one of excessive public sector activity per se is fraught insofar as it impacts upon the budgets available for strategic discretionary intervention. The resumption of sustainable, rebalanced and geographically dispersed growth is seen to require decisive intervention in the form of new and permanent instruments of strategic discretionary interventionism.

That this diagnosis is articulated in relation to the post-2008 context is significant: the neoliberal crisis diagnosis does not constitute a consensus on economic policy within government, and its status as the predominant form of post-2008 restructuring is thus the result of its imposition on industrial policymakers. Yet the radicalism of these non-neoliberal problem definitions should not be overstated. As they are presently constituted they neglect the reform of many institutional factors identified by the critical social democrats as militating against the rejuvenation of the productive economy and favouring the continuity of the ALGM.

Perhaps most importantly, they do not problematise the financialisation of the British economy. The diagnosis notes a shortfall of productive investment in certain developmentally critical junctures as militating against the capture of growth and employment opportunities for the British economy, yet it envisions industrial policymakers exercising a supplementary role alongside permissively regulated financial markets. Through strategic discretionary intervention, industrial policymakers are envisioned as the vanguard of Schumpeterian ‘disruption’ and the part-underwriters of certain developmentally significant private sector projects. Yet the general flow of credit and investment remains subject to market allocation, and no attempt is envisioned to systematically direct it away from inter-financial, consumer and property lending towards strategically significant sectors through instruments such as direct credit controls or a national investment bank. Instead, some small and likely insufficient non-discretionary attempts have been made to alter incentives in the existing financial architecture to favour lending to SMEs.

In the absence of such an approach the other problematic elements of financialisation can be expected to continue unabated. The pathological capital market-firm relations that exist alongside the ALGM, along with the norm of shareholder value that they favour, would continue to impose short time-horizons on manufacturers, while the inflated value of sterling that arises from the predominance of the financial services activity could be expected to create a hostile business environment for the very export-oriented business strategies that the diagnosis extols. The protection of early-stage industries is (unsurprisingly given the international institutional and ideational contexts) utterly disavowed. Yet without addressing these kinds of issues a critical social democratic perspective is sceptical that the fetishisation of 'innovation' alone will prove a panacea for ensuring the economic outcomes that the diagnosis seeks to obtain, any more than the fetishisation of 'skills' did in addressing the rise in pre-transfer inequality and wage stagnation under New Labour.

Moreover, the non-neoliberal crisis diagnosis is in apparent consensus with the neoliberal one on certain issues that critical social democrats identify as institutional factors of the ALGM. Among these is the orientation of post-2008 microeconomic policy to labour market liberalisation. The celebration of flexible labour markets, and thus the market setting of wage and employment levels, continued under the Brown Government and has been entrenched further under the Coalition. This orientation has been implicated in the decline in real wages by critical social democrats and, in the absence of the rejuvenation of productive enterprises, is a factor in the preponderance of low-paid, low-skill jobs in Britain.

In short, the non-neoliberal crisis diagnosis stops well short of diagnosing a crisis of Britain's financialised growth model, even as it lay stricken in the post-2008 context. Yet for all its shortcomings, the non-neoliberal crisis diagnosis does at least speak to some of the needs of the non-financial economy and to some of the inadequacies of neoliberal prescriptions in relation to them. In time then, there is the possibility that the non-neoliberal crisis diagnosis might grow to become a more encompassing critique of neoliberalisation, perhaps with a corresponding crisis narrative. I return to the conditions under which this could occur presently. However even if it were to develop in this way, its capacity to make inroads at all is limited by the dominance of neoliberal problem definitions among macroeconomic policymakers. In the last analysis neoliberalism has indeed failed forwards: it is the neoliberal construction of crisis in the post-2008 context that is predominant in both policy and communicative discourse, and thus in post-2008 political-economic restructuring.

The neoliberal crisis diagnosis centres on the need for new strategies of roll out neoliberalisation and roll back neoliberalisation in macro and microeconomic policy: the retrenchment of the public sector through deficit reduction so as to placate perceived financial market sentiment, the enablement of private sector activity through new or enhanced non-discretionary interventions, and the stabilisation of the whole edifice through the tentative re-regulation of the credit cycle and new structural stipulations on universal banks. It creates the conditions for a wage-deflationary adjustment to occur, although it moderates the speed of this adjustment through various stimulus measures designed to limit the degradation of human and physical capital while the economy is perceived to be out of equilibrium. The problem definitions comprising the diagnosis are supremely confident in the capacity of the private sector to bring about rebalanced, sustainable and high levels of growth and employment.

