GRACE BLAKELEY

STOLEN

HOW TO SAVE THE WORLD FROM FINANCIALISATION

Repeater

STOLEN:

HOW TO SAVE THE WORLD FROM FINANCIALISATION

GRACE
BLAKELEY

2019

Repeater

For my grandad, who taught me what it means to be a socialist, and my grandma, who taught me that only strong, intelligent, stubborn women have ever changed the world.

You'll go down if you don't stand up for yourself Surely you see that.
— Brecht

CONTENTS

INTRODUCTION

Before 2007 the last time there was a run on a British bank the Austro-Hungarian Empire was preparing for war with the Prussians, and the thirty-seven states of the USA had just agreed to free the country's slaves. In 1866, Overend, Gurney and Company — the "banker's bank" — found itself in serious financial difficulties.[1] Caught up in the euphoria of the industrial revolution, the bank had lent too much to the UK railway industry, fuelling a speculative boom that spread the length and breadth of the country. But when the bubble burst, the bank found itself with a stack of unpayable debts. Overend appealed to the Bank of England for financial assistance, but its pleas fell on deaf ears. Queues started forming outside the bank's headquarters at 65 Lombard Street, and within a week the "Panic of 1866" had taken hold of the country.

141 years later, the panic of 2007 was just beginning as Northern Rock, the largest mortgage lender in the UK, found itself unable to access funding.[2] Northern Rock's business model was based on the securitisation of mortgage loans — turning mortgages into financial securities that could be traded on capital markets. It borrowed from other financial institutions over short-time horizons — often on an overnight basis — and lent long, issuing mortgages that wouldn't mature for decades. When financial markets started to seize up in 2007, banks stopped lending to one another, and "the Rock" found itself unable to access international capital markets, meaning it couldn't pay its debts. On 13 September 2007, the news broke that Northern Rock was seeking emergency support from the Bank of England: the first UK bank run since Overend.

Both bank runs resulted from an asset bubble — one in railways, the other in housing. Both Northern Rock and Overend relied on borrowing from financial markets to finance their day-to-day liabilities. Both were eventually forced to appeal to the Bank of England for help. But there were also some critical differences between the two institutions. Overend lent money to companies that were building the UK's railway networks: the same railway networks that we use to this day. They may have done so on unwise terms, but they had invested in the expansion of the productive capacity of the economy — in our ability to produce things, both then and in the future. Northern Rock was doing no such thing. A former building society, Northern Rock lent consumers money to buy already-existing homes. It had been criticised for approving mortgages with incredibly high "loan-to-value" ratios; on occasion the bank granted mortgages worth 125% of the property's value.[3] Rather than creating assets, Northern Rock was creating debt. And it was doing so on an unsustainable scale.

The contrast is puzzling. If it was so unproductive, then why was Northern Rock bailed out when Overend, Gurney and Company was allowed to fail? It is true that by 2007 the Bank of England had become the UK's official lender of last resort, with a responsibility to support ailing banks if their demise might threaten the stability of the financial system. But this raises more questions. How had a small former building society become so important that its demise could have brought the booming British finance sector to its knees? When did the UK's finance sector became so large, and so powerful, that a single bank could extract billions from the taxpayer under the threat of economic meltdown? In other words, when did finance become such a dominant and dangerous force in our society?

This book argues that, since the 1980s, the UK has entered a new phase of its economic history. Once the workshop of the world, today our main connection to the global economy comes from the City of London, a global centre for financial speculation. This transformation has not been slow and steady — it has occurred in fits and starts, as the economy has lurched from one crisis to the next, adapting under the influence of the powerful at each stage. Our current economic model — finance-led growth — can be traced back to the 1980s, when a new system emerged out of the ashes of the post-war social-democratic order. Since then, British politics and economics, as in the US and a string of other advanced economies, has become "financialised", with results that were not apparent until the crisis of 2008.

The best-known definition of financialisation is that it involves the "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies".[4] In other words, financialisation means more and bigger financial institutions — from banks, to hedge funds, to pension funds — wielding a much greater influence over other economic actors — from consumers, to businesses, to the state.[5] The growth of finance has led to the emergence of a new economic model — financialisation represents a deep, structural change in how the economy works.[6]

When economists talk about financialisation, they usually point to the United States, which, in absolute terms, is home to the largest finance sector on the planet.[7] Whilst this book focuses on the history of finance-led growth from a British perspective, most of its lessons can also be applied to the world's current superpower. In the run up to the crisis, each and every one of these issues — the financialisation of corporations, households and the state — afflicted the American economy too, though in subtly different ways. In fact, we can speak of a peculiarly Anglo-American growth model, marked by a growing finance sector, a falling wage share of national income, growing household and corporate debt, and a yawning current account deficit.[8] Other economies that pursued this model before 2007 include Iceland and Spain, and today Australia and Canada are perhaps its most enthusiastic adopters.

The most obvious indicator of financialisation is the dramatic increase in the size of the finance sector itself. Between 1970 and 2007, the UK's finance sector grew 1.5% faster than the economy as a whole each year.[9] The profits of financial corporations show an even starker trend: between 1948 and 1989, financial intermediation accounted for around 1.5% of total economy profits. This figure had risen to 15% by 2007.[10] The share of finance in economic output was, however, dwarfed by the growth in the assets held by the UK banking system: banks' assets grew fivefold between 1990 and 2007, reaching almost 500% of GDP by 2007.[11] The UK also boasted one of the biggest shadow banking systems relative to its GDP before the crisis — a trend that has continued to this day.[12] Meanwhile, cottage industries of financial lawyers, consultants, and assorted advisors grew up in the glistening towers in the City of London and Canary Wharf. Between 1997 and 2010 the increase in the share of financial and insurance services in UK value-added was greater than the increase in the share of any other broad sector bar the government sector — itself supported by the tax revenues provided by finance.[13] Overall, by 2007, the UK had one of the largest finance sectors in the world relative to the real economy.

But financialisation can't be reduced to the increasing importance of big banks in the functioning of the economy.[14] It's not as though capitalism has been "taken over" by finance. Instead, every aspect of economic activity has been subtly, and sometimes dramatically, transformed by the rising importance of finance in the economy as a whole. Whereas economic life for the individual was once centred around wages and wage bargaining, now the management of debt has gained importance. Businesses once focused primarily on producing the goods and services for which they had a competitive advantage, but today they are likely to place just as much if not more focus on their share price, their dividends regime, their borrowing and the bets they've made on exchange rates and interest rates. There was a time when state borrowing was constrained by restrictive monetary policy; today states are not only able to borrow far in excess of what they earn, they are also able to have private corporations undertake their spending on their behalf.

Historically, its advocates have argued that capitalism makes everyone better off by creating wealth for everyone. Businesses make profits, and they invest these profits in future production. This creates jobs, which raise living standards for the majority of the population. Such a system might lead to rising inequality in the short term but, as entrepreneurs reinvest their profits, eventually this wealth will trickle down to everyone else. Whilst this has always been an optimistic reading of the way capitalism works, during the post-war period it often appeared to reflect reality (at least in the global North). But finance-led growth upsets the channels through which wealth is supposed to trickle down from rich to poor, and it does so in obvious ways. Investment slows, wages fall, and profits — especially financial profits — boom.[15]

Whilst all capitalist systems are premised upon the monopolisation of the gains of growth by the people who own the assets, under finance-led growth these dynamics become more extreme. Rising private debt might conceal this fact during the upswing of the economic cycle, but when the downturn hits it becomes clear that finance-led growth is based on trickle-up economics, in which the gains of the wealthy come directly at the expense of ordinary people. This is because financialisation involves the extraction of economic rents from the production process — income derived from the ownership of existing assets that doesn't create anything new. When, for example, a landlord increases a tenant's rent without having made any changes to the property, this is a simple transfer of wealth from a non-owner to an owner. The landowner cannot use the increase in price to 'create' new land that would benefit everyone – he will simply pocket the money for himself. The same can be said for interest payments on debt, which transfer money from people who don't own capital to people who do. Rising household debt, booming property prices, the enforcement of shareholder value and the financialisation of the state all transfer money from those who don't own assets to those who do, without creating anything new in the process.

Financialised capitalism may be a uniquely extractive way of organising the economy, but this is not to say that it represents the perversion of an otherwise sound model. Rather, it is a process that has been driven by the logic of capitalism itself. As their economic model has developed, the owners of capital have sought out ever more ingenious ways to maximise returns, with financial extractivism the latest fix. In many ways finance-led growth represents capitalism's most perfect incarnation — a system in which profits seem to appear out of thin air, even as these gains really represent value extracted from workers, now and in the future.

The Interregnum

The financial crisis was the beginning of the end for finance-led growth. Since 2007, the UK has experienced the longest period of wage stagnation since the Napoleonic wars, whilst American workers have the same purchasing power as they did forty years ago.[16] Employment may be high, but work has also become more insecure, and levels of in-work poverty have risen. High levels of employment have also coincided with a stagnation in productivity — the amount of output produced for every hour worked — which has flatlined in these states since the financial crisis. The rate of investment — by both the public and private sectors in the US and the UK — has fallen since 2008 and remains below its pre-crisis peak.[17] In the UK, falling business confidence, volatility in financial markets, and the levelling off in house prices suggest that a recession is just around the corner. In the US, meanwhile, corporate debt is higher as a percentage of GDP than it has *ever* been. There seems to be a new corporate scandal every week, with overindebted, extractive, monopolistic companies controlling an increasing share of economic output whilst public services crumble. Interest rates around the world were until recently at record lows and most states are only now – a decade on from the crash – starting to wind up quantitative easing. The extra weight placed on monetary policy means that when the next crisis hits there will be little room for manoeuvre.

Economists are at a loss to explain this ongoing malaise. Some have argued that we are living through an era of "secular stagnation" (where secular means long-term). Technological and demographic change mean that the Western world must accustom itself to much lower rates of growth than in the past.[18] Others claim that this economic stagnation results from rising government debt, which is a drain on productive economic activity and is scaring off foreign investment.[19] Still others argue that this is all down to "economic populism" — governments implementing ill-advised economic policies to please the masses rather than listening to the timeless, objective wisdom of professional economists.[20] The lost decade since the financial crisis is living up to that old adage that when you get ten economists in a room, you'll get eleven opinions. The old guard is unable to explain to people just what on Earth is going on.

The central argument of this book is that, having gorged themselves before the crash, today's capitalists are running out of things to take. We are currently living through the death throes of finance-led growth. Just like the post-war consensus of the 1970s, the old model is crumbling before our eyes, leaving chaos and destruction in its wake. And just like the post-war consensus, the death of finance-led growth was inevitable and predictable. Marx showed that every kind of capitalist system is subject to its own contradictions: strains that arise from the normal functioning of the economic model — from businesses trying to make money, politicians trying to get votes, and people trying to survive.[21] These dynamics have characterised the development of capitalism for centuries. Each and every capitalist model must end in crisis, and moments of crisis are moments of adaption — moments when, out of the ashes of the old, the new economy can be born.

They are also, as the Italian theorist Antonio Gramsci pointed out, very dangerous moments indeed. Each crisis of capitalism doesn't simply threaten to bring down the dominant economic model, but the institutions that govern politics and society too. When people no longer expect to be made better off by the status quo, they withdraw their support for it. The guardians of our governing institutions double down as a result, defending their model even as it fails to deliver gains for the majority of the population. Both sides dig in, leading to battles that can be drawn along surprising lines — with those at the bottom the most likely to lose out.

British society has clearly entered such a phase since the financial crisis. The UK's 2016 referendum vote to leave the European Union was the biggest upset to British politics in a generation. Voters across the country used the referendum to express their discontent with a status quo that has seen them excluded from the proceeds of economic growth. The 2017 general election that followed the vote delivered a government unable to rule without the conditional support of one of the most regressive parties in British politics — the Democratic Unionist Party (DUP — and unable to undertake the one task appointed to it — delivering a Brexit deal. In the absence of a growing finance sector, and with rising debt and asset price inflation, inequality has risen, living standards have fallen, and the old neoliberal institutions have struggled to contain, let alone channel, the anger of the majority of the population. A pervasive sense of crisis hangs in the air of British politics. The old paradigm can offer only more of the same, and ongoing austerity and weak growth will only exacerbate the UK's political and economic problems.

In the US, the election of Donald Trump signals a similar grassroots backlash even as Trump's economic policy has served to increase inequality and provide windfalls for finance capital. Socialists within the Democratic Party seem to be profiting from Trump's failure to address the concerns of the constituency that helped to elect him. In Europe, a new wave of xenophobia is sweeping across the continent, countered only by the steady rise in support for popular, socialist alternatives. Crisis after crisis has afflicted the economies that were once represented as the great success stories of liberal, capitalist development — Brazil, South Africa, Russia, Argentina, Turkey, and so many others are all experiencing political and economic turmoil. The poorest states continue to be left behind. Countries like Mozambique and Ghana, along with many low-income countries, are in deep debt distress.

Meanwhile, the environment is collapsing around us. Climate change is accelerating at rates that will render many parts of the planet uninhabitable in just a few short years. The past four years have been the warmest since records began, and the warmest twenty years have all occurred within the last twenty-two. As our forests are destroyed and our oceans acidified, it will not be long before we reach a series of tipping points when the effects of climate change will accelerate suddenly and unpredictably, rapidly creating the kind of "hothouse Earth" currently only seen in science fiction. And it is not just climate change we have to worry about. We are living through a mass extinction: the last fifty years has seen a 60% fall in vertebrate populations. Insects, particularly those critical for pollinating many plant species, are in terminal decline, and our soils are being eroded faster than they can be replenished. In other words, we are on the verge of ecological Armageddon.

But this moment of extended crisis could also represent a moment of opportunity. Many capitalist economies around the world are not only failing to deliver rising living standards for their most powerful constituencies, the capitalist mode of production is accelerating the breakdown of all our most important environmental systems. Finance-led growth contributes to these dynamics by creating huge, unsustainable booms, followed by equally massive, wasteful busts. We cannot afford to organise our economies according to the logic of finance-led growth anymore. But our aim should not be to replace it with a new, equally contradictory model. Instead, we must use this moment of crisis as an opportunity to move beyond capitalism entirely. But that means answering a question that, ordinarily, we are not allowed to ask: What comes next?

What is the Alternative?

For a long time, it has been easier to imagine the end of the world than the end of capitalism — by which we mean an economic system based on private ownership of the means of production (the main factors used in the production process) with the aim of profit maximisation, the enforcement of private property rights by the state, and the allocation of resources through the market mechanism. The system may create inequality, unemployment, frequent crises, and environmental degradation but, we have been told, the alternative is far worse. Socialism — a system under which the means of production are owned collectively — has only ever lead to death and destruction. Capitalism is the worst way of organising the economy, except for all the others.

Socialism's opponents seem to believe that the basic conditions for organising a society and an economy have been the same at every moment throughout history. Capitalism emerged naturally because it is the natural way of doing things; socialism has failed because it is not. But, as surprising as it may seem, capitalism has not always existed. For most of human history, societies have been governed based on non-capitalist economic and political institutions. Feudalism only gave way to capitalism because states became powerful enough to disrupt rural power relationships and create a landless working class that could be used in the production process.[22] This kind of power was premised upon the existence of complex societies, and the availability of certain technologies, without which experiments at capitalism would have foundered.

In the same way, the technological, economic, and political pre-conditions for the establishment of socialist societies exist today in ways that they never have in history. Large sections of the global economy are governed by rational planning rather than the market — that is, all of the economic activity that takes place within private corporations.[23] Huge, international monopolies, many times the size of modern nation states in revenue terms, organise themselves based on a regime of top-down planning, generally using the latest technologies to do so. Neoclassical economists treat the firm as a "black box" and do not see relations within these firms as particularly relevant to economic outcomes. Instead, some might say conveniently, they restrict their analysis to those areas of economic activity governed by market relations. But the management of most firms today makes it quite clear that rational planning is perfectly possible, provided you have the means, and you are working towards the "right" ends.

When it comes to the means, we are living in a phase of human history associated with unparalleled technological development.[24] Each of us holds in our pockets a computing device more powerful than the technology that sent the first man into space. We produce endless amounts of data about our habits, behaviours, and preferences that can be agglomerated and used by firms like Amazon to determine how much they should be producing, and of what. But the revolutionary power of these technologies is limited because they are concentrated in the hands of a tiny elite, which is using them to maximise their profits.

This brings us to the second issue, ends. Some say that it doesn't matter what goes on inside firms as long as they are organised according to the logic of profit maximisation. This ensures that they remain "efficient", and therefore provides for an optimal allocation of society's limited resources. Except it doesn't. Not only do many firms operate far from maximum efficiency (and pay expensive consultants to tell them how they can improve), they produce a host of other social and environmental ills — from inequality to climate change. There is no way that an organisational structure based on incentivising those at the top to extract as much as possible is the most rational — or indeed moral — way to organise production today. And top-down planning with the aim of achieving other ends is just as likely to lead to information and coordination problems.

Complex systems — whether these be firms or entire economies — rely on feedback. They are neither centrally directed, nor perfectly decentralised — they operate on the boundary between chaos and order — the realm of complexity. Such systems are dynamic — they are constantly moving. It is never possible to achieve a static equilibrium because conditions are always in flux. Instead, feedback from different parts of the network helps people to self-organise with the aim of achieving a collectively-determined goal, with some coordination and direction provided from the centre.

Capitalism, on the other hand, operates at the two poles of order and chaos. Within the firm — which neoclassical economists don't study, but which Marxists do — production is organised through command-and-control, enforced by the threat of "the sack" and supported by various other technologies of control and exploitation. Outside of the firm, the state determines the rules of the game, backed up by the threat of force. These two institutions — firms and states — work together to produce an economic system based on domination, which also provides the appearance of freedom. Because within the market — its boundaries having already been determined by the powerful — economic activity seems almost anarchic. There are booms and busts, firms rise and fall, individuals are encouraged to place themselves in constant competition with one another just to survive. And this entire controlled and chaotic, free and coercive system is governed with one sole aim: maximising profits for those at the top.

Finance-led growth represents the apogee of the logic of capitalism. The owners of capital are able to derive profits without actually producing anything of value. They lend their capital out to other economic actors, who then hand over a portion of their future earnings to financiers, limiting economic growth. The costs of this model are left to future generations in the form of mountains of private debt and unsustainable rates of resource consumption. If the logic of capitalism is based on extraction from people and planet today, then finance-led growth is based on extraction from people and planet today and tomorrow, until the future itself has been stolen.

Climate change, global poverty and the financial crisis are all disasters that have emerged from firms and governments mismanaging the complex systems that they have created in the pursuit of profit. Capitalism has built these systems, and the powerful are trying to contain their complexity using hierarchical, top-down decision-making processes that are unfit for the task. As a result, capitalists are slowly losing control. As Marx put it, modern bourgeois society, which "has conjured up such gigantic means of production and of exchange, is like the sorcerer, who is no longer able to control the powers of the nether world whom he has called up by his spells".[25]

There is a better way. Just as feudalism paved the way for capitalism, the development of capitalism is paving the way for socialism. Socialising ownership would ensure that economic growth and development benefit everyone — if everyone has a stake in the economy, then when the economy grows, we all get better off. But it is the democratic aspect of democratic socialism that is truly revolutionary. Rather than organising production based on the profit motive, working people would come together to determine their collective goals and how best to achieve them. Rather than working purely to maximise profits, we would be working to maximise our collective prosperity, which includes the health and happiness of people and planet.

Building the Future

Visions of the future abound. Democratic socialism, cybernetic socialism, fully automated luxury communism — all these utopian dreams are slowly seeping into our collective consciousness and allowing us to imagine a future not governed by the logic of private ownership and the market. But it is not enough simply to imagine a new world: we must develop a strategy to get there. Historical change does not proceed in neat, clearly delineated stages. We cannot wait for capitalism to fail and socialism to replace it. But equally, we cannot force our way towards a socialist society if the technological conditions, economic outputs, and, most importantly, the power relations that would support it are not already starting to emerge. What we need is a plan to get from here to there, based on an analysis of our current situation and the strategic points for intervention it offers.[26]

And this requires an analysis of how change actually happens. Socialists have long been divided between those who claim that history is driven forward by the objective forces of technological change — a view informed by one reading of Marx — and those who argue that history is driven forward by people coming together to organise and influence events — a view informed by another reading of Marx. One prioritises structures — the overarching political, economic, and technological conditions that shape what happens in the world — whilst the other prioritises agency — the individual and collective actions undertaken by people who are free to shape the conditions of their own existence.

Marx himself brought these ideas together using the notions of "contradiction" and "crisis".[27] Capitalist systems, of whatever kind, have their own inherent contradictions — internal problems which mean that, after a while, they stop working properly. The 2008 financial crisis resulted from the contradictions of finance-led growth — the creation of huge amounts of debt, the growth of the finance sector, and declining wages and capital investment. Capitalist systems can trundle along for decades, their problems getting worse and worse without anyone noticing, until they implode in a moment of crisis. These moments — understood as historical epochs rather than brief time periods — are especially important in determining the course of capitalist development. During a crisis, economic and technological structures loosen their grip over human action. Institutions cease to function, peoples' ideas cease to make sense, rifts emerge within dominant factions, material resources are destroyed, and everything becomes more contingent. Possibility expands during moments of crisis: individual and collective action comes to matter much more.

Marx's theory of history provides us with a unique understanding of our own times, and how we might change them. The contradictions of the social-democratic model created acute tensions in British political economy during the 1970s, and the crisis that ensued provided the perfect political moment for the wealthy to build a new institutional compromise out of the wreckage of the old.[28] They took this opportunity and used it to rebalance power in society away from labour and towards capital, institutionalising a new model of growth and giving rise to a period finance-led growth from the 1980s to 2007.

Finance-led growth was born, and for a while it seemed as though we had chanced upon a uniquely stable economic model. Politicians spent most of the 1990s and early 2000s claiming to have solved the problem of boom and bust. History, they told us, was over.[29] Capitalism had won. In fact, for these observers, history had ended almost as soon as capitalism was born. The bourgeois economists, Marx claimed, operate according to the belief that "there has been history, but there is no longer any".[30] There is, they argue, no alternative to capitalism: "things might be bad for you now, but they could be a whole lot worse — just look at Venezuela". If anything, the masses should be grateful for the benign, enlightened leadership of the ruling class.

The financial crisis shattered this illusion. And yet the ruling classes continued as though nothing had happened. They implemented austerity on the basis of an economic analysis undertaken by those who had failed to predict the crisis, and they ensured that the costs fell mainly on those least able to bear them. Many of the same elites who have governed the global economy for the last forty years remain in power to this day, which is perhaps why so few of the issues that caused the crisis have been dealt with. Debt levels are extraordinarily high, inequality is rising, the environment is collapsing, and policymakers seem less able to get to grips with these issues than ever before. Where is the revolt? Isn't the financial crisis a paradigmatic example of our collective inability to challenge the deep-rooted logic of the capitalist system?

Yes and no. Ideas, behaviours, and beliefs that are built up over a lifetime cannot be undone overnight. Those raised during the end of history did not see the scales fall from their eyes on the day that Lehman Brothers collapsed. And far from organising in the shadows like the Mont Pelerin Society — the network of right-wing thinkers who sought to undermine social democracy — the left has spent decades in retreat under neoliberalism. Socialist parties, movements, and narratives all faded into the background: many genuinely believed that the centuries-long struggle between labour and capital was over. It took a while for people to realise that the crash had not been a blip; that capitalism was not invulnerable; and that things were only going to get worse, not better. Today, after the extended period of stagnation that followed the crash, we inhabit a revolutionary moment. We live in the shadow of a great event that will come to define the thinking of a generation.[31]

But unless we are able to contextualise this moment in the long history of capitalist development, we will fail to exploit its full potential. To move beyond capitalism, we must develop an understanding of its structural weaknesses to determine how best to challenge it. By exposing the unseen, unquestioned laws according to which the economy works, Marx demonstrated that history would continue under capitalism: that things could be different. Applying his method to our current moment allows us to understand how the system really works, and how we might go about changing it.

In just over a decade, it will be too late for us to deal with one of the greatest challenges humanity has ever faced, and before that, elites are likely to have reasserted their control by foisting upon us a new order that maintains all the powers of the old. But between now and then lies an extended moment of crisis — a moment of contingency and uncertainty — a moment during which the logic of capitalism has once again been brought into question. A new economy, and a new society, is slowly being born in the minds of those who know that history will never end. It is up to us to bring that new world into being.

CHAPTER ONE THE GOLDEN AGE OF CAPITALISM

In 1944, the great and the good met in Bretton Woods, New Hampshire, to discuss rebuilding the world economy in the wake of the bloodiest war in history.[1] The American delegation, led by Harry Dexter White, had been sent to ensure that the reins of the global economy were handed from the UK to the US in an orderly fashion. The British delegation, led by the famed economist J.M. Keynes, had been sent to retain as much power as conceivably possible without angering the UK's main creditor, the US, which had emerged as the new global hegemon in the wake of the destruction of Europe. White, a little-known Treasury apparatchik, was a "short and stocky… self-made man from the wrong side of the tracks". Other delegates recall that he was shy and reserved, though this may have had something to do with the fact that he spent much of the conference in hushed meetings with the delegates from the Soviet Union. Years later, he was accused of being a Russian spy, which he denied before dying from a heart attack. Keynes couldn't have been more different — a tall, intellectual member of the British establishment, who unabashedly touted his achievements and promoted his own ideas. They were the "odd couple of international economics".

The conference itself was, by all accounts, a raucous affair. Its wheels were greased with alcohol and fine food — in the small hours of the morning, delegates could be found drunk and cavorting with the "pretty girls" sourced from all over the US. Keynes predicted that the end of the conference would come alongside "acute alcohol poisoning". The hotel boasted top of the range facilities, including "boot and gun rooms, a furrier and card rooms for the wives, a bowling alley for the kids, a billiard room for the evening", as well as a preponderance of bars, restaurants and "beautiful women". The more extravagant, the better — the splendour and superiority of the American way was to be shown at every turn.

It is somewhat ironic that the decadent crowd at Bretton Woods came up with an agreement that would hold back the re-emergence of the gilded age of the inter-war years. Bretton Woods was meant to prevent the outbreak of not only another world war, but also another Wall Street Crash. Keynes argued forcefully that doing so would require reining in what he called the "rentier class": those who made their money from lending and speculation, rather than the production, sale and distribution of commodities.[2] In the late eighteenth and early nineteenth century, rentiers had become extremely powerful on the back of the rising profits associated with the industrial revolution and increasing trade within the world's constellation of empires. In the absence of controls on capital mobility, these profits traversed the global economy seeking out the highest returns. Much of this capital was invested in US stock markets, pushing up stock prices and inflating a bubble that eventually popped in 1929.

What the Great Depression started was finished by the Second World War, which saw billions of dollars' worth of destruction, and increases in taxation to finance states' war efforts.[3] As a result, financial capital emerged from the first half of the twentieth century on the back foot, which made reining in the parasitic rentier class easier. Whilst the negotiators at Bretton Woods were undoubtedly concerned with securing the profitability of their domestic banking industry — not least the emerging power of Wall Street — just one banker was invited to the summit by the US delegation.[4]

Between the eating, the drinking, and the flirting, delegates at the conference hammered out an historic agreement for a set of institutions that would govern the global economy during the golden age of capitalism. The world's currencies would be pegged to the dollar at a pre-determined level, supervised by the Federal Reserve, and the dollar would be pegged to gold. Capital controls were implemented to prevent financiers from the kind of currency speculation that could cause wild swings in exchange rates. The system of exchange-rate pegging and controls on capital mobility served to hem in those powerful pools of capital that had wreaked such havoc in the global economy in the period before 1929. Bretton Woods was a significant step forward in reining in the rentier class.

But Keynes didn't get everything he wanted. He was hindered in his battle against international finance by the formidable Dexter White, backed up by the full force of US imperial power. White wished to retain the US dollar as the centre of the international monetary system, whilst Keynes wanted it replaced with a new international currency — the bancor. White emerged victorious, and the US gained the "exorbitant privilege" of controlling the world's reserve currency.[5] In other words, as well as constraining international finance, Bretton Woods also institutionalised American imperialism.[6]

The Bretton Woods conference marked the dawning of a new era for the global economy. Europe set about the long processes of post-war reconstruction and decolonisation, and the multinational corporations of the world's newest superpower profited handsomely.[7] Trade flows increased after the years of autarky during the war, and a new age of globalisation began. Whilst Bretton Woods provided the international framework for this economic renewal, it was at the level of national economic policy that the transition from pre-war laissez-faire economics was most evident. Keynes was, once again, at the centre of these developments.

In the inter-war period, Keynes had mounted a challenge to the economics profession by developing a theory of economic demand that challenged the central tenet of classical economics — Say's law, the idea that supply creates its own demand.[8] According to Jean-Baptiste Say — a Napoleonic-era French economist — prices in a free market will rise and fall to ensure that the market "clears", leaving no goods or services left once everyone has had the chance to bid. If the market fails to clear — i.e. if businesses have products to sell but no one wants to buy them — it is because something is getting in the way of the price mechanism, like taxes or regulation. The law applied to workers as well as commodities, which reinforced the idea that there could be such a thing as involuntary unemployment. If a worker was unable to find a job, it was because he was setting his wage expec- tations too high.

This ideology was, of course, at odds with the experiences of those who had lived through the Great Depression. But the classical economists would retort that their field was a science, which paid no heed to the sensibilities of working people. Keynes was able to prove them wrong. His great innovation was to introduce the idea of uncertainty into economic models. When people are uncertain about the future, they may behave in ways that seem irrational — for example, saving when they will receive little return for doing so, or spending far above what they can afford. This is because in the context of uncertainty, people prefer to hold liquid (easy-to-sell) assets — and they tend to prefer to hold the most liquid asset of all: cash. Liquidity preference means that, the higher the levels of uncertainty, the more people save rather than spend.

This kind of uncertainty marks business' behaviour even more than consumers' and affects their investment decisions. If businesses' confidence about the future turns, then they are likely to stop investing. These lower levels of investment will result in lower revenues for suppliers, who may have to lay people off, who will reduce their spending, leading to a fall in economic activity. This kind of self-reinforcing cycle of expectations is what gives rise to the business cycle: the ups and downs of the economy through time. It also shows why, over the short term, Say's law doesn't hold — if businesses lack confidence in future economic growth, they may choose not to spend even if they can afford to do so. And as Keynes famously stated, "in the long run we are all dead".

But Keynes' didn't stop with this theoretical innovation, he also offered solutions to policymakers. Say's law implies that taxes and regulation distort the normal functioning of the market, and that it is best for everyone when state economic policy is as unobtrusive as possible. But Keynesian economics provides a role for the state as an influencer of expectations, and a backstop for demand. If, for example, business confidence drops and investment falls, the state can anticipate the multiplier effect this will cause by increasing its own spending or by cutting interest rates, making borrowing cheaper. If, on the other hand, businesses are investing too much, leading to inflation, the state can cut spending or raise interest rates to mute the upward swing of the business cycle. Managing the business cycle also required reining in the influence of finance, because lending and investment are also pro-cyclical: they rise during the good times and fall during the bad times. If the role of government was to lessen the ups and downs of the business cycle, it must properly regulate finance, which so often exacerbated these ups and downs.

This kind of Keynesian economic management had a significant influence on economic policy in the post-war period. The destruction of the war, the increasing size of the state, and the arrival of Bretton Woods led to something of a rebalancing in the power of labour relative to capital within the states of the global North.[9] The rising political power of domestic labour movements led to the widespread take up of Keynes' ideas, which were, after all, aimed at preventing recessions and unemployment. States and unions often developed close relationships with one another via emerging mass parties representing labour, and many had a centralised collective bargaining process. Taxes on the wealthy and on corporations were high — underpinned by low levels of capital mobility — and societies became much more equal. During this time, many Keynesians believed that they had finally succeeded in taming the excesses of a capitalist system that had caused so much destruction in the preceding decades, which is why this period was termed the golden age of capitalism, following the gilded age of the pre-war years.

In the UK, this period saw the emergence of a new type of political economy, often referred to as the post-war or Keynesian consensus.[10] Following the wartime coalition, Labour roundly defeated the Conservatives in the 1945 election and Clement Attlee became prime minister. The new Labour government seized on Keynesianism which had, up to that point, had a limited impact on economic policy: Keynes' ideas had revolutionised economics, but it took a change in power relations for them to revolutionise the real world. Over the course of the next several decades, inequality fell, wages rose in line with productivity, living standards for the majority rose and both the labour movement and the state apparatus became more powerful relative to capital. The welfare state developed, providing a safety net when the business cycle turned, as well as increasing the social wage and therefore workers' bargaining power. And whilst the City grew, and retained its strong influence over government, the rentier class — landlords, speculators, and financiers — was much more constrained than it had been before.

The post-war consensus could be enforced because the workers, who stood to benefit from Keynesian management of the economy, had emerged from the war more powerful than ever before, and they organised to make it happen. In this way, the rebalancing of power from capital to labour that came about as a result of the war was institutionalised in the post-war social and economic framework implemented in the 1940s.

