Mystification, elite politics and financial reform in the UK

Julie Froud, Michael Moran, Adriana Nilsson
and Karel Williams

This chapter has two interlinked aims. First, it presents an analysis of political obstacles to democratic control and reform of the finance sector that caused the financial crisis of 2007-8; a crisis that, after extreme intervention to save banks and support markets, has now become a fiscal crisis of the state. Second, it resumes the argument about the role of 'ideology' within the socio-political process and takes a position on issues increasingly discussed in the social sciences under the rubric of performativity or how discourses format the world. The two themes come together in our argument about how elite power has worked politically to frustrate post crisis reform in the British case through mystification, as constitutional and economic story telling has narrowed debate and participation in ways that promote regulatory closure and safeguard the status quo. But such mystification works by mobilising narratives which are fragile and contestable so that outcomes, in terms of reform, are open and uncertain.

Our empirical material is drawn from the UK, and is mostly concerned with the first phase of response to the crisis, which culminated in the anti climax of the British government's White Paper of July 2009 – a document that avoided major reform of banking and finance. But we also show below that, while the White Paper eventually resulted in the timid and limited reforms of the Banking Act of 2010, it did not entirely succeed in closing off debate. On the contrary, it opened a new, and continuing, phase of struggle for reform initially led by dissenting elite technocrats. Our argument below is illustrated with UK evidence and our aim is to provide an analysis of national peculiarities, but the issues raised are relevant to other jurisdictions (national and supra national). We hope to raise broad questions about the mechanisms of elite power in present day capitalism where the importance of narrative has intensified since Reagan and Thatcher. We also aim to encourage reflection on how narrative power could be challenged so as to deliver a more democratic reform of finance.

From opportunity lost to capitalism's narrative turn

In Britain and elsewhere, the financial crisis presents many puzzles and the biggest puzzle concerns the gap between the potential opportunity for radical change presented by the crisis and the timid reforms (so far) enacted. In this section we explore this puzzle and set it in the context of an argument about how capitalism's narrative turn after the 1970s has strengthened elite power.

The combination of the greatest banking and financial market crisis since before 1914 with unprecedented government rescue and intervention was immediately demystifying. In Britain, as elsewhere, it discredited the economic grand narrative of Bernanke and others about the 'Great Moderation' – a narrative about how capitalism had discovered a durable combination of growth, low inflation and low unemployment. In retrospect, this 'Moderation' was a credit led, asset price bubble inflated by shadow banking. This discovery immediately raised questions about whether finance was a pro cyclical destabilizing activity and created an opening for radical critique which argued that UK finance had fed a transaction economy rather than supported sustainable circuits of material transformation. [1] More broadly, the 'crisis moment' in Britain – from the 2007 failure of Northern Rock to the post Lehman systemic crisis of autumn 2008 – was a demystifying moment, when finance sector alibis, technocratic expertise and the assumptions of the political classes were tested and found wanting under pressure of unanticipated events.

It was also a brief 'might have been' democratic moment: when elected politicians, in both the executive and in Parliament, saw City interests disadvantaged, and when wider popular forces could have seriously challenged financial elites. Yet the outcome, at least for the moment, has failed entirely to match this opportunity. The banking rescue of 2007-8 amounted to the socialization of banking losses at a cost to the UK taxpayer of up to £1,000 billion (or more if we include contingent liabilities and exclude quantitative easing).[2] British taxpayers got very little in return. The challenge of a brief democratic moment was met by the restatement of old pre crisis narratives about the importance of 'flexible', market responsive regulation, and about the social value of finance. Familiar tropes and memes like shareholder value were redeployed to neutralise intervention such as the part nationalisation of the banking system: public ownership, as we show below, was defined as an interim arrangement driven by private sector imperatives.

All this narrowed the social definition of banking problems and solutions, while it also closed or discouraged discussion of how the behaviours and structures that failed were embedded in mainstream banking business models. As Engelen et al. argue, the financial structures that failed were not a 'system' but bricolage of long, fragile chains which were smart at the money making links but dumb through the chains about the consequences of values or behaviours which were certain to change over the conjuncture.[3] The bricoleurs of investment banking were incentivised by the 'comp ratio' business model which made wholesale banking a lucrative joint venture between shareholders and the senior workforce. The 'comp ratio' convention meant that the senior workforce expected a fixed share of turnover which they could then increase at will when the financial innovation of derivatives allowed the tiering of transactions.