Crisis narration in the post-2008 context has been articulated in defence of the decisive interventions and non-interventions that this neoliberal crisis diagnosis sanctions, further demonstrating its dominance. Even those ministers associated with the strategic-discretionary agenda have had to exhort the merits of their policy in narrative frameworks that accentuate the necessity of deficit reduction. As expected, crisis narratives give the gloss of internal coherence to government policy. The tensions between subscribers to the two-crisis diagnosis have consequently played out behind closed doors. Unlike other constructivist institutionalist case studies, the post-2008 context is not one where the narration of crisis has proven a decisive factor between which of two contrasting visions for political-economic restructuring has come to fruition. Instead, it is intra-executive processes that account for the outcome.

The neoliberal crisis diagnosis is wholly inadequate to address the shortcomings of the ALGM or move Britain beyond it. Indeed, the likely impact of the decisive interventions that it sanctions is to introduce new contradictions to the growth model and exacerbate existing ones. As already noted, financialisation is not being challenged. Instead, post-2008 governments have sought to stabilise speculative asset markets through the re-regulation of the credit cycle. In continuing to sanction the market allocation of credit, and practices such as securitisation that facilitate transaction generation business strategies, post-2008 governments have defended the conditions upon which the supply of household credit expanded prior to 2008. In failing to decisively intervene either in the supply of housing or the disparities in economic activity that lead to oversupply in some areas of the country and under-supply in others, the conditions for expanding HEW and its associated 'wealth effect' remain intact. In tolerating sustained real wage deflation whilst simultaneously adopting stances hostile to transfer payments, they have increased the role that the leveraging of consumption must perform in aggregate demand if domestic-consumption-led growth is to obtain. The paucity of industrial policy noted above means that a transition to a ' private sector export-led growth model' is an unlikely outcome – there is certainly little evidence of it to date. The more likely outcome is, at best, a revival of privatised Keynesianism, or at worst a return to prolonged stagnation or recession.

Yet the renewed bout of privatised Keynesianism to which this points takes place in a much more uncertain context and amid new latent contradictions within the growth model. Crucially, the endowment of the Bank of England with a responsibility to ensure financial stability and discretionary instruments with which to check excessive credit growth means that a latent contradiction now exists between financial stability policy and privatised Keynesianism. Not only is the growth model threatened by interest rate rises (admittedly a small threat in recent years given the ongoing monetary stimulus and deflation of oil markets), but it is also now threatened by the possibility of an uptick in the supply of credit should the FPC deem it a threat to financial stability. Should the FPC resolve to use its discretionary instruments to stem mortgage lending (as it has shown resolve to do already), the result would be to undermine the pace of economic growth and return the economy to stagnation. The growth model is thus vulnerable to the success of the very transaction generating financial business strategies that sustain it. Yet even if the FPC adopts a permissive orientation to the expansion of credit, the capacity for endogenous financial instability that the liberal financial sector has shown remains a threat to the growth model. Much consequently depends upon the capacity of the new regime of macro-prudential regulation to maintain the stability of permissively regulated financial markets. This analysis thus points to a fragile growth dynamic, the distinct possibility of a return to stagnation or recession in the near future, and with this outcome, the conditions of economic performance failure in which crisis may be constructed anew: 2013 (indeed 2015) is unlikely to mark the end of this conjuncture in British political economy.

Although the crisis has been diagnosed and decisive interventions made, the outcomes of this neoliberal crisis diagnosis in the post-2008 context in many respects resemble a state of catastrophic equilibrium: the new institutional underpinnings of the growth model do not suffice to resolve its vulnerabilities and contradictions. It is in the scenario of a return to stagnation or recession the unacknowledged scope for contingency stressed in my analysis comes into play. Should economic performance failure return, the allegiance of policymakers to neoliberal problem definitions could be tested both by events and by new intra-executive and electoral pressures for a categorical change in the trajectory of political-economic restructuring. These pressures may find expression in the non-neoliberal crisis diagnosis, which, as I have noted above, speaks to silences in the neoliberal crisis diagnosis and has the potential to be expanded into a more encompassing critique of the ALGM. Future constructivist institutionalist analysis will be most illuminating in understanding this process.