How Does Change Happen?

This understanding of historical change — that which is driven by power relations, institutions, and crisis — is based on one reading of Marx's analysis of history. One reading because it is a topic upon which Marxists continue to disagree. In particular, there is some disagreement between those who believe Marx prioritised economic structures in his analysis of historical development, and those who believe he prioritised agency. In other words, these groups have different answers to the question: "what matters most when it comes to historical change – economic and technological conditions, or how people respond to these conditions?"

On the first view, technological change leads to changes in peoples' working conditions, and this leads to changes in the balance of power within society, and therefore peoples' ideas. For example, the advent of mass production made it easier for workers to share political ideas and to organise to resist their exploitation, facilitating the emergence of unions. In this case, the political change naturally follows from the technological change in a way that can appear inevitable. Economic and technological conditions – what Marx referred to as the economic base – determine the balance of power in capitalist societies, and those with the power set about building institutions that reinforce their ideas – what he referred to as the superstructure. The powerful use their control over education, the media, and the law to influence their narratives, which determine how people make sense of the world. This is how the system remains stable from day to day. But it is all underpinned by an asymmetry of material power – by who has the control over force and resources. Taken to extremes, those who view history in this way may claim that human agency doesn't matter at all – history progresses due to changes in technology, not human decisions.

Others respond that human beings aren't robots: we have the capacity for free thought, debate and to make sense of the world in our own ways. They claim that the superstructure has power in its own right – institutions can shape the development of capitalism, they can make it harsher or kinder, more extractive or less exploitative. And institutions can be shaped by battles that take place in the realm of ideas. These people can often be found arguing that, if a policy is convincing enough, and if we lobby hard enough, we will be able to implement it and change the way capitalism works. For them, it is human action that drives history, not the other way around. For example, the development of social democracy wasn't just based on changes in technology that made it easier for workers to organise. It was workers who won limits on the working week, sick pay, and eventually even the creation of the welfare state itself; and they did so by organising.

The determinism of the structuralists jars with the utopianism of those who view human agency as the driving force of history, and this tension has dominated debates on the left — and indeed in the social sciences more broadly — for generations. Marx's own method for dealing with these questions – also the method used in this book – was based on the idea of the dialectic, in which what appear at first as opposing forces merge to determine the direction of historical change. The economic base — the technological basis of production — interacts with the super-structure — ideas, culture, and institutions — to determine what happens and when. Under this view, the nature of technology and the economy provides the overarching context in which human action takes place — these things shape peoples' incentives and behaviours in ways that make certain outcomes more likely than others. But they do not determine human action. People, their capacity to organise themselves, and the ideas they hold, still have the capacity to drive and shape history in ways that cannot be determined through an analysis of their economic conditions alone. Men make their own history, but they do not make it as they please.

The relationship between structure and agency becomes particularly important during moments of structural crisis, which naturally emerge in capitalist systems due to their inherent contradictions.[11] Capitalism is subject to contradictions that stop it from working properly — from workers not earning enough to purchase the goods capitalists are producing, to the emergence of financial crises driven by investment booms, to the environmental crises associated with the injudicious extraction and use of the planet's scarce resources. These contradictions are contained by political institutions designed by the powerful to make the system more stable — like the welfare state or financial and environmental regulation. But these institutions do not stop the contradictions from emerging, they only mute their impact. As capitalism develops, its contradictions escalate until they explode in a moment of crisis. These extended periods of crisis are critical in determining how change happens. Moments of crisis are moments when institutions, norms, and discourses break down — it becomes harder for our political, economic, and social systems to function, and much more difficult for people to make sense of the world. Divisions emerge amongst the people with the power, which leave them vulnerable to all sorts of attacks — most revolutions have taken place during moments of crisis. The structural flaws of capitalism lead to crises, and crises are times when agency matters more: it is primarily during these moments that ideas and the movements that champion them can influence the course of history.

And this is exactly what happened in the post-war period. The destruction of the war had changed the balance of power between capital and labour and created an institutional crisis of which the latter could take advantage. Working people used this moment of crisis to organise and institutionalise a new settlement — one that would benefit them. And for a long time, this framework worked. But it could not last forever. As the twentieth century progressed, capital began to strain against the leash that had been placed on it, and the compromise between labour, capital, and the state began to break down. Social democracy, just like any capitalist economic model, was subject to its own inherent contradictions. And its collapse paved the way for something new entirely.

The Rise of Global Finance

On 28 June 1955, G.I. Williamson, the Chief Foreign Manager of the Midland Bank was called into the Bank of England to discuss what appeared to be some unusual dealings in the foreign exchange markets.[12] Midland Bank had been engaging in an activity that, up until 1955, no UK bank had dared to try. It had been taking deposits denominated in US dollars and paying out interest to the holders of these deposits — an activity formerly restricted to US banks regulated by the Federal Reserve. The Bank of England's "gentlemanly" approach to regulation at the time is well-documented. Bankers were frequently invited to Leadenhall Street — an old, imposing building, in which alumni of Eton, Oxford, and Cambridge were likely to have felt quite comfortable — for a cup of tea and a chat. Occasionally stern words were exchanged, but rarely would any real discord disturb what has been described as the "dream-like" state of the City of London in the golden era of capitalism.

The discussions between Williamson and Cyril Hamilton, a Bank official, were no different. Hamilton summarised the meeting in a memo reassuring his higher-ups that "nothing out of the ordinary had taken place" at Midland and that its foreign exchange activities had been undertaken in the "normal course of business". In any case, Hamilton reported that "Williamson appreciates that a light warning has been shown". Quite why a light warning would have been required for proceedings undertaken in the normal course of business was not specified. Perhaps Hamilton had a faint inkling that Midland's activities represented an entirely new phenomenon that the Bank of England was not quite equipped to manage. It is, however, highly unlikely that he realised he had just given the go ahead for an innovation that, within two decades, would have transformed global finance.

The new market in dollars outside of the US, and therefore outside of the jurisdiction of the Federal Reserve, was called the "Eurodollar market". Usually, when you hold a foreign currency, you can either spend it in a foreign country, deposit it in a foreign bank, or invest it in foreign assets — a British bank wouldn't generally allow you to deposit euros in your bank account. The Eurodollar markets changed all this by allowing banks to take and pay interest on foreign currency deposits. The term "Eurodollar" is something of a misnomer given that the first non-US dollar deposits were taken in the UK, but it stuck, and today the prefix "Euro-" is used for any currency held outside its home country; for example, "Euroyen" are Japanese yen held outside Japan. The implications of this system weren't truly visible until the Eurodollar markets took off in the 1970s. Socialist and newly-wealthy oil-producing states that wanted to hold dollar deposits without depositing them in US banks were able to put their dollars in London instead. London's Eurodollar markets grew substantially as a result.

The Eurodollar markets undermined Bretton Woods by creating a global system of unregulated capital flows.[13] Those investors holding dollars — pretty much everyone, given the use of the dollar as the global reserve currency — could now deposit them into the City of London. These dollars would then be free to float around the global economy at will, unhindered by the strict regulation then imposed on US banks by the Federal Reserve. Billions of dollars had ended up in the unregulated Eurodollar markets by the 1970s, undermining Keynes' determination to curb the hot money of the rentier class. This gave financiers in the City an almost bottomless pit of dollar reserves to play with. After decades of retrenchment for the former financial centre of the largest empire in the world, the Eurodollar markets gave the City of London a new lease of life.

But the growth of the Eurodollar markets wasn't the only threat to Bretton Woods that emerged in the 1970s. The increase in international trade that took place in the post-war period benefitted some countries more than others. US corporations, backed by the most powerful state in the world, grew substantially. Many were drafted by the US government to help rebuild Europe, becoming some of the first modern multinational corporations in the process. Between 1955 and 1965, US corporations increased their subsidiaries in Europe threefold.[14] As the reconstruction effort took off, they were joined by German and Japanese multinationals, such that by the 1970s there were more, and larger, multinational corporations than ever before.

The growth of the multinational corporation meant that billions of pounds worth of capital was flowing around the world within corporations. Toyota, General Electric, and Volkswagen couldn't afford to keep their subsidiaries across the globe insulated from one another — money had to be moved, even if that meant undermining the monetary architecture of the international economy. Technological change also facilitated direct transfers of capital between different parts of the world. All this meant that, despite the continued existence of capital controls, capital mobility had increased substantially by the 1970s. The combination of the emergence of the Eurodollar markets and the rise of the multinational corporation were beginning to place serious strain on Bretton Woods.

But it was the US government — not the banks — that dealt the final blow to the system that it had helped to create. With the dollar as the reserve currency, the US had gained the "exorbitant privilege" of being able to produce dollars to finance its spending[15]. Because everyone needed dollars, the US could spend as much as it liked without the threat of hyper-inflation. The gold peg was supposed to rein in this behaviour: if investors started to think that there were more dollars in circulation than gold to back it up, they might turn up at Fort Knox demanding the weight of their dollars in gold. But this didn't stop the Americans from printing billions of dollars to fund a wasteful and destructive war in Vietnam. Combined with dollars leaking out of the US via its growing current account deficit, the global economy was facing a dollar glut by the 1970s. Realising that there were far too many dollars in circulation to keep up the pretence, in 1971 Nixon announced that dollars would no longer be convertible to gold. Bretton Woods was finally over.

Many expected a sharp devaluation of the dollar at this point, but this didn't happen. In fact, the dollar — strong as ever — continued to be used as the global reserve currency, even in the absence of any link with gold. Finally, the real foundations Bretton Woods had been exposed: American imperial power. The gold peg established at Bretton Woods was not the source of the dollar's value; the source of its value was a collective agreement that dollars would be used as the default global currency, much as English had by that point become the default global language. Freed from the need even to pretend it was covering its increased spending with ever-greater gold reserves, the power of the US Treasury was finally unleashed, with consequences that would not be felt for three and a half decades.

The end of Bretton Woods represented a profound transformation in the international monetary system. Absent any link with gold or any other commodity, money became nothing more than a promise, created by fiat by the state issuing it. The value of a currency would now be determined by the forces of supply and demand. Rather than having to limit the amount of money they were creating in order to maintain a currency peg, states would be able to create as much money as they liked, accounting only for the threat of inflation. Private banks were also now free to create currency on their behalf in the form of credit, constrained only by domestic regulation. The collapse of Bretton Woods represented the final step away from a system of commodity money, which has been the norm for most of human history, and towards fiat and credit money, which now dominate all other forms of money. The implications of this change would be far more profound than anyone could have seen at the time.[16]

With the demise of Bretton Woods, capital was finally released from its cage. Many countries continued to maintain capital controls and strict financial regulation. But the glut of dollars that had emerged at the international level needed somewhere to go. Meanwhile, the capital that had been stored up within states like the UK under Bretton Woods was desperate to be released into the global economy. It pushed and strained against the continued existence of capital controls, finding ever more ingenious ways of getting around the system. Finance capital had returned with a vengeance, and it sought to remove all obstacles to its continued growth. But it would take a national crisis for the remnants of the post-war order finally to fall.

The Political Consequences of Social Democracy

Just as Bretton Woods was collapsing, the social democratic model was starting to show signs of strain.[17] Bretton Woods created a global economy, with global corporations, global supply chains, and global competition. Eventually, the system became a victim of its own success. Some companies — notably the US multinationals — thrived, but many others found it harder and harder to compete with the rising industries located in Germany, China, and Japan. UK corporations in particular found themselves struggling to benefit from the new wave of globalisation, partly because sterling was pegged to the dollar at too high a level, making British exports more expensive to international consumers.[18] These firms struggled to cope with increasing international competition, and by the end of the 1960s, their profits had been seriously reduced. By the 1970s, the UK was referred to as the sick man of Europe. From 1973, after an attempt at a European peg was abandoned, sterling continuously fell against the dollar until, in 1976, sterling below $2 for the first time.[19]

In this context, one might have thought that the end of Bretton Woods would be good for British capitalists. Freed from the overvalued exchange rate, manufacturers would now finally be able to compete internationally once again. But decades of stagnation cannot be undone overnight. Britain's manufacturers found that, even with a lower exchange rate, they could not compete with the new multinationals on either quality or cost. The first oil price spike in 1973 drove an increase in inflation, which exceeded 20% in two years over the course of the 1970s, peaking at 27% in the year to August 1975. In the absence of strong unions, rising inflation driven by rising costs might not have been such a systemic problem. Under other circumstances, bosses would have laid off workers or reduced pay to cut costs. But with the post-war consensus still firmly in place, unions pressed for pay rises that kept pace with inflation. Able to bargain with and make demands on the state, the unions refused to back down.

Nevertheless, as cost pressures mounted, unemployment rose. The state flitted between increasing spending to alleviate unemployment and cutting it to reduce inflation. The oil price spike had created a catch-22 situation that Keynesian policymakers were not equipped to deal with: stagflation — the combination of unemployment and inflation. This was not supposed to happen. Keynesian economics was based on the idea of the Phillips Curve. In the 1960s, economists drew on the work of William Phillips to posit an inverse relationship between inflation and unemployment. According to the models they built, when unemployment was high, inflation was low, and vice versa, implying that states should tolerate moderate levels of inflation in order to promote full employment.[20] Governments were supposed to boost spending and reduce interest rates until full employment was reached, at which point they should start to reduce spending and raise interest rates in order to bring down inflation. Effecting this balancing act between inflation and unemployment was seen as the main aim of economic policy throughout the post-war period.

But by the 1970s, social democratic management of the economy was failing to bring down either unemployment or inflation — the latter of which was driven by political developments halfway around the world. Increases and decreases in interest rates had done nothing other than create a "stop–go" economy that fluctuated from one set of extremes to another. In this uncharted territory nobody knew what to do. By the time unemployment reached 4% in the early 1970s, it was clear that the state was trying to resolve the issue by tacitly withdrawing its promise to protect full employment in an effort to bring down inflation. But such a strategy posed an existential threat to the UK's trade unions: the withdrawal of the state's commitment to full employment would mean losing a powerful ally in their fight against the bosses. They could not afford to go down without a fight — not to mention, their members required jobs and pay increases in line with inflation to be able to survive. Industrial action escalated, especially in the industries with the most powerful unions – particularly the miners, whose power stemmed from their control over the nation's energy supply.

Economic turmoil created a political crisis. On the one hand, by the mid-1970s, the Conservatives had roundly failed to turn years of strikes, energy shortages, and stagflation into an electoral advantage. Ted Heath went to the nation and asked them to decide "who governs this country? Us or the miners?". On the other hand, the Labour government elected in 1974 proved equally unable to end the stalemate. Pursuing a more conciliatory approach, Harold Wilson raised the miners' wages and attempted to implement a "social contract" between capital and labour, involving a voluntary incomes policy in which the government negotiated pay increases with the unions. But the second oil price spike — which came three years after the UK had sought an emergency loan from the International Monetary Fund — was the nail in the coffin of the social contract. In 1979, with inflation spiralling once again, the unions pushed for a return to free collective bargaining.

1979 was the coldest winter since 1962, and the combination of industrial action, economic stagnation, and energy shortages led to its being termed the "Winter of Discontent". A sense of crisis hung in the air. In January 1979, Prime Minister James Callaghan was at a summit in Guadeloupe and was asked by a journalist about "the mounting chaos in the country". He responded that he didn't think others would agree with the journalist's assessment that the country was in chaos. The following day, the *Sun* famously ran with the headline: "Crisis, What Crisis?". By 1979, Britain was at a crossroads: the unions would not back down, and the social democratic state could not afford to confront them. What had happened to the golden age of capitalism?

Looking back, it is quite clear that the 1970s were a turning point for the post-war consensus. Businesses could not afford to continue to tolerate unions' demands for pay increases in the context of rising international competition and high inflation. But unions could not afford *not* to demand jobs and pay increases in line with inflation. These problems were structural — they were inherent to the way the system functioned. Economic actors pursuing their own interests — whether businesses trying to increase profits, or workers trying to increase wages — eventually led to the emergence of acute strains that threatened to bring the British economy to the brink of collapse. The contradictions inherent in the social democratic growth model had finally come to the fore, and there were only two potential solutions to the crisis: a victory for the workers, or for capital. Much depended on where the loyalties of the state would lie.

Michał Kalecki — a Polish economist who theorised demand management at the same time, and some have said before, Keynes himself — had foreseen such problems decades earlier.[21] After reaching his conclusions about the capacity of the state to control demand in the economy, he argued that such policies couldn't work for long because there were "political aspects" of full employment policy that rendered it inherently unstable. The state's commitment to promote full employment undermined the thing that made capitalism work: the threat of the sack. A policy of full employment would remove the "reserve army" that capitalists relied on to ensure a steady stream of cheap labour. Without desperate workers to exploit, profits would dry up.

The powerful state that had emerged from the Second World War had committed a second sin: it was no longer afraid of the capitalists' threats to withdraw investment. When the government invests too much in the economy, and especially when certain industries are nationalised, it becomes much harder for businesses and investors to withdraw their capital when the state does something they don't like — the option of "capital strike" is removed. Over the long-term, the combination of these factors encourages owners of capital to oppose policies that promote full employment, even if those policies also boost consumption and therefore support capitalists' profits.

Kalecki's argument is not that social democracy is economically unsustainable, but that it is politically untenable: at some point, a political crisis moment will be reached. He explains:

> [U]nder a regime of full employment, the "sack" would cease to play its role as a disciplinary measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension. It is true that profits would be higher under a regime of full employment than they are on the average under laissez-faire... But "discipline in the factories" and "political stability" are more appreciated than profits by business leaders.

This is what appears to have happened in the 1960s and 1970s. With high wages, low unemployment, and moderate levels of inflation, the power of the UK's unions grew. The distributional tension over profits between the bosses and the workers was muted during the early years due to the investment and aid being sent by the US and the increase in global trade facilitated by Bretton Woods. But when things started getting tough — when inflation increased and competition from abroad began to erode profits — these tensions exploded onto the national stage. It was at this point that the political contradictions of social democracy became apparent; when the battle between capital and labour finally became zero-sum.

With profits under pressure, only one thing determined who got the gains from growth: who had the power. Thanks to rising capital mobility and the breakdown of Bretton Woods, the balance of power between capital and labour had changed by the 1970s. Capitalists could threaten to up and leave if they didn't like the business environment — and though capital controls were still in place, many were finding ingenious ways to move their money anyway. With state support for the labour movement weakening, workers, meanwhile, found themselves facing up to bosses without powerful political allies.

These pressures steadily wore away at the post-war consensus, until they erupted during the crisis of the 1970s. But the old model would not completely collapse until a new one emerged in its place. The political tumult created by the erosion of British social democracy — echoed by the retreat of social democratic movements over much of the global North — provided a long-awaited opportunity for those who had been marginalised during the post-war boom to shape what came next. The left seemed out of answers, but the right saw that their moment had finally arrived.

Never Let a Serious Crisis Go to Waste

After asking voters "who runs the country" and being told "not you", the humiliated former prime minister Ted Heath was forced into organising an election for leadership of the Conservative Party in 1975. Despite losing the twin elections of 1974, Heath maintained the support of much of the Conservative establishment and newspapers. He was expected to win. But instead he was ousted by the young upstart elected on a radical new economic programme that would eventually come to be known as neoliberalism: the theory that human wellbeing is best advanced by liberating the entrepreneurial spirit through free markets, private property rights, and free trade, all supported by a strong state.[22] Her name was Margaret Thatcher.

Thatcher's radical, neoliberal economic agenda had been forged decades earlier in the Swiss village of Mont Pélerin.[23] In 1947, a group of economists from all over the world met to develop a new programme that would begin the fightback against the "Marxist and Keynesian planning sweeping the globe". This was an austere, intellectual affair, in stark contrast to the bawdy conference that had taken place across the Atlantic three years previously. The Mont Pelerin Society, or the MPS — as the group would name themselves — knew that they were politically and intellectually isolated. The credibility of pre-war laissez-faire liberalism had crashed with Wall Street in 1929. The war that had followed these events had empowered the state to levels never previously seen in history, and these states had used their power to constrain the activities of the international financiers who were sponsoring the event.

The MPS objected to any state intervention that stood in the way of free markets. They were deeply offended by the creation of the National Health Service and the introduction of a social safety net. The rise of the unions and the role of the state in supporting collective bargaining were equally significant affronts to neoliberal ideology. But perhaps the most egregious aspect of the post-war consensus was the continued existence of capital controls. Allowing the state to determine where an individual could put their money was seen by some as a threat to human liberty, and to others simply as a barrier to profitability. The alliance between ideologues, desperate to create a world free of totalitarianism where private enterprise thrived, and the opportunists who wanted to undermine a system that was preventing them from making money, marked the Mont Pelerin Society from day one.

This ambiguity is important to understanding how neoliberalism eventually rose to prominence. It is both an internally-coherent intellectual framework and an ideology used to promote the power of the owners of capital in general, and finance capital in particular.[24] The work of Hayek, von Mises, and others constituted a serious intellectual enterprise grounded in a particular set of values: namely, a commitment to human freedom, defined by control over one's property.[25] The fact that this gave justification for shrinking the size of the state, removing capital controls, and reducing taxes is what led several prominent international financiers to cover a large portion of the costs for the first meeting. One can see a parallel in the development of Keynesianism and the Labour Party's adoption of this ideology. On the one hand, Keynes sought to "save capitalism" from its own contradictions, and on the other the Labour Party sought an ideology and set of policies that would allow it to maintain a compromise between the workers, capitalists and the state. In this sense, neoliberalism was no more a conspiratorial plot to take over the global economy than was Keynesianism. Intellectuals will always seek out the powerful to sponsor their ideas, and the powerful will always seek out ideas to justify their interests.

The elite that gathered at Mont Pélerin decided, then and there, that they would exhaust their time, money, and intellectual resources in an effort to bring down the system of state capitalism which they saw as paving the way to totalitarianism. Their political manifesto — the "Statement of Aims" — included commitments to promote the free initiative and functioning of the market, prevent the encroachment of private property rights, and establish states and international institutions that uphold these ideals. The Statement of Aims also claimed that "[t]he group does not aspire to conduct propaganda". Yet they hatched a plan to translate these principles into an economic policy agenda that would undermine the social democratic consensus all around the world. Their ideas would be thrust into the mainstream through a network of academics, politicians and think tanks who could spread the word about this newer and better way of looking at economics. They had their work cut out for them. The Keynesian political compromise had seen living standards rise, inequality fall, and a strong bargain emerge between organised labour and the nation-state. Arguing for the abolition of the welfare state made the neoliberals look like dangerous radicals not worth taking seriously. For decades, Hayek and his acolytes were left shouting from the sidelines, derided by academics and politicians alike.

But perhaps the social democrats were too complacent. What looks like unparalleled stability can quickly implode under the dynamic, unconstrained forces of global capitalism. The crisis of the 1970s proved that social democracy was no different to any other capitalist system: it contained its own inherent contradictions that would eventually prove its undoing. Those neoliberals following in the wake of the MPS were as shocked by the collapse of the post-war consensus as anyone else. They had spent decades working at the global level, trying to unpick the regulations that underpinned Bretton Woods, but the national social democratic settlement looked stable in comparison. The Seventies changed everything. With the US state having dealt the final blow to Bretton Woods, the neoliberals felt emboldened. They knew that this spelled the beginning of the end for capital controls. Rising capital mobility would stand them in good stead in their battle with the nation state — capital mobility, after all, gives those who own it veto power. Don't want to pay your taxes? Move your money abroad.

The neoliberals focused their efforts on the British state — the historic centre of global finance, in which the golden age of capitalism already seemed to be coming to a close with the acute crisis of social democracy. The think tanks they had created after Mont Pélerin — the Institute for Economic Affairs and the Adam Smith Institute — started churning out neoliberal propaganda at an impressive rate. They engaged with any politician that was willing to talk to them — and one proved much more open than any other. Neoliberal economists and lobbyists were quick to latch onto Thatcher's campaign for the leadership of the Conservative Party.[26] When she won, they were equally quick to work with her to shape an electoral agenda that would change the course of British history.

Thatcher's campaign hinged on three promises: to take on the unions, shrink the state, and create a nation of homeowners. Her electoral promises were couched in populist terms: the Conservatives would "restore the health of our economic and social life", "restore incentives so that hard work pays", and "support family life by helping people to become home-owners". This talk of restoration allowed Thatcher to frame what were radical economic policies in the language of traditional conservatism, drawing on people's fond memories of the post-war consensus. Her attack on the Labour Party portrayed them as the party of the scroungers, living off the hard-work of others, and the thugs, holding the country to ransom. She sought to appeal to traditional Labour voters by claiming that her economic policies would restore full employment, using the famous "Labour isn't working" posters to portray this message in popular terms. Labour, she claimed, was the party of fringe-extremists seeking to bring down British democracy and replace it with Soviet-style totalitarian rule. The Conservatives were the true party of working people — they would lower your taxes and inflation, while securing you a job and a home. It was a powerful message, and the polling shows that Thatcher's victory came on the back of the switched allegiances of many low-income voters.

This populist rhetoric was, of course, the thin end of the neoliberal wedge. Thatcher knew that there was little public support for the most important elements of the neoliberal agenda, so she hid her commitments to privatisation and deregulation in the small print. In fact, even those policies that Thatcher did advertise — from going to battle with the unions to reducing the size of the state — were no more popular amongst voters in 1979 than they had been in 1974.[27] The lesson of Thatcher's period in opposition is the importance of extended crises in eroding support for the status quo. Even if they weren't particularly keen on privatisation, people were sick to death of the constant disruption associated with industrial disputes, with the high levels of inflation and unemployment, and with the state's apparent inability to deal with any of these issues. Many people voted for Thatcher in 1979 because she appeared to be one of the few politicians who was able to make sense of what was going on and provide workable solutions. Even if you didn't like the Thatcherite agenda, after the Winter of Discontent you might have thought it was worth a try. Milton Friedman — one of the founders of the Mont Pelerin Society — knew this better than anyone. Looking back on the neoliberal victories of the 1980s, he wrote:

> Only a crisis — actual or perceived — produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.

The neoliberals' aim wasn't simply to get Thatcher elected. It was to use the moment of crisis provided by the breakdown of the post-war consensus to institutionalise a new model for the British economy — one that increased the power of capital, just as the Keynesian consensus had institutionalised the power of labour. In this sense, the neoliberals had a view of change just as dialectical as that of any Marxist. The contradictions of social democracy would be exposed by a crisis that would bring the economy grinding to a halt. During such a crisis, people and politicians would search for ideas that might provide them with a way out. By building a narrative, developing an electoral coalition, and gaining control of the state, the neoliberals could use the crisis moment to build a new set of institutions that would give them and their backers the kind of lasting power that social democracy had denied them.

This is what the Thatcherite agenda was all about. Neoliberal economists, think tankers and financiers convinced Thatcher — who didn't need much convincing to begin with — that free markets required a strong state.[28] The only way to deal with the communist threat — at home and abroad — was to aggressively take on the power of the labour movement and release the dynamic forces of market competition that would promote efficiency, profitability, and social justice — as well as restoring the owners of capital to their rightful, unchallenged position as the most powerful group in society. Thatcher and her acolytes knew that they had five years to build such a model, but that once it had been built, it would be just as irreversible as the NHS.

The first thing they did was to deal with the only group capable of challenging their hegemony: the unions. Thatcher spent years, and a great deal of political capital, waging war with the UK's labour movement. The next job was to empower capital in its place. Rather than seeking out an alliance with an ailing national capitalist class focused on mining and manufacturing, Thatcher knew that this required supporting the interests of the burgeoning international capitalist class. The natural allies of such a grouping could be found just down the road from Westminster, in the City of London.

On its own, this victory of capital over labour would not have lasted very long. What the neoliberals needed was an electoral alliance that would render their new system structurally stable. The clue to how this was created can be found in the electoral agenda of the 1979 Conservative government: a small state and property ownership. In place of the alliance between the national capitalist class and the labour movement that governed the post-war consensus, Thatcher would build an alliance between the international capitalist class centred in the City of London and middle earners in the south of England. She secured the support of middle earners by turning them into mini-capitalists through the extension of property ownership and the privatisation of their pension funds. In doing so, she transformed British politics and unleashed a new growth model that lasted over thirty-five years, before collapsing in the biggest financial crisis since 1929.

CHAPTER TWO VULTURE CAPITALISM: THE FINANCIALISATION OF THE CORPORATION

> We accept our responsibilities as a corporate citizen in community, national and world affairs; we serve our interests best when we serve the public interest... We acknowledge our obligation as a business institution to help improve the quality of the society we are part of. We want to be in the forefront of those companies which are working to make the world a better place. — Thomas Watson Jr, former chief executive of IBM, 1969.

When Thomas Watson Jr spoke these words, he was reflecting the mood of the times. This statement was typical of Watson, who believed that the best way to secure the long-term profitability of his business was to account for the interests of all of IBM's stakeholders — workers, managers, shareholders, the state, and society at large.[1] He repeatedly maintained that the guarantor of IBM's success was its commitment to putting its workers first. Under Watson, IBM was responsible for making significant advances in machine learning, developing newer, faster computer processors, and even helping NASA with its space programme. Endicott, New York, a town of around thirteen thousand people in which IBM was headquartered, hosted eleven thousand IBM employees at the firm's peak.[2]

But by 2012, IBM's business model was shaped around quite a different set of goals. The key promise of the 2015 road map was to "[leverage] our strong cash generation to return value to shareholders by reducing shares outstanding". Its measure of success: increasing the share price to $20 per share by 2015. Rather than innovate, IBM has set out to achieve this mission through mergers and acquisitions.[3] Between the end of Watson's tenure and the present day, employment in Endicott fell from ten thousand to just seven hundred. In contrast, an investor who had bought a thousand IBM shares for $16,000 in 1980 would have seen those shares increase in value twenty-five times: their holding would now be worth almost half a million dollars.

Watson Jr would be unlikely to recognise the IBM that exists today. Gone are the concerns with stakeholders, or even workers. Instead, the corporate culture of one of the greatest technology companies in the world has been reshaped around a single imperative: maximising shareholder value. Describing the transformation of IBM in this way is not meant to imply that Thomas Watson Jr was a particularly saintly individual, or that today's chief executives are particularly awful; nor that the old IBM model was perfect: clearly, the obsession with the "national interest" suggests a symbiotic relationship between multinational corporations and the US state that has not been a progressive development. But the change in business discourse — from an emphasis on stakeholder value, with workers at the core, to shareholder value, with workers coming last — reveals a deep change in the way corporations are run.

Today's corporations have become thoroughly financialised, with some looking more like banks than productive enterprises. The financialisation of the non-financial corporation has involved a transfer of society's resources from workers to shareholders. This transfer of power has resulted both from changes in the political and economic foundations of the global economy and from the rise of a new ideology, which holds that corporations' sole aim should be to maximise profitability via increasing returns to shareholders. Both ideas and power relations have to change to create any lasting economic change — and the 1980s was a period of transition for both.

Firstly, rising capital mobility and the collapse of the post-war consensus increased the power of big institutional investors. Institutional investors control pools of money, such as hedge funds and pension funds, and are able to invest and divest huge sums at will.[4] Much of this money was invested in corporations, allowing investors to use their power to control how these corporations were managed. Organisations were restructured to ensure that managers' sole aim was to make as much money for their shareholders as possible. And the money that went to shareholders was money that wasn't going to workers or being invested in future production.

Secondly, neoliberalism was sweeping the world by the 1980s, and with it the idea that the ruthless pursuit of profit was the only responsibility of any corporation.[5] This translated into a simple imperative for corporate executives: maximise shareholder value.[6] The valorisation of profit was cemented as managers' pay packages were linked to share prices, ensuring that they would faithfully pursue the interests of their shareholders. As neoliberals gained control of many political parties, states actively began to encourage such behaviour. The ideology of shareholder value was institutionalised in a corporate code that reinforces the idea that the function of a business is to maximise its profits, consequences be damned.

The rise of the institutional investor and shareholder value ideology have had a lasting impact on corporate power in both the US and the UK.[7] Most corporations are now structured around the interests of shareholders, with workers' interests coming last, if they are even considered at all.[8] As this process has developed, a battle has emerged between certain types of shareholders over others. Short-term shareholders, like hedge funds, have benefitted to a much greater extent than long-term shareholders, like pension funds.[9] Some private executives, intent on maintaining their corporations' size and power, have sought to protect themselves from hostile takeovers and activist investors. Those that have succeeded have emerged as the most powerful monopolies in human history. Meanwhile, any form of resistance to the emergence of this model has been brutally broken. Where unions may once have acted in the interests of workers against managers acting in the interests of shareholders, the former have been eviscerated by states intent on ensuring that businesses are able to make as much money as possible. The corporate culture that has emerged from these changes would be unrecognisable to the CEOs of the 1950s.