If financial bricolage and banking business models survive unreformed, why be surprised and why conceive of the outcome as a puzzle? While crises are inherently threatening and disruptive, their resolution usually depends on the balance of forces prevailing before the crisis and this often favours the restoration of the status quo. The marginalization of left and radical forces, in and after the crisis, only continues a well established historical trend which we examine in the next section. A British labour movement that had been in retreat and disarray for three decades was hardly likely to be reconstituted as an arbiter of outcomes by one moment of crisis. Capitalist democracy is nevertheless robust partly because of its capacity for reflexivity as failings are interrogated and reformed in the light of interrogation. As we show near the end of the chapter, there is now much more of this robust interrogation, notably from elite technocrats in the regulatory agencies, like the Bank of England and the Financial Services Authority (FSA) who are trying to reclaim the reform initiative. But what was striking about the immediate aftermath of the crisis was the willingness of mainstream politicians from all parties (and trade unionists of all persuasions) to substitute the scapegoating of individual bad bankers for a credible reform programme.

The puzzle of so little reflexivity in the immediate aftermath of the crisis must be related to a more fundamental paradox. Since Reagan and Thatcher, social scientists have increasingly preferred not to talk about ideology (or ideologies) as the false knowledge of the bourgeoisie while, paradoxically, capitalism has in this same period taken a narrative turn through mystifications which greatly strengthen elite power against democratic challenge. 'Storytelling' has thus become an important weapon in the armoury of economic elites. The issue of story telling has been approached through discussions of performativity but the

preoccupation here with the performativity of formal knowledges like mainstream economics or finance theory [4] has led to neglect of informal stories in political contexts.

The story has been an important device of elite power since the beginning of formal mass democracy in Britain around 1918. There is a venerable tradition of constitutional mystification about 'arms length control' and such like which justifies the unaccountability of elites by implying that the delicate functioning of our institutions would only be upset by the intrusion of majoritarian democratic forces.[5] Political developments after 1979 gave business narratives a new impetus in economic affairs. If the end of British style corporatism under Mrs Thatcher displaced organised labour, it also threatened organised business and the traditional trade association in a world where the Tory or New Labour default in favour of the market did not automatically deliver sector friendly regulation and tax regimes. Big business, especially in finance and pharmaceuticals, increased its spend on 'do it yourself' lobbying by individual firms.[6] This was backed up by organising loose distributive coalitions of firms which legitimated sectional business demands with stories about their activity's social value. This value was defined pragmatically as delivery of whatever the political classes wanted by way of jobs, tax revenue, a green or knowledge based economy etc. [7]

If Noel Coward celebrated the potency of 'cheap music' in *Private Lives*, political and business elites have discovered the potency of cheap stories in public life. This potency is considerable because these stories have a performative as much as a narrative dimension: the new economic stories, like the old constitutional stories, provide templates for the design and redesign of old and new institutions and regulatory regimes. In capitalism after the narrative turn, the outcome is not capture but closure. The idea of capture is promoted in public choice economics where selfish, rent seeking special interests usually win at the expense of an indifferent public. As analysts of closure, we envisage a more complex and cultural world. Here stories are used to motivate political action and inaction but narratives often compete and much is outside the stories, so that closure is a kind of temporary special case not an inevitable permanent result. From this point of view, politics is then about interfering with narratives so as to enforce the limits on performativity.

The new economic mystifications about private equity as a better form of ownership or the social value of a large finance sector, like the old political mystifications about arms length control, owe very little to intentionality or conscious manipulation by elite insiders. While

recognising the importance of new financial elites,[8] we do not suppose that such elites have an executive committee which meets in the boardroom at Goldman Sachs to decide the industry line for Davos. Cheap stories allow business elites to operate in loose coalitions distinguished mainly by an absence of imagination and the ever present support of PR functionaries and lobbyists. Their work on and with stories is rather like mass TV advertising with its endless repetition and simple updating of the same message in search of a suggestible but amnesiac target audience.[9] All this is capable of being routinised because the cheap story works by selection of evidence and assertive identifications which simplify matters in the hope of gaining political intelligibility and acceptance. As we saw in the case of big pharma's story about the significance of research and development,[10] the point of vulnerability is that most industry stories can be unpicked by resourceful critics who do not find it difficult to develop better evidenced alternative stories. The 'story' as a mystifying device is subject to interference, as we shall see in the current struggle over banking reform.