Beyond its immediate context, my analysis speaks to a number of more enduring themes in the study of British political economy. Firstly, it suggests that an enduring conflict between finance and industry capital has been at stake in the post-2008 context. As a financialised growth model, the ALGM, and the neoliberal policies that maintain it, reflect the short-term profitability of financial businesses (although both the ALGM and financialisation are the unintended outcome of neoliberalisation, which aims at greater general economic performance). A crisis diagnosis that decisively challenges neoliberalism and financialisation is yet to emerge, although the strategic discretionary crisis diagnosis does place the specific needs of producers, particularly manufacturers, at the forefront. The post-2008 context is not one in which the balance of power between these different business interests has changed, but it is one in which some of the negative impacts of financialisation on the productive economy have been articulated in non-neoliberal terms within departments responsible for economic policymaking. The fate of this conflict will be shaped by the capacity of policymakers to manage the growth model's contradictions and vulnerabilities.

Another enduring issue that is implicated, but which is *not at stake*, in the post-2008 context is that of growing inequality and income distribution. Neoliberalism, with its emphasis on (re)commodification of labour and the dissembedding of market processes, exacerbates inequality and 'regressively redistributes' wealth and income through the expansion of the domain of the political economy subject to market rule and resource allocation. This is true of the post-2008 context response to crisis, seen in wage deflationary adjustment and the preference for monetary stimulus techniques that channel funds through private lenders rather than directly increasing the incomes of citizens.[1] In problematising the neglect of producers in neoliberal industrial policy, the non-neoliberal crisis diagnosis makes a tentative problematisation of some of these dynamics: it proposes to utilise public funds to capture developmental opportunities and expand the number of high-skill jobs. Yet the sectors that it targets are often highly mechanised, and it is far from clear that even a more encompassing strategy of supply-chain reconstruction around strategically prioritised industries would suffice to offset the tendency towards low-skill, low-wage jobs in Britain. Moreover, any such strategy is a long-term ambition. In the short term, wage restraint and the transfer of scarce public resources to private enterprises are likely to feature prominently even in this non-neoliberal approach to political-economic restructuring. Hence, the tendency towards growing inequality is unlikely to reverse in the near future, in spite of the scope for contingency and change that my analysis points to.

A final enduring issue of British political economy, this time very much at stake in the post-2008 context, is intra-executive politics and diverging priorities of the Treasury and the Business/Industry Ministry. The existence of two diverging crisis diagnoses in the post-2008 context raises the interesting question of why this

[1] J. Green and S. Lavery (2014), 'Britain's Post-Crisis Political Economy And Recovery Through 'Regressive Redistribution', *SPERI Papers* (11; Sheffield: SPERI, University Of Sheffield)

outcome has emerged. As a first cut to answering this question I have pointed to Treasury-Business/Industry Ministry relations and suggested that these reflect divergent problem definitions between the two groups of policymakers. There is a historical precedent for my claim, and I have argued that it is also visible in the economic policy of New Labour. The replication of this historical tendency in the post-2008 context in two separate governments comprised of different parties suggests the impact of intra-executive politics, and departmentally bound problem definitions and coordinative discourses, on the process of crisis diagnosis. While the failure of the neoliberal crisis diagnosis to achieve hegemony among economic policymakers opens up a degree of possible contingency, the neoliberal crisis diagnosis has nevertheless succeeded so far as a 'state project' because its prescribed decisive interventions are imprinted upon the course of post-2008 political-economic restructuring and constrain the expression of contrary tendencies within government. Framed thus, the finding raises two avenues of further research that are of theoretical importance to constructivist institutionalism and empirical importance to the study of British political economy: *how are crisis diagnoses formed, and how do they become (or fail to become) hegemonic within government?*

In relation to the first question, it has lain beyond the scope of my thesis to empirically trace the process of crisis diagnosis in each department and elucidate the mechanisms and empirical factors through which these particular crisis diagnoses were arrived at. However, such an analysis is necessary if the post-2008 context is to be fully comprehended as a conjuncture in British political economy, for these processes and the factors that have shaped them, account for why macroeconomic policymakers have sanctioned the trajectory of political-economic restructuring that they have. I have pointed to a potentially fruitful avenue for doing this in Chapter 2: the policy communities that government departments include in their coordinative discourses. Mapping the policy communities around the Treasury and DBIS will help us answer these questions, and, more generally, to understand the nodes from which neoliberal and non-neoliberal problem definitions may emerge in future moments of crisis.