Some have argued that this focus on the maximisation of shareholder value represents a perversion of an otherwise benign capitalist system, and that the triumph of the "takers" over the "makers" is a development that we should be trying to somehow reverse.[10] But whilst national politics were important in determining how this ideology developed, these changes didn't just happen, they were driven by much deeper shifts in the way the global economy works. It is hard to imagine how shareholders wouldn't have used the collapse of Bretton Woods and the rise of financial globalisation to increase their power, even if the political struggles that took place within different states determined how much their power grew relative to other actors. Capitalism wasn't distorted by the changes of the 1980s, it adapted — and it did so in the interests of the most powerful.

The balance of social forces in the UK ensured that it developed the financialised corporate culture par excellence. By unleashing the power of the City of London, and crushing everything that stood in its way, Thatcher helped to build a highly exploitative, extractive and unequal economic model in the UK: one which endures to this day.

The Big Bang

Once upon a time in the City of London, there lived a noble and chivalrous group of knights in a great big castle called the Stock Exchange.[11] At least, that was the story told by John Redwood, then head of the Number 10 Policy Unit. Redwood's 1984 speech — Tilting at Castles — described the City as it existed back then as an elaborate system of knights, barons, kings, and peasants. The knights — the brokers who worked on the London Stock Exchange — were honest, hard-working, and "competed with each other in high spirits". The barons — institutional investors like pension funds — weren't nearly as jolly as the Stock Exchange knights and were forced to send all their money to the Stock Exchange castle, where the real money was made. At the bottom of the pile were the peasants, who subserviently sent their savings to the institutional barons for them to invest. The system worked well for the knights, but not so well for everyone else. Redwood's speech told the story of how the wise ruler went to the castle to ask the knights to lower their drawbridge and let just a few more people in.

This incredible piece of Orwellian doublespeak describes the fierce battle that took place between the government and traders on the London Stock Exchange over the course of the early 1980s, ending with the deregulation of the City. Before 1986, regulation that dated back decades restricted the kinds of activities that different economic actors and institutions could undertake. Fixed minimum commissions were imposed on certain kinds of trades, making these more expensive; trading took place on the slow, crowded, non-automated Exchange floor; and different types of investors were separated from one another, creating a rigid City hierarchy. This arcane regulation and strict separation between actors gave rise to a system that worked something like an old boy's club. In this pre-Big-Bang world Nick Shaxson reports that bankers could show their disapproval for one another by crossing the road and could determine a man's creditworthiness by the strength of his handshake.[12]

In the wake of a legal battle between the government and traders, the Big Bang hit the doors of the London Stock Exchange like a battering ram. In a single day, many of the restrictions that maintained the City hierarchy were removed. Fixed commissions were abolished, the separation between those who traded stocks and those who advised investors was eliminated, rapid trading was moved away from the floor of the Exchange and foreign firms were invited into the City. These changes allowed more institutions to enter the stock market and facilitated a wave of mergers and acquisitions, many by foreign banks. By 1987, seventy-five of the three hundred member firms of the London Stock Exchange had been bought up by foreign rivals.[13] Technological developments that allowed traders to buy and sell securities in the blink of an eye quickly followed the move of trading away from the Exchange room floor. In just one year, trade times were reduced from an average of ten minutes to ten seconds — a large reduction, but far off the trading times of today, which are measured in milliseconds.[14] Trading volumes skyrocketed, reaching $7.4bn just one week after the Big Bang, compared to $4.5bn a week before.[15] Many of the partners in the firms that had previously been at the centre of the City old boy's network took their money and ran: some say that the Big Bang created 1,500 millionaires overnight.[16]

The Big Bang was helped along by the privatisation drives of the 1980s. In the same year, the UK government launched its famous "Tell Sid" advertising campaign, encouraging people to buy shares in the soon-to-be privatised British Gas. The adverts were centred on people encouraging one another — in the pub, at the shops, or on the street — to jump on the bandwagon before it was too late. The exchange always finished with the now-famous line: "If you see Sid, tell him!" As one commentator puts it, "You couldn't pass a billboard, switch on the radio or glance at your junk mail and miss it".[17] After starting with British Aerospace in 1981, Associated British Ports in 1983 and Sealink in 1984, Thatcher's privatisation of British Gas was by far the most ambitious privatisation attempted thus far — and was based on a questionable commercial case. The £32m advertising campaign worked and millions of ordinary Brits signed up to get their part of the nation's family silver.[18] At the time, it was the largest privatisation ever undertaken on the London Stock Exchange.[19]

Overall, Thatcher privatised more than forty stateowned enterprises. This represented a major challenge to the post-war status quo: in 1979, nationalised industries accounted for 10% of economic output and almost 16% of capital investment.[20] By the time she left office, £60bn worth of UK assets had been sold off — often on the cheap.[21] Output accounted for by nationalised industries fell to 3%

and investment to 5%.[22] Employment in nationalised industries fell from almost 10% of total employment to just 2%.[23] According to one government minister, "[w]hen we came into office, there were about three million people who owned shares in Britain. By the end of the Thatcher years, there were twelve to fifteen million shareholders".[24] Millions of people were effectively given free money when the state sold off national assets under their value — shockingly, many of them ended up voting Conservative.

Over the longer term, Thatcher's dreams of boosting individual share ownership proved over-optimistic. She and Redwood claimed that financial liberalisation would allow the peasants — ordinary savers — to get a chunk of the pie by allowing them to earn money on the stock market. But instead, people ended up handing their savings over to the barons — the institutional investors previously prevented from directly engaging in trades themselves — who were able to extract large fees from their management of other peoples' money.[25] One can think of institutional investors as financial institutions sitting on huge piles of cash that they invest to make the largest possible return. These cash piles can come from ordinary people's savings, as with pension funds, the savings of the wealthy, as with hedge funds, or even from states, as with sovereign wealth funds. Institutional investors can buy all sorts of financial securities — from bonds, to equities, to derivatives — as well as real assets like property.

In 1963, individuals owned about 55% of publicly listed shares, whilst pension and insurance funds owned 6% and 10% respectively.[26] By 1997, individual shareholdings had fallen to 17% of the value of total equity, whilst pension and insurance funds had risen to 22% and 23% respectively. Many international institutional investors also bought up UK equities, meaning foreign ownership of UK corporations also increased. Meanwhile, individual investments were skewed towards the wealthy — some of whom set up hedge funds to manage their own, their close friends', and their family's money.

This was all part of the Conservative plan for "pension fund capitalism".[27] In 1988, Thatcher launched private, personal pensions, allowing individuals to save without enrolling in a corporate scheme, which had themselves already amassed vast pools of capital thanks to previous reforms. Initially, this ended in disaster as pensions advisors took advantage of savers' inexperience to sell them risky financial products. But eventually, private pensions pots and other savings instruments became a central part of the British financial landscape. The creation of private pensions pots would have two linked and propitious effects for the Conservative government. On the one hand, it helped to create a class of "mini-capitalists" with an incentive to support measures that would boost returns in financial markets. Thatcher's acute grasp of political economy allowed her to build an electoral coalition with a strong material interest in supporting her policies. On the other hand, the move towards pension fund capitalism increased the pool of available savings for financial institutions to plough into whatever investments would deliver the highest returns.

The combination of private pensions pots and large, corporate funds gave private investors a great deal of capital to play with. It is a fairly respected law of investing that the more capital you have at your disposal, the higher your returns, not least because if a single investor puts enough money into a single security, his investment would boost the price of that security. When asset managers got their hands on workers' pension funds, they invested this capital into global financial markets, making huge amounts of money in the process. As one commentator puts it, "social security capital' is now as important as other sources of capital… it is a key element in fuelling the expansion of financial markets".[28] By 1995, one estimate put the global assets of pension funds at almost $12trn, at least £600bn of which came from UK savers, making the UK's the largest pensions pool in the EU.[29]

It is not a coincidence that corporations began to be governed based on the logic of maximising shareholder value just as institutional investors from around the world emerged as some of the most powerful actors in the City. Historically, these pools of capital have been important: when they are large, those who control them are able to wield immense amounts of power by determining who gets what.[30] The mass-scale channelling of people's savings into stock markets via pension funds and insurance funds after the end of Bretton Woods and the financial deregulation by the 1980s allowed institutional investors and wealthy individuals from around the world to channel money into the UK's stock markets, unencumbered by capital controls or restrictions on foreign trading. Hyman Minsky has argued that we now live in an age of "money manager capitalism", in which these pools of capital are some of the most important entities in determining economic activity.[31]

In this sense, money manager capitalism doesn't just affect financial markets. By influencing the allocation of capital across the economy, it has affected the behaviour of almost every other economic actor — most clearly, it has transformed the nature of the non-financial corporation.[32] Institutional investors' primary goal is to maximise their returns as this is how they earn their fees and commissions. These pressures have been passed on to corporations via the stock market: with equities representing a significant chunk of the assets held by money managers, the pressure on corporations to meet shareholder needs for immediate returns increased.[33] In some cases, rather than being responsible to a board of directors and a few disorganised shareholders, corporations have been held to ransom by "activist investors" demanding that their capital is used in the most efficient way possible. This change in corporate governance has also been reinforced and embedded by the emergence of a new ideology: shareholder value.

Together, the increasing power of investors and the emergence of an ideology to support this power has led to the financialisation of the non-financial corporation: businesses are increasingly being used as piggy banks for rich shareholders. This, according to the CEO of General Electric, makes shareholder value "the dumbest idea in the world"[34]. But like many dumb ideas that enrich the powerful, shareholder value took off in the 1980s — and nowhere more so than in the City of London.

Corporate Raiders, Hostile Takeovers, and Activist Investors

Lord Hanson — aka “Lord Moneybags” — is famous for many things.[35] He was engaged to Audrey Hepburn, had a fling with Joan Collins, and also happens to be one of the UK’s most notorious corporate raiders. Although he made his money in the new economy, Hanson didn’t exactly come from humble beginnings. Born into a family that made its money during the industrial revolution, he built multiple successful business ventures on the back of his family’s wealth before teaming up with Lord Gordon White to start Hanson Trust in 1964. At its height, Hanson Trust was worth £11bn. Over the course of the 1980s, its share price outperformed the rest of the FTSE100 by a staggering 370%. He was named by Margaret Thatcher as one of the UK’s premier businessmen and, completely unrelatedly, he donated millions of pounds to the Conservatives over the course of his business career. The root of James Hanson’s success was his commitment to the religion of shareholder value. Thatcher admired Hanson not simply because of his political donations, but because she saw Hanson Trust as the future of the new economy, and the close relationship between the two can tell us a lot about what Thatcher was trying to do when she deregulated the City.

Hanson Trust was not built on the back of a great new idea by a brilliant entrepreneur, or some new innovation that promised to revolutionise its industry forever. Its sole aim was to find and buy up “underperforming assets” and make them profitable. Throughout the 1970s, the conglomerate loaded up on debt to buy up shares in several large companies — seen as “underperforming” — before selling off assets and cutting the payroll to disgorge these companies of cash, used to pay back bondholders and generate gains for shareholders. Hanson Trust quickly gained a reputation as an infamous “asset stripper” before the term was widely used.

But Hanson truly made his reputation in the same year as the Big Bang itself. In 1986, Hanson Trust purchased Imperial Tobacco for £2.5bn, accounting for 15% of the value of total mergers and acquisitions activity in that year alone. The Trust quickly sold off £2.3bn worth of Imperial’s assets and distributed the money to bondholders and shareholders. Hanson had aimed to extract assets from the company’s pension fund, but the trustees had managed to close the fund the day before the takeover went through. So instead, he sold off most of Imperial’s subsidiaries — from food producers, to brewers, to a variety of tobacco producers. He was left with a business that made a profit margin of 50%. And this takeover was only one of the more extreme examples of Hanson’s attitude towards acquisitions. Hanson Trust acquired dozens of undervalued companies throughout the Eighties and Nineties, claiming always to put shareholders first, customers second, and employees last. When James Hanson came for your employer, you knew what was coming next.

Initially, raiders like Hanson were derided as extractive parasites on productive economic activity. Hanson, widely reviled by the British media, was compared to a “dealer who bought a load of junk, tarted it up and sold it on as antiques”. In a more ambiguous assessment, the *Economist* termed him the king of the corporate raiders.

When he attempted to take over a famous British brand — ICI chemicals — in 1991 he was faced with "the sort of moral indignation that the British usually reserve for a Tory cabinet minister caught in bed with his secretary".[36] ICI was at the time one of the leading chemical firms in the world, based on strong previous investments, particularly in research and development. There was widespread concern that a Hanson takeover would lead to ICI being stripped to the bone, focused on increasing current cash flow and distributing it to shareholders rather than investing in the long-term future of the business. Faced with significant political opposition, the ICI bid failed. But Hanson's approach eventually became common business practice.

By the 1990s it was no longer controversial to argue that, when corporations maximised their profits, the economy worked better for everyone.

These arguments ran contrary to the received wisdom in management theory, which held that businesses had responsibilities to a wide variety of stakeholders — workers, consumers, and governments for example. But with the rise of neoliberalism, the argument that — in the words of Milton Friedman — "the social responsibility of business is to increase its profits" gained traction.[37] This view assumes that resources are scarce, so when companies use their resources in unproductive ways there are fewer to go around for everyone else. In this sense, doing anything other than maximising profits is wasteful and inefficient.

From here, it is a short leap to arguing that the singular purpose of any corporation should be to maximise shareholder value — with the share price used as the proxy for profitability. Because neoclassical economic theory assumes that equity markets are efficient, it also assumes that current stock prices are an accurate reflection of the long-term profitability of a company. Investors will base their investment decisions on the amount of profit they expect the enterprise to make in the future, and how much of that profit they expect the firm to distribute to shareholders. The argument for shareholder value therefore proceeded from "businesses' sole aim is to maximise profits", through to "boosting the current share price is the best way to maximise profits".

But this nice, neat story is based on some fundamental misconceptions about the way financial markets work — not to mention its questionable assumptions about human behaviour. First and foremost, a firm's current share price doesn't always reflect its real long-term value. Keynes was one of the first to point out that the prices of different shares on stock markets are mainly determined by a "beauty contest": in other words, without perfect information about the inner workings of a firm and without certain knowledge of its future profitability, investors will put their money in the nicest-looking shares.[38] One can think of beautiful shares as expensive football players: when a football team buys a new player they cannot be certain that the player will be worth the expense — they will judge the price based on past performance and trends in the rest of the market.

In the same way, an investor can wade into a booming market, see a share that has been performing well — say, Carillion PLC — and purchase it expecting its value to carry on increasing, even if its business model isn't particularly strong. This creates a self-reinforcing cycle in which the most "beautiful" shares receive more investment, pushing up their price and vindicating investors' decisions to buy them in the first place. This dynamic can create bubbles: when everyone piles into certain stocks based on the fact that everyone else seems to be making lots of money from them, the price of those stocks comes to reflect peoples' expectations about profits, rather than profits themselves.

But taking the neoliberal argument at face value is to miss the point. The reorganisation of the economy that took place in the 1980s had little to do with making the economy work better, and everything to do with changing who the economy worked *for*. Shareholder value became so dominant precisely because it benefitted those with the power. As a result, it quickly colonised management theory and practice, transforming corporate governance by changing managers' incentives to ensure that they acted as reliable functionaries for the owners of capital.

Contrary to the arguments of mainstream economists, this political reorganisation of the firm has made firms less efficient when it comes to their use of society's scarce resources. In the late 1970s, professors Meckling and Jensen published an article arguing that there existed a "principal-agent problem" between the individuals who owned a corporation and those who managed it.[39] Those who ran companies — managers, the agents in this context — had every incentive to maximise their own pay packages and engage in "empire building" to increase their power, even if this wasn't in the long-term interest of the people who owned companies — shareholders, the principals. This created a conflict of interest for managers who were technically employed by shareholders to run successful, profitable companies, but who were, according to Meckling and Jensen, likely to use their positions to maximise their own wealth and power. According to this view of the world, corrupt, bureaucratic managers were wasting money, reducing business' profits and therefore shrinking the size of the economic pie for everyone in the economy.

The way to solve this, Jensen later argued, was to align the interests of managers with those of shareholders. Their immensely popular article — "CEO Incentives: It's Not How Much You Pay, But How" — argued that in paying CEOs a salary that didn't reflect the impact they had on the company's share price, directors were encouraging them to behave like bureaucrats. If instead CEOs were remunerated based on share prices, they would have a greater incentive to act in the best interests of shareholders, and therefore in the best interests of society as a whole. Managers had to be made to act like business owners — ruthlessly pursuing profit at every turn.

Adherence to the flawed ideology of shareholder value has created a set of deep-seated problems with British capitalism.[40] As you would expect, the ideology of "shareholder value" encouraged companies to distribute their profits to shareholders rather than distributing them internally or using them for investment, which curtails long-term profitability to facilitate a short-term boost in the share price. Failing to retain and properly remunerate workers erodes trust between workers and their employers, which can negatively impact productivity.

William Lazonick argued that the rise of shareholder value ideology has led to a transformation in the philosophy of corporate governance — the way in which corporations are run — from "retain and invest" to "downsize and distribute". In other words, the rise of shareholder value has become a mechanism for redistributing the profits of business away from workers and towards corporate executives and current shareholders. This has, in the words of one commentator, led to "rampant short-termism, excessive share buybacks to the neglect of investment, skyrocketing C-suite compensation and misallocation of resources in the economy".[41] Elsewhere the *Economist* recently argued that shareholder value has become "a license for bad conduct, including skimping on investment, exorbitant pay, high leverage, silly takeovers, accounting shenanigans and a craze for share buy-backs".[42]

In the UK, these trends are clear. The proportion of corporate profits (measured as discretionary cash flow) returned to shareholders increased from just over 25% in 1987 to almost 50% in 2014.[43] As well as distributing profits to shareholders, corporations can also increase share prices by buying up their own shares. Data on share buybacks from the Bank of England between 2003 and 2015 showed that in almost every year, companies bought more of their own shares than they issued new ones.[44] Another way to give a quick boost to a company's share price is to quickly expand the company by buying up another — this was the strategy preferred by corporate raiders like Lord Hanson. Between 1998 and 2005, UK mergers and acquisitions (M&A) activity was worth around 22% of GDP — double that of the US, and more than double that of Germany and France.[45] With shareholders placed firmly at the centre of corporate decision making, and managers remunerated based on share prices, long-term investment has fallen. UK companies' investment in fixed assets fell from around 70% of their disposable incomes in 1987 to 40% in 2008.[46]

Those firms that pursued the downsize and distribute model often ended up taking out debt to do so.[47] In what came to be known as the "debt-leveraged buyout", activist investors would take out "junk bonds" — or expensive debt — to buy out existing shareholders, before selling off chunks of the corporation and using this to repay bondholders. This makes the hierarchy of finance capitalism obvious — at the top are creditors, followed by shareholders, with workers at the very bottom. Firms came to operate according to the logic of finance-led growth: distributing earnings to shareholders and taking out debt to finance investment and new takeovers. All in all, business' stock of outstanding debt has grown from 25% of GDP in 1979 to 101% by 2008.[48] As a ratio of profits, this means that UK corporations owe 6.5 times more in debt than they earn in profits each year, making them some of the most indebted corporations in the global North.[49]

As well as investing less and taking out more debt, companies have also been reducing workers' pay and making their employment conditions more precarious. The ratio of CEO pay to the pay of the average worker increased from 20:1 in the 1980s to 149:1 by 2014.[50] This has driven up income inequality: the UK's GINI coefficient — a measure of income inequality in which countries closer to zero are more equal and those closer to one more unequal — rose from 0.26 at the start of the 1980s to

0.34 by the start of the 1990s. In fact, there has been a secular decoupling of productivity (the value of what workers produce) and wages. The total income of an economy can be divided between that which accrues to workers in the form of wages and that which accrues to owners in the form of profits; modelling from the TUC suggests that the wage share of national income has fallen from a peak of 64% in the mid-1970s to around 54% in 2007.[51]

Within the profit share of national income, rising interest payments have led to an increase in what has been termed the "rentier share" of national income. Economic rents are income derived from the ownership of a scarce resource over and above what would be necessary to reproduce it. When a landlord increases a tenant's rent without improving the property, he is simply extracting more income from the tenant without producing anything new — in this sense, economic rents are unproductive transfers from one group to another based on an asymmetry of power. The power to extract economic rents generally depends upon the monopoly ownership of a particular factor of production. Property rents, over and above what is necessary to maintain the property, paid to landlords are economic rents derived from the landlord's monopoly ownership of a property in a particular location. Banks are often able to charge interest payments over and above the level necessary to compensate them for the risk they are taking in lending because they have monopolistic — or, more often, oligopolistic — control over money lending. Monopolies can extract monopoly rents from overcharging consumers, and firms can generate commodity rents from their control over a particular resource, like oil or diamonds. Perhaps the most common source of economic rents in financialised economies are property rents and financial rents. Those on the receiving end of economic rents are known as "rentiers". Keynes famously called for the "euthanasia of the rentier", defining a rentier as a "functionless investor", who exploits the "scarcity-value" of capital to generate income.

In 2005, Gerald Epstein made the first attempt to measure the rentier share of national income in OECD economies. Epstein opted for a fairly narrow definition of financial rents, defined as "the income received by the owners of financial firms, plus the returns to holders of financial assets generally". He was building on Kalecki's definition of financial rents, which captures the returns financiers are able to generate from their control over lending and investment. Epstein showed that the rentier share in the UK had risen from 1970 to 1990, from 5% GDP to nearly 15% Similar trends pertain in the US, where the rentier share increased from around 20% to over 40% GDP over the same time period, and in most other advanced economies. So, whilst the profit share as a whole was increasing, within the profit share, the amount accruing to rentiers was also rising. This was largely due to rising interest payments, after the dramatic increase in corporate and household debt during the 1980s. The reason Keynes called for the "euthanasia of the rentier" is that rental payments flowing up to the owners of capital act as a drain on demand. Interest paid by businesses represents capital that can't be used for investment. Economic rents also accrue to the already-wealthy, who are less likely to consume their extra income. This was one of the major drivers of the rising inequality and financial instability evident in the inter-war years. Since the 1980s, the rising rentier share has once again begun to act as a drain on productive economic activity.

Even as these problems became obvious over the course of the 1980s, there were no attempt in the UK to constrain shareholder value ideology, perhaps because it was benefitting some of the wealthiest and most powerful people in society. Realising they had opened Pandora's box, regulators in the US tried to close it again by outlawing corporate raiding strategies. Meanwhile, in the US, firms were developing innovative new ways to protect themselves from hostile takeovers. Firms could opt to take a "poison pill" in which existing shareholders could dilute their holdings to prevent a hostile bidder from gaining an overall majority; they could establish shares with different voting rights; or they could seek out a non-hostile bidder — a White Knight — to buy up the shares being targeted by the hostile party. But in the UK, the stock market crash did nothing to dampen the corporate raiding culture. In fact, the shareholder value ideology was positively encouraged by politicians like Thatcher. The infamous City Code created one of the most permissive takeover regimes in the world.[52] It set out that all shareholders must be treated equally, preventing the use of many of the defences outlined above, and prevented management from standing in the way of a takeover agreed by shareholders. In other words, the City Code institutionalised the power of corporate raiders, activist investors, and other short-term shareholders who would come to act as the enforcers of shareholder value ideology.

From Thatcher's perspective, and from that of her friends in the Mont Pelerin Society, corporate raiders like Hanson were heroes, charging into corporate fortresses and taking on the vested interests of the managers who were hoarding the company's capital for themselves rather than investing it in the interests of shareholders. Thatcher's Big Bang and the development of the City Code sought to make it as easy as possible for corporate raiders to "shake-up" big, incumbent firms like Imperial Tobacco. Once the shake-up was through, corporate raiders like Hanson were no longer needed. The *Economist* wrote in Hanson's obituary that his company's focus on the maximisation of shareholder value had become "standard business practice".

From Downsize and Distribute to Merge and Monopolise

The pursuit of shareholder value made many companies profitable in the short-term, but over the long-term low rates of investment, high rates of debt, and the declining wage share should have reduced profits. If companies aren't investing in new assets, like factories or technology, then they won't be able to take advantage of rising demand for their goods down the line. Taking out debt today and failing to use this for productive investment comes at the expense of profits tomorrow. And paying workers relatively less across the board reduces overall demand for goods and services. As inequality rises, the demand deficit increases because those on lower incomes spend a higher proportion of their incomes on goods and services, whilst the wealthier tend to save more. Low demand is, in turn, likely to make businesses invest less, decreasing future profits, and therefore wages and employment. But instead of this low-investment, low-wage, low-demand doom-loop, we've seen corporate profits rising on average. What's been going on?

As Jack Welch has pointed out, shareholder value — as interpreted by the corporate raiders of the 1980s — really is the dumbest idea in the world. Many of those companies that cut investment, loaded up on debt, and dished out money to shareholders didn't last very long. Instead, they have been bought up by bigger corporations in the wave of M&A activity that has taken place since the 1980s. The most successful advocates of shareholder value haven't been the downsizers or the distributers, but a small number of huge mergers and monopolisers. Corporations have learnt to adapt to the pressures of finance-led growth by building monopolies, immune from the pressures of competition, activist investors, and even tax and regulation. In fact, many of them have grown so large and make so much money that they are effectively able to act like banks — rather than loading up on debt, they've been lending to other companies.[53] This is perhaps the most important hangover of the shareholder value ideology and the corporate raiding culture it entailed: a massive increase in the number of monopolies and oligopolies.[54]

The macroeconomic link between investment and profits appears to have been severed because a few large corporations are dominating the global economy and maximising their profitability by acting as monopolies and failing to pay tax. Clearly, these corporations have not adopted the "downsize and distribute" model of growth — rather, these firms can be seen as having adopted a model of "merge and monopolise". Monopolies are highly profitable because they are able to benefit from "monopoly rents" — i.e. they are able to charge consumers and other businesses more than they would in a competitive setting. This increases monopolies' profits at the expense of consumers and other businesses. What's more, these corporate behemoths tend not to recycle their earnings back into productive investment. Instead, they adopt two related strategies — neither of which is helpful for economic growth. Firstly, they buy other corporations to consolidate their monopoly positions and benefit from the past investment of these firms. Secondly, they invest the profits they generate from their monopolisation of key markets into financial markets — in other words, they act like financiers themselves.

The first trend can be measured by looking at corporate mergers and acquisitions (M&A) activity over the past several decades. Global M&A activity broke a record in the first half of 2018, when deal volumes increased 65% on the previous year and came in at the highest level since records began.[55] This comes off the back of forty years of increasing M&A activity — according to one industry body the value of M&A activity doubled between 1985 and 1989 and increased *fivefold* between 1989 and 1999. As more "merge and monopolise" activity takes place, the monopolies themselves become ever more powerful. Gaining a greater market share means increasing profitability, which facilitates even greater M&A activity, creating a self-reinforcing cycle that has led to the emergence of the biggest global monopolies in history.

Second, these firms are investing in financial markets. Monopolisation impacts investment in fixed capital because firms find it more profitable to restrict production and invest the proceeds in financial markets.[56] They distribute large sums to shareholders, but even that doesn't exhaust their cash piles. Instead, they reinvest their profits into other assets — making these firms similar to the institutional investors that have been so important to the development of financialisation.[57] This trend can be measured by looking at the extent to which corporations' holdings of financial assets have increased since the 1980s. Financial assets include assets such as loans, equities, and bonds — but they also include bank deposits and internal cash piles. Today, the financial assets of British non-financial corporations are 1.2 times the size of total GDP.[58] In the US, where most of the global monopolies are based, the trend is even starker.

This pattern is reflected across OECD countries, but the UK is unusual insofar as its corporations are more likely to hold debt securities and bank deposits than other European corporations.[59] In this sense, many UK-based corporations are acting a lot like hedge funds or investment banks — they are lending their capital to other corporations or banks in the hope of increasing their profits. UK corporations have actually become net savers since 2002 (think of saving as anything that isn't spending — so financial investments and deposits both count as "saving"). Huge piles of corporate capital have now joined the cash piles of the big institutional investors to play a significant role in shaping the allocation of resources across society.

The result of both models — "downsize and distribute" and "merge and monopolise" — is the same: more money stuck at the top. By prioritising paying shareholders over remunerating workers or investing in long-term production, the structure and governance of today's firms helps to increase wealth and income inequality. By hoarding cash and investing it in financial markets, failing to pay tax, overcharging consumers for services, and mistreating their workers, global monopolies are launching a concerted attack on society itself. As these companies grow, they become more powerful than the nation states which are supposed to regulate them.

But these changes did not take place simply because Thatcher deregulated the City, or because firms suddenly made a collective decision that it would be in their interests to maximise shareholder value. The changing corporate culture in the UK reflects broader changes in the global economy. In this sense, whilst it has created a number of severe problems with the functioning of the economy, it doesn't really make sense to think of the rise of shareholder value as a corruption of a purer form of capitalist accumulation. The reason corporations are now run in the interests of shareholders rather than workers is that shareholder power increased dramatically in the 1980s relative to that of workers, and this power has been consolidated as it has been embedded in new sets of institutions and new ideologies.

But the rise of shareholder power on its own only explains half of the story; shareholders gained power at the expense of workers, who were previously far more central to corporate governance than they are now. Attempting to redistribute power from shareholders to workers would have met with fierce resistance in any company with a strong union. The necessary correlate of the promotion of the shareholder was the attack on the worker, and the best way to attack workers in the 1970s and 1980s was to attack their unions.

CHAPTER THREE LET THEM EAT HOUSES: THE FINANCIALISATION OF THE HOUSEHOLD

> Homeownership turns a worker into a conservative person who defends the right to property. — Sandra Cavalcanti, former President of Brazil's National Housing Bank.

Jerome Rogers was nineteen when he got a job as a courier at CitySprint. When he took the job, he was promised that he could earn *up to* £1,500 per month — "up to" because he hadn't been offered a permanent contract. Instead, he was taken on as a self-employed contractor, responsible for booking his own deliveries and being paid by the job — he even had to pay CitySprint for his uniform. After a few weeks of work, Jerome ran into trouble when his bike broke down. Arriving at the dealership to purchase a new one, second hand, the salesperson told Jerome that he could buy a brand-new bike with an interest free loan. Jerome didn't need much more convincing. He worked out that after bike repayments and expenses, he'd be earning just enough to get by.

But a few weeks later he received some more bad news. He had been given a £65 fine by Camden Council for driving in a bus lane. He managed to scrape together enough money to pay it off, before receiving another one a week later. He was running out of options. So, like many of us do, he left it for a while — thinking that maybe he'd be able to make enough that week to work it off. Before he even got close, he started receiving threatening letters from the council's bailiffs. They informed him that his late payment meant that his fine had doubled — and it kept doubling. Before long, Jerome was in £1,000 worth of debt to Camden Council. Now completely desperate, he took out an extremely high-interest payday loan to pay off his debts to the council. By this point, he was paying out more in expenses and debt repayments every week than he was earning at CitySprint. A few days later, the bailiffs returned to clamp Jerome's £400 bike. The next day, his older brother found his body in the woods where they used to play as children. Jerome Rogers, nineteen years old and with no history of mental illness, had killed himself because he was overwhelmed by debt.

Jerome's story — recently covered in a BBC documentary *Killed By My Debt* — is not unique. According to recent estimates, almost three million people had worked in the gig economy over the twelve months to February 2018, and the majority of them are aged between eighteen and thirty-seven.[1] The same survey found that 25% of people working in the gig economy earned £7.50 per hour or less — not counting any additional expenses. Many people in the survey reported working several jobs just to make ends meet. Jerome's reliance on various forms of unsecured debt are also a hallmark of the modern economy. Household debt increased substantially between 1979 and 2007, reaching a peak of 145% of households' disposable incomes in 2007.[2] Since the crash, the situation hasn't improved, and unsecured household debt — debt not backed up by an asset like housing — has now reached its highest levels ever.[3] This has taken place alongside the longest period of wage stagnation since the Napoleonic wars.[4]

The financialisation of the corporation could not have proceeded had Thatcher not smashed the single greatest source of resistance to it: the union movement. The speed and severity with which she did so has left a permanent scar on the UK's unions, allowing firms to drive down wages, whilst dishing out their profits to shareholders, merging and acquiring the competition along the way. Falling wages, rising profits, and growing monopolies threatened to create the same problem Keynes identified in the 1930s: too much money stuck at the top. Rather than adopt the Keynesian approach which, as we have seen, gave workers too much power for the bosses' liking, the architects of finance-led growth opted for a different model: privatised Keynesianism.[5] Instead of state spending, demand would be propped up by debt, creating a class of indebted and individualised consumers in place of a class of powerful workers.

The rise of debt-fuelled growth was facilitated by developments at the international level. The demise of Bretton Woods meant that the state no longer had an exchange rate target, which it met by controlling the amount of currency in circulation.[6] This represented a fundamental transformation in the nature of money, which, absent any link with gold or any other commodity, was now based purely on the power of the state. Powerful states were free to deregulate their banking systems, increasing the broad money supply in the form of credit.[7] The removal of restrictions on capital mobility also meant that all this new money was free to flow around the world, allowing investors to buy assets wherever they liked.