Prehistory of the crisis: constitutional and economic mystifications before 2007

In capitalism after the narrative turn, most stories have a prehistory. This is certainly so in the case of finance where, since the late 1980s, political participation and intellectual debate about finance had been narrowed by mystification so that finance became a domain of high politics for industry leaders, sympathetic technocrats and supportive elite political sponsors. Two mystifications then supplied what Wright Mills called the 'vocabulary of motivation' for elite economic and political practices. One mystification varied the venerable pre 1914 narrative about self-regulation that helped legitimise a particular regulatory order which conferred on financial markets the right to run their own affairs. The second mystification was a post 1980s narrative about the social and economic value of finance in the wider economy. That narrative helped politically empower finance as a sector by emphasising the importance of an economic regime and a 'light touch' regulatory regime both tailored to the needs of financial markets.

The regulatory narrative in the decade after the return of Labour to government in 1997 was couched in new language about 'light touch' regulation. The City was viewed by the new Labour government as both a tax cash cow, and as an engine of growth, job creation and innovation in

the UK economy. But the City was also pictured – and pictured itself – as operating in an international climate of ferocious competitiveness in which comparative advantage accrued to the financial centre which most effectively pursued market friendly regulation. This was the immediate origin of the regulatory style practised for a decade by the Financial Services Authority (FSA) between 1997 and 2007, and sponsored by key figures in the political and regulatory elite, such as Chancellor Brown and successive Governors of the central bank. This mystification presented light touch, flexible regulation, involving cooperation with market actors, as the most efficient way to manage financial markets.

But that mystification was not just, or even mainly, the creation of New Labour's alliance with business and the City. It reflected a historically deeper system of mystification that was a product of the framing peculiarities of British historical development. Britain's early entry into industrialism, preceding as it did the development of any democratic political forces, created a politically privileged business elite which promoted regulation without the law or public controls. The expression of this was in doctrines of self-regulation and cooperative regulation – the latter a doctrine that any public regulation should only be conducted with the cooperation of regulated enterprises.[11] The doctrine was peculiarly well embedded in financial markets, dominated as they were by the oldest, most entrenched of business elites. The doctrine of self-regulation in financial markets survived the rise of the labour movement, the appearance of formal democracy after World War I, and the rise of an interventionist state. Indeed, it had to survive these developments, for its mystifying purpose was, by representing regulation as a matter of flexible control by market actors with practical experience, to keep at a distance the threat of controls by any of the forces potentially empowered by democratic politics.

The mystification of self-regulation proved hard to sustain in the age of globalised markets, financial innovation and the new business models that developed from the 1980s onwards.[12] But in Britain, nevertheless, it did survive through tortuous processes. For instance the regulatory regime instituted under the Financial Services Act 1986 – designed to regulate the markets after the UK's 'big bang' – created a labyrinthine institutional world of self-regulatory organisations (SROs) presided over by a Securities and Investments Board which had a hybrid, ambiguous constitutional status.[13] This, along with the Bank of England's own 'light touch' regulation of the banking system, was swept away in the 1997 reforms that created the FSA – reforms that were the product of the massive failure of light touch regulation to foresee and forestall the crash

of the House of Barings in 1995.[14] The creation of the FSA represented an inching towards a more formal, publicly controlled, system; but, as we now know, its practice involved total capitulation to the rhetoric of light touch, market friendly controls.[15]

Why was so much invested in the reinvention of an old regulatory style for a new order? If it was explicitly designed to enhance London's competitive advantage, why was it so important to have a globally leading financial centre? One answer lies in the bureaucratic politics of international financial diplomacy. By the 1980s the UK was a declining military and diplomatic power with a palsied manufacturing sector. But its financial regulators punched above their weight in the networks of international financial regulators: the Bank of England, for instance, regularly provided the chairs (including the founding chair) of the key Basel committees concerned with banking regulation. And they punched above their weight because London was a financial centre of an importance well beyond the scale of the wider UK economy. Possessing a leading global financial centre was thus the equivalent, in international financial regulatory politics, of a permanent seat on the security council or possession of an independent nuclear deterrent.