A particularly fruitful line of inquiry may be to look to think tanks. As I noted in Chapter 5, there is a similarity between the arguments advanced by Policy Exchange and the Coalition's macroeconomic policy agenda, and an interchange of personnel between the organisation and the Conservative Party. Moreover, as I noted in the Introduction, the literature on neoliberalism highlights the importance of think tanks in the process by which the neoliberal restructuring ethos was first brought to governing power. Future research should trace the relationships between the two departments with such organisations as part of a broader enterprise to chart the policy communities included within their coordinative discourses.

In relation to the second question, future research could adopt a historically and/or geographically comparative approach to studying processes of crisis diagnosis, looking to the conditions under which crisis diagnoses extend their reach from one departmentally-bounded policy area into other areas of policy. The present argument has suggested that control of macroeconomic policy is a key factor in the British case because of the resources with which the Treasury is endowed to control the budgets of other departments and so subordinate their activities to macroeconomic policy objectives. Yet this would not necessarily hold true in other polities with differing constitutional structures, where industrial policymakers at various levels of government might hold greater autonomy. This in turn may engender more complicated and contested processes of crisis diagnosis than has occurred in Britain in the post-2008 context, making the comparative political economy of crisis construction a potentially very interesting research agenda.

A final avenue of future research implied by my thesis concerns the impact that crisis narration has had on the political economy of the post-2008 context. In particular, it raises the question of the link between crisis narration and the relatively muted extra-parliamentary resistance that has occurred to date. As noted in Chapters 3 and 7, politicians are important contributors to the process of crisis narration, but they by no means determine its outcomes. Future research should look to the broader production of crisis narratives by multiple actors, the mediation of these narratives by news organisation, and correlations between these crisis narratives and public understandings of the post-2008 contexts. I have also argued that these findings should be situated in an analysis of the role of 'everyday politics' and resistance to elite narratives by the general public, for the critical conceptualisation of persuasion outlined in Chapter 2 and some of the dynamics of narrative reproduction examined in Chapter 7 both suggest that such processes may have played an important part in shaping the outcomes of crisis narration in the post-2008 context. Such a research agenda is already being established, and the present study makes but one contribution to the collaborative enterprise that will be necessary for it to be brought to fruition.[2]

With these avenues of further research in mind my analysis ends, confident in the view that the turbulent conjuncture in British politics that I have sampled is an ongoing one. For the decade and a half preceding the financial crash of 2007-2008 the trajectory of neoliberal restructuring in Britain appeared unassailable. Recent events have done much to correct this misapprehension, yet many have too swiftly asserted the unqualified triumph of neoliberalism in the post-2008 context amid a crisis of its own making. The contribution of constructivist institutionalism to the study of political economy is to expose that which is seemingly inevitable and depoliticised as the intended and unintended consequences of political choices conditioned by dominant ways of thinking. This contribution is simultaneously analytical and normative because it exposes the eternal fragility of the status quo and the effort that must be expended to maintain it. Advancing from this position, I have shown that even in a conjuncture marked by the re-assertion of a more aggressive trajectory of neoliberalisation, a more complex and contested (and therefore contestable) process of crisis construction has prevailed. The neoliberal crisis diagnosis has had to be asserted against a diverging diagnosis within government, and defended from a loss of legitimacy in the eyes of the electorate through narrative techniques that can themselves be analysed, problematised and contested. In terms of the proximity of a change in the trajectory of political-economic restructuring, Britain in the post-2008 context more closely parallels the catastrophic equilibrium of the early and mid-1970s than the moment of crisis that marked the close of that decade. Yet the scale of decisive intervention necessary to

[2] For example, L. Stanley (2014), '"We're Reaping What We Sowed": Everyday Crisis Narratives And Acquiescence To The Age Of Austerity', *New Political Economy,* 19 (6), pp.895-917.

achieve even this outcome has been very great indeed, and will continue to generate the scope for economic policy failure and impose costs on the electorate long after the 2015 election. The analogy between now and the 1970s may therefore prove indicative of the shape of things to come.