In the UK, much of this debt was used to purchase housing, made available through the privatisation of the UK's social housing stock, which was sold off and not replaced. The amount of money directed into the housing market began to rise at a faster rate than the increase in the housing stock, and house prices skyrocketed.[8] Newlycreated asset owners found themselves the recipients of windfalls in the form of capital gains. Rather than relying on wage increases to support their living standards, this new group of homeowners came to rely on rising house prices, aligning their material interests with asset owners rather than other wage-earners, and securing their support for the status quo.

This system blew up in the 2008 crisis, which, whilst it did not begin in the UK, was a crisis of the finance-led growth pursued most zealously in Anglo-America.[9] There can be no going back to before the crash. The economy of the pre-crisis period was a bubble economy — one characterised by a continuous and unsustainable increase in levels of private debt, directed into asset purchases that made those lucky enough to get in on the game very wealthy. This economic boom created the kinds of revenues that allowed the state to tax and spend in a way that muted the rising inequality characteristic of the financialised growth model. But the bubble has now burst, wiping out much of that accumulated wealth, and leaving states and households saddled with unpayable debts. With economic growth now slowing, and wages stagnant, private debt cannot continue to increase. The only way out of this quagmire is for the old debt to be written off; but this won't happen until our politics is run in the interests of debtors, rather than creditors.

The Enemy Within

On 18 June 1984, five thousand striking miners descended on Orgreave, South Yorkshire, intent on disrupting deliveries of coal to the British Steel Corporation coking plant.[10] They were matched by six thousand policemen, many mounted on horseback. The battle that ensued has been described as one of the most violent industrial disputes in British history. Having been outmanoeuvred by strikers in the past, the police approached Orgreave as a battle — as a chance to put an end to the strike once and for all. After trapping them in a nearby field, the Chief Constable ordered a mounted charge on the striking miners, followed by another, and another. During the final onslaught, officers charged in behind the cavalry and began beating miners with batons. Several hours later, the few miners that remained were charged again — this time entirely out of the field — leaving an "out-of-control police force [charging] pickets and onlookers alike on terraced, British streets".

Despite the clear overreaction on the part of the police, almost a hundred miners were charged with various offences relating to the dispute. Seventy-one faced life sentences. They were acquitted after the Independent Police Complaints Commissioner concluded that the police had used excessive force, as well as exaggerating the violence they faced from the strikers, and committing perjury in an attempt to prosecute them. In an eerie precursor to the Hillsborough disaster, the miners also faced trial by media, where they were depicted as violent thugs attempting to undermine the rule of law. The escapade was described as "the worst example of a mass frame-up in this country this century" by one of the miners' lawyers. The Battle of Orgreave — as it is now known — remains a stain on British policing to this day.

The Battle of Orgreave was one of the bloodiest confrontations to take place over the course of the miners' strike of 1984–1985, which was called in response to Thatcher's programme of pit closures. Though they did not know it at the time, Thatcher's decision to close the pits was a deliberate attempt to spark a confrontation between mineworkers and the state — a confrontation for which she had been preparing from the moment she stepped into office. The Ridley Plan — named after its initiator, right-wing Conservative MP Nicholas Ridley — was drawn up in 1977 and leaked to the press in 1978, and laid out a strategy for dealing with the "political threat" from the "enemies of the next Tory government".[11] It was an exhaustive battle plan detailing how the Conservatives could conclusively defeat a major union in the event of a national strike. First, the government would spend several months stockpiling coal and planning imports before announcing pit closures. When strike action began, the plan recommended listing unions in order of their strength and going after them one after another, taking on the most militant first. It even included plans to come after the strikers in their homes by cutting off their access to dole money. Ridley anticipated that these actions would build up to a series of outright battles, for which the government should prepare by drastically expanding the capabilities of the police force, equipping them with the latest anti-riot gear and training them for what amounted to a military exercise.

Ridley's plan was followed almost to the letter. Thatcher stockpiled six months of coal by expanding output dramatically from 1983. One miner described how, looking back, the government had effectively forced them to "dig their own graves" in this pre-strike period.[12] Ian MacGregor, the multi-millionaire US businessman who Arthur Scargill — president of the National Union of Mineworkers — referred to as the "Yankee steel butcher", was brought in to increase the "efficiency" of the UK's coal industry by announcing a brutal programme of pit closures. Isolated strike action began to break out in pits across the country, and in March 1984 Scargill called a national miners strike. This was when the Ridley Plan truly came into its own. Thatcher's beefed-up and newly mobile police force was ruthless. Orgreave is perhaps the most famous encounter of the strike, but many other skirmishes took place throughout the country, leaving hundreds injured and thousands arrested. The miners didn't stand a chance. Within ten years, Thatcher had closed down nearly every pit in the country, and all but broken the miners.

Looking back, this course of events has an air of inevitability about it. The miners were fighting an uphill battle against the rise of renewable energy sources and cheap labour from abroad. The demise of the dirty, dangerous, and polluting coalfields was portrayed as a story of modern-isation, which would see Britain transition from a traditional manufacturing economy to a modern service-based one. In the end, coal mining may not have had a much longer future in the UK. But the brutality with which the miners were repressed, the speed with which functioning collieries were closed after the end of the strike and the decline into which many pit communities sank through the 1980s and 1990s were far from inevitable. In what often appeared like a personal vendetta, Thatcher decided almost as soon as she became Conservative leader to stake her entire political career on a face-off with what she called the "enemy within". What could she possibly have hoped to gain from imposing such acute suffering onto the electorate? Pit villages in South Wales hardly seemed a threat to her deregulation of the stock market or her privatisation agenda.

But this is to fundamentally mistake the nature of Thatcher's vision. In order to build the new economic model theorised by the right-wing activists at Mont Pélerin, the last remnants of the old one had to be destroyed. As long as the British labour movement was there to resist it, Thatcher would never have been able to institutionalise neoliberalism. As one striking miner put it, "[w]e knew from day one we were firmly in Thatcher's sights. What was stopping privatisation, what was stopping letting rip with profits, their philosophy of a free-market economy? The thing that was stood in the way was us". In taking on the miners, Thatcher wasn't just putting the nail in the coffin of the British mining industry, she was waging war on the labour movement as a whole. By taking out the strongest and best organised workers first, she knew that when she came for the remainder, resistance would seem futile. Workers in nationalised industries found themselves unable to resist privatisation, which proceeded apace with few disruptions. What remained of the labour movement found it far harder to counter the steady decline in wages relative to productivity, the deterioration in conditions and the rise of flexible working. Union membership has more than halved since the 1980s, even as the population has grown.[13]

From the start, this project was cloaked in the language of "efficiency", "modernisation", and — most pernicious of all — "economic freedom".[14] Thatcher's groupies argued that the unions were vested interests getting in the way of the operation of the free market. The neoclassical theory of wage determination posits that workers are paid a wage equal to the "marginal product" of their labour.[15] Essentially, firms pay workers a wage equal to the value of the output they produce. If a firm paid a worker over this amount, another firm could afford to undercut them whilst still making a profit, and if they paid workers less, then another firm could poach the worker with a higher salary and still make a profit. In the perfect world of equilibrium inhabited by the professional economist, the economy runs like a well-oiled machine, everyone fulfils their function, and society's resources are used in the most optimal way. By extension, workers who demand wages above their marginal productivity reduce the profitability of the companies they work for, therefore reducing the efficiency of the economy as a whole. The unions were committing a cardinal sin — disrupting the operation of the free market — and the state had no choice other than to intervene.

But over the course of the post-war period, the marginal productivity theory of distribution largely held. When the UK had a powerful labour movement able to argue for pay rises on behalf of their workers, on aggregate wages and productivity rose in unison — workers were paid a wage equal to what firms could afford, no more and no less. In fact, there is now a great deal of evidence to suggest that strong union movements actually raise productivity and improve firm performance.[16] But after Thatcher's battle with the unions, wages stopped rising in line with productivity. Without the unions to demand that firms paid workers a salary equal to their marginal output, bosses had no incentive to do so. Instead, they set about internally redistributing resources from workers to shareholders, making billions in the process.[17]

The downward pressure on workers' wages was reinforced by the Conservatives approach to macroeconomics. Theoretically, those workers being paid less than their fair share of output could have left their companies and found other jobs. But the neoliberals also had a plan to prevent workers from voting with their feet. Before starting her war on the unions, Thatcher announced a war on inflation, which was running at 13% in the year she took office. Her main weapon was to be the new economic ideology of monetarism: the theory that governments can control inflation by controlling the money supply. The growing attractiveness of monetarism emerged out of Keynesianism's failure to explain the concurrent increases in inflation and unemployment of the 1970s.[18]

According to the Phillips Curve, there should have been a trade-off between these two variables — and for most of the post-war period there was — but this relationship broke down in the 1970s. Expanding government spending would have been the solution to rising unemployment, but reducing it would have been the response to inflation — with both happening at the same time, the Keynesians were stuck. Monetarists explained this phenomenon by attributing the rise in inflation to low interest rates and too much government spending. The only way to tackle stagflation was to reduce government spending and raise interest rates to reduce inflation. They argued that, whilst such a course of action might create mass unemployment or cause a recession, this was the price that had to be paid for the greater good of controlling the money supply.

And this is exactly what happened. As soon as she came into office, Thatcher raised interest rates to 17%.[19] Given that high levels of inflation were primarily being driven by rising costs not rising demand, this had the predictable effect of strangling economic activity. The economy shrank by 2% in 1980 and a further 1% in 1981. Companies laid off workers and the ranks of the "reserve army" swelled. Unemployment began to rise at the start of the 1980s, and between 1983–1986 it never fell below three million — double the level of 1979. At such levels of unemployment, workers who are laid off find it almost impossible to find another job. Without any voice in determining their own pay and conditions, and unable to leave their jobs to find others, workers had no choice but to accept the pay that they were offered by corporations. Bosses, of course, knew this, and reduced workers' pay accordingly — either actively docking pay or allowing it to be eroded by increases in inflation.

In this sense, the war on inflation functioned as Thatcher's second front in her war against the unions. When discussing the monetarist policies of the 1980s Alan Budd, a government advisor at the time, worried that "what was engineered in Marxist terms was a crisis of capitalism, which recreated a reserve army of labour and has allowed the capitalist to make high profits ever since".[20] Disem-powering the unions and increasing unemployment would reduce wages — meaning more money going to owners rather than workers — and permanently reduce workers' collective bargaining power. Monetarism was, in this way, an overtly political approach to monetary policy, even as its adherents claimed it was based on neutral economic analysis.

There is, of course, no such thing as neutral economic analysis, even though the neoliberal narrative presented itself as such. The war against the unions was justified in terms of "efficiency", whilst monetarism was justified on the basis that it would prevent inflation. But the demise of the unions has created inefficiency in the labour market by increasing the returns to capital well above what they should be in the imaginary neoclassical economy. And monetarism failed to achieve its stated aim of controlling the money supply: as we'll see in the remainder of the chapter, Thatcher's deregulation of the banking system meant that the broad money supply increased faster than at almost any other point in history. But as this debt was mainly driven into housing rather than consumer goods, it created asset price inflation rather than consumer price inflation — in other words, inflation that benefitted the wealthy, not workers. Thatcher's war on the labour movement was aimed at breaking the last vestige of opposition to financialisation — and she succeeded.

Privatised Keynesianism

In crushing organised labour, Thatcher set the stage for the institutionalisation of finance-led growth. Without resistance from the country's workers, she could go about entrenching neoliberalism and empowering the financial elites that had brought her to power. Her reforms to the stock market, the removal of restrictions on capital mobility and the rise of shareholder value ideology had ushered in a new world order for corporate Britain.[21] Profitability was restored, and businesses no longer had to worry about the problem of union activity. Stock prices soared. Top salaries skyrocketed. And the profit share of national income grew at the expense of the labour share.

But whilst this system worked for a time, such levels of excess are unsustainable over the long term. Rising inequality leads to falling domestic demand, as the rich spend a lower proportion of their incomes than the poor, which ultimately harms capitalists' profits.[22] Both problems had begun to assert themselves by the end of the 1980s. The financialisation of the firm and the demise of the unions led to falling pay and increasing inequality. Whilst real wages grew by an average of 3% through the 1970s and 1980s, as unemployment increased and bargaining power fell, this figure fell to just 1.5% in the 1990s and 1.2% in the 2000s.[23] Rising GDP benefitted owners rather than workers. Modelling from the TUC suggests that the wage share of national income has fallen from a peak of 64% in the mid-1970s to around 54% in 2007.[24]

Whilst pay was increasing in absolute terms in this period, most of these increases went to the top of the income spectrum, and inequality increased substantially. The UK's GINI coefficient rose from 3 at the start of the 1980s to 3.4 by the start of the 1990s, a rise which been driven primarily by increases in pay at the top.[25] Whilst overall increases in income for the top 10% averaged 2.5% between 1980–2000, they increased at just 0.9% for the bottom 10%.[26] The ratio of CEO pay to the pay of the average worker increased from 20:1 in the 1980s to 149:1 by 2014.[27]

Secondly, and relatedly, investment in fixed capital — in the physical machinery and infrastructure needed for production — began to fall substantially from the end of the 1980s onwards. Investment in fixed capital matters because it is a critical determinant of long-term productivity, and therefore the health of the economy. As we've seen, if businesses aren't investing in production, they're either distributing their cash to shareholders or investing in financial markets. Investment in fixed capital fell from around 25.4% GDP in 1989 to 18.9% just five years later.[28] And it kept falling: by 2004, it had reached just 16.7%. This was partly due to the state cutting its investment in the real economy. But, as outlined in the previous chapter, investment was also falling due to the financialisation of the corporation, with firms distributing their revenues to shareholders, investing them in financial markets or buying up other corporations. The long and slow decline of the UK's manufacturing sector, which invests more in fixed capital than the services sector, also contributed.

Falling pay, rising inequality, and low investment threatened to recreate the conditions that preceded the Great Depression. Keynes and others argued that the best way to combat the low-wage, low-investment, low-demand doom-loop was for the government to intervene at strategic points to curb the twists and turns of the business cycle. They would signal their willingness to do this by committing to maintaining full employment, whatever the stage of the business cycle. If unemployment was rising, the state would step in to pick up the slack — either by directing increasing spending or cutting interest rates to boost investment in the private sector. The problem, as outlined in Chapter one, was that this model of growth gave workers more power. Thatcher's goal was to get back to a time when "the markets" — i.e. the bosses — were in control; a time when workers could be traded by businesses like any other input to production, rather than causing trouble by demanding bosses treat them like human beings. But she had to do this without creating a return to Depression-era economics.

The solution to this problem was to change the engine of demand: rather than business investment and state spending fuelling economic growth, from the 1980s debt-fuelled consumption came to be the main driver of increasing output.[29] Increases in consumption came to outstrip increases in wages. In the context of stagnating wages, the gap between income and expenditure would be covered by personal borrowing. 1988 was the first year *ever* that consumers' expenditure exceeded their incomes.[30] The Lawson boom — the economic boom named after the Chancellor who presided over it — saw tax cuts, a reduction in interest rates (once the union movement had been dealt with, of course), and an across-the-board increase in household borrowing and spending. Growth increased in the short-term, before collapsing in an equally large bust when interest rates had to be hiked again to keep the UK in the Exchange Rate Mechanism. In a mini precursor to 2008, a housing crisis ensued. But it wasn't long before stability was restored, and debt began to climb once again — and it didn't stop climbing for nearly two decades.

The genius of basing demand on private debt was that it allowed people to buy more, propelling economic growth, whilst also directing a greater portion of peoples' income towards interest payments and fees that went to financiers.[31] Under this system, individuals would use the tools provided to them by financial markets to weather the storms created by changes in the business cycle, making a tidy profit for the finance sector in the process.[32] In this way, "privatised Keynesianism" replaced the Keynesian model of demand management that governed the post-war consensus.[33]

Had this model relied only on unsecured lending, like credit cards or student loans, it wouldn't have lasted very long. If you're borrowing to go on holiday, you have to assume that your wages are going to carry on rising so that you'll easily be able to afford the interest payments tomorrow. And as we know, wage increases weren't keeping up with productivity increases at this point. Instead, privatised Keynesianism relied on secured lending — lending backed up by an asset like a house. When you borrow to purchase a house, you're left with an asset that can produce income and be sold if you can't make the payments. What's more, when lots of people invest in the same asset, the price of that asset tends to rise. If everyone wants to buy housing, and is able to access a mortgage, but the housing stock remains fixed, then the price of housing will rise. From the end of the 1990s recession, the amount of money created and directed into housing increased at a far faster rate than the number of houses for sale, increasing prices.

In place of rising wages, Thatcher may as well have said "let them eat houses". Financial deregulation and right-to buy, combined with the pension fund capitalism released by the Big Bang, allowed the Conservatives to transform the British middle earners into mini-capitalists who would benefit from the financialisation of the economy. By providing capital gains to a large swathe of the population, the Conservatives would be creating a class of people who had a material interest in the economy remaining as it was, even if most of the gains from growth were going to the top 1%.

Blowing Bubbles

In October 2018, the record for the most expensive UK home was broken when the penthouse at One Hyde Park was sold for £160m.[34] Initially, the identity of the buyer was shrouded in mystery. The property had been purchased through a shell corporation located in the tax haven of Guernsey, where companies aren't required to disclose their beneficial owners. But a few days later the buyer's identity was revealed. As it turns out, the developer, multi-millionaire property tycoon Nick Candy, sold the penthouse to himself via Project Grande (Guernsey) Limited — a joint venture between his brother Christian Candy and the former Prime Minister of Qatar — so he could release the equity with a £80m loan from Credit Suisse.

Together, Nick and Christian Candy are worth £1.5bn. In the mid-1990s they got their first break when a family member gave them a £6,000 loan that they used to buy, renovate, and sell a flat in London, making a £50,000 profit. Like many property developers at the time, they used these profits to buy and flip a series of flats in London, riding the wave of the housing boom and making themselves incredibly rich. The brothers managed One Hyde Park, the most expensive development in the world when it was completed in 2016. Today, they are famous for their fabulous wealth, their aggressive tax avoidance and their long list of celebrity clients, including Kylie Minogue and Katy Perry. How was it possible, that over a period of just twenty years, these two brothers turned £6,000 into £1.5bn (that is, £1,500,000,000) just by investing in UK property?

The Candy brothers aren't alone in making their fortunes on soaring London property prices. In fact, they are only the UK's 52nd wealthiest property developers, falling far behind names such as the Reuben brothers, the Grosvenors, and the Barclays. 163 of the top 1000 richest people in the UK made their money in property, making property wealth the biggest single source of wealth on the Sunday Times rich list. But it's not just the wealthy who have benefitted from rising house prices: everyone who bought a home before the boom of the 1980s has seen a windfall gain. Property wealth is the second most significant source of wealth in the UK after private pensions wealth, worth £4.6bn.[35] Prices in London have risen faster than those in other parts of the country, and now property wealth represents almost 50% of the net wealth of people living in London, compared to 26% for those living in the North East.

This increase in house prices began during the 1980s, as part of Thatcher's push to create a "property-owning democracy".[36] Right-to-Buy legislation, which allowed tenants of social housing to purchase their home at between one- and two-thirds of its market value, was passed in 1980. In 1984, the amount of time a tenant had been living in a flat before they were able to benefit from Right-to-Buy was reduced, and the potential discounts on the property's value were increased. In the first seven years of the 1980s, 6% of Britain's social housing stock was sold to private owner-occupiers. But the privatisation of Britain's social housing stock would not have been enough to create Thatcher's nation of home owners. People needed mortgages — and that required a change to the country's financial system. So, Thatcher deregulated the banks.

When banks lend, they create new money.[37] This unique state-provided privilege is what makes a bank a bank, differentiating banks from other financial institutions like building societies. If I deposit £100 in, say, a building society, the society could keep £10 of this money and lend £90 to someone else. No new money has been created — it has just been moved from one place to another. Banks, on the other hand, can lend out money without first taking a deposit, because states give them the right to issue loans in the national currency, subject to certain rules. BigBank Inc could lend £90 to a consumer, without actually having £90 in deposits. The amount that banks are able to lend is determined by central bank regulation. The central bank might say that commercial banks must hold a certain amount of highly liquid capital (cash, shareholders' equity, or anything relatively easy to sell) relative to its loans. Once it has lent the £90 out, it might have to find £9 worth of capital to keep within state regulation. But the remaining £81 is new money — the bank has not borrowed it from anyone else, it has simply created it out of thin air. Increases in bank lending can therefore increase the money supply — the total amount of money in circulation.

Prior to the 1980s, there were many more restrictions on banks' ability to create money in this way. Before 1981 the banking "corset" — otherwise known as the supplementary deposits scheme — required banks to keep a certain amount of cash at the Bank of England before issuing loans above a certain amount, which restricted lending and therefore the money supply.[38] When restrictions on capital mobility were removed, banks found it much easier to bypass these restrictions by moving their activities abroad, so the "corset" was removed. The removal of restrictions on capital mobility also meant that banks now had access to the big pools of money that had by then emerged at the international level. They found it much easier to borrow — whether from institutional investors, or from other banks — and could therefore use this borrowing to increase their lending. Banks started to play a much greater role in mortgage lending — in 1980, banks were responsible for just 5% of mortgage lending; this had risen to 35% just two years later.

Another important set of reforms to the financial system were the changes made to the UK's building societies.[39] Building societies had been a feature of the British financial system since the eighteenth century, when they were created in the UK's new industrial towns and cities to build homes for those who could afford them. Older homeowners put their savings in the societies, which were then lent to younger members as mortgages. They weren't like banks in that they weren't able to create money — they could only loan out the money they had in deposits. Building societies continued to grow until, by 1980, they were responsible for 90% of UK mortgage lending, which gave them, in the words of the Bank of England, a "virtual monopoly" on the mortgage market.

In 1986 — the same year as the Big Bang — the Building Societies Act was passed, which aimed to increase competition in the sector by removing the regulation that prevented building societies from operating like normal banks. After the Act was passed, building societies could do pretty much all of the things that banks could do — including create money by issuing credit. Members were bought out, becoming rich in the process, while new borrowers faced higher interest rates. Eventually many of these building societies — including Northern Rock — ended up undertaking the kind of sub-prime lending activities that caused the crisis.

Throughout the 1980s, banks and former building societies issued millions of pounds worth of mortgage debt to allow people to purchase their own homes — many used this debt to purchase their council homes. This lending surge led to an increase in the UK's broad money supply, which increased from around 40% of GDP in 1985 to 85% in 1990, mirrored by an increase in the amount of credit provided by financial institutions.[40] There was now a wall of money chasing after the same amount of housing stock — and the inevitable consequence of such a scenario is house price inflation. To illustrate this point, imagine that two people both want to buy the same house.[41] The asking price is £50,000, so couple A goes to the bank and asks for a £50,000 mortgage, which is granted. Couple B then goes to another bank and asks for a £55,000 mortgage to outbid couple A, which is granted, so couple B returns to ask for £60,000. Prices are pushed up based on the amount that banks are willing to lend — and without strict limits on bank lending, this led to an increase in house prices.

As finance came to colonise the real estate market, housing was transformed into a speculative asset. Average house prices increased tenfold between 1979 and the 2008 crash, whilst consumer prices increased by just half that amount.[42] In London and the south east, the situation is even more extreme. In purchasing a house, one was no longer purchasing a roof over one's head, one was purchasing a future: a pension, an inheritance for one's children, and thirty years of continuous mortgage repayments. The boom, of course, ended in a bust. But before the crisis, this debt-fuelled consumption-driven growth model transformed the nature of Britain's economy, its society, and its politics.

Thatcher couched her push for home ownership as a progressive bid to turn the country into a nation of responsible homeowners, who wouldn't rely on the state to support their ambitions for a better life.[43] Sensible, savvy consumers would choose to invest their hard-earned savings in housing and pensions, with the promise that these would continuously increase in value. Free markets would carry the nation to prosperity, unencumbered by the overbearing influence of the paternalistic state. If you were too poor, stupid or lazy to take advantage of the fantastic opportunity given by this brave new world, well, that was your own fault. The state's role would be limited to controlling inflation, which might erode the value of your assets and hard-earned savings, by controlling interest rates.

It's worth stating at this point just how much of a lie this vision really was. Too often people critique the Thatcherite vision by arguing that, whilst individual freedom is just as important as Thatcher claimed, it is also important to look after the collective. Sometimes individual freedom needs to be curbed in order to control the markets and reduce social ills like inequality and poverty. This argument may be true, but it accepts the neoliberal discourse on its own terms. One cannot understand Thatcherism by looking at Thatcher's language — one has to understand the aims of her vision by looking at *who benefitted* from these changes. In doing so, it is easy to see how the language of neoliberalism served to conceal what was really going on: a transfer of society's resources from those who work for a living to those who own the assets.

The Conservatives transformed British political economy by providing the wealthy with free money — realised in the capital gains they derived from increases in the value of their homes and their pensions. These rising asset prices compensated for falling wages amongst those who were able to access the credit required to purchase these assets. Middle earners were persuaded to support Thatcher's model on the basis that they too might become wealthy one day. The rest of society — the majority — didn't feature, other than as inputs to the production process. Thatcher may have talked about freedom, but she created a society based on unfreedom: the non-choice between work at a wage below what one deserves and destitution.

Similarly, Thatcher's government never actually tackled inflation or the money supply, despite its monetarist rhetoric. The broad money supply increased dramatically over the course of the 1980s because of rising mortgage debt. Instead, they focused on curbing wage-inflation by cutting the size of the state and restricting collective bargaining. Asset prices — mainly houses and other financial assets — rose substantially under Thatcher, even as consumer price inflation was brought under control. The ideological battle between individual freedom and collective justice provided a smokescreen that allowed the neoliberals to stratify British society — co-opting middle earners by turning them into mini-capitalists and creating a margin-alised class of poorly-paid, precarious, and heavily indebted workers beneath them.

A central plank of the finance-led growth regime has been the replacement of wages with debt and private wealth as the central determinants of many households' sense of economic prosperity.[44] When households fall on hard times, rather than taking their fight to employers, they are much more likely to take out new debt. When planning for the future, those who own homes and have private pensions are more likely to rely on the value of these assets than they are on social security provided by the state. In other words, the financialisation of the household has radically individualised peoples' experience of the economy, leaving them to rely on individual financial management rather than collective political mobilisation to improve their standard of living.

Financialisation and Politics

The capitalist societies described by Marx were divided between the owners of the most important resources and those who worked for them. Capitalists would use their political and economic power to force everyone else to work for them for a wage below what they deserved. Land owners and financiers used their control over land and capital to extract wealth from both capitalists and workers. Property was passed down through the generations, and it was all but impossible to transition between the classes. The state existed to protect owners — the franchise was strictly limited, and policy was determined by battles between different classes of owner.

But during the golden age of capitalism, Marx's analysis of class no longer seemed to fit the experience of the global North. Strong unions meant that most workers were being paid an income approaching the value they produced for capitalists. The extension of the franchise transformed the state, which was now stepping in to provide public services and promote full employment. A new class of professional managers emerged, earning high wages, and often being remunerated in shares as well, undermining the distinction between owners and some workers. Increasing social mobility and high wages produced a society that looked much less stratified than the one analysed by Marx in the nineteenth century. Many resources were owned collectively, meaning that the amount people had to spend on rent was relatively low. And finance was reined in, meaning less was being spent on interest payments.

But under finance-led growth, society has come to look a lot more like the ones described by Marx. The wage share has fallen, and the profit share has risen. Within the profit share, the rentier share has also risen. The increase in income accrued from sources like interest and property rents has made financialised capitalism much less productive. When large amounts of income are diverted to economic rents, less money is reinvested in production and more accrues to the owners of already-existing assets. No new jobs are created when I pay my landlord rent or when a corporation pays interest to a bank — income is simply transferred from one place to another. The combination of a falling wage share and a rising rentier share saps demand out of the real economy, as well as increasing financial instability, contradictions that will be analysed later in this book.

The divide between the owners of the means of production and rentiers on the one hand, and those who are forced to work for a living on the other, is the divide between the many and the few — between those who live off work and those who live off wealth. This is the fundamental divide that characterises capitalist societies today. The political salience of this divide may rise and fall depending upon wider political economic conditions, but it never goes away. Even before the overt conflict of the 1970s, the class divisions in British society were a primary feature of politics. The division between owners and workers has become more obvious under finance-led growth as profits and asset prices have risen and wages have stagnated. But as society has become more polarised, this division has seemed to become less politically salient. Thatcher may have managed to physically constrain the resistance to her agenda of privatisation and deregulation in the 1980s, but why did people continue to support politicians advocating similar policies all the way until 2007?

The genius of Thatcherism was to mute peoples' awareness of the divide between owners and workers by extending asset ownership to middle earners. The expansion of home ownership and the financialisation of the housing market convinced middle earners to side with owners instead of workers. The Conservatives built a large, stable voter base by creating an alliance between homeowners and the 1%. Middle earners who happened to be alive at the right time were able to buy homes and invest their savings in stock markets and benefitting from capital gains. Bankers and financiers made huge amounts of money through mortgage lending and securitisation whilst middle earners benefitted from rising wealth. The former provided the money, the latter provided the votes. This group by no means represents a majority of British society, but they have emerged as an exceptionally powerful minority.

Today we know that from the 1990s, the UK was sleepwalking into a debt crisis — one that would end in a much bigger crash than that of 1989.[45] But at the time, the country was blissfully unaware of the problems that were being stored up for the future. To many people, the avalanche of cheap credit seemed like a gift from the heavens. This boom coincided with the fall of the Berlin Wall and a new era of globalisation, during which cheap consumer goods from all over the world would become more readily available than ever before in history. Working people were able to afford plasma screen TVs, mobile phones, and video game consoles.

But peoples' experiences of the long boom differed depending upon their class position. On the one hand, the new property-owning classes were able to release equity from their homes to finance consumption. In this way, middle-earners were able to acquire elite identities through wealth, even as wealth has become much more concentrated amongst the top 1%, who have also become much less socially mobile than ever before. On the other hand, those without access to such wealth and capital gains could still buy into the new consumer culture by taking out unsecured credit through credit cards, overdrafts, and payday loans. Corporations also started jumping on the bandwagon by offering consumers low-interest credit to purchase cars and consumer durables.

Over time, the differential experiences of finance-led growth led to a divergence between the economic experience of the property-owning classes and those of everyone else. For the wealthy, debt is a luxury. Access to interest-only or low-deposit mortgages has allowed many families to jump onto the property ladder and watch their wealth increase, transforming their class identity. For others, debt is a curse. Barely able to make ends meet on their low incomes, it has become easier and easier for the poorest in society to get access to emergency loans which charge usurious rates of interest. Payday lenders will target the most desperate people in society — those with poor credit scores who have fallen on hard times — knowing that they will be unable to access credit anywhere else. A single parking ticket, a broken car or a dental emergency can leave these people bankrupt — or, for those like Jerome, much worse.

The decline of the union movement has only exacerbated these problems. Before financialisation took off, British workers had been bound together by their collective experience of exploitation in the workplace, and their organisation against it in the union movement. Without participation in the labour movement, the experience of exploitation and poverty came to be terrifyingly individualised. This was a process helped along by the changing nature of the labour market, the erosion of the welfare state and the general decline in civic participation and social capital that marked the financialisation of society. Many of those previously employed in mining or manufacturing found themselves perpetually on the dole, chastised by the media as the welfare-dependent, undeserving poor. Their experience of poverty was unique, one infused with overtones of shame, isolation, and anger.

Others found work in poorly-paid, insecure jobs in the emerging service sector, in hospitality or retail. Even the most dedicated unionists found it hard to organise in these sectors, with workers spread across the country, paid partly in tips or commissions, and forced to undertake the kind of psychologically-warping emotional labour that can erode one's capacity for genuine connection with other human beings. Those who had been granted an education might have been allowed access into the ranks of the civil service, joining the salaried professionals themselves. Most found themselves in debt of one kind or another. This was perhaps the most tortuous aspect of the new poverty: the power asymmetry between a debtor and a creditor is far more extreme than that between a worker and a boss. There can be no organising against loan sharks or payday lenders, still less against commercial banks.

At the same time, the state was retreating from providing the kind of social security that had been a hallmark of the post-war era. Risks that had formerly been socialised were privatised, encouraging middle-earners to "think like capitalists" in planning and insuring for risks. Private health insurance coverage has increased as wealthier consumers seek out better care than that which is available on the NHS. Rising tuition fees have also shifted the burden for paying for education onto individuals, who find themselves saddled with debt well into their careers. Many working families were taken in by the "delusion of thrift", believing that their pensions and properties were increasing in value because of smart investments rather than a generalised environment of asset price inflation. This was, of course, a delusion — one that was quickly shattered in 2007 and the legacy of which many families are still dealing with. Many peoples' pensions were effectively wiped out in 2008 (only to be revived through QE), some homes were foreclosed upon, and personal bankruptcies soared. Unsurprisingly, this assumption of what were previously socialised risks by ordinary households has led to a pervasive rise in feelings of anxiety and insecurity.