But there was also a new supporting economic narrative about the social value of finance which. from the 1980s onwards, legitimised the objective of strengthening London's comparative advantage. In this narrative, finance became the goose that laid the golden egg, so that what was good for the global financial centre in London was also good for the UK economy. The old constitutional mystifications that legitimised market friendly regulation did have some (contestable) evidential foundations because it could be argued that regulatory systems more based on the law and adversarial regulation, like the US, were also prone to regulatory failure. But the new narrative about the social value of finance to the wider economy was more or less pure fantasy. Crucially, through 15 years of finance led boom from the early 1990s the finance sector never employed more than one million workers directly; demand from finance maybe employed another half million indirectly out of sector though numbers employed did not increase as finance sector output grew and profits boomed.[16] These profits were disproportionately captured by foreign owned investment banks and financial services conglomerates. By the time New Labour came to power in 1997 the City had become a global bazaar with domestically owned concerns taken over by the largest globally organised institutions, which treated the City as one arena of their trading system and recruited a cosmopolitan workforce.

The new mystification exerted a powerful hold over the minds of participants in financial markets, financial regulators and economic policy makers by the 1990s. It did this in part because it was promoted by the heft of a powerful lobbying and PR machine. But, more fundamentally it was potent because it was consonant with the new economic rhetoric about enterprise and rewards which was part of the post Thatcher settlement. Moreover it was powerful because it recreated an old political pattern of alliance amongst metropolitan elites which was part of their historic lineage.

The decline of the industrial spirit in metropolitan England in the later 19th century led to a fusion of metropolitan political, administrative and financial elites which was memorably described at the start of the 20th century by Hobson in *Imperialism.*[17] In this process, financial occupations experienced collective upward mobility. For much of the 19th century, the stock jobbers' trade was in the same twilight moral world as that of the bookie; by the end, stock jobbing became a respectable occupation for public schoolboys - the first old Etonian jobber dates from 1891.[18] Marital and business alliances connected financial, aristocratic and political elites.[19] The growth of financial markets after Big Bang, especially with the rise of proprietary trading in the 1990s, led to the emergence of new and more numerous financial elites who claimed meritocratic provenance and whose world was European or global as much as national. But the political representatives of the new elites were incorporated into a national reworking of the old style British alliance of the post industrial elites.

Thus, the narrative about the social value of finance in the years leading up to the crash of 2007-8 was potent because it served to align the calculations of different elites (in markets, the core executive and the regulatory agencies) about the benefits of financial innovation; and because it was congruent with the historically engrained culture of consensus amongst (old and new) metropolitan elites who were once again in the saddle during the years of Thatcherite triumphalism. Thatcher's control of the state, recall, rested on the way the electoral system gave power to a party supported by only a minority of votes concentrated in the metropolitan south east – in the very England sketched so memorably by Hobson almost a century earlier.

Business as usual: mystification and reform up to summer 2010

The power of mystifying narrative was demonstrated in the wasted year between the downfall of Lehman and the summer of 2009, when popular

hostility to bankers was strong but the impetus for banking reform was deflected and dissipated. The interim result was a timid British government White Paper on financial reform published in July 2009 which promised to change very little; and a Banking Act which in April 2010 enacted more or less exactly the timid original proposals.[20] All this becomes intelligible if we consider how financial and allied elites quickly recovered from the traumas of 2007-8 by closing ranks and recycling the old mystifying narratives. The old constitutional mystifications and the shareholder value trope were together deployed to ensure it was to be business as usual in newly nationalised banks. Meanwhile, the newer story about the social value of finance was deployed to deflect demands for radical structural reform, such as breaking up banks that were 'too big to fail.'

Extreme intervention to prop up the banking system resulted in *faute de mieux* nationalisation of banks like Northern Rock and Royal Bank of Scotland, which passed into public ownership; just as the state also acquired a substantial minority stake in Lloyds. Public ownership is not of course democratic control, but it did represent a democratic threat to elite power. A major part of the banking system was now state owned and controlled so that elected politicians could, in principle, always ask what state owned banks were doing and instruct them to do something different by way of lending or pay. At this point the fusion and interpenetration of elites became important. The challenge of democracy was headed off by a few key figures at the Treasury, notably the civil servant John Kingman (who has since left to work for Rothchild) and Paul Myners the ex fund manager who had been brought in by Labour as a junior Treasury minister. Their institutional creation was United Kingdom Financial Investments (UKFI) a new holding company for government majority and minority stakes in banks, where City grandees in the chairman role worked alongside Kingman as chief executive.