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Appendix.
Research On The Nature Of Regional Growth Fund Awards

The Regional Growth Fund makes awards both to primary bidders (termed 'projects') and to secondary initiatives that advance the Fund's overarching aims (which are termed 'programmes'). The Fund considers project bids that propose research and development, capital investment, or skills training investments.

It is left to the discretion of the bidder as to whether or not the details of the bid are placed in the public domain, likely reflecting the commercial sensitivity of some of these projects. Consequently it was necessary to undertake some primary research to ascertain what sorts of projects were prioritised by the Fund and, in particular, the relative importance of capital projects. This appendix reports the details of this research, which relates to the conditional awards made in the first and second rounds of the RGF.

The names of the firms awarded RGF funding are available from the DBIS website. Using this information and the Google search engine I located local and national newspaper articles and articles in industry newsletters that reported upon the details of awards in those cases where successful bidders had chosen to publicise the details of their bids. The search term used included the words "Regional Growth Fund", the name of the firm, and the addition of date filters where necessary. Local authority infrastructure projects were omitted from the sample because the intention of the research is to ascertain the manner in which the Fund is being used in relation to private sector activities. For this reason, however, private and public-private partnership bidders delivering such infrastructure projects were included. The sample also includes funding to other public sector agencies where they are engaging in market activities (for example FE college 'spin-offs') or where they engage in industrial policy (such as TICs). This yields an initial sample of 167 bids, of which information regarding 121 was found to be in the public domain. Consequently there is an unaccounted for 27% of cases in the sample.

The details of bids were recorded in a database, and categorised by the kind of investment that the bid proposed. My particular interest was to ascertain what proportion of the 121 cases represented discretionary investment in the growth of the output potential of firms producing goods and services, rather than the R&D support that was the predominant strand in discretionary industrial policy prior to 2008. I operationalise 'capital investment' in relation to such projects. The category is somewhat nebulous, but it includes much of what would generally be classified as fixed capital investment – the purchasing of physical plant and machinery, and the expansion of premises to house it. I have also included projects that involve a move from smaller to larger premises and the creation of new physical and software infrastructure for producing a good or service (such as investment by transport firms in their own service infrastructure). Finally, while I have excluded projects that are simply mergers between existing firms I have included projects that seek to consolidate the fixed capital of two or more firms on a single site.

Excluded from the category are research and development projects and projects to create or expand R&D facilities and training centres. This is categorised as R&D and human capital investment respectively. Also excluded are projects that amount to public sector support for the production or launch of a product, as this form of subsidy does not directly increase the output potential of the UK economy. Finally, projects to finance or accelerate the delivery of public infrastructure projects by public or private sector organisations are excluded from the category.

Findings and interpretation

Of the 121 projects on which information was available

- 64% were capital investment projects
- 35% fell within the other categories, with the majority being R&D projects.

Of the 167 cases in the sample

- 48% were demonstrably capital projects
- 25% demonstrably fell within the other categories

- 27% are unaccounted for.

Of the 117 cases for which details were available regarding the sector in which the bidder operates:

- 70% were manufacturing firms

The findings show that in its first two rounds capital investment as defined above constituted an important objective for the fund. Manufacturing firms are the major beneficiaries of all categories of investment in the cases in the sample for which information is available.

Taken at face value the findings would suggest that capital investment constituted the most important form of investment for the fund in its first two rounds. However, caution is warranted here. It is likely that information regarding projects in the 27% of the sample that is not accounted for have been withheld due to commercial sensitivity, and it is plausible to assume commercial sensitivity is greater in relation to R&D projects where a market leader is yet to emerge in the technology or product under development. Consequently, it is likely that the portion of the sample constituted by R&D projects would be higher were I able to account for this 27%, decreasing the relative significance of capital investment. Yet the significance of capital investment to the RGF's allocative decisions in its first two rounds is clearly established.