As greater portions of society came to rely on priva- tised insurance to mitigate personal risk, the socialised risk of the welfare state came to be seen as something for the poor and, increasingly, the lazy. Those who owned property extricated themselves from the welfare system, relying on asset price inflation to insure them against future risks. But this has had profound political consequences, including "alienating those with property from a welfare state for which they pay but from which they derive little benefit".[46] Such a situation allows the welfare state to be redefined as something for the poor, and eventually the lazy and unproductive. Slowly, as state benefits are restricted to an ever-smaller section of the population, support for the welfare state declines and it becomes far easier to cut. This process has been reinforced by the "neoliberal welfare discourse", which locates the blame for worklessness amongst the unemployed themselves.

The changing relationship between class and politics was made strikingly clear with the rise of New Labour, which Thatcher later reflected on as her greatest achievement. It might appear odd for Thatcher to praise a party that kept hers out of government for almost fifteen years, but she was, as ever, astute to observe that the rise of New Labour consolidated Thatcher's grand bargain between elites and the mini-capitalists. The New Labour project was based around the idea that class was no longer politically relevant; that electoral politics could be confined to societal and cultural issues, and debates over how the gains from growth should be distributed. The commanding heights of the economy would be "left to the free market", under the watchful eye of independent technocrats in central banks and regulatory bodies. But the entire economic model that New Labour had blindly accepted was premised upon the continuous expansion of debt and asset prices, and the Tories managed to hand the reins over just as it was entering its least stable phase. Thatcher described New Labour as her greatest achievement because, just as in the 1950s the Conservative Party couldn't touch the unions, in the 1990s the Labour Party couldn't touch the banks.

CHAPTER FOUR THATCHER'S GREATEST ACHIEVEMENT: THE FINANCIALISATION OF THE STATE

> The Establishment decided Thatcher's ideas were safer with a strong Blair government than with a weak Major government. — Tony Benn.

On 26 June 2002, Gordon Brown delivered a speech to City dignitaries assembled a Mansion House. "Mr Lord Mayor, Mr Governor, my Lords, Aldermen, Mr Recorder Sheriffs", he pronounced, "let me at the outset pay tribute to the contribution you and your companies make to the prosperity of Britain".[1] These might sound like strange remarks from the party that had, just over two decades previously, pledged to nationalise the banking system. But in many ways, its close relationship to the City was one of the defining characteristics of New Labour, which consistently deregulated the finance sector. Blair attempted to woo ordinarily hostile investors and executives in the City through his famous "prawn cocktail offensive". Financiers have always been, and would continue to be, natural supporters of the Conservative Party. But Blair and Brown made significant inroads with the sector during their tenure. The consequences of this offensive were, as later noted by the FSA, a total failure to properly regulate financial institutions, which ultimately contributed to the financial crisis.[2]

Given the power that the City of London Corporation holds within British politics, it is perhaps unsurprising that Blair felt the need to get the institution on side. Some have referred to the City as a state within a state: a shady, arcane institution designed to corrupt British politics and promote the interest of reclusive financiers.[3] The City is the only space in the UK over which Parliament has no authority, and its representative in the House of Commons is the only unelected member allowed to enter the chamber.[4] Its political architecture continues to be based on the Medieval guild system, under which businesses have votes, with larger businesses having greater weight than smaller ones. In 2011, the Bureau of Investigative Journalism revealed that the City had spent more than £92m lobbying politicians and regulators in the wake of the financial crisis to limit new regulation.[5] The Bureau was able to link these lobbying efforts with a series of legislative changes, including reductions in bank taxation and regulation.

But whilst the relationship between the political parties and the City may occasionally veer into outright corruption, the influence of the City on British politics is less of an aberration than a reflection of the UK's political economy.[6] In other words, it's not so much that a small set of financial interests centred in the City of London have "captured" policymaking (though they undoubtedly have); it's more that the individuals making policy conflate the interests of the City with those of the

British state as a whole. Politicians like Blair and Brown weren't simply vying for access to the City's lobbying budget, they genuinely believed that deregulating financial markets would help to boost economic growth and tax revenues that could be spent on making society more equal. By taxing the revenues of the big banks, and the salaries of their employees, the British state would be able to provide public services and welfare for those in parts of the country where traditional industries had been destroyed. Globalisation may have harmed British manufacturing, but it could help to provide support for those "left behind" by bolstering the City as a global financial centre.

Whilst finance has always played a central role in British politics, in the 1980s and 1990s the City's dominance was taken to a whole new level. This was initially catalysed by Thatcher's policies — from bank deregulation, to right-to-buy, to the Big Bang. But Blair and Brown took this process one step further. They developed a complex and arcane regulatory architecture for the City that was easy for insiders to manipulate. These organisations were given a mandate to implement "light touch" regulation on the finance sector, to encourage "innovation" and promote investment.[7] Meanwhile, billions of pounds were pumped into the UK's real estate market, inflating a bubble that would eventually burst in the biggest financial crisis since 1929. The revenues from this model were then used to expand the provision of welfare and public services for those left out of the boom, under the auspices of the private sector, which was given responsibility for delivering public services. In other words, Blair maintained Thatcherite political economy, but sought to make the grossly stratified society that resulted slightly less unfair. However, in expanding the size of the state without challenging the dominance of finance, Blair managed to do something that no other government had achieved: financialise the state itself.

Thatcher's Greatest Achievement

By the 1990s, high and rising levels of inequality were a defining feature of the British economy. The Conservatives had attempted to naturalise this inequality by claiming that it was the result of market forces in a globalised world.[8] Over the long term, they claimed, the efficiency gains from trade would make everyone better off. Of course, the kind of globalisation taking place in the 1990s was not primarily based on trade. Instead, the 1980s marked the start of the era of financial globalisation, which was only ever meant to serve the interests of the 1%.[9] Financiers had been pushing behind the scenes for the removal of restrictions on capital mobility for decades, and when their wish was finally granted, it precipitated a global financial boom. With the political foundations of the new world order firmly hidden from sight politicians were free to claim that rising inequality was a natural state of affairs. A focus on redistribution replaced the Labour Party's previous "obsession" with ownership — the gains from growth didn't have to be equally distributed if the state could tax the wealthy and redistribute their income. In other words, rather than attempting to challenge a fundamentally unfair and unstable system, Blair accepted finance-led growth and aimed to make it slightly less unjust.[10]

And in many ways, he succeeded. As John Hills argues in his survey of inequality in Britain during the Blair years, New Labour's policies did marginally reduce the large inequities that had resulted from the advent of finance-led growth.[11] On average, in the middle of the distribution, income differences narrowed. Child and pensioner poverty fell and there were notable improvements in geographical inequality in some areas as Blair attempted to keep voters in traditional Labour seats on side. His hallmark focus on education meant that there was a marked reduction in attainment gaps between the wealthiest and the poorest children.

But Hills also points out that, despite the then widespread view that New Labour reduced inequality throughout society, the picture is actually much more complex. Incomes for the top 1% grew extremely quickly — far outpacing income growth for the rest of the population. Meanwhile, the incomes of the very poorest in society grew more slowly than the average, for reasons highlighted in the previous two chapters. The combination of these two trends meant that the incomes of the richest and the poorest in society diverged substantially over Blair's tenure. Wealth inequality also continued to grow — unsurprising given that rising asset prices are a defining feature of finance-led growth. Hills' assessment is that New Labour managed to make slight improvements to the highly unequal income distribution handed to them by Thatcher, but that the problem of inequality was much more deeply rooted than Blair and others had assumed, and "less amenable to a one-off fix".

In fact, rising inequality is an inherent part of finance-led growth. The growth of shareholder value ideology during the 1980s meant that companies were more focused on increasing their profits and distributing the returns to shareholders than paying and retaining their workforce. The rapid growth of the finance sector and related "professional services" industries in the City also meant rising salaries for those at the top. But perhaps the greatest driver of inequality under New Labour was rising asset prices, driven by the billions of pounds worth of new money being pumped into property and stock markets every year.

Blair and Brown had to be seen to be doing something about these issues. For a start, a commitment to making British society fairer was the one thing that differentiated Labour from the Conservatives. But more generally, voters were starting to express real concern with rising inequality. As a result, Blair and Brown had to undertake a balancing act between alleviating the most obvious signs of inequality without undermining the incentives that made Thatcherism work.[12]

Out of this quagmire emerged a threefold strategy. Firstly, New Labour would adopt Thatcher's language about welfare — the responsibility for unemployment would be placed firmly on the shoulders of the unemployed.[13] The only difference was that workers' laziness and irresponsibility would be met with a "compassionate" response from the state. The emphasis would be placed on skills acquisition — hence Blair's famous focus on education as the route out of poverty.

Welfare-to-work programmes were introduced, and tax credits were brought in to subsidise low pay and "encourage" people back to work. None of these measures, of course, tackled the structural causes of low pay or unemployment, but served instead to consolidate the division between the deserving and undeserving poor that underlaid the Thatcherite ideology. Those who took advantage of these welfare programmes would be seen as deserving, whilst those who did not would be punished.

Secondly, the state would learn to behave more like a private organisation itself, based on the emerging ideology of "new public management" (NPM).[14] NPM advocates argued that the best way to run an economy was to subject all areas of economic activity — including state spending — to the discipline of the market. If markets didn't naturally exist, then they should be created. After all, the lazy, corrupt, and inefficient bureaucrats who staffed the public sector had to be incentivised to behave in the best interests of the taxpayer. Introducing private-sector management techniques would promote public sector "efficiency" and improve "customer service".[15] Middle and upper management were empowered to introduce and police a set of rigid targets to hold civil servants and public sector workers to account. Mirroring the process that had taken place in the private sector after the famous "it's not what you pay them but how" paper, senior civil servants started to be remunerated based on performance.

On the one hand, new public management ideology forced the civil service to operate much more like a private business.[16] New policies were ruthlessly subjected to techniques like cost–benefit analysis to determine whether or not they would be "profitable" for the state to undertake. Such a process is, of course, meaningless, because states are not businesses. The vast majority of a state's citizens do not behave like "customers" that will pick another, cheaper state if they don't like the quality of service they receive. But treating the state like a business ended up benefitting those that do — the international capitalist class who can threaten to move if they are taxed too much. On the other hand, new public management also had what might be considered an unintended consequence — an increase in public sector bureaucracy. Middle management in the sector has grown substantially, and employees are continuously assessed against useless metrics that serve to create more work for all involved.

The third, and perhaps the most important, element of New Labour's strategy for tax and spend would be to encourage the private sector to undertake public spending on the state's behalf. The logic behind the outsourcing agenda and private financing initiatives was a natural extension of new public management thinking — what better way to introduce market discipline into the public sector than to have private companies undertake spending for the state themselves? This would be justified on the basis of "efficiency", but its true purpose would be to allow private corporations to profit from the necessary redistribution created by the finance-led growth model. New Labour's promise to the electorate centred on alleviating inequality without killing the goose that laid the golden eggs — finance. The genius of the privatisation agenda was using this expansion in state spending to make the goose even fatter.

PFI: Profits for Investors

Proposals for a tunnel linking the UK and France date back to the nineteenth century.[17] In 1802 the French engineer Albert Mathieu-Favier put together a blueprint to dig a tunnel under the English Channel, illuminated by oil lamps to light a path for horse-drawn carriages. A desire to seal off the cliffs of Dover from any European invasion prevented the project from being taken up until 1980, when Thatcher's newly elected Conservative government agreed to work with the socialist French President François Mitterrand to take forward the proposition. Thatcher had one condition: the project would be financed privately. This was no small ask. At the time, the £5bn Channel Tunnel was the largest infrastructure project *ever proposed*. Whilst state-owned and well-regulated private French investors eagerly stepped forward to provide their half of the funding, the City was less keen on the idea. This was something of an embarrassment for a British government intent on proving that it was host to the most powerful financial centre on the planet, and it took interventions by the Bank of England and the government to finally ensure that adequate capital was raised.

But this wasn't enough to please the banks, which were worried about being exposed to what looked like a hare-brained politically-motivated white elephant. They demanded that a new body, which became known as Eurotunnel, be created to place some distance between the banks and the construction firms. At this point, the project was becoming incredibly expensive and complicated. Channel Tunnel Group in the UK and France Marche group in France would invest in Eurotunnel, which would be floated as a public company, before itself financing Trans-Marche Link, which would undertake the actual construction. Eurotunnel would, in turn, gain the concession to run services that ran through the tunnel in coordination with SNCF and British Rail and would recoup its costs over the long-term through "usage charges" paid to it by the train operators.

Almost as soon as construction began, costs began to mount. The engineering problems were almost enough to derail the project on their own, but the real trouble lay with figuring out who amongst the plethora of different actors involved would pick up the extra costs. Adding to the trouble, high interest rates meant that the financing costs of the project were 140% higher than expected — a year-long delay cost an extra £700m in interest charges. By 1995, Eurotunnel was up and running, a year late, and 80% over budget. The company lost £900m in its first year of operation. Three years later, it had undergone three state rescues. In 2003, its interest payments of £320m were almost double its operating profits of £170m.

And yet, when the government decided that it needed to upgrade the rail network that went through the tunnel, it concluded that the project should, once again, be privately financed. HS1 — otherwise known as the Channel Tunnel Rail Link — also turned out to be a disaster. Yet again, a consortium was created to raise the finance needed for the project. Yet again, overoptimistic assumptions about future revenues meant that it was unable to find the funding it needed. And yet again, the government stepped in to bail out the private consortium and save the project. The Public Accounts Committee found that the project has left taxpayers "saddled with £4.8bn worth of debt".[18]

As private financing has been extended into ever more areas of public spending, public investment has collapsed, falling to just 2.6% of GDP in 2018 — well below the OECD average of 3.2%.[19] A recent report on private financing initiatives from the National Audit Office revealed that most of these projects have been entirely unsuitable for private financing, and that some projects are costing the public 40% more than would have been the case had public money been used directly.[20] Public borrowing is always, other than in extreme cases in which states are deemed uncreditworthy, cheaper than private borrowing because it is incredibly difficult for states to default. Even when they do, it is either because they have borrowed in a foreign currency, like Argentina today, or because they don't have control over their monetary policy, like Greece.

So why did successive governments continue to press ahead with PFI? Supporters argued that PFI transferred risk from the taxpayer onto the private sector.[21] If the contractors delivered on time and on budget they would get paid — if they didn't, they would lose out and their shareholders would suffer. This was supposed to introduce market discipline into the provision of public contracts. Again, the ideological justification fell far short of the reality. The private sector prefers to operate in the absence of competition. So, in exchange for entertaining the government's new publicity stunt, the companies involved made sure that the contracts were written in such a way as to ensure that, whatever happened, they would get their money. This meant that private companies were undertaking spending on the state's behalf without incurring any risk whatsoever.

The second justification was even more spurious. Having inherited the idea that the state functioned like a household — and that the role of the prime minister was similar to that of a good housewife — New Labour had an incentive to ensure that public spending did not reach what looked like unsustainable levels.[22] This analogy was always ridiculous, especially when it comes to investment spending. If the government borrows to invest in infrastructure projects that expand the productive potential of the economy, GDP will rise, tax revenues will follow and, over the long term, the project will pay for itself. Whilst the New Labour government undoubtedly knew this, they also knew that the returns wouldn't be recouped for many years, whilst the impact on government debt would be immediately obvious. New Labour had to avoid looking like it was going back to the bad old days of socialism, and this is where PFI came in. Private financing allowed New Labour to shift the immediate cost of borrowing off the government's books and onto those of the private sector, even though the cost would ultimately fall on the state itself.

Private financing is another avenue through which the British state has attempted to implement a regime of privatised Keynesianism.[23] Combined with the increases in household debt described in the last chapter, PFI and other outsourcing initiatives would allow for the further displacement of public spending with private debt. Except under this scheme, the private debt would be held by wealthy shareholders rather than households, and it would be backed up by an implicit government guarantee. Private corporations would be able to borrow on financial markets without taking any risk, as the state would always be there to step in and pay back the debt. This meant implementing the logic of Keynesianism — that states should borrow to invest to mute the ups and downs of the business cycle — whilst skimming some cash off the top for the private sector. In other words, state-sponsored rentierism.

State-guaranteed private borrowing creates the problem of moral hazard, a situation in which economic actors are shielded from the negative consequences of their actions. Before 2007, the banks knew that if they ran into trouble the government would always be there to bail them out — they could take huge risks today, without having to face the consequences tomorrow. This problem of moral hazard is what underlay the collapse of PFI giant Carillion.[24] The firm was accepting government contracts at very low prices — less than the amount they needed to deliver the work — and eventually found itself unable to deliver its contracts and pay its shareholders. Rather than admitting it was in trouble, the company increased the amount it was paying out to shareholders and started to take on new government contracts to cover the costs of the old ones — effectively throwing good money after bad. They did so betting, no doubt, that the state would step in to rescue the company were it to encounter financial difficulties. But when Carillion collapsed in 2017, the government did not step in to help — perhaps because of the public outrage at the incredible irresponsibility of the firm.

When the auditors came in to manage Carillion's bankruptcy, they found that the company had just £29m in cash and owed £1.2bn to the banks, meaning that it didn't even have enough money to pass through administration before entering liquidation. Carillion had become a giant, state-sponsored Ponzi scheme, siphoning off money from the taxpayer and channelling it into the pockets of wealthy shareholders. Whilst many of those shareholders who did not sell on the first signs of trouble have now lost out, the real losers have been the contractors and workers hired by Carillion, many of whom have found themselves out of pocket. Today, billions of pounds worth of taxpayers' money is being funnelled into inefficient, financialised outsourcing giants like Carillion, only to enrich executives and shareholders, whilst leaving taxpayers to foot the bill.

The demise of Carillion epitomised the failure of New Labour's experiments with private financing. But PFI wasn't the only route through which public spending has become financialised — the rise of outsourcing more broadly was also to blame. Government spending can be divided into investment spending, which requires a big outlay up front to construct a potentially revenue-generating asset, and current spending, which pays for day-to-day public services provision. Upgrading the UK's rail network might, for example, require billions of pounds to be spent today for improvements that will be felt tomorrow, whilst paying the salaries of NHS staff requires a continuous payment every year. PFI was meant to keep investment spending off the government's books by requiring a private company to raise a lot of money up front, which the government could repay over a period of decades, with interest. But New Labour also wanted to bring the private sector into the delivery of day-to-day spending. So, it turned to outsourcing — paying a private company directly for the delivery of a public service. Many of the same firms that were brought in to deliver big infrastructure projects were also used to deliver public services.

Outsourcing has an ambiguous record.[25] There are examples of relative success, where public procurement has been used wisely, as well as examples of dramatic failures, with low-quality services being delivered by unscrupulous contractors at a huge cost to the taxpayer. There are arguments for outsourcing government projects when procurement is done well and includes, for example, commitments to use companies with unionised workforces and with high environmental standards. But today, outsourcing is mostly dominated by a few big firms delivering low-quality services whilst skimming money off the top for shareholders and executives. G4S managed the security for the London Olympic Games so badly that the government was forced to bring in the army to support them.[26] Serco operates some of the UK's most brutal detention centres and has even been accused of using inmates as cheap labour.[27] Capita is known for gouging many of the UK's local authorities by delivering low-quality services at eye-watering prices.[28] These outsourcing oligopolies have their tentacles spread all over the spending of the British state, from schools and hospitals, to prisons and detention centres.

The steady privatisation of public spending around the world was recently identified by the UN as the source of pervasive human rights abuses.[29] The UN's expert panel claimed that "[g]overnments trade short-term deficits for windfall profits and push financial liabilities on future generations". Neoliberal governments have relied on privatised public spending in order to alleviate some of the inequality created by the finance-led growth regime, and to mute the ups and downs of the business cycle. They have, however, shied away from returning to the old Keynesian model of promoting full employment, given the implications this would have for power relations between workers and owners. Instead, they have sought to create a model of privatised Keynesianism, which allows executives and shareholders to profit from public spending through monopolistic corporations that pay executives huge sums whilst hiring workers on poorly-paid, precarious and insecure contracts. In other words, privatisation attempts to deal with some of the many contradictions of finance-led growth, whilst maintaining the power relations upon which it rests.

But private financing and outsourcing did not just allow private investors to extract large sums of money from the taxpayer. These innovations were also designed to insulate the private sector from democratic accountability.[30] When the public sector provides a poor service, citizens can lobby, campaign, and vote against the politicians in charge. The more democratic and decentralised the state, the more this pressure is felt. But if a private organisation is providing a poor-quality service, to whom does the service user complain? She could try to complain to the organisation itself, but why would senior executives listen to a disgruntled service user when their profits are guaranteed by the state? She might try to influence politicians, but they would just tell her to take it up with the company. Without a real market, in which consumers can respond to poor outcomes by changing providers, private provision of public services insulates the providers from democratic accountability.

Today, our public services provide lower-quality services to a smaller number of people at a higher cost, and at much lower levels of efficiency. They are bureaucratic monoliths, managed according to the profit-maximising logic of the free market, without the countervailing competitive pressure that would require them to raise standards. The deterioration in the quality of public services has often been part of a deliberate strategy to encourage middle earners to take up private forms of social insurance, meaning that they are immune from the ongoing deterioration of the public sphere. The state is consigned to offering low-quality services to the poor, who are rendered voiceless in the face of the giant bureaucracies in control of many of our public services.

How did neoliberal states get away with such obvious disregard for such a large portion of their citizens? They did what they always do: they claimed that they didn't have a choice.

The Bond Vigilantes

In 1983, Edward Yardeni, an economist at a major US brokerage house, coined the term "bond vigilantes".[31] These vigilantes, Yardeni claimed, would "watch over" domestic governments' policies to determine "whether they were good or bad for bond investors". In other words, in the era of capital mobility, it was up to states to prove to investors that their country was worth investing in. If states were found wanting, the vigilantes would flee, pockets stuffed full of cash. Yardeni's bond vigilantes are a personification of the logic of market discipline. States that fail to safeguard the value of foreign investors' capital would face capital flight as investors sold these states' assets, including their governments' bonds.

This capital flight would send the value of the country's currency tumbling, which in import-dependent countries would lead to a rise in inflation and increase the cost of servicing foreign debt. For those countries with fixed exchange rates, it would necessitate cuts to public spending or a humiliating devaluation. The bond vigilantes could also more directly impact a government's credibility by selling government debt. The higher the demand for a particular states' government bonds, the lower the yield — the greater investors' confidence in a country's ability to pay its debts, the lower that country's borrowing costs. If investors lost confidence, disaster could ensue: a mass sell-off of a country's debt could trigger a sharp rise in the cost of debt servicing, potentially catalysing a solvency crisis.

Prior to the liberalisation of international capital markets, most developed countries didn't have to worry too much about international financial markets' views on their domestic policy decisions. Investors were constrained in their ability to move their money around the world, for the very reason that large volumes of capital flowing into or out of a country would have made it all but impossible for governments to maintain the exchange rate pegs at the heart of Bretton Woods. But with the removal of restrictions on capital mobility and the rise of the institutional investor, this all changed. Suddenly, a decision on the part of a few big investors to divest from a particular country could spark a crisis. This gave the vigilantes a great deal of power. International investors found themselves able to undermine — and sometimes even bring down — democratically-elected governments that they judged to be unsound economic managers.

Perhaps the best example of this kind of market discipline is the capital flight that befell French President Mitterrand's government in 1983.[32] Mitterrand had been elected in 1981 on a socialist platform that was essentially an extension of the post-war consensus. His 110 propositions for France included commitments to revive growth through a large Keynesian programme of investment, to nationalise key industries, to increase the country's wealth taxes and to democratise the institutions of the European Union. This, Mitterrand hoped, would lay the groundwork for the "French road to socialism". He could not have picked a more inopportune moment to advance such an agenda. International finance had been emboldened by the death of Bretton Woods and the birth of neoliberalism in the US and the UK — investors were not about to allow one of the world's largest economies to fall to the scourge of a renewed socialism.

France — like much of the rest of the global North at the time — was also in the midst of its own economic crisis. International competition was eroding corporate profitability under French social democracy, and, when the oil price spike hit, rising inflation and unemployment brought the economy grinding to a halt. Just as it is today, the French state's ability to use monetary policy to counteract these pressures was limited due to the country's participation in the European Monetary System (EMS) which required it to peg its currency to the Deutsche Mark. France was also then enduring the effects of the Volker shock — the interest rate hike pursued by the US Federal Reserve that saw billions of dollars' worth of capital flow into the US — which placed a strain on economies all over the world. Mitterrand's nationalisations of French banks were not exactly encouraging international investors to keep their money in the country, and France was also running a trade deficit. These factors all contributed to a mass exodus out of French assets — from bank deposits, to property, to government bonds — and France lost around $5bn in capital flight between February and May 1981. Mitterrand faced a choice between implementing capital controls or giving in to the demands of international finance by implementing a harsh austerity agenda, reneging on his promises of a French road to socialism. In the end, he chose the latter.

This story seems to suggest that, by the 1980s, investors had become powerful enough to force democratically-elected governments to promote their interests — or, as the latter would argue, to abide by the logic of the market. This is what explains the rise of neoliberalism: states had no choice other than to implement "investor-friendly" policies, like reducing taxes, deregulating financial markets, and making credible commitments to respect private property rights and to keep inflation low. But the story is more nuanced. The increasing power of the bond vigilantes benefitted neoliberal states just as much as investors — Thatcher, Reagan, and others who sought to implement their radical economic agenda in the face of popular opposition could credibly claim that there was no alternative to cutting public spending, shrinking the state and deregulating markets. The idea that governments must compete for international investment has now become a central plank of economic discourse, reproduced by the financial and popular press.

The rise of finance came to shape the way the modern state functions, just as it has shaped the functioning of the modern corporation or household. But just as it is unwise to view the financialisation of the corporation as a battle between "good" capitalists and parasitic financial elites, it would be mistaken to view the financialisation of the state as something driven from the outside. Neoliberal politicians were not terrified into submission by the bond vigilantes, they worked with these investors to rebuild the global economy in the interests of global capital, just as they had rebuilt their domestic economies along the same lines.[33] The bond vigilantes provided cover. States would deregulate financial markets, making investors more powerful, thereby allowing governments to invoke the logic of market competition to justify their imposition of neoliberal policies on an unwilling populace. By the 1980s, the bond vigilantes had made it possible for politicians like Thatcher and Reagan to claim that there was no alternative to neoliberalism — any attempt at socialist experimentation would be severely punished by the markets, just look at Mitterrand's France.

Illiberal Technocracy

The bond vigilantes supported a project that aimed to place fiscal policy outside of the realm of political debate. In the era of capital mobility, states would have no choice other than to do as the markets wished. But whilst it contained an element of truth, states that had control over their own monetary policy still retained much more power than this discourse suggests. The bond vigilantes knew that much more had to be done to place economics outside of the realm of politics. Developments in academic economics would provide the perfect justification.

In the 1970s, neoclassical economists took Hickes' version of Keynesianism and incorporated it into the theoretical framework established by classical economics to create what economist Joan Robinson described as "bastard Keynesianism".[34] This was an innovation, they claimed, permitted by advancements in mathematics that allowed economists to undertake complex modelling exercises that would reveal the fundamental "laws" of economic activity, based on simplifying assumptions about human behaviour. Human beings were perfectly rational, utility-maximising computational machines who interacted with one another in orderly, predictable ways producing clear, linear patterns at the macroeconomic level. The best neoclassical economists will tell you that these assumptions are not meant to accurately reflect reality, and that their outcomes cannot easily be translated into policy solutions. The worst will tell you that the assumptions don't matter if the results are right, and that it isn't their business what policymakers do with the findings of academics. As is so often the case in the economics profession, the worst won out, and the findings of neoclassical economics seeped into political discourse. The end result was the dissemination of the view that economics could be reduced to a set of neutral economic facts, which could be innocently handed over to policymakers, who would then be able to implement the "optimal" set of policies to maximise growth.

From this point on, the economic success of a particular government would be judged objectively based on technocratic measures such as GDP growth, inflation, and unemployment. These metrics came to dominate the discourse of economics — particularly the almighty metric of GDP. The combination of technocratic neoclassical economics discourse and the hegemony of GDP were the nails in the coffin of political contestation over the economy — from this point forward, economics would be a self-contained, academic subject best left to the "experts". Of course, what the rise of the expert really meant was the capture of policy-making by the powerful.[35] In the absence of any accountability to voters, decisions about macroeconomic policy could be based on the returns such policies would provide to the wealthy.

Perhaps the best example of how rule-by-experts facilitates policy capture has been the move towards central bank independence. Neoclassical economists argued that politicians exhibited an "inflationary bias", which made them poor economic managers. Failing to consider the long-term implications of their actions, politicians would reduce interest rates and increase spending today in order to boost growth and secure re-election. Ultimately, however, this would damage the economy in the long-run by raising inflation, which would erode consumers' incomes. The solution was clear: this powerful tool had to be placed on the top shelf, away from the prying hands of the political toddlers focused only on their own electoral prospects.

Some argued that central bank independence was supposed to bring about high interest rates, which would damage industrial capital and promote the interests of finance capital — but under the conditions of financialisation, the situation is much more nuanced. Histori- cally, there has been an assumed dichotomy between the interests of finance capital and those of industrial capital.[36] The former has been assumed to prefer high interest rates to maximise the returns on lending, whilst the latter are assumed to prefer low interest rates to allow them to borrow cheaply. But as firms have become financialised, the interests of these two groups have merged.[37] Amongst businesses committed to shareholder value, high profits mean high returns for investors, eroding investors' commitment to high interest rates. Bankers themselves also tend to rely less on high interest rates to make their profits in modern financial systems. As interest rates fell, banks came to rely on the fees derived from processes like securitisation rather than interest rates themselves.

Equally, however, it is not in the interests of asset holders for interest rates to be kept low for too long as high interest rates are also a guarantee against inflation. Inflation can harm long-term asset-holders because it erodes the value of their assets. If inflation is running at 5% per year and my investments are delivering a nominal return of 4%, my returns are negative in real terms. This might have made financiers conflicted about interest rates — they want high profits, but they don't want inflation. The triumph of Thatcherism was to ensure that British capitalists could have their cake and eat it. Profits soared with deregulation, privatisation, and tax reductions, but little of this accrued to workers in the form of rising wages. Thatcher's attack on the unions placed them in a much weaker position, preventing from demanding pay increases in line with inflation. This meant that any increase in costs would be absorbed by the workforce in the form of shrinking pay packets.

The guarantee that inflation would be kept relatively low meant that monetary policy could be directed towards inflating asset prices.[38] With central bank policy effectively captured by the finance sector, interest rates remained low throughout the 1990s, supporting an expansion in lending and an increase in asset prices. Most commentators agree that low interest rates were a central cause of the dot-com bubble that emerged towards the end of the 1990s, culminating in the crash in the early Noughties. Under financialisation, independent central banks have been able to provide the two macroeconomic conditions that benefitted investors most: low consumer price inflation, and high asset price inflation. Absent any democratic accountability, they could not be blamed for the financial instability this would inevitably cause. In fact, politicians encouraged the financial boom of the 1990s. Regulation was eased and "light touch" organisations like the FSA were set up to supervise the finance sector, often staffed by ex-financiers.[39]

In many ways, by the 1990s, global capital needed New Labour more than it needed another Thatcher. New Labour succeeded in hiding the stark class divisions that marked British society by the late 1990s, whereas Thatcher's Conservative Party had made them more obvious. Blair showed himself capable of naturalising the finance-led growth model in a way that Thatcher never could. Class, we were told, no longer mattered. A rising tide would lift all boats. All that was needed was for educated policymakers to pick the "right" policies to maximise economic growth. Whilst the British state continued to pursue economic policies that were in the interests of elites, the battle lines between the elite and everyone else were no longer visible — they had been blurred by rising home ownership and consumer debt. Some argued that the battle lines had ceased to exist. The end stage of capitalism was to produce a classless utopia. It would take the largest financial crisis since 1929 for the class foundations of finance-led growth to be revealed once again.

CHAPTER FIVE THE CRASH

> Stability leads to instability. The more stable things become and the longer things are stable, the more unstable they will be when the crisis hits. — Hyman Minsky

On 15 September 2008, Lehman Brothers, one of America's largest and oldest banks, filed for bankruptcy. The bank held $600trn worth of assets, making this the largest bankruptcy in American history.[1] Financial markets looked on in shock. Just days earlier, the US government had nationalized Fannie Mae and Freddie Mac — two highly subprime-exposed mortgage lenders. The fact that the US government had allowed Lehman Brothers to collapse sparked a worldwide panic. With mortgage default rates skyrocketing, there was no telling how many other banks were exposed to subprime losses on a similar scale to Lehman's.

The trouble had started the year before, when mortgage defaults had begun to rise in the US. Many mortgages that had been issued in the boom years were flexible: subject to low fixed interest rates for the first few years of the loan, followed by higher ones down the line. People who took out these loans were assured that they would always be able to refinance their mortgage when the teaser rates expired. But at the beginning of 2007, refinancing became more difficult, and many consumers found themselves stuck with high interest payments that they couldn't afford. House prices levelled off in 2006 and then began to fall. Defaults escalated, and banks began to worry. Had the trouble ended at US mortgages, we may have been left with a US, and perhaps a UK, housing crisis. But by 2007, mortgages were no longer just mortgages. The debt that had been created by the banks in the boom between the 1980s and 2007 had been transformed into the plumbing of the entire global financial system. Every day, millions of dollars' worth of mortgages were packaged up into securities, traded on financial markets, insured, bet against, and repackaged into a seemingly endless train of financial intermediation.