But this kind of social defence by closing elite ranks requires a narrative justification to motivate anti democratic practice, In the case of UKFI, this was provided by combining an old constitutional mystification with newer tropes about shareholder value. Kingman repeatedly insisted that UKFI operated at 'arms' length' from government.[21] The new agency was thereby inserted into an old pattern of institutional arrangements between agencies and the democratic state in Britain. As Flinders' recent study shows, the doctrine of the 'arm's length' relationship has been a central feature of constitutional rhetoric in Britain and a key device to insulate the workings of agencies with delegated functions from the accountability pressures of the democratic state.[22]

This was backed up by invoking the tropes of shareholder value and constructing the citizen/ taxpayer as a shareholder in failed banks which should be first managed, and then sold off, in a way that maximised shareholder value. UKFI's Framework Document of March 2009 insisted on the one 'overarching objective of protecting and creating value for the taxpayer as shareholder'. [23] Within this discursive frame UKFI acquired the identity of an engaged, responsible, large institutional investor whose relations with state owned bank managements were formally subordinated to familiar private sector investment objectives. Democratic interference with day by day management decisions or second guessing of business strategy then became unthinkable; just as high pay, for example, remained justifiable if linked with 'performance' as defined inside the shareholder value model. As UKFI elaborated its role and mandate, it increasingly represented, not the nationalisation of the banks, but the privatisation of the Treasury as a new kind of fund manager.

Demands for more broad based structural reform of (non nationalised) banks and markets were then deflected by updating the old narrative about the social value of finance in the Bischoff and Wigley reports.[24] These reports arose out of the pre crisis high politics of financial lobbying and were ostensibly about the competitiveness of London as an international financial centre (not about the causes of crisis or the solution of re-regulation). They nevertheless represented a striking intervention against reform by financial elites in the first year after the crisis

Sociologically, the reports represent more fusion of the metropolitan elites and the deliberate exclusion of other voices, so that finance could report on finance. The first report was co-chaired by Win Bischoff, former chairman of Citigroup, and the Chancellor of the Exchequer. The second report was commissioned by the Mayor of London from a group headed by Bob Wigley, European chair of Merrill Lynch. In their working methods Bischoff and Wigley provide a stark contrast with those of earlier generations of reports on the City, such as the Macmillan Committee of 1931, the Radcliffe Committee of 1959 and the Wilson Committee of 1980. These inquiries, for all their biases, included in their memberships prominent critics of the City, and gathered evidence likewise from sceptics. By contrast in the cases of Bischoff and of Wigley, non City groups were not included or consulted in the information gathering, problem defining phase or subsequently in the drafting of the two reports about the benefits of finance. There was no speaking part for non-financial businesses and their trade associations, or

for trade unions despite the unionisation of retail finance workers, or for NGOs representing consumers or pressing social justice agendas, or for mainstream economists or heterodox intellectuals.[25]

Again, the social combination of financial and political elites worked through narrative framing. Both the Bischof and Wigley reports act out a kind of discursive two step: in a first step, the reports updated the pre 2007 lobbyist's story by adding the many contributions of financial services to the national economy; and then in a second step, the reports identified the conditions necessary to maintain this socially valuable activity which incidentally included something like the regulatory status quo. The intellectual substance behind this story was meagre. It consisted, for example, of adding benefits but not subtracting any offsetting costs of finance. Thus Bischof added up taxes paid and collected by finance without considering the costs of bailing out the financial system.[26] But these stories were good enough to secure political buy in and copy out by Treasury politicians and civil servants who retained the dominant role in directing reform.

First, leading politicians explicitly bought into the syllogism about the social value of finance and made a commitment to nurture the sector. Thus, in his foreword to the Bischoff Report, the Chancellor of the Exchequer writes that 'financial services are critical to the UK's future'[27] (Bischoff, p.2). In a press release accompanying the Wigley Report, the Mayor of London said: 'Bob's team have identified what needs to be done and I will pull out all the stops to protect London's position as the world's premier financial centre'.[28]

Second, the claims about the social value of finance from the Bischoff Report are copied out and used as a framing device in other official reports, especially the July 2009 White Paper on *Reforming Financial Markets*. In its first chapter, the White Paper begins by reviewing not the causes of crisis but 'the importance of financial services and markets to the UK Economy and the pre-eminence of the UK as a global financial centre'.[29] Claims and evidence from Bischoff are simply copied out and dropped into the text of the White Paper, which reproduces the story and unsurprisingly ends by proposing nothing radical.