As the crisis escalated, it was presented as an archetypal financial meltdown, driven by the greed and financial wizardry of the big banks, whose recklessness had brought the global economy to its knees. But whilst the big banks' relentless desire for returns had *escalated* the crisis, it's causes could be traced back to what was taking place in the real economy: mortgage lending.[2] And this was driven by financialisation. The Anglo-American model of finance-led growth — described in this book so far from the British perspective — was uniquely financially unstable, even as policymakers believed that they had mastered boom and bust. The Anglo-American model was premised upon the kind of debt-fuelled asset price inflation that has always resulted in bubbles. The one that burst in 2008 just happened to be the largest, most global, and most complex bubble that has ever been witnessed in economic history.

In this sense, 2008 wasn't simply a transatlantic banking crisis, it was the structural crisis of financial capitalism, emerging from the inherent contradictions of finance-led growth itself. The political regime of privatised Keynesianism, necessary to mitigate the fall in demand associated with low-wage, rentier capitalism, was always inherently unstable. Bank deregulation had created a one-off rush of cheap money that had inflated a bubble in housing and asset markets. The state allowed this bubble to grow for reasons of political expediency, rather than deflating it in the interests of financial stability. An economy that is creating billions of pounds worth of debt used for speculation rather than productive investment is an economy living on borrowed time. And in 2008, that time ran out.

Bubble Economics

As the financial crisis cascaded throughout the global economy, the Queen famously asked a group of economists why no one had seen "it" coming. All over the world, economists were asking themselves the same question. For the previous decade, the profession had been patting itself on the back for having "solved" the major problem at the heart of economic policy: mitigating the ups and downs of the business cycle. By absorbing some of Keynes' insights on aggregate demand into the classical economic framework, the "neoclassical" economists — as they came to be known — claimed to have built highly accurate macroeconomic models that were able to produce the perfect answer to any policy question. Their success at prediction was, they argued, what underlay the so-called "Great Moderation" that preceded the financial crisis: a period of high growth, low inflation, and relative stability. As it turns out, the Great Moderation was no such thing. As the upswing in asset prices continued, greater amounts of risk built up in the system.[3] Part of the reason the financial crisis of 2008 was so big is that the period of exuberance that had preceded it had been so long.

According to Hyman Minsky, "stability is destabilising" — long periods of calm in financial markets encourage behaviours that lead to instability.[4] Minsky's work built on Keynes' theory that investment is driven by human psychology more than by any objective market rationality. The combination of these psychological factors, and the ability of modern capitalism to create huge amounts of debt, gives rise to financial systems that are fundamentally unstable. Financial markets tend to be characterised by periodic bubbles and panics, which in turn impact the real economy, causing credit crunches and recessions.

Instability results from the psychological factors that drive investment under conditions of uncertainty. Investment decisions are determined by the cost of the investment and the expected returns to be derived from it. Keynes argued that these two variables – costs and expected returns – are governed by different price systems. Keynes' two price theory – later added to by Minsky – showed that *costs* associated with an investment — including the costs of financing the investment if the business is borrowing, and the risks associated with that borrowing — are determined by what is going on in the economy *now*. The other side of the equation — the expected *returns* derived from the investment — are driven by what businesses think is going to be happening in the economy *tomorrow*. These expectations are subject to uncertainty — about future economic growth, the potential for bankruptcy, etc. — and are therefore more subject to the caprices of human psychology.

This understanding of the relationship between uncertainty and prices is one of Keynes' most important theoretical innovations. Human beings are generally quite bad at understanding the nature of uncertainty, often confusing it with risk. But whereas risk is quantifiable, uncertainty is not. Risk measurements can be applied to simple events like rolling a dice but trying to measure uncertainty is like trying to determine whether or not I'll still own the dice in ten years' time. I can invest on the basis that the economy has grown for the last several quarters, assessing the *probability* that this trend will continue, but there is no way I can account for the *possibility* that a major new invention will be brought to the market or that Earth will be hit by an asteroid. Optimism and pessimism therefore matter when it comes to investment, perhaps even more than the issues traditionally accounted for by economics, like current costs or growth rates. If investors are optimistic, they will not only expect that their future returns will be higher, they may also anticipate their future borrowing costs will fall and judge it quite unlikely that they will go bankrupt. As a result, they are much more likely to invest and to borrow to invest. The important thing to note here is that what drives this investment decision is not so much what is going on in the economy *today*, but what business owners *think* is *probably* going to happen tomorrow — a time horizon over which they can't claim to have certain knowledge.

On aggregate, these differences in behaviour can lead to the emergence of bubbles. When the economic cycle is on the upswing, the prices of financial assets like stocks and shares start increasing. Investors buy these securities, expecting the good times to continue for the foreseeable future. When lots of investors buy the same asset, the price rises. Think, for example, about the increase in the price of Bitcoin, which was driven by expectations about the crypto-currency's future value almost entirely divorced from its utility. As investors experience several periods of strong returns, they start borrowing greater sums to invest. Banks also tend to lend more to businesses when the economy is doing well. More money enters the financial system, pushing up asset prices even further and creating a self-reinforcing cycle of optimism-driven asset price inflation.

Eventually, the financial cycle enters a phase of "Ponzi finance", with investors piling into assets one after another based purely on the speculation-driven price rises of the recent past. Just like a Ponzi scheme which uses new recruits to pay off old lenders, investors end up taking out debt simply to repay interest. This underlies Minsky's famous insight that "stability is destabilising": when investors experience an extended period of high returns without any crashes, they become overexuberant about the prospects of future growth and take risks they otherwise might not.

But eventually lending dries up, investment slows, and asset prices start to level off. Investors begin to sense that the party might be coming to an end and either hold off buying or start to sell their assets. Asset prices begin to fall on the back of slowing demand, just as they rose due to rising demand during the upswing. Believing that their assets will continue to fall in value, investors begin to panic sell, catalysing a chain reaction throughout the financial system. In extreme cases, this panic selling can cause prices to fall in the real economy. Falling asset values dampen profitability, reducing investment and wages, and investors' and households' wealth, lending to lower spending. Unrestricted lending exacerbates these dynamics by prolonging the upswing and exacerbating the downturn. Falling profits may require firms to sell off even more assets, or lay off workers, to repay their debts. Those who have used debt to purchase assets during the upswing may find themselves in negative equity — with assets worth less than the total amount of debt they have outstanding. They will put off all but essential purchases in an effort to pay off their debts, reducing demand, but they may still end up going bankrupt.

Historically, these observations have been applied mainly to business investment but the financialisation of the household meant that they could be applied to ordinary consumers too. Before 2007, consumers were borrowing huge amounts to purchase houses, increasing house prices and turning mortgage lending into a speculative game. With house prices rising, and credit more readily available than ever, houses became incredibly valuable financial assets. People began purchasing housing not just because they needed it, but because they expected that it would continuously rise in value. Some bought second homes, third homes, and fourth homes, all financed by debt. People also began to refinance their homes to "release their equity", allowing them to purchase yet more assets — or even just to pay for holidays and new TVs.

This bubble was so big, and went on for so long, for two main reasons. On the one hand, instability emerged naturally due to changes that had taken place in the real economy. The financialisation of Anglo-American capitalism witnessed in the latter half of the twentieth century led to a falling labour share of national income and a rising rentier share. Rising inequality threatened to dampen demand and reduce growth. Bank deregulation and privatisation concealed these trends by expanding access to credit and asset ownership, allowing some working people to benefit from the increase in asset prices, even as others were left behind. The financialised state, meanwhile, used its control over economic policy and financial regulation to promote the interests of the elites that were doing so well out of the boom. Soon the bubble took on a life of its own. Rising house prices left consumers feeling wealthier, and therefore able to take out even greater amounts of credit, even as their wages declined relative to their productivity. This surge in private debt left both the British and American economies uniquely vulnerable to a crash. But this instability can be traced back to the chronic shortfall in demand that emerged from the disparities naturally created by finance-led growth.

On the other hand, the reason this boom was able to go on for so long was that financial globalisation and bank deregulation dramatically increased the amount of liquidity in the international financial system. Financial globalisation allowed banks and investors to draw on capital that had been stored away in states with lots of savings. Financial deregulation reduced restrictions on lending and allowed banks to use this capital to create more money. International banks developed ever more ingenious ways to evade the restrictions on lending that continued to exist. Mortgages were the dynamite at the centre of the explosive device that caused the economic crisis, but the explosive device itself had been transformed due to the financial innovation seen before the crash.

This transformation had several features. The removal of restrictions on capital mobility led to a wave of financial globalisation associated with significant increases in capital flows. The development of "securitisation" allowed ordinary mortgages to be turned into financial assets that could be sold to investors. The rise of the shadow banking system meant that banks were able to lend more than otherwise would have been possible. Finally, banks' reliance on market-based finance — i.e. borrowing from other financial institutions rather than state-backed bank deposits — allowed investors from all over the world to get in on the game, but also left global banks uniquely exposed to any changes in lending conditions.

When talking about the financial crisis, commentators have tended to focus on this latter set of issues. But whilst the intricacies of global finance are important in determining the way the crisis happened, it is also critical to bear in mind that these factors merely served to prolong underlying trends that had their roots in the real economy — in the rise of finance-led growth that had led to falling wages, rising inequality, and ever higher levels of private debt. It was the combination of financialisation at the level of the real economy, and the growth of an interconnected, highly leveraged and unstable financial system, that explains the unique depth and breadth of the crisis, as well as much of what has taken place since.

Financial Globalisation

With the collapse of Bretton Woods and the removal of restrictions on capital mobility, capital was now free to flood into nearly every corner of the globe, giving rise to a new era of financial globalisation. Total cross-border capital flows increased from 5% of global GDP in the mid-1995 to 20% in 2007 — three times faster than trade flows.[5] Amongst the so-called "advanced economy" group ownership of foreign assets rose from 68% of GDP in 1980 to 438% in 2007. In other words, by 2007, the amount the advanced economies owed was more than four times the size of all these economies added together.[6]

Financial globalisation has transformed states' relationships with the rest of the world.[7] According to traditional macroeconomic models, international trade is governed by the same principles of general equilibrium that govern national economies. Exchange rates, interest rates, trade, and financial flows are meant to adjust in order to bring supply and demand for different economies' goods, services, and assets into balance. When a country runs a current account deficit — when it buys more from its trading partners than it sells to them — domestic currency flows out of the country. This is because the income from the current account has to come in the form of the domestic currency — if a consumer in the USA wants to buy a widget from the UK, they have to convert their dollars to sterling. High supply and low demand for a currency means falling prices. In other words, running a current account deficit means a falling exchange rate — your currency becomes less valuable relative to other currencies. A less valuable currency makes your exports cheaper to international consumers and should therefore increase demand for those exports. Over the long term, countries with current account deficits should experience falling exchange rates, making their exports more competitive, increasing demand for those exports, and reversing the deficit — and vice-versa for surplus countries. The relationship between the current account and the exchange rate is supposed to lead to equilibrium at the global level — no country should be able to run a current account deficit, or surplus, for a long time.

But from around 1990, large imbalances arose at the global level between "creditor" countries with large current account surpluses, and "debtor" countries with large current account deficits. Countries like the US and the UK had large and growing current account deficits, whilst Japan, China, and Germany had big surpluses. Where was the equilibrium? The US and the UK — deficit countries — should have seen large falls in the value of their currencies. China, Germany, and Japan — surplus countries — should have seen increases. Depreciations should have led to export growth in the deficit countries, and appreciations should have led to export falls in the surplus ones.

To understand what was going on, one must understand the relationship between the current account — which measures flows of income — and the financial account — which measures investment flows. If you think of the current account as like the current account of an individual, then it is mainly composed of income and expenditure. Income from a wage or another source goes in (like income from selling exports) and expenditure goes out (like expenditure from buying imports). But in modern financialised economies these are not the only sources of income available to consumers. They are also likely to have another account that contains, say, a mortgage. This is a form of income — a big cash transfer from a bank that has been used to buy a house — which also entails a certain amount of expenditure in the form of repayments. In the same way, countries are able to "borrow" money from the rest of the world via their financial accounts by selling assets.

The financial account (once known as the capital account) measures flows into and out of UK assets. To stay with the mortgage example, if a UK consumer borrows £500,000 from a foreign bank to buy a house, that will represent a £500,000 *inflow* via the financial account. This can seem counterintuitive: even though the consumer has borrowed from the rest of the world, they have still received £500,000 now, which counts as a positive sum on the financial account. If a foreign investor built a factory in the UK for £500,000, this would also represent an inflow via the financial account — but just like the loan, it also represents a future liability, because the income the factory generates will flow back to that investor over the long term.

Before the crisis, the US and the UK were seeing lots of capital flow out of their economies via the current account, meaning an increase in the supply of their currencies on international markets. This should have led to depreciations of their currencies. But demand for sterling and the dollar remained high, because there was high demand for British and American assets. The UK might have been losing sterling via the current account, but international investors were lending it back to us in exchange for our assets via the financial account. The rising value of house prices, and the proliferation of mortgage-backed securities (MBSs), meant that investors from all over the world, just like those in domestic markets, wanted to put their money into Anglo-American financial and housing markets. To do so they had to buy dollars or sterling, which maintained demand for these currencies, even as their current account deficits increased. Households were also able to purchase more imports because rising house prices made them feel wealthier.

All in all, this meant that the current account deficit expanded even as the currency appreciated. This created a self-reinforcing cycle. Rising currency values made British exports seem less competitive and imports seem cheaper. British exporters — especially manufacturers — found it harder to compete on international markets. Between the 1970s and 2007, the share of manufacturing in the British economy fell from 30% to just 10%. These economic changes reinforced financialisation by increasing the relative importance of the finance sector in driving economic growth. By the early Noughties, even if we had wanted to get off the train that was careering towards a cliff edge, we would have been unlikely to be able to do so.

Securitisation, Shadow Banking and Inter-Bank Lending

On its own, rising capital mobility would not have been sufficient to turn several large, but localised, housing bubbles into a global financial crisis. International investors needed assets to invest in — housing alone wasn't enough. New, giant international banks, based mainly in Wall Street and the City of London, were only too happy to oblige. These banks placed British and American mortgages at the heart of the global financial system by turning them into financial securities that could be traded on financial markets — a process called securitisation.[8] The securitisation of Anglo-American mortgage debt was central to both the long pre-crash boom and the swift collapse of the banking system in 2008. The American aspect of this equation was many times larger than the Anglo part, and far more important to the global financial system, but relative to the size of their respective economies, both experienced a surge in securitisation.

The process of securitisation involves turning claims into financial securities. A claim is a contract that entitles the holder to an amount of income at some point in the future. For example, a loan made by a bank to an individual or company is a claim on being paid back at a later date. Financial securities are claims that are traded in financial markets, and include equities (stakes in the ownership of a corporation, also called stocks or shares), fixed-income securities (securities based on underlying agreements to repay a certain amount of money over a certain period of time), and derivatives (bets on the future value of other securities or commodities). For example, a bank with some mortgages on its books may want to sell those mortgages now rather than waiting a few decades for the debt to be repaid. To access the money to which they are now entitled, they can turn the mortgage into a security and sell it on to another investor. The price of the security will reflect the underlying value of the loan, subject to interest rates, inflation, risk and other factors.

In the run up to the financial crisis, banks wanted to increase their lending to meet rising demand for credit. They were, however, constrained by regulation that required them to hold a certain proportion of the amount they lent out as cash, shareholders' equity and certain other liquid assets. If they wanted to lend more, they needed more cash. Banks therefore took the mortgages on their books, placed them "off balance sheet" (in the shadow banking system described below) and securitised them, allowing investors to invest in them. In doing so, they were essentially selling other investors the future income stream that the mortgage would generate, pocketing the cash today, and then lending it to other individuals to create new mortgages. Minsky predicted that this kind of behaviour would come to dominate financial markets, when he wrote "that which can be securitised will be securitised". In the US, the issuance of residential mortgage-backed securities (RMBSs) peaked at $2trn in 2007. US securities were sold to investors in the rest of the world, which bought them based on the assumption that they were as safe as US government debt, but with higher returns.

But securitisation didn't just increase banks' access to liquidity, it also allowed them to disguise the risks they were taking. Once they had lent as much as they could to creditworthy borrowers, banks started to increase their lending by issuing mortgages to customers who might not be able to repay them. The American government supported the emergence of what came to be known as "sub-prime" lending in an attempt to extend mortgages to a wider section of the electorate, just as Thatcher sought to increase home ownership in the UK through right-to-buy and financial deregulation. US federal bodies like Fannie Mae and Freddie Mac – both Government Sponsored Enterprises (GSEs) – would purchase mortgages from the banks and package them up into financial securities, before selling them on financial markets, backed by a state guarantee. [9] This created a large and deep market for mortgage-backed securities (MBSs) of varying qualities, and allowed the banks to lend more to less creditworthy consumers, because they would receive an immediate return — and insulate themselves from risk — by selling the mortgage to a GSE.

Eventually, the GSEs started to package up good mortgages with bad ones, using complex mathematical models to get the balance just right. The GSEs would take a bunch of good mortgages and add in just the right number of sub-prime mortgages to allow them to create financial securities that investors (and ratings agencies) would consider risk-free. Imagine baking a cake and adding just the right amount of poison to make sure it doesn't kill whoever eats it — the cake is like the security that has just the right amount of sub-prime to make it look risk free. As the housing bubble expanded, more and more subprime mortgages were created. As more of these sub-prime mortgages were baked into these securities, the quality of the securitised products deteriorated, culminating in the creation of the collateralised debt obligations (CDOs) that appeared to make even the riskiest mortgages risk-free. At the same time, new financial institutions got into the securitisation game, competing with Fannie Mae and Freddie

Mac to parcel up mortgages into securities that could be bought and sold. The so-called "originators" would create mortgages, and either sell them to securitisers, or securitise them themselves.

Armed with the latest mathematical insights, the securitisers were confident that, even if some people started to default on their mortgages, their securities would retain their value. The rating agencies, who received their revenues from the financial institutions they were supposed to be rating, unsurprisingly agreed. The ratings agencies agreed to continue to give US MBSs and CDOs high ratings – similar to those they granted to US government debt — even as the quality of these securities deteriorated. This process was reinforced by the insurance industry. Companies like AIG allowed the owners of these securities to hedge against a potential default by the mortgage-holder by taking out infamous "credit default swaps". If the value of the security fell, the owners would be due an insurance pay-out. The government, securitisers, rating agencies, and insurance industries collaborated to make it seem as though they were making huge amounts of money without having taken any real risk. And as long as house prices kept rising and securities kept being issued, their gamble paid off. But eventually this long period of stability destabilised the entire financial system.

We heard earlier about Keynes' insights on the difference between risk and uncertainty — and they are central to understanding why securitisation wasn't as safe as people thought.[10] Risk is measurable and quantifiable — simple measures of probability are built on the measurement of risk. We may not know what the outcome will be when we roll a dice, but we can predict that the probability of rolling a 5 is 1/6. But not all events are like rolling a dice. In fact, few events are — especially in a complex system like the economy. In such situations, all we can do is predict the future based on the past, and the future is therefore *uncertain* — there are too many variables interacting with one another to allow us to predict outcomes with any certainty. Uncertainty is a completely different beast to measurable risk. Unlike risk, uncertainty is unquantifiable — the future is not only filled with known unknowns, but unknown unknowns.

As Fred Knight, an American economist, pointed out almost a century ago, human beings treat uncertainty like risk. We use past experience to extrapolate the likelihood that an event will occur in a particular way. Having invested in one company in a particular industry and received a large return on our investment, we might assume that investing in another business in the same industry will be equally as profitable. But we have no way of knowing what will happen to the business, or indeed the industry, in the future — there is too much uncertainty to give a reliable estimate of the probability that the business will provide a good return on investment. In quantifying and mitigating the risks associated with defaults, the securitisers claimed to have created completely risk-free products. But whilst mathematical models can help to mitigate risk, they can't mitigate uncertainty. Perversely, the exuberance created by the belief that risk had disappeared encouraged investors to take even greater risks based on uncertain assumptions about the future.

This approach to predicting the future wasn't confined to the banks themselves. Regulators also viewed their role as mitigating future risks, which could be predictably measured from institution to institution.[11] The approach to regulation before the crisis largely focused on making sure each bank had enough capital to allow it to withstand a crisis of moderate severity. The Basel Accords, first agreed by the Basel Committee on Banking Supervision as Basel I in 1988 and amended during rounds II and III in 2004 and 2010, aimed to harmonise international regulation on banking by setting minimum capital requirements for banks. Bank capital consists of highly liquid — or easy to sell — assets, like cash and shareholders' equity. For example, if a bank makes £10m worth of loans, then a capital requirement of 10% will mean they have to hold £1m in the form of highly liquid capital. Capital requirements limit banks' profits, because they force them to hold some non-profitable but safe assets like cash and shareholders' equity. But if a bank got into trouble and investors started to demand their money back, they ensure that the bank has enough cash to be able to pay them.

The Basel accords rested on the idea that regulation should serve to measure and mitigate predictable risks — they were not built to deal with a crisis of generalised uncertainty. The regulators could encourage banks to hold a specific amount of capital that would allow them to mitigate any foreseeable risks, but they should have realised that it would be impossible to predict when, where, and what kind of financial crises might arise over the course of the financial cycle. In an interconnected financial system, regulators should have realised that banks might be subject to unpredictable *systemic risks* that would affect the entire financial network, not just individual banks.

In fact, the Basel Accords ended up contributing to the crisis. Banks were required to hold different levels of capital against different assets depending on how risky the asset was judged to be. Riskier assets were associated with higher capital requirements. Mortgages and MBSs were judged to be low-risk, so banks had to hold less capital to insure themselves against potential losses. Banks worked out that they could increase their profits under Basel by holding low levels of capital against risky mortgages that provided them with high returns. This "regulatory arbitrage"— opportunities for profit-seeking created by regulation — encouraged banks to hold securities based on mortgage debt, even though they were often far riskier than many other assets.

Capital requirements also fostered the growth of the shadow banking system by encouraging the banks to undertake many activities "off balance sheet" in the less-regulated shadow banking sector. Shadow banks are institutions that lend money without taking deposits guaranteed by the state, and without direct access to central bank funding. Shadow banking is riskier than conventional banking because shadow banks should not be able to access central bank funds when they get into trouble. Because the state takes less responsibility for activities that take place in the shadow banking system, they are subject to less regulation. Basel II encouraged banks to create shadow banking entities "at arm's length" from the main, regulated banking system. The banks could place riskier assets in the shadow banks, allowing them to disguise their exposure to these assets, without insulating them from the risks associated with this lending. These shadow banks were able to take more risk, and earn higher profits, even if these risks would ultimately be borne by the traditional banks themselves. As regulation on the traditional banking sector increased, the shadow banks — many of which were set up by the banks — increased their market share. Banks' share of lending in the US fell from almost 100% before 1980 to just 40% in 2007.

Another change that took place in the international financial system before 2008 concerned the way in which banks raise funds.[12] The traditional, neoclassical view of banking is that banks simply intermediate between savers and borrowers by receiving deposits and lending these to borrowers. State reserve requirements would determine the amounts that banks were able to lend — and they would lend as much as they were able to under domestic law. For example, if a bank had £10,000 worth of deposits, and regulation required it to keep 10% of its deposits in reserves at the central bank, it could only make £9,000 worth of loans. But this story hasn't been true of the sophisticated financial systems that have emerged in the global North for decades — in the UK, for example, banks haven't had any reserve requirements since 1981. Instead, banks lend as much as they can — limited only by demand — and then borrow to meet regulatory requirements. So, a bank might lend as much as it can to borrowers, before borrowing the capital it needs to meet capital requirements from an investor or another bank by the end of the day.

One source of funding for the banks in the pre-crisis period were the so-called "money market funds" (MMFs). Wealthy savers seeking out higher interest rates than were available in traditional bank accounts deposited their cash in MMFs, which were seen as equivalent to normal bank deposits. Investors could take out their cash at any time — the only catch was that MMFs weren't guaranteed by the state, but this was far from the minds of most investors before 2007. The MMFs would then lend their capital to the banks, often via the shadow banking system, which could offer them a relatively high rate of return. They were joined by the other institutional investors that had emerged in the 1980s, who agglomerated the savings of corporations and wealthy individuals and lent these to the banks.

Another source was the development of the "repo" — short for "repurchase agreement" — markets. Repo transactions allow one investor to loan a security to another investor and buy it back at a later date at a pre-agreed price. Banks would borrow from investors by "repo-ing" MBSs with another investor, before buying it back a few weeks later. Effectively, repo transactions are a form of collateralised loan, with banks borrowing from investors using securities as collateral. In repo-ing the MBS, the bank would take a haircut, meaning it would have to use some of its own money to fund the transaction. This process allowed banks to invest in billions of dollars' worth of securities, using a tiny fraction of their own cash.

During the 2000s, all of the innovations described so far came together to create an incredibly risky and complex matrix at the heart of the international financial system.[13] Banks would set up "structured investment vehicles" (SIVs) — shadow banks — and then place assets like mortgages into these SIVs. The SIVs would raise funds by borrowing on the money markets, rather than taking cash from depositors, for example by issuing asset-backed commercial paper (ABCP), a form of short-term corporate bond. The SIVs packaged up the loans into securities and sold some on, often to investors in surplus countries, but kept others — particularly the lower quality mortgages that were harder to sell. Shadow banks would also engage in complex repo transactions using the securities as collateral, relying on the assumption that they would always be able to roll these loans over. The traditional banks that had set up the SIVs were ultimately responsible for any losses made on these assets, meaning that any problems in the SIV would have a knock-on impact on the bank that had set it up and funded it.

Bailout Britain

In the early 2000s, the global economy had emerged from the bursting of the tech bubble stronger than ever. Investors were convinced that economists really had managed to tame the business cycle once and for all. But by 2006, the "goldilocks" economy — as some termed the neither too hot nor too cold economic conditions that prevailed during the early Noughties — had begun to falter. US house prices peaked in 2006, and then started to fall. Similar trends prevailed in the UK.[14]

Banks had forayed into subprime markets and started to offer mortgages with low or no deposits based on the assumption that house prices would continue rising forever. As a result, when they started to fall, many homeowners fell into negative equity — meaning that they owed more in mortgage debt than their house was worth. In such a situation, consumers had a choice: keep a mortgage worth more than their homes or sell. Those who could opted to sell, some at any price, sending prices tumbling even further.

Falling house prices cascaded through the financial system. The financial securities that banks had been selling rapidly lost their value when the quality of the underlying mortgages was called into question. Many of these assets were held in the shadow banks that were operating at much higher levels of leverage than traditional banks, meaning even a small fall in asset prices could render them insolvent. These shadow banks, and many traditional banks, had also been financing much of their borrowing on international financial markets over very short time horizons. The securities that were tumbling in value had often been used as collateral for this lending. Combined with the general climate of fear and uncertainty as to who was solvent and who wasn't, banks and their counterparts in the shadow banking system suddenly lost access to funding.

When banks could no longer rely on borrowing from other financial institutions to finance their liabilities, they started to sell their assets. Fire sales of asset-backed securities sent their prices tumbling even further. The repo markets that had developed before the crash, which allowed banks to borrow from one another using debt-based securities as collateral, seized up. Adam Tooze puts it succinctly: "Without valuation these assets could not be used as collateral. Without collateral there was no funding. And if there was no funding all the banks were in trouble, no matter how large their exposure to real estate". Retail bank runs had been a thing of the past since the introduction of deposit insurance, but what happened in 2007 was essentially a giant bank run, led by other banks, which created a liquidity crisis – the banks didn't have enough cash to meet their current liabilities. But the fire selling that resulted rapidly turned this liquidity crisis into a solvency crisis – the banks' debts grew larger than their assets.

The panic quickly spread across the pond to the City of London. Whilst the subprime crisis was mainly driven by US consumers, the resulting panic and falling value of MBSs, CDOs and similar instruments affected securities from all over the world. As these securities fell in value, funding markets seized up, and many UK banks found themselves in the same situation as their US counterparts. British banks were part of the same international financial system as American ones: they were reliant on wholesale funding, and they had been exposed to billions of dollars' worth of US mortgage debt. But the British banks had also been involved in the securitisation game themselves.

By the end of 2007, mortgage lending in the UK had reached 65% of GDP — just eight percentage points lower than in the US — and British banks issued £227bn worth of residential and commercial mortgage-backed securities in 2008 — 12% of GDP.[15] Many of these mortgages had very high loan-to-value ratios (i.e. the loan was worth more than the value of the house), as well as the kind of adjustable rates that had become so popular in the US.[16] In 2008, the Bank of England's Financial Stability Report stated that "adverse credit and buy-to-let loans [have] risen from 9% at the end of 2004 to 14% at the end of 2007". The bank expressed a concern that many of these loans had adjustable rates and that it was becoming more difficult to refinance, meaning borrowers will face rising interest rates. The Bank wrote:

> As in the United States, this repayment shock is occurring at the same time as house prices are falling. Those who bought in recent years with high loan to income multiples and/or high LTV ratios will be particularly vulnerable to further shocks to their disposable income, such as higher inflation or unemployment.

In fact, the UK housing market had begun to turn at around the same time as that in the US.[17] The subprime market wasn't as large in the UK, but underwriting standards had been deteriorating for many years. Banks like Northern Rock were issuing mortgages worth much more than the underlying value of the home and securitising them in the same way as their US counterparts, whilst relying on similar funding models. The crisis began in the US — a far larger and more systemically important market, with unique vulnerabilities[18] — but the boom would have ended in the UK at some point anyway. 2008 was a crisis of the Anglo-American model, also pursued by states like Iceland and Spain, and now Australia and Canada — not simply a crisis in US mortgage markets. The size, severity, and global nature of the crash was undoubtedly a result of its genesis in US markets, but what 2007 showed is that the model of debt-fuelled asset price inflation is inherently unstable. At some point, the debt has to stop growing. And when the debt stops growing, the entire system breaks down.

When the crash hit, governments around the world looked on in horror.[19] When it began, they had treated the financial crisis like any other financial panic — as an issue of liquidity, or access to cash. They assumed that the panic would pass, revealing that the banks were creditworthy. Trillions of dollars' worth of loans was made available to banks by central banks all over the world. But regulators quickly realised that this wouldn't be enough. As panic spread through the system and prices tumbled, banks became insolvent, not just illiquid — i.e. they weren't just facing a cash-flow problem, they were bankrupt. They needed capital — cash, equity, and other high-quality assets. They needed a bailout.

It was Gordon Brown who first realised what was going on. Having spent his holiday reading up on the events surrounding the Wall Street Crash, he realised that the panic selling that had started in 2008 had eroded the value of banks' assets to such an extent that many were now effectively insolvent. Giving them access to central bank funding would involve throwing more money into a never-ending hole. Some of the UK's banks — notably RBS and HBOS — had become unimaginably large and overleveraged, only to see the value of their assets plummet overnight. Mervyn King, the governor of the Bank of England, agreed. The problem was capital not liquidity. In effect, the banks had to be forced to take money from the state in exchange for shares — they had to be nationalised.

On 8 October 2008, the government announced that £500bn would be made available to the banks — some in the form of loans and guarantees to support liquidity, and some in the form of taxpayer investment in exchange for equity. Most of the investment went to the basket case that was the Royal Bank of Scotland, indebted up to its eyeballs after its recent purchase of the Dutch bank ABN AMRO under the reckless leadership of Fred Goodwin. The US was forced to take a similar approach eventually spending over $200bn on purchasing bank equity, and a further $70bn bailing out the distressed insurer AIG. Socialism for the banks saved the global economy from the Great Depression 2.0.

Aside from the bailouts themselves, what prevented the crash from becoming a new global depression were the coordinated international stimulus packages implemented by the world's largest economies. Keynesian economics was back in vogue. In most states, automatic stabilisers — the falling tax revenues and rising welfare payments associated with recessions — combined with discretionary fiscal spending — i.e. planned, not automatic, increases in spending — limited the impact of the downturn. The US American Recovery and Reinvestment Act — worth over $800bn between 2009 and 2019[20] — helped to stem job losses by channelling investment into infrastructure, and supported demand by providing financial support to the unemployed. Other G20 states followed suit with their own stimulus programmes. But it was China that saved the day. The Chinese stimulus programme — which included measures to stimulate bank lending as well as increases in central and local government spending — was worth almost 20% of GDP in 2009.[21] Ongoing expansionary fiscal and monetary policy — far more than exports — have supported high growth rates in China and its major trading partners ever since.

Monetary policy changes pursued by the world's four major central banks — the Federal Reserve (the Fed), the Bank of England (BoE), the European Central Bank (ECB), and the Bank of Japan (BoJ) — also helped. Interest rates were reduced to historic lows. But with households already heavily indebted, businesses uncertain of the future, and banks unwilling to lend, cutting interest rates wasn't going to be enough. So, the world's central banks tried something new: quantitative easing (QE). Since 2009, these four central banks have pumped more than $10trn of digitally-created money into the global financial system by purchasing government bonds, which has pushed up asset prices across the board.[22] The Fed's balance sheet peaked at around $4.5trn in 2015, or a quarter of US GDP — the value of the UK's programme as a percentage of GDP peaked at a similar level.[23] The BoJ's apparently unending QE programme has seen its assets climb to over $5trn, larger than Japan's entire economy.[24] In many countries, it is hard to see how this expansion in central bank balance sheets will ever be reversed.[25]

For a time, it looked as though this coordinated action might bring a relatively swift end to the series of overlapping recessions then taking place in the economies of the global North. But then came the Eurozone crisis. Just as Chinese money had flooded into US debt before the crisis, German money, derived from its large current account surplus, flowed into debt booms in the UK and the Eurozone — notably in Ireland and Spain. In Europe's periphery, states like tiny, overindebted Latvia faced similar problems. The tell-tale signs of finance-led growth — rising debt, housing booms, and rising current account deficits — started to afflict many EU economies. As Tooze points out, several EU countries were staggeringly "overbanked" by 2007 — the liabilities of Ireland's banks were worth 700% of its GDP. When the crisis hit, Europe's banks needed bailing out too.

But there were no mechanisms to orchestrate such a bailout at the EU level. Instead, the burden fell on individual economies like Greece, Spain, Portugal, and Ireland to save their bloated financial systems. Unable to print their own currency, states like Greece and Ireland were forced to seek bailouts from the international institutions formerly restricted to bailing out low-income states in the global South. But there was a problem: many of these countries were effectively insolvent. Their debts were too large ever to be repaid. Rather than accept that the debts needed to be written off, and the system transformed, the EU — helped along by the IMF — decided to impose austerity on the struggling economies, immiserating a large portion of Europe's population. The nationalised banks received easier treatment than the indebted states that had bailed them out: this was socialism for the banks, and ruthless free-market capitalism for everyone else.

In the wake of the Eurozone crisis, it didn't take long for Keynes to fall out of favour again. The Greek crisis was exacerbated by its inability to print its own currency due to its membership of the Euro. But the idea that the financial crisis was sparking a new wave of sovereign debt crises, from which no economy would be safe, spread like wildfire. Rather than identifying the root cause of the crisis — the model of finance-led growth constructed in the 1980s — politicians, academics, and commentators around the world seized on the narrative that the recession stemmed from too much government borrowing. Governments, they patiently explained, are like households — they can only spend as much as they earn. If they borrow too much one year, they must save to pay it back the next year. And if they borrow too much over a short period of time, they were passing down the burden of those debts to their grandchildren. For the good of future generations, governments around the world would have to tighten their belts. Nowhere — other than in bailed-out Greece — did this go further than in the UK, where the coalition government implemented an austerity programme so harsh that it has been linked to 120,000 deaths over the last decade.[26]

Having socialised the costs of the banks' recklessness, financialised states around the world failed to use their control over the banking system to support growth for fear of interfering with the operation of the "free market". The British state, now a majority owner of several banks, refused to use its control over several large banks to direct lending to productive purposes. Despite the rhetoric about paying down the debt, the government did not even try to sell its shares in the banks at a competitive price, instead selling them at a loss to the taxpayer, even as it asked the British people to foot the bill.[27] These decisions were justified using familiar tropes. The market, on this one occasion, had failed. But that didn't undermine capitalism as a social and economic system; and state ownership of the banks certainly didn't undermine their commitment to enforcing private property. In fact, the way the bailouts were conducted reinforced the logic of finance-led growth: the state would use its power to give the markets what they wanted, and working people would be forced to pick up the tab.

Transatlantic Banking Crisis or Structural Crisis of Financial Capitalism?

Reading this account on its own could lead one to conclude that what happened in 2007 was simply a transatlantic banking crisis with its origins in the US. It then spread around the world due to a combination of financial globalisation and financial innovations like securitisation. In the aftermath of the crash, this is the view that dominated. It was the parasitical rentiers in the international finance sector that had brought the global economy to its knees. Greedy bankers, out-of-touch economists, and regulators asleep at the wheel all shared the blame in popular readings of the crisis.[28] Such accounts undoubtedly deliver an accurate analysis of the events surrounding 2008, but they do not tell the whole story. Finance is not some ethereal activity that sits atop the "real" economy — it has its roots in normal economic activity. International banks may have been playing reckless games with one another, but the source of their profits was lending to households and businesses.

The global financial crisis may have broken out in the US in 2008, but it had its origins in the unique Anglo-American model of finance-led growth pursued since the 1980s. The financialisation of the firm provided an immediate fix to the profitability crisis of the 1970s – a fix built on the repression of wages and productive investment. The states that had encouraged the financialisation of the firm deregulated their banking sectors in order to give households greater access to credit and expand asset ownership. In doing so, they were attempting to disguise the chronic shortfall in demand finance-led growth threatened to create, and to make the system politically sustainable. Rising mortgage lending increased house prices, eventually inflating a bubble that saw the British and American housing markets turned into a giant Ponzi scheme. Banks took this mortgage debt, packaged it up and sold it on international financial markets, disguising the amount of risk they were taking. Capital flooded into the US and the UK to take advantage of the boom, and repressed activity in the rest of the economy. The spark that set the whole thing alight came from the US, but the fallout extended throughout the financialised economies of the global North, and was particularly severe in Britain, whose economy had been buoyed by rising debt and asset prices for decades. Whilst 2008 may look like a transatlantic banking crisis, it was more than this: it was a structural crisis of financialised capitalism.

Understanding the financial crisis therefore requires adopting an historical approach to analysing the evolution of a model that was born forty years earlier. This allows us to recognise that financialisation, as a fix to the contradictions of the previous model, contains its own inherent contradictions. Just as Kalecki helped us to understand the contradictions of social democracy far before the system broke down, economists like Keynes and Minsky also helped us to understand the contradictions of financialised capitalism far before that system collapsed. The fact that these things were predictable means they were endogenous to the functioning of the system – they were inherent features of finance-led growth. And that is the most important message to take from this story. The global financial crisis wasn't an aberration; it wasn't a couple of bad years in an otherwise well-functioning economy. It represented a deep-seated crisis, the roots of which lay in the economic model pursued in Anglo-America up to 2007.

Today, just like those living through the crisis decade of the 1970s, we are living in what Gramsci called the interregnum: that moment between the death of the old and the birth of the new. The implications of this insight will be discussed in the next chapter. But if the reader takes only one thing from this book, let it be this: poor regulation, bad economics and greedy bankers all contributed to the particularly explosive events of 2008, but the financial crisis had far deeper roots. A crash — if not necessarily the crash that we got — was woven into the DNA of the economic system that was built in 1980. And nothing but wholesale economic transformation will deliver us from its shadow.

CHAPTER SIX THE POST-CRASH WORLD

> The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear — Antonio Gramsci.

Ten years after the crisis began, Grenfell Tower burned to the ground.[1] The fire started on the fourth floor of the tower block and, within an hour, it was rising up the external walls at an alarming pace. The building had no central fire alarm. Ineffective fire doors meant that the flames quickly entered the block, consuming the hallways and the stairwell. By the time the firefighters arrived, the flames were so strong that those above the fourth floor were trapped. Seventy-two people perished in the blaze, making it the UK's deadliest residential fire since the Second World War. The youngest victim was a six-month-old baby, except perhaps for the pregnant woman whose child was stillborn due to the trauma.

Residents had spent years warning of the dangers posed by the building's poor fire safety standards. An inquiry later revealed that the cladding on the building's exterior, which had been erected in 2012 to improve its appearance, was highly flammable: a more fire-resistant option had been ruled out because it was too expensive. Grenfell Tower didn't even have fire sprinklers. Many argued that financial difficulties caused by the government's austerity programme had made it impossible for the council to respond to the residents' concerns. But in the year of the Grenfell fire, the Royal Borough of Kensington and Chelsea wrote to residents proudly announcing that all *top-rate* council tax payers would receive a £100 reimbursement. Over two years later, many victims of the fire still have not been found adequate housing. There have been twenty suicide attempts amongst former residents since the blaze. The council and the tenants' management organisation are being investigated for corporate manslaughter. And yet the only arrests related to the fire have been those of the men and women found burning an effigy of Grenfell on bonfire night 2018.

What happened at Grenfell was a violent crime committed by elected officials in one of the wealthiest parts of the country. With tax revenues flowing from the pockets of its millionaire residents, the lives lost at Grenfell were, and are, seen as expendable. As is now clear from the inquiry, Kensington and Chelsea London Borough Council had more than enough resources to respond to the concerns raised by residents and independent observers before the fire, but they chose not to. Instead of spending a few thousand pounds on fire-proof cladding, or installing sprinklers, or buying new fire extinguishers, the council chose to deliver a £100 tax rebate to some of its wealthiest citizens. In the end, the towering inferno at Grenfell has emerged as a symbol of the ruthless and unnecessary cruelty shown by the British state to its most vulnerable citizens as part of the austerity programme introduced in 2010. Grenfell is not a tragedy that can be chalked up to a lack of resources, but to the state's reckless disregard for the lives of those deemed unworthy of its support.

Grenfell is perhaps the most visible indication of the impact of austerity, but it is by no means the only sign of the burning injustices that have become visible in British society since the financial crisis. As highlighted by the recent report of the UN's rapporteur, austerity has taken the "highest toll on those least able to bear it".[2] Foodbank usage is at its highest level on record[3]: in the areas where Universal Credit has been rolled out in full, it has climbed by 50%.[4] The UK is experiencing a homelessness crisis — homelessness rose by 16% in 2016 and the number of people sleeping rough has doubled between 2010-2016.[5] Four million children are now living in poverty, and 123,000 children are now homeless — an increase of 65% since 2010.[6] The life expectancy for homeless people in the UK is forty-three for men and forty-seven for women — lower than in some of the poorest countries on the planet.[7]

The UK — the fifth wealthiest economy in the world — has more than enough resources to meet the basic needs of all its residents. But instead of taxing the wealthy to pay for the crisis they helped to cause, the government pumped billions into the UK's finance sector whilst cutting the public services upon which ordinary people depend. The actions of the British state, locally and nationally, demonstrate quite clearly that politicians consider the deaths of those who died at Grenfell, like those killed through Universal Credit and cuts to social care services, a small price to pay to provide tax cuts for the rich. Today we live in a world of socialism for the banks, and austerity for everyone else.

But this model is no longer just creating hardship for the poorest, it is now starting to impact the prospects of even the property-owning classes whose support is required to maintain the status quo. Without the rising debt levels that disguised falling wages and the retreat of the state before the financial crisis, the economy is stagnating. Growth is slow, investment is low, and people are having to work ever harder to maintain a lower standard of living. Perhaps most dangerously, young people today anticipate that they will be no better off than their parents. They are acutely aware that they are not only growing up into a stagnating economy, but also a decaying planet. Slowly, the political–economic bargain that underpinned finance-led growth is coming apart, and the political turmoil experienced in the Western world since the crash is just one symptom of its demise.

As the contradictions of finance-led growth escalate, the coalition of those who benefit from its continued existence will shrink. The chorus of voices demanding a complete transformation of our economic and political institutions will mount. The defenders of the system will find themselves in an isolated minority; and they will sink to ever lower depths in an attempt to defend the status quo. We inhabit a revolutionary moment. What comes next will depend not only on the ideas that are lying around, but also the existence of a force powerful enough to champion them.

The Long Recovery

The recovery from the financial crisis has been the longest of any major crisis since the Great Depression.[8] Whilst GDP recovered eventually, peoples' wages did not. Today, we are living through the longest period of wage stagnation since the Napoleonic wars. Most people are earning no more today than they were in 2007 — some are earning less. Of course, the figures have not been so gloomy for everyone. The wealth of those on the *Sunday Times Rich List* — which measures the wealth of the richest one thousand people — doubled between 2008 and 2015.[9] After a decade of stability following the rapid increase under Thatcher, inequality has now started to rise once again. In 2018, incomes for the poorest fifth contracted by 1.6%, whilst average incomes for the richest fifth rose by 4.7%.[10]

Many have tried to counter this gloomy narrative on incomes and wages by pointing out that the UK is currently experiencing "record" levels of employment. Yet the proportion of families experiencing in-work poverty has increased. This is partly due to the stagnation in earnings described above, but it also comes down to changes in working practices that have taken place since the crisis. Work has not just become less well-paid; it has also become more insecure. The numbers of people working part-time, on zero-hour contracts or on non-permanent contracts have all increased. Many of those working in the "gig economy" for companies such as Uber or Deliveroo also sacrifice benefits such as pensions and sick pay, meaning that their effective remuneration is even lower than what is captured in the headline wage statistics. Today, eight million people in poverty live in a working household.[11] The link between employment and rising living standards has been severed.

High levels of employment have also coincided with a stagnation in productivity — the amount of output produced for every hour worked. Productivity in the UK is 13% below the G7 average, having stalled since the financial crisis. One major reason for this is the declining productivity in financial and professional services. These previously highly profitable industries drove increases in productivity that were eventually shown to be illusory, revealing poor rates of productivity growth in much of the rest of the economy.

In fact, poor productivity in the rest of the economy was often driven by the finance sector itself. Capital inflows into UK assets pushed up the value of our currency and decimated the highly-productive manufacturing sector centred in the regions. Today the skills, capital, and supplychains that once supported the UK's manufacturers have deteriorated to such an extent that the falling exchange rate seen since the crisis has failed to revive our manufacturing base. London's productivity is over 30% above the national average, whilst productivity in the least productive regions and nations is up to 20% below it. With manufacturing in decline, non-professional employment today is concentrated in the much less productive services sector — much in low-pay sectors such as retail and hospitality. The UK's "long tail" of unproductive firms, centred in the regions, is a significant drag on overall productivity.

Falling investment, another consequence of financialisation, is also driving low productivity. Investment in fixed capital — which as highlighted in Chapter Two was already falling before the crash — has fallen again since 2008. The UK's total rate of gross fixed capital formation — investment in tangible assets like machinery and technology — is, at 17%, five percentage points below the OECD average.[12] Private investment is lower than the rate of depreciation, meaning businesses aren't replacing outdated capital, effectively reducing the amount they are able to produce. In fact, private investment in fixed capital has fallen from 11% of GDP in 1997 to 8% in 2014. Rather than investing their earnings, UK corporations are "saving" — either by sitting on large cash piles, or by investing in financial assets themselves. When it comes to public investment, the former Chancellor's decision to include investment spending in the calculation of the deficit has led to a particularly steep decline since the crisis. Not only is the UK failing to update our physical infrastructure, but existing infrastructure is deteriorating faster than it is being replaced.

And on top of all this, British consumers and corporations are now sitting on a huge mountain of private debt. Household debt reached 148% of households' disposable incomes in 2008, before falling to 127% by 2015 as households tried to pay off their debts. But since then, it has started to rise again, reaching 133% in 2018.[13] Corporate debt, which peaked at 101% of GDP in 2009, has also started to rise again, reaching 85% of GDP in 2017.[14] As a ratio of profits, this means that UK corporations owe 6.5 times more in debt than they earn in profits each year, making UK corporations some of the most indebted in the advanced economy group.[15]

Similar trends prevail in the US. Productivity has been particularly lacklustre prompting many analysts to question the origins of the US' "productivity puzzle". US workers' purchasing power is no higher today than it was in the 1980s, meaning living standards have effectively stagnated over forty years.[16] US public and private investment as a percentage of GDP is still lower than it was before the financial crisis.[17] US household debt has stabilised since the crisis, but corporate debt has reached unprecedented highs. Total credit to non-financial corporations peaked at 73% of GDP in 2017 on the back of loose monetary policy, as described later in this chapter.[18]

Secular Stagnation or Crisis of Capitalism?

These trends are puzzling to mainstream economists, who have come up with all sorts of theories in an attempt to explain the post-crisis malaise in Anglo-America. Before the crash they were convinced they had figured out how to tame the financial cycle and eliminate boom and bust. But today, economists are looking back on the pre-crash period without these rose-tinted glasses. Amongst the most prominent is Larry Summers — former World Bank Chief Economist and Treasury Department official. In November 2013, Summers delivered a speech to the IMF in Washington, in which he warned that the post-crisis economies of the global North were suffering from a peculiar affliction, one not sensitive to traditional medicine — an affliction he termed “secular stagnation”.[19]

But whilst its symptoms are now more obvious, secular stagnation is not a new disease; it had been lurking in remission for decades. During the pre-crash period, unprecedented levels of lending were the only thing keeping the US economy going, and this was only sufficient to produce “moderate economic growth”. Similar trends prevailed in the other most financialised economies, not least the UK.

Summers argued that these trends could be attributed to a long-term fall in the amount of output that advanced economies could hope to produce, driven by slowing technological change and demographic shifts. The pre-crisis boom had merely disguised an underlying trend towards stagnation that had set in decades earlier. And since the crisis, the problem has only grown worse. Whilst GDP growth, wages, and employment have all fallen, Summers’ biggest worry was productivity — the long-term driver of economic growth in capitalist economies.

Summers’ remarks have divided economists. Some, like Kenneth Rogoff, argue that slow growth and productivity are to be expected in the wake of a massive financial crisis.[20] Households and businesses will all be attempting to deleverage at the same time, creating a Keynesian “paradox of thrift” — the kind of reverse economic multiplier caused when governments, households, or businesses cut their spending. This effect is exacerbated during what Richard Koo calls a “balance sheet recession”, caused by excessive lending. But others argue that the paradox of thrift can’t explain sluggish growth on its own, not least because the slow-down in growth rates appears to have preceded the financial crisis.

In fact, the asset price inflation of the pre-crisis period and the large profits generated by the finance sector disguised a long-standing slowdown in other parts of the economy. Some have argued that this can be attributed to a slowdown in technological change.[21] Others point to demographic change — falling birth rates and rising life expectancies associated with rising affluence in the global North have led to a fall in the working age population that is depressing long-term growth rates.[22] But all those who support the secular stagnation hypothesis converge on one point: without extraordinary interventions from the state such as quantitative easing, many economies in the global North appear to have ground to a halt. Today’s economists have all converged on one burning question: What is going on?

Just like the theory of the great moderation itself, the secular stagnation hypothesis takes for granted many of the assumptions of neoclassical economics. Take the argument about wage stagnation. Neoclassical economists argue that workers are paid a wage equal to their marginal productivity. If a worker is paid a wage less than the value they create for the company that hires them, competition over workers will mean that another company can poach the worker by offering a slightly higher wage, and still make a profit. The pressures of competition will ensure that wages converge around the marginal productivity of the average worker. All in all, this should mean that, on aggregate, wages rise with productivity. The reason for the post-crisis wage stagnation is that productivity has stagnated —

whether this is due to demographic change or a slowdown in the rate of technological progress.

But this theory cannot explain the decoupling between wages and productivity seen all over the global North before the crisis. Even neoclassical economists themselves can't quite say why the marginal productivity theory of income distribution — which is the name of their particular understanding of the relationship between wages and productivity — should be true. When asked to justify his assumptions about the relationship between productivity and wages, the architect of one of the most famous neoclassical growth models — Robert Solow — remarked: "I could not find a good reason, but since theory and facts were broadly in accord, nobody bothered much with the assumption".[23] Today, with facts no longer in accord with the assumption, it might be time to rethink the theory. What if, rather than slowing productivity driving falling wages, falling wages are leading to falling profits, lower levels of investment, and slowing productivity?

Marx correctly observed that workers do not tend to receive a wage equal to their marginal productivity. In fact, the difference between what a worker is paid and the value they produce for the capitalist is what constitutes the latter's profits.[24] Marx's insights are derived from a much more sophisticated understanding of the relative power of labour and capital than that shown by neoclassical economists. Whilst neoclassical economics largely excludes power, Marx's economics is — at its core — based on an understanding of the disparities of power that exist between owners and workers in capitalist economies, and particularly at the level of the firm. The explanation for our current malaise will not be found using abstract economic models, because its root causes are political.

Since the 1970s, capital has become much more powerful than labour in Anglo-America.[25] In the post-war period, strong labour unions and state commitments to maintaining full employment meant that workers could demand wage increases that were in line with productivity. As a result of the increase in the power of labour relative to that of capital, labour got its way. But this was an historically unusual situation — as Thomas Piketty points out, the "golden age" of capitalism was the exception, not the rule. After the 1970s, rising capital mobility, financial deregulation, and changing models of corporate governance have increased the power of shareholders — particularly big investors — in the management of corporations. Workers have been disempowered through simultaneous anti-union legislation and the reversal of the Keynesian economic policy which provided for full employment. As a result, capitalist states have reverted to their historical norms, with the owners of capital taking an ever-greater share of the profits of production, leaving the workers with much less. Efficiency wage theory suggests that falling wages may be part of the reason for falling productivity, not the other way around.

But these firms weren't investing their newfound profits in production, which would have led to longer-term increases in productivity, as evidenced by the falling rates of investment in fixed capital outlined above. Instead, newly-empowered shareholders focused on maximising the amount they were able to extract from corporations by increasing dividend payments, whilst protecting the medium-term profitability of their corporations through financial investments and mergers and acquisitions.[26] Huge monopolies emerged, able to benefit from "monopoly rents" at the expense of ordinary consumers. The finance sector, meanwhile, skimmed its income off the top of this economic model through interest payments, fees and other forms of extraction. Landlords, and the newly-created outsourcing giants, engaged in similar forms of extraction based on their provision of services that were once much cheaper or even free. These trends led to another change in the balance of power — this time, amongst different types of capitalist. The "rentier" class has increased its share of national income, encouraging other capitalists to behave more like rentiers themselves.

A falling wage share, rising inequality within the wage share, and a rising rentier share can create a problem of money "stuck" at the top of the income spectrum. Keynes showed that the poorest in society have a much higher marginal propensity to consume any extra income — meaning that the poorer you are, the more likely you are to spend extra income than you are to save it. More money being saved rather than consumed means less money being spent on the goods and services produced by businesses, which over the long term reduces profits.

Over the short term, these trends didn't appear to have much of an impact on productivity or profits — largely because of the generalised asset price inflation and financial deregulation that increased firms' profits and consumers' spending power. Privatised Keynesianism disguised the downward pressure on wages. Rising financial profits and rising asset prices disguised falling returns on investment in fixed capital amongst corporations. But when this bubble burst, the stagnation in productivity implied by slowing investment and stagnant wages was exposed. Anticipating lower future demand, since the crisis, businesses have reduced investment, creating a classic Keynesian downward-spiral. Rather than investing in capital that would increase their future productivity, these businesses will take on cheaper and more flexible labour or plough their earnings into property and financial markets.

At the same time, financialisation has allowed Anglo-America to play an extractive neo-colonial role in the international system, to the detriment of workers in the global North and the rest of the world.[27] Forced to open up their markets to international investment in the 1970s and 1980s, many states in the global South have seen capital flee their domestic economies in search of higher returns in the booming asset markets in the US and the UK.[28] This has left these states starved of domestic capital and relying on foreign domestic investment, leaving them stuck in a position of permanent dependence and underdevelopment. A significant chunk of the capital flight out of the global South took the form of illicit financial flows into tax havens, often with the City of London acting as a key conduit.[29] The global South lost more than $1trn in illicit financial outflows in 2012, with the majority coming from Africa.[30] But the Anglo-American economies have also suffered from the imbalances this situation has brought about. Capital flows pushed up the value of their exchange rates, suppressing domestic demand by reducing the value of the last item in Keynes' equation: net exports. Facing a highly uncompetitive exchange rate, the British and American trade deficits have risen to record heights.

These political economic factors are what explains secular stagnation. The combination of a falling wage share of national income, a rising rentier share, and a private debt overhang has led to falling rates of consumption by households, feeding into lower investment by businesses — already constrained due to the rentier logic of shareholder value orientation. Together, these factors have created a severe problem of insufficient domestic demand, which has only been exacerbated by austerity in the UK. Workers, businesses, and governments haven't been spending enough to keep the economy afloat. Similar trends pertained in the US. In the lead up to the crisis, these patterns were disguised by the creation of new debt. Consumers may not have been paid enough, but they were able to carry on spending anyway, fuelled by increases in debt and asset prices. Capital inflows sustained incredibly high spending in Anglo-America, whilst also harming their exporters and manufacturers. But when the debt dried up, the long-term tendencies revealed themselves. Almost as soon as the chimera of asset price inflation and the speculative profits of the finance sector evaporated, the Anglo-American experiment in finance-led growth ground to a halt.

Austerity Economics

Ordinarily, in such a context, one would expect the government to step in and pick up the slack. During times of insufficient demand, Keynes argued that states could mitigate the doom-loops of falling investment and consumption by lowering interest rates and boosting government spending. During the golden age of capitalism, this is exactly what social democratic states all around the world did. But today, they've chosen to implement austerity, which has made things even worse.[31] The IMF — which famously imposed extremely harsh austerity programmes in the global South in the 1970s and 1980s — recently released a report concluding that "the benefits [of austerity]… are fairly difficult to establish", but "the costs in terms of increased inequality are prominent".[32] Over the short term, the fund argues that shrinking the state by 1% of GDP increases the long-term unemployment rate by 0.6 percentage points.

In fact, after nine years of self-defeating austerity, the UK has some of the worst public finances in the global North.[33] Rather than investing in future growth, the state has sold-off revenue generating assets to pay down current debts, shrinking its future income. The wealth of the public sector has fallen by almost £1trn — equivalent to 50% of GDP — since the crash, primarily due to privatisation and asset sales. A lack of public investment, and fire sales of public assets, have severely damaged the productive base of the British economy. The state's unwillingness to build roads, schools, and universities has led to a deterioration in physical, human, and intellectual capital. Far from reducing the debt burden on future generations, failing to invest in our productive capacity now implies that in the future the British economy will be much poorer than it is today. This is the real legacy of austerity that will be left to our grandchildren.

Meanwhile, the state's retreat from the provision of public services and the mass sell-off of social housing have increased the cost of living for households, without increasing productive investment. Rising utilities bills, transport costs, and care costs have all eaten away at households' already stretched incomes. The increase in house prices seen since the crash has driven up rents far more than it has increased the supply of affordable housing. The decline in the social housing stock has pushed many people into temporary accommodation. Some, like Jerome Rogers, have been driven into crippling debt in an attempt to meet their basic needs — allowing lenders to benefit from the deterioration of our collective wealth. Those who are wealthy enough to do so have opted to save more, knowing that they will be forced to fund their own retirements and care needs. The individualisation of risk has only increased disparities of wealth, leaving some facing crippling debt and others sitting on huge piles of unproductive cash, much of which is channelled into real estate or financial markets, making the problem even worse.

What, then, is the point of austerity? Some argue that there just isn't any money left. The government is the same as a household, and therefore cannot spend more than it is earning in tax revenues. The debt accrued from the financial crisis must be repaid. If we fail to honour our debts, we will end up like Greece. But this analogy was always utterly bogus. The only countries throughout history that have experienced sovereign debt crises are those with debts denominated in a foreign currency (like Argentina), or without control over their own monetary policy (like Greece). Wealthy states with strong tax systems that borrow in or issue their own currency are all but unable to default. Investors treat these states' government bonds as some of the safest assets in the financial system. In fact, through quantitative easing, the British state now owns as much as a third of *its own* debt, which has reduced the cost of borrowing to historic lows. The idea that the UK is on the verge of a sovereign debt crisis is laughable. If anything, investors are demanding more government bonds than states like the UK are willing to issue.

The second argument for austerity is that high levels of debt curb economic growth. This argument has featured heavily in the debate about austerity thanks to Carmen Reinhart and Kenneth Rogoff, the authors of *This Time Is Different: Eight Centuries of Financial Folly*, the book used to justify George Osborne's austerity agenda. *This Time Is Different* argues that above a particular level — 90% of GDP — government debt has a negative and statistically significant impact on growth. This argument has a long history. David Ricardo wrote that government borrowing never increases growth because perfectly rational, utility-maximising agents would respond to an expansion in government spending by saving because they anticipate tax hikes down the line. But this analysis rests on a flawed view of human psychology, which fails to account for the impact of uncertainty on human behaviour. Periods of overexuberance follow periods of underconsumption, which is the dynamic that characterises the rise and fall of the business cycle. Consumers often over- or under-spend and businesses often over- or under-invest — Keynes believed that the state's role was to mute these ups and downs. An expansion in government spending or a reduction in interest rates during a period of underconsumption increases business' profits, kick-starting confidence, and encouraging economic actors to start spending again.

Understanding the politics of austerity requires looking at more than its alleged economic rationale: it requires looking at who benefits. As we saw from Kalecki's analysis, a capitalist state that commits too much of its power to supporting working people threatens to upset the delicate balance between the power of capital and labour. The existence of a reserve army of labour is a critical guarantor of business' profits — and their political power. Even if higher profits would be generated within a system that supported full employment, the owners of capital would prefer lower profits and greater control over the workforce. One might respond to this by pointing out that employers today have far more power over workers than they did in the 1970s, and an increase in state spending would be unlikely to totally upset that decades-long balance. But these political problems are not taking place in isolation. As highlighted above, many businesses are struggling to make profits in the current economic climate. Employers are currently dealing with this problem by reducing workers' wages and precaritising employment — an increase in labour's power would threaten their capacity to heap the costs of the crisis onto workers.

But the bargain between capital and the state becomes even more fragile under conditions of financialisation.[34] High and rising levels of inequality are the source of the savings that investors channel into asset markets. If, rather than wealth being concentrated at the top and debt replacing it at the bottom, these savings were reinvested into production, this pool of wealth left over for speculation would be eroded, even though the economy as a whole would perform much better. Less capital directed into finance would restrict mortgage lending and lead to a fall in house prices, which would erode the wealth and incomes of property-owners, whose support is needed to maintain the financialised status quo. Any increase in state spending also threatens the collusion between the rentier class and the state — too great a share of state spending in national income, especially if it is not undertaken under the auspices of the private sector, closes off another potential avenue for financial profits.

As it turned out, Reinhart and Rogoff were wrong — their spreadsheets contained a glaring error. When their analysis was corrected, they found no generalised relationship between government debt and growth rates. This, of course, didn't impact the behaviour of politicians, because austerity was never really based on evidence. It was a political project designed to keep working people in a position of subservience, even as the owners of capital continued to wreak havoc on the economy. The statistics show this brutal political project in action, with the poorest bearing the brunt of cuts in the UK since 2010.[35] The greatest losses have been felt by working-age families with children — a low-income family with two children will be £2,800 worse off per year in 2020 than 2010 due to the benefits freeze — and single parents, who are losing £700 per year.[36] Meanwhile, the wealthy gained 80% of the benefits of the tax changes introduced by George Osborne in 2016, whilst the poorest third of households shouldered nearly 70% of the costs, in what amounts to "a significant transfer from low and middle income households to richer ones".[37] After nine years of austerity, the state that has emerged the state is not just smaller, it has been fundamentally reshaped.

The government is now finding it harder and harder to shield key electoral constituencies from the pain. With transport costs now one of the largest items of expenditure for the average family, Britain's crumbling infrastructure is a major political problem.[38] Many roads are in a state of disrepair. The rail network is eye-wateringly expensive and low quality — especially outside of London. Low levels of infrastructure investment are affecting productivity — and are a big part of the explanation for the gap in productivity between London and the rest of the country.[39] But they are also affecting peoples' mental and physical health — one recent report showed that long commutes are linked to stress and depression, and that a commute of longer than thirty minutes adversely impacts workers' productivity.[40]

Amongst working families, cuts to education are eroding support for the status quo. The introduction of academisation and free schools — as well as Theresa May's flirtation with reintroducing grammar schools — are all aimed at stemming the rising tide of anti-austerity sentiment. If the government can create enough segmentation within the education system, it can ensure that the budget delivers effective public services to middle earners alongside poor teaching, few resources, and crumbling school buildings for those at the bottom of the income spectrum. Permanent exclusions have increased sharply since 2010.[41] Not only is this creating a form of class segregation in our schools, it is contributing to another problem of concern — rising crime. Rising expulsions, cuts to youth services, and the defunding of children's social care have all conspired to lead to a rise in violent crimes being committed by young men.[42] The dramatic increase in knife crime is perhaps the most visible example of this trend.

The NHS was protected from direct cuts, but it has continued to suffer from underfunding, even as the rising poverty and inequality associated with austerity has worsened public health outcomes. According to the British Medical Association, the NHS is at breaking point: NHS trusts had a deficit of £960m in 2018.[43] The number dying on NHS waiting lists has risen by ten thousand over five years, and more than two million people waited over four hours in Accident & Emergency wards in 2017. Government mismanagement has alienated junior doctors — and even some consultants, senior management, and GPs, upon whose support they could usually rely. Another sign of strain is the pressure being heaped on working people who cannot afford to pay for care for their elderly parents. Adult social care budgets have been slashed, meaning local authority care is available to fewer people. These cuts are driving many poorer elderly people — and their children — into poverty. The wealthier are simply seeing their savings — and their children's inheritances — eroded. On both counts, austerity is reducing support for the status quo.