City elites went for closure in the Bischof and Wigley reports and immediately got what they wanted in the White Paper of July 2009 whose title reference to 'reform' did not describe the contents of the report. The White Paper made no proposals for reforming industry structure by, for example, breaking up large complex financial conglomerates or

segregating proprietary trading activities. Even the architecture of regulation was to be only changed marginally: the FSA would continue with the addition of a Financial Stability Committee dominated by regulatory insiders. All this is faithfully enacted in the 2010 Banking Act, which demonstrates the power of stories in shaping outcomes to the crisis. But, as we also emphasised, political stories have performative limits and seldom close things down definitively. So it was with UK financial reform in the aftermath of the crisis. With democracy sidelined, the resistance to doing nothing was led by technocrats who re-formed as a kind of dissident elite section operating independently of populist politicians often more concerned with electoral advantage than with making banking safe.

Technocratic elites: editing themselves back into the script

If the twentieth century had reinvented capitalism as rule of experts, the first major crisis of the twenty first century was profoundly threatening for the technocrats in the regulatory agencies – the FSA and the Bank of England – who had dominated financial matters in the era of the Great Moderation. The crash destroyed much of their intellectual capital. The politicians were forced to improvise intervention in the vortex of the crisis. Then the City and its Treasury allies hijacked rescue management and financial reform. But, from summer 2009, the technocratic elite responded to this challenge by forcibly reopening the argument about the regulation of finance which had apparently been closed down. In the next phase, the technocrats took the leading role in trouble making but have, crucially, failed to form an alliance with senior politicians and democratic forces.

The most important source of technocratic dissent has predictably been the Bank of England which is neither hostage to the City nor an institution of practical men, as originally envisaged by Montagu Norman. The Bank's relative autonomy from City interests is culturally shaped by a group of technocrats like Governor King and his financial stability director, Andrew Haldane, whose intellectual capital comes from academic economics rather than market experience. From summer 2009, their dissent was actively backed up by Adair Turner as chair of the FSA who represented not institutional culture but self assurance. Turner is a well networked fixer who parlayed a first career with McKinsey into a series of elite posts, and after the crisis quickly wrote his own FSA report on what went wrong with the financial system.[30]

Papers and speeches by senior Bank of England officials are never the result of individual reflection; they are the result of continuing internal debate within a small group of elite technocrats. In 2009, a series of related papers by Andrew Haldane and speeches by Mervyn King together mounted a radical critique of pre 2007 policies and the subsequent piecemeal reform. These critiqued argues that: the benefits of financial innovation had been greatly exaggerated; the UK economy was distorted and over dependent on a large financial sector and the City; structural reforms were needed to segregate retail banking from banking that rested on proprietary trading, and probably to dismantle 'banking on the state', where serious moral hazard problems were created by banks that were 'too big to fail'[31] in a system that was guaranteed by the taxpayer. This was ably backed up by Adair Turner who combined fluent McKinsey style industry analysis of banking with headline catching phrases about 'socially useless' finance.

If all this was brave and independent, it also represented a narrowing of the technocratic imagination. Andrew Haldane is not J M Keynes or William Beveridge because he has no discernible politics beyond hostility to socialisation of private banking losses and his world view is marked bv a naïve scientism. Consider, for example, Haldane's major attempt to rebuild technocratic capital by 'rethinking the financial network' in ways which would give the technocrats a new role in explaining the financial crisis and making the world safe. He boldly proposed a paradigm shift into epidemiology and ecology as ways of relating financial crisis to other kinds of system failure and disaster.[32] This gambit is intellectually radical because it focuses potential solutions on whole system mapping and reconstruction; but it is also politically ambiguous because Haldane's gambit would insulate expert led banking reform from democratic politics, and do this before the experts have developed a workable new practice of macro prudential regulation.

If we consider these technocrats as a group, they are a break away elite splinter whose radicalism is driven by their disruptive commitment to evidence (which had never figured much in other, earlier stories about the economic and social value of finance). The elite technocrats' currency of debate is – in a way that Montagu Norman would have found incomprehensible – systematically assembled economic data. It is their shared commitment to economic arithmetic (rather than a specific theoretical problematic or algebraic methods) which ties them together. Thus Haldane has produced elegant, forensic analysis of how the banks trashed return on assets so as to maintain return on equity which kept the stock market happy.[33] Just as Turner, in his Cass lecture, took the long

view of changes in bank lending and bank balance sheets which led them far from intermediation.[34] But their faith in numbers has not so far re-energised the (national) reform process because the technocrats are bureacratically divided and not acting in alliance with senior politicians and massed democratic political forces.

Bureaucratic politics is a primitive force which divides Bank and FSA technocrats who happily cite each others papers. In the original reforms that created the now discredited system in 1997, the Bank was the big loser when it was obliged to surrender its jurisdiction over bank supervision to the newly created FSA. The post 2007 Bank agenda for reform now offers the possibility of reclaiming some of that lost 'turf' at the expense of the FSA. The Financial Services Authority was the kingpin of the regulatory system after 1997. It suffered correspondingly from the crisis which discredited light touch regulation and has since tried to reinvent as a more adversarial, intrusive regulator.[35] The 2009 White Paper and the 2010 Banking Act disappointed many but they were, from the point of view of the FSA, a highly effective damage limitation exercise because the reputationally damaged FSA would remain the kingpin of regulation (until Labour lost the election).

Apart from bureaucratic internal divisions, the British technocrats are weakened by the absence of any high level alliances with politicians who hold power and can mobilise democratic forces for change. In this respect, the British technocrats are in a very different place from their counterparts in the USA where the technocrat Tim Geithner has become Treasury Secretary and stands alongside President Obama in pressing the case for radical structural reform against Republicans and the finance lobbyists.

The British disconnect between technocracy and politics is manifest in many ways. In the adversarial politics of a general election, it was the third and smallest British party which, under the influence of one man (Vince Cable) advocated the structural reform of breaking up the banks. Labour offered continuity: its manifesto commended the marginal reshaping of the regulatory system in the White Paper and the Banking Act, and even repeated, virtually verbatim, the UKFI commitment to sell off the public holdings in banks at a price that would maximise return to the taxpayer. The Conservative Party put its trust in the wisdom of new regulators by proposing to abolish the FSA and transfer jurisdiction over banking regulation to the Bank. If we consider not manifesto programmes but policy initiatives, the two largest British parties both tend to default

onto populist banker bashing as substitute for banking reform as, classically, with Chancellor Darling's one off tax on bank bonuses.

This part of our story has no conclusion, and not only because our chapter is delivered before the outcome of the 2010 General Election. Inconclusiveness reflects something deeper: the chronic instability of a capitalist system which runs on mystifying narratives of finance and much else in a wider society marked by intellectual, bureaucratic and electoral competition. In this sense, the importance of ideology is reasserted while, at the same time, we see the limits of performativity.

Notes

We are grateful to the editors for comments on an earlier draft.

---

[1] This argument is elaborated in the Alternative Banking Report of 2010 to which we were contributors: CRESC, *An alternative report on UK banking reform: a public interest report from CRESC.* Manchester: University of Manchester Centre for Research on Socio Cultural Change, 2009, downloadable at www.**cresc**.ac.uk/publications/.../**Alternativereport**on**banking**V2.pdf

[2] M. Horton, M. Kumar, P. Mauro, *The State of Public Finances: a Cross Country Fiscal Monitor,* Washington: IMF, July 2009, p. 28, note 12.

[3] E. Engelen, I. Erturk, J. Froud, A. Leaver and K. Williams, 'Reconceptualizing financial innovation: frame, conjunctuee and bricolage' *Economy and Society* , 39:1 (2010) pp. 33-63.

[4] D. Mackenzie, *An Engine Not a Camera*, Cambridge (Mass): MIT Press, 2006.

[5] This argument is elaborated in: M. Moran, *The British Regulatory State: high modernism and hperinnovation.* 2nd ed. Oxford: Oxford University Press, 2007*;* and M. Flinders, *Delegated Governance and the British State: walking without order,* Oxford: Oxford University Press, 2008.

[6] For the rise of 'do it yourself' (individual firm) lobbying see M. Moran, 'The company of strangers: defending the power of business in Britain, 1975-2005.' *New Political Economy*, 11:4 (2006), 453-78.

[7] J. Froud, S. Johal, A. Leaver and K. Williams, 'GlaxoSmithKline: keeping it going' pp 149-223 in J. Froud et al. *Financialization and Strategy,* London: Routledge, 2006

[8] For a developed argument see M. Savage and K. Williams. Eds., *Remembering Elites.* Oxford: Blackwell, 2008.

[9] See A. Davis, 'Public relations, business news and the reproduction of corporate elite power', *Journalism*, 1/3, 2000, 282–304; and *Public Relations Democracy: Politics, Public Relations and the Mass Media.* Manchester: Manchester University Press, 2000.

[10] J. Froud, S. Johal, A. Leaver and K. Williams, *Financialization and Strategy,* London: Routledge, pp. 158-168, 2006

[11] The argument is elaborated and documented in Moran, 'The company o f strangers' and Moran, *The British Regulatory State.*

[12] I. Erturk and S. Solari, ' Banks as Continuous Reinvention' *New Political Economy*, 12: 3 (2007) pp. 369-88.

[13] The argument is elaborated and documented in M. Moran, *The Politics of the Financial Services Revolution.* London: Macmillan 1991.

[14] For the evidence on Barings, see M. Moran, ''Not steering but drowning: policy catastrophes and the regulatory state', *Political Quarterly*, 72:4 (2001) 414-27.
[15] The best documented account is in House of Commons Treasury Select Committee,, *The Run on the Rock, Fifth Report Session 2007-8*, Volume 1, HC 56-1.
[16] CRESC, *Alternative Banking Report*, pp. 28-51
[17] J. A. Hobson, *Imperialism: a study.* New York: Cosimo Publishing, 2006, original publication 1902.
[18] D. Kynaston, *The City of London, volume 1, A World of Its Own 1815-1890*, London: Pimlico, pp. 318-25, 1995.
[19] M. Lisle-Williams, 'Merchant banking dynasties in the English class structure: ownership, solidarity and kinship in the City of London, 1850–90', *British Journal of Sociology*, XXXV/3: 333–62, 1984.
[20] We have documented this in J.Froud, A.Nilsson, M. Moran and K. Williams. 'Wasting a Crisis? Democracy and Markets in Britain after 2007', *Political Quarterly, 81/1*, January-March 2010, 25-38.
[21] See P. Hampton and J. Kingman, 'A precise mandate to protect taxpayers' interests', *Financial Times*, 14 November 2008; House of Commons Treasury Select Committee, *Banking Crisis, Volume 1, Session 2007-8, HC 114-I*, oral evidence, q.2572ff.
[22] Flinders, *Delegated Governance and the British State.*
[23] UK Financial Investments Limited, *Shareholder Relationship Framework Document*, London, UKFI, 2009, p. 13.
[24] Win Bischoff and Alistair Darling, (2009), *UK international financial services –the future: A report from UK based financial services leaders to the Government*, HM Treasury, 2009; . Bob Wigley, *London: winning in a changing world*, London: Merrill Lynch Europe, 2008.
[25] Detailed in CRESC, *Alternative Banking Report*, pp. 23-6.
[26] The figures are scrutinised in CRESC, *Alternative Banking Report*, pp. 28-38.
[27] *UK International Financial Services – the future*, p.2.
[28] See CRESC, *Alternative Banking Report*, p. 22.
[29] HM Treasury, *Reforming Financial Markets*, July 2009, London: HM Treasury, CM 7667, p. 17.
[30] Adair Turner, *The Turner Review: A regulatory response to the global banking crisis*, London, Financial Services Authority, March 2009.
[31] A. Haldane, 'Small lessons from a big crisis: remarks at the Federal Reserve Bank of Chicago 45th Annual Conference', 8 May 2009; 'The debt hangover' : Speech given at a Professional Liverpool dinner 27 January 2010 at
www.bankofengland.co.uk/publications/speeches/2010/speech422.pdf
Speech by Mervyn King, Governor of the Bank of England to Scottish business organisations, Edinburgh on Tuesday 20 October 2009: at
http://www.bankofengland.co.uk/publications/speeches/index.htm
[32] A. Haldane, 'Rethinking the financial network', Speech delivered at the Financial Student Association, Amsterdam, April 2009, p. 3: at .
http://www.bankofengland.co.uk/publications/speeches/2009/
[33] P. Alessandrini and A Haldane 'Banking on the State' , Bank of England paper November 2009 at
http://www.bankofengland.co.uk/publications/speeches/2009/speech409.pdf
[34] Adair Turner, ' What do banks do, what should they do and what publ.ic pollicies are needed to ensure best results for the real economy' , lecture at Cass Business School on 17 March 2010 at
http://www.fsa.gov.uk/pubs/speeches/at_17mar10.pdf
[35] See *The Turner Review*, pp. 88-9.