Property-Owning Oligarchy

Over the longer term, the political establishment faces a far more important — some might say existential — question: what to do about housing. As we've seen, home ownership is the crux of the electoral bargain that maintained Thatcher's power and has retained its importance as an indicator of voting behaviour ever since. It is also a key source of economic rents under finance-led growth. Whether or not one owns one's own home is still one of the best predictors of voting intentions: in 2017 53% of voters in property-owning households voted Conservative, and 51% private renters voted Labour.[44]

When house prices started tumbling after the financial crisis, many thought we might be living through the end of the British housing bubble. But house prices, and household debt, have continued to rise since 2007, propped up by extremely loose monetary policy.[45] Quantitative easing was introduced on the basis that it would increase banks' liquidity and therefore boost lending, but of course banks have had few restrictions on the amount they are able to lend since the 1970s. Instead, QE has worked through the "portfolio rebalancing" channel.[46] By reducing yields (returns) on government bonds, QE would encourage investors to purchase higher-risk, higher-yielding financial assets, which would make those who owned these assets wealthier, encouraging them to spend more and leading to a boom in financial markets — particularly equity markets — as well as pushing up house prices.

Rising house prices have helped to maintain the image of the property-owning democracy, but the core of this idea is now rotten. The expansion in home ownership, and accompanying increase in prices, seen between 1980 and 2007 in the UK will never be repeated. Home ownership is now in decline.[47] House prices have torn away from wages to such an extent that most young people cannot afford to buy a home. Home ownership amongst 25–34-year-olds has fallen from 65% twenty years ago to 27% today.[48] Many young people are now accustomed to the fact that they will never own their own homes. On top of the stagnation in wages, the pensions crisis, and the erosion of the nation's collective wealth, today's young people missed the 1980–2007 boat entirely, and are now left with the wreckage of an economic model that has enriched their parents — not to mention a dying planet.

Elites' strategy for dealing with our current crisis is to divide working people in order to protect themselves, squeezing the poor whilst protecting middle and upper earners. But this strategy is coming unstuck. Young people today know that they have little to gain from the continuation of the status quo, even as their parents cling to its remnants in the hope of protecting the value of their assets. But as house prices fall, the pensions crisis escalates, and wages continue to stagnate, even these voters are likely to concede that there might be a better way to run the economy. Impending environmental collapse adds an urgency to all of these issues — if we do not radically transform the way our economy works now, many parts of the planet will rapidly become uninhabitable. The only way to avert climate catastrophe is to organise the kind of mass state intervention in the real economy that would be unthinkable under the conditions of finance-led growth.

Today, many people look into their futures and see only stagnation and decline. Existence under finance-led growth — working longer hours for less income and spending an ever-greater portion of this income trying to survive, all whilst facing the looming threat of climate apocalypse — can no longer live up to the promise of the good life. Some are acute enough to see that their lives — and those of their children and grandchildren — depend upon radical political and economic change. As the coalition of people that stands to benefit from finance-led growth shrinks, politics will become ever more polarised between those who want to see things continue as they are, and those with an interest in a radical break with the past.

The Coming Crisis

The near-term outlook for the British economy is not good. Consumers are up to their eyeballs in debt. They cannot be encouraged to take out any more. Wages have now started to rise, but not nearly fast enough to offset a decade of stagnation. Low interest rates have encouraged high levels of borrowing amongst both corporations and households, and in 2018, for the first time in thirty years, households' outgoings exceeded their incomings.[49] The total recorded deficit in household budgets was worth $25bn — just over 1% of GDP. Without substantial above-inflation increases in wages across the income spectrum, these trends are not sustainable.

The wealth effect associated with house prices, which has allowed property-owners to borrow more on the back of their rising wealth, also looks set to go into reverse. London house prices fell for the first time since the financial crisis in 2017.[50] And where London house prices go, the rest of the UK follows — house prices across the country fell by 0.1% at the end of 2018.[51] With consumption spending driving almost all economic growth in the post-crisis period, a decline could precipitate a turn in the business cycle. Whilst this is unlikely to cause a financial crisis, it will undoubtedly have an impact on growth and employment.

Meanwhile, business investment continues to be woefully low.[52] Falling investment implies firms aren't particularly optimistic about the future: they don't anticipate that there will be much future demand for their products. Rather than investing their profits in fixed capital, many profitable corporations have begun to invest in financial markets once again. But absent large future increases in economic growth — unlikely in the context of low domestic and global demand — these investments are unlikely to pay off. Meanwhile, the corporate debt burden continues to mount, and corporate insolvencies are now the highest they have been in five years.[53]

The UK is not alone in this gloomy near-term economic outlook. There are gathering storm clouds in the global economy too.[54] At the global level, investment growth (gross fixed capital formation) has fallen from 5.7% in 2005 to just 1.6% today.[55] In the ten years since the crisis, productivity growth (output per hour worked) across the global North has been markedly slower than it the ten years preceding it. These low levels of productivity are an almost existential problem for global capitalism. If productivity ceases to rise, it is hard to see how it can continue to generate the kinds of profits to which the owners of capital have become accustomed. The financialisation fix has attempted to avoid this problem by reducing the share of national income accruing to workers and extracting profits from the future through debt, but this model no longer seems sustainable.

Partly as a result of these problems, competitive capitalism is rapidly being transformed into the kind of monopoly capitalism envisaged by Lenin over a century ago. Rather than investing themselves, today's big tech monopolies are growing by merging with or acquiring other firms, increasing their power. They are using this monopoly control to acquire rents, overcharging for some services and failing to pay workers in line with their productivity. Rent extraction and wage suppression amongst some of the largest firms in the global economy accelerate the problems associated with finance-led growth that have been outlined in this book. Many of these corporations are also using transfer pricing and other tactics to avoid paying tax, and some have become so powerful that they are able to escape most attempts to regulate them. These corporations control one of the modern economy's most valuable resources — data — and they are monopolising this to maximise their profits, rather than using it for innovation or the public good.

With the fall of finance-led growth and the rise of the global monopolies constraining investment and productivity in the global North, China has become the engine of global growth since the recession. The government's stimulus programme was the biggest Keynesian experiment since the New Deal, and it worked. Contrary to popular belief, for the last decade at least, China's growth has not been based on exports, but on government spending, the spending of state-owned enterprises, and the lending of state-owned banks. The achievements of this coordinated stimulus programme have been immense. But whilst China has shown that the limits to state investment programmes are much looser than we thought, there are still limits. Today, there is evidence that the multiplier effect of government spending is falling — the Chinese stimulus is becoming less and less effective.[56]

Slowing growth around the world is even more worrying because of the increases in global debt seen since the crash. Total global debt (including household, non-financial corporations', and government debt) has risen from $97trn in 2007 to $244trn in the third quarter of 2018 — more than three times the size of the global economy.[57] This comes on the back of an increase in corporate debt, which has reached 92% of global GDP. In this context, the tightening of global monetary policy

— interest rates and quantitative easing — is of particular concern. Currently, interest rates are near record lows and the global financial system is flooded with trillions of dollars provided by central banks through QE. On the one hand, this has reduced borrowing costs for most governments across the global North — with fewer government bonds to go around, investors are willing to accept lower interest rates for holding government debt. On the other hand, it has pushed investors into riskier assets that provide higher returns, particularly US stocks and corporate bonds (debt). This has increased equity prices and US equity markets recently experienced what has been called the "longest bull run" in history.[58]

For these rising asset prices to be sustainable, investors have to believe that the corporations they are investing in will be profitable over the long term — unlikely for the average company given the investment and productivity trends outlined above. The implication is that stock markets are overvalued, and three factors suggest that investors know it. Firstly, stock markets are highly volatile — a tell-tale sign of a bubble.[59] The second warning sign is what is called the "yield curve" — which shows the interest rates investors will receive on the same government bonds with different maturity dates. Longer-term bonds are supposed to have higher interest rates, because lending for a long time is riskier than for a short time, so investors need to be compensated with higher returns. But the yield curve has now inverted in the US, meaning that short-term yields are higher than long-term yields, indicating that investors are nervous about the future.[60] Finally, the Buffett indicator — the market capitalisation to GDP ratio, or how big the stock markets are relative to the "real" economy — suggests that stock markets are overvalued. A market capitalisation to GDP ratio of more than 100% has preceded most recent recessions. Today, it stands at above 140% — higher than before the financial crisis and dotcom bubble.[61]

It is unclear what will happen when the QE taps are turned off. If central banks start to sell the government bonds they have purchased over the last several years, there is no telling what would be the impact on asset values. And it is equally unclear what the central banks would do with the capital they have accrued from these asset sales. Some central banks — notably Japan's — may never reduce their balance sheets to pre-crisis levels. When monetary policy does tighten — when (or if) QE is reversed and interest rates start to rise — many debtors will find themselves facing much higher interest rates.

Debt has risen particularly quickly in China, amongst corporations in the US households in Canada, Australia and the Nordic countries, and states in parts of the Eurozone and the global South. China's private debt is now nearly 270% of its GDP.[62] Its financial system is also highly fragile. Chinese state-owned banks are exposed to a large stock of bad debt, and much of the riskiest debt is concentrated in the shadow banking system — which is worth around 70% of its GDP.[63] Two caveats are needed. Most of China's banks and its largest businesses are state owned, meaning that the state will be able to step in to bail out any struggling lenders or borrowers, though it will have much less capacity to do so today than before the stimulus programme, as state debt levels are now quite high. China's financial system is also relatively insulated from the rest of the world, so a shock to Chinese banks is unlikely to cascade through the international financial system in the same way as a shock to US banks would. However, the UK is highly exposed to China via the Hong Kong Shanghai Banking Corporation (HSBC).

Debt to US non-financial corporations is now 73% of GDP — higher than before most recent financial crises.[64] Low interest rates have pushed investors into US corporate bonds, and companies have found themselves able to access easy credit. Some have argued that this is what explains the productivity puzzle — weak, unproductive firms that may have failed in normal times have been able to remain in business by loading up on cheap debt.[65] But in the US at least, firms haven't been using this debt for productive investment, but to boost share prices, whether by buying back their own shares, increasing dividend payouts, or merging with or acquiring other firms.[66] They have been helped along by Trump's tax cuts, which have boosted profits. When monetary policy tightens, the more indebted corporations with lower credit ratings will find it much harder to access credit, and many may become insolvent.

Australia and Canada are experiencing the same conditions seen in the US and the UK before the crisis: rising household debt, a housing boom, and increasing current account deficits. Rising property prices, driven by mortgage lending, are attracting capital inflows from the rest of the world and exacerbating financial instability.[67] Much of this debt is being securitised in the same way as Anglo-American mortgage debt was before the last crisis, though on a smaller scale. Household debt in the Nordic countries is also significant, although many of these countries also have current account surpluses, meaning the debt is mainly owed domestically and the adjustment process should be easier.

Emerging economies in the global South have borrowed cheaply on international markets and will be severely affected by monetary tightening. The US central bank – the Federal Reserve – raised interest rates in 2017, a decision that was already affecting countries like Turkey and Argentina in that year. Many of these countries have borrowed money denominated in foreign currencies, meaning that they are vulnerable to capital flight. If investors respond to rising interest rates by putting their money back into the global North, the result could be a series of sovereign debt crises not seen in the global economy for twenty years.

In this context, the continued fragility of international financial regulation is a significant concern. The Basel Accords that have emerged since the crisis have been just as flawed as their predecessors. Whilst some positive steps have been made, Basel III has been described as a "necessary but not sufficient" improvement in regulation.[68] Individual countries have also attempted to expand their own macroprudential regimes, but this has gone further in parts of the global North than emerging economies where risk is concentrated. Risk has therefore been pushed into shadow banking systems in emerging markets — which the Governor of the Bank of England, Mark Carney, recently cited as the biggest future threat to global financial stability.

It is hard to see how much of this debt will be repaid. Consumers in the global North, who have driven global growth for much of the last eighty years, are suffering from low wages, rising living costs, and increasing inequality. Productivity is stagnant in most corporations and in the financial sector, making the debt burden even harder to sustain. The global monopolies that have managed to sustain their profits through this period of turmoil are slowly eating away at the source of their own success by failing to channel their profits into productive investment. Most of the regions and sectors of the British and American economies are suffering from insufficient demand and low profits, whilst a few centres of accumulation overheat, creating instability and constraining growth elsewhere.

When the global debt bubble does eventually burst, it is unclear where future global growth will come from. The pre-crisis condition of debt-fuelled asset price inflation in many of these economies is now over, preventing the US and the UK from soaking up imports from the rest of the world. Absent such demand, the Chinese economy will struggle to revert to the model of export-led growth. Government debt, which will rise still further in the event of a crisis, is unlikely to continue to fill the hole. China's emerging consumer class is not yet big or rich enough to replace the US consumers' role in sustaining global growth. A long slowdown in China will have an impact on the growing economies of south east Asia and Australasia, as well as Germany, which rely on exporting to the giant for much of their income. Over the long term, it is highly unlikely that enough jobs will be created in the global South to allow these states to "catch up" with the global North. Instead, international monopolies centred in the global North will accumulate ever larger pools of capital. What Marx termed the "declining organic composition of capital" — fewer workers being used in the production process — may ultimately prove the system's downfall.

But we may never reach this point. As the global economy stumbles from one crisis to the next, the environment that sustains human life is collapsing around us. Climate change is accelerating at such a rate that, in order to avoid planetary catastrophe, the world must reduce carbon emissions by at least 45% by 2030. The challenge that lies before us is immense.[69] If emissions continue to rise at current rates, the planet will warm by at least three degrees Celsius by 2030 — well above the 1.5 degrees that the IPCC has designated as "safe". Twenty of the warmest years ever recorded have occurred in the last twenty-two years. There has been a dramatic increase in the likelihood and severity of extreme weather events over this same time period. If these trends are not arrested, catastrophe will ensue. The planet will be transformed into a "hothouse Earth", with environmental collapse rendering many parts of the planet completely unrecognisable. The loss of life and the political chaos this would cause would be apocalyptic.

But it is not just carbon emissions that we have to fear. We are now living in the geological era during which human action is the most significant factor influencing the environment. All the Earth's environmental systems — from the water system, to the atmosphere, to the biosphere — are highly interdependent, meaning that change in one part of the environment inevitably has impacts elsewhere. In extreme scenarios, a shock to one part of the system can cascade throughout all our environmental systems, leading to unpredictable shocks. As the human impact on the environment has accelerated, all the Earth's environmental systems have been affected.

As discussed above, we are currently living through a mass extinction, with almost sixty thousand *species* lost each year. Insecticide use has meant that insects are dying at an unprecedented rate, threatening birds and other animal life up the food chain. Ocean acidity — the concentration of CO2 in the world's oceans — has risen over 25% over the last one hundred and fifty years. At some point, a tipping point could occur when the oceans cannot absorb any more CO2 and the amount being released into the atmosphere skyrockets. The nitrogen cycle has been disrupted due to its overuse in modern agriculture; when these chemicals run off into the water supply, they increase the concentration of algae which can deplete oxygen in the water system, harming marine life. Our soils are being degraded at 10–40 times the rate that it is being replaced, severely curtailing potential agricultural production.

It is not a coincidence that these changes have all accelerated as capitalism has developed. According to the logic of our economic model, nothing is too precious to be sacrificed on the altar of profit — not even the planet itself. Clearly, the massive scale of the challenge means that it cannot be dealt with through small policy tweaks. Systemic breakdown can only be undone through systemic change — a transformation in the very logic of our political and economic systems. Only a mass mobilisation of society's resources, along the lines of the Green New Deal recently advocated by Alexandria Ocasio-Cortez in the US, will be enough to avert climate catastrophe. And this will require an increase in state spending directed into greening production, promoting research and development in green technology, and decarbonising energy and transport infrastructure, which would be unthinkable under the political economy of finance-led growth. The fate of our planet will never be ascribed the same importance as the fate of our banks until we change who is in charge, and to whom they are accountable. It is no exaggeration to say that today we must choose between protecting free-market capitalism and safeguarding the future of the humanity.

Marx predicted that capitalism would eventually run out of space into which it could expand. This theory has been invoked many times before to predict the demise of the free-market system, and a new fix has always been discovered. The most recent fix was to allow capitalism to expand not just spatially, but temporally — financialisation allowed for profits to be extracted from the future through debt, ultimately leading to the financial crisis, but not before sustaining several decades of growth. It would be unwise to assume that such a fix will not be found again. But even if it is, without a massive decarbonisation programme — which would require coordinated state investment, tax changes, and regulatory changes of the kind unthinkable under finance-led growth — capitalism, and indeed human civilisation, may end anyway within our lifetimes. It is up to us to save ourselves.

CHAPTER SEVEN THE WAY FORWARD

> You cannot carry out fundamental change without a certain amount of madness. In this case, it comes from nonconformity, the courage to turn your back on the old formulas, the courage to invent the future. — Thomas Sankara

In the immediate aftermath of the financial crisis, the global elite was shaken to its core. Some — though not nearly as many as you might think — had lost fortunes, others jobs, and still more their faith in the strength of capitalism. The commentariat began questioning the assumption they had taken for granted for the previous twenty years: that history was over, and that capitalism was the only man left standing. But it wasn't long before these breathless commentaries came to an end. They were replaced by equally breathless opinion pieces about capitalism's miraculous ability to survive, and even adapt, through crises that would break a lesser economic system.

A decade later, few are as sanguine about the fate of the free-market system. The meagre global recovery has been based on an unprecedented Chinese state stimulus programme and extremely loose monetary policy in the world's major economies, creating instability in equity markets and inflating a new private debt bubble. Productivity — the great engine of improvement under capitalism — is stagnant. Outside of the global North, many of those countries that have been told for decades they are just one policy change away from catching up have experienced similar levels of stagnation, and now face the threat of capital flight as monetary policy tightens. In the meantime, global monopolies — particularly tech companies — have hoarded the returns from what little growth there has been in the post-crisis period, keeping their ill-gotten gains in tax havens and using their unparalleled economic power to sway the nation states that might seek to regulate them.

The rebirth of far-right populism on a level not seen since the 1930s is taking place in this context. Nationalists use dog-whistle racism to link voters' experience of hardship and deteriorating living standards with an ill-defined "other" that can shoulder the blame. The only movements that have managed to absorb the discontent that would ordinarily fuel the far right are those that locate the blame for falling living standards where it belongs — with elites. Few traditional social democratic parties have lived up to the task, clinging instead to old narratives about a "third way" for workers between freedom and exploitation. As a result, they have been Pasokified — consigned to electoral insignificance just like the Greek social democratic party Pasok — leaving space for the far-right to take up the mantle of economic agitation.

There have, however, been some notable exceptions. Eleven years on from the financial crisis, it is no exaggeration to say that in the most heavily financialised economies — the US and the UK — the left is stronger than it has been in forty years Partly due to the severity of the crisis in these economies, and partly due to the nature of their majoritarian electoral systems, left social movements in Anglo-America have aligned with elements within the traditional parties to disrupt politics.

This development has shocked the commentariat — perhaps even more so than the crisis itself. The *Economist* has written in fevered tones about the rise of "millennial socialism"; an article in the *Financial Times* attributed the emergence of this new phenomenon to quantitative easing's role in driving up house prices. After decades of deriding socialism as a regressive, totalitarian ideology unfit for the liberal, networked age, defenders of the status quo have found themselves mute in response to the new wave of democratic socialists who see their project as part of the long struggle for human freedom. Why, they ask, should young people be forced to work longer hours for lower wages and fewer benefits without even the respite of knowing that they will be better off than their parents? Why should they be forced to spend the rest of their lives working as debt peons to repay the money they have borrowed simply to survive? Why, in other words, should young people support capitalism when they never expect to own any capital?

This last question in particular has the establishment worried. With property-owning democracies decaying into property-owning oligarchies all around the global North, those in positions of power are aware that the political economic settlement upon which financial capitalism is based is crumbling. But they have no answers. Restorers of the liberal order like Macron in France have burst into the spotlight promising the world, only to fail to deliver a policy agenda that addresses people's concerns.

The death of finance-led growth is already providing plentiful opportunities for those who seek to build a new world. Those on the right will use the backlash against capitalism to turn working people against one another, in a bid to close off wealthy corners of capital accumulation. They will be encouraged by elites who would rather see the end of the world than the end of capitalism. For these people, capitalism really does represent the end of history — and from now on we can hope for no better than stagnation and decline.

But there is another way. If, as the neoliberals did during the 1970s, we can grab hold of this moment and use it to rebalance power relations and entrench a new set of institutions, we can pave the way for a new economic order. Such a project must take place on three interrelated plans: those of narrative, electoral politics, and social forces.

We must develop a populist narrative, which shows that working people are being made worse off by an exploitative and extractive capitalist model that sees wealth and power concentrated in the hands of a tiny elite, and that things are only going to get worse under the status quo. We must build an electoral coalition, supported by a strong and diverse social movement, that will allow working people to take control of the apparatus of the state. At the same time, we must transform the balance of power in society, building up the labour movement and radical social movements in order to challenge the power of bosses, landlords, and lenders. And we must use this power to institutionalise a new political economic settlement — one that operates in the interests of those who live off work, rather than those who live off wealth.

The slow decay of finance-led growth provides us with clues as to how it might be surpassed. Rising debt levels, falling wages and productivity, and impending environmental collapse all present socialists with strategic opportunities for intervention. And the best way to tackle all these issues is to strike at the heart of the system that has created them, by taking on finance capital itself. In this chapter, I will argue for a series of measures to "socialise finance" — to place our financial system under collective ownership and democratic control. This means properly regulating the banking system, building new public financial institutions to replace the private system of credit creation, and creating a People's Asset Manager to steadily socialise ownership across the economy. Democratising our economic institutions will ensure that finance comes to work in the interests of society as a whole, rather than just a privileged elite. Socialising finance will steadily erode the distinction between owners and workers and, before long, will allow us to transcend capitalism altogether. If history has a sense of humour, then the death of capitalism will begin where it was born — in the United Kingdom.

Capital

In 2013, 146 years after Marx published his work of the same name, Thomas Piketty published *Capital in the Twenty-First Century*.[1] It was an instant hit, though few made it past the introduction. In *Capital*, Piketty argued that the central problem of our time was the tendency for the returns to wealth to outstrip economic growth. Because wealth is highly unequally distributed in capitalist systems, this tendency leads to increasing inequality. The only respite was the "golden age" of capitalism during the post-war period, when the combination of the destruction of the war and the politics of the post-war consensus created a significant dent in wealth inequality. Since the 1970s, wealth inequality has risen sharply and whilst it has not yet reached pre-war levels, Piketty worries that on current trends it will not be long before it does. Effectively, Piketty has found empirical evidence of the problem identified by Marx over 150 years ago — under capitalism, profits are derived from the difference between the value created by the worker and what she is paid. Most of the time, this means that there is an inherent tendency within capitalist systems for the returns to capital to outstrip the returns to labour. These trends are accelerated when profits and income are invested in financial markets, or transferred to the rentier class, as is characteristic of finance-led growth.

Piketty doesn't have much time for Marx. In fact, his work is highly empirical, with little reference to theory — mainstream or otherwise. Whilst this may not impoverish his analysis, it certainly does his conclusions. He argues that the rational response to these trends is to increase taxes on capital. Piketty's wealth tax would provide the revenues necessary for the state to provide for either full employment or some form of expanded welfare state.

But Marx did not just put forward an economic framework to understand capitalism; he provided us with a theory of political economy in which economic outcomes are shaped by the balance of power between different social forces, and the struggles that take place between them. The wealthiest in capitalist societies are not just those with the money, but those with the power too. Even talking of the wealthy submitting to anything makes no sense unless we are speaking of a state that is run in the interests of workers rather than owners — why would a state captured by big business and the City of London implement policies against the interests of its core constituents? Politicians do not have the incentive — let alone the ability — to implement a global wealth tax. In fact, establishment politicians have no incentive to deal with the current crisis at all, and this is what is generating the peculiar economic and political conditions that prevail today.

Piketty's wealth tax is a prime example of "solutionism": a proposal intended to solve all of the world's problems through tweaks to the current institutional architecture. He pays little attention to power, to politics, or any other drivers of change. The same can be said for a lot of other radical ideas that have recently become popular, like modern monetary theory, land value taxation, or universal basic income. These can all be understood as a kind of technocratic utopianism — they rely on the assumption that society can be transformed from above and that making one or two radical policy changes will completely transform the economy. Many of these policies are not incorrect or bad, but their adherents often prescribe them as the solution to all the world's problems, without considering how we got to where we are in the first place. Policy prescriptions — from wealth taxes and land value taxes, to financial reform and housing reform — have to be situated within their political economic context. It is meaningless to speak of "policy" without speaking of power.

Neoliberal governments have no interest in funda- mental economic reform as their primary constituency is the wealthy elite. The coalition that supports finance-led growth is based on asset ownership. At the top end, it is dominated by those who live off wealth — those who own so much that they are able to generate a large return from investing or renting out their existing assets. These people would never abide any increase in wealth taxation or meaningful financial reform. For fear of upsetting the balance of power between labour and capital, and undermining the idea that governments are beholden to their bondholders, they could not allow any increase in state spending substantial enough to end the crisis. These people have benefitted substantially from the system of financialised capitalism brought about from the 1980s, and they will not see it end without a fight.

Whilst they represent the most powerful group within the coalition, they are not the largest in number. As described in Chapter Three, the only way to render financialised growth sustainable over the long term was to give middle earners a stake in its continuation. This was achieved through the combination of privatisation — including the privatisation of pensions and social housing — and bank deregulation, which led to an increase in mortgage lending. Maintaining this coalition required combining wage suppression with asset price inflation, the latter of which would provide the material basis for the property-owning classes continued support of finance-led growth. But today, home ownership is declining, house prices are falling, and pension funds around the world are in crisis — in other words, the bargain is breaking down. It is being held together by quantitative easing, which continues to drive unsustainable levels of asset price inflation, but which has also inflated bubbles in a series of asset markets that may soon burst. This is what a political contradiction looks like — an irreconcilable division between two constituencies, the support of both of which is required to maintain the status quo.

Implementing a wealth tax would not only alienate the most powerful element of this constituency — wealthy elites — it would also divide the electoral constituency that supports finance-led growth by politicising the ownership of capital. Taxing wealth exposes the most fundamental divide in capitalist societies: that between those who live off work and those who live off wealth. The politics of financialisation rests on obscuring this divide and, in doing so, convincing a section of working people to support a system that benefits the wealthy. Greater taxation of wealth would reveal an essential antagonism in the economy and so raise the consciousness of working people, which is exactly why a neoliberal government would never implement it.

Democratic Socialism

There can be no going back to pre-crash politics, because there can be no going back to before the bursting of the housing bubble. It will never be possible to create that amount of new debt — and therefore new money — again. And without rising debt and rising asset prices, the political economy of finance-led growth begins to break down. With their living standards stagnant, people have started to question the idea that their interests are best served by the status quo. And with the environment collapsing, young people are rebelling against an economic system that would sacrifice their futures for the sake of immediate profit.

We must chart a route out of this political–economic quagmire by building an electoral coalition that unites working people against elites: those who live of work, against those who live off wealth. Any attempt to rebalance power and wealth away from the few towards the many will not be sustainable if it relies solely on redistribution. The fundamental economic battle lines are drawn on ownership. When Thatcher came to power, she set about privatising the UK's collectively owned wealth — selling off the family silver in order to provide short-term gains to middle earners that would provide the electoral support needed to stabilise her coalition. She also removed restrictions on capital mobility, so that any attempt to reverse this model would be met with capital flight. Thatcher did cut taxes for the rich and oversaw a decline in the tax burden as a percentage of GDP, but these economic changes were facilitated by far more far-reaching policies that transformed the balance of political and economic power. The big debates about tax and spend only came later, with New Labour's attempt to render an unstable and unequal system slightly fairer.

We must focus on shifting the balance of power in society away from capital and towards labour by expanding state, community and worker ownership. This is not simply a moral or political statement: it is a statement of necessity. Without a plan to socialise wealth, the economic contradictions of the current model — from inequality to climate change — will only continue to mount. Piketty showed that the tendency of capitalism is for returns to capital to increase faster than returns to labour. Financialised capitalism accelerated this trend for a time by inflating giant debt-fuelled speculative bubble that drained the planet of resources, only to burst in a fit of inefficiency and waste. As long as wealth is privately owned and unequally distributed, these patterns will continue to afflict our economy. What will emerge is a financialised world characterised by bubbles, rising inequality and ever-increasing levels of debt, accompanied by environmental degradation in the pursuit of profit. Such a model cannot remain stable for very long.

Some see these issues as examples of "market failures", which can be solved through state intervention at the margins of the economy.[4] For these people, changing ownership structures isn't the answer, instead, corporations should be regulated and taxed to promote the social and environmental good. Such an outlook rests on the idea that environmental degradation, rising monopoly power, and increasing inequality are not inherent to capitalist political economy, and so can be fixed by enlightened governments operating in the interests of their citizens. But capitalist states have failed to solve many of the world's major problems over the last forty years. Carbon pricing has not halted climate change. Competition regulation has not stopped the emergence of international monopolies. And whilst redistribution has certainly played some role in muting inequality, it has failed to prevent a situation in which the wealthiest twenty-six people have the same wealth as the poorest half of the global population, or roughly four billion people.

In truth, there is no such thing as a "market failure", because there is no such thing as a pure market. Any market transaction — from a consumer buying an apple, to a business investing in a new factory — takes place in the context of an institutional architecture supervised by the state. States create markets and are therefore partly responsible for the problems that markets create. Modern capitalism is a joint venture between the neoliberal market and the neoliberal state — and so-called "market failures" are therefore much better understood as failures of capitalism.

Such market failures can't be fixed from within a capitalist system. The only interventions that the state could make that might meaningfully address climate change, inequality or financial instability would threaten the power relations that underpin finance-led growth. If firms do not take every opportunity to maximise their profits today — whether by evading tax, undermining regulation or driving down workers' pay — they may not exist tomorrow. These dynamics might not be so obvious when there is plenty to go around, but during times of crisis and scarcity, the Darwinian nature of capitalist competition becomes obvious. When the options are compete or die, nothing is too valuable to be sacrificed on the altar of private profit, not even the planet. Firms will undermine regulations, lobby governments for special treatment, or leave one jurisdiction for another, setting off a global race to the bottom on wages, tax, and regulation, and destroying the planet in the process.

Today, in the absence of the pre-2008 debt bubble, economic and political transactions have become a zero-sum game. Inequality may have risen during the 1980s, but the majority of people were also getting better off too — mainly through the expansion of access to credit. This debt bubble was never sustainable, but it served to obscure the tendency of capitalism towards stagnation — for a while. Today, we live in a world of low growth, low wages, and low productivity — all of which are impeding profitability amongst the majority of firms. Those that have remained profitable have been those that have carved out the kind of international monopoly positions that create both economic and political instability over the longer term. Meanwhile, landlords and lenders extract ever greater amounts from workers and businesses, leaving them with even less to spend and invest. In this context, as capitalists compete to increase their share of a pool of resources that is growing at slower rates every year, the rest of society experiences stagnation and decline. Even though we know we need to halt climate change, we will continue to avoid this obvious truth because fighting climate change cannot create the kind of windfall profits to which investors have become accustomed under finance-led growth.

Private shareholders will always place profit maximisation over any other social good. Even if, as individuals, they would like to promote ethical behaviour on the part of corporations, the large institutional investors who monopolise most of the world's capital are forced by the nature of competition to invest in order to maximise their returns. Only as a collective do we have the right incentives to ensure that the drive towards profitability is tempered with a concern for the environment and society.

The response to this from those on the right — and some on the left — is that even in a socialist society, the state could not be relied upon to pursue the common good. Public shareholders and workers will use their control over corporations to pursue what they consider to be their own interests: civil servants will use their economic control to enrich themselves, managers will use their political power to build corporate empires, and politicians will begin to see corporations as an extension of the state itself. Rather than being held accountable to shareholders, managers would be held accountable to politicians and civil servants, who would demand that state-owned enterprises find jobs for their friends, invest in their constituencies, and make money for the state (and perhaps even the politicians themselves). Politicians' parochialism would mean that wider environmental and social considerations barely get a look in. Corporate governance would remain a question of top-down, managerial control over workers, which would be just as alienating as work in a private enterprise, even if it is better paid and more secure. Meanwhile, any attempt to challenge the model would be met with staunch resistance from those who benefit from it. The familiar refrain is that socialism threatens to revive the economic problems of the 1970s: union bosses and politicians using their control over inefficient corporations to hold the rest of society to ransom.

Whilst this portrayal of 1970s Britain is something of a pastiche, it does have some truth to it. State ownership often did little to improve working conditions, corporate governance, or environmental objectives. Some of the largest state-owned enterprises in the world are also the most corrupt, extractive, and exploitative. Thankfully, the choice is not between corporations governed in the interests of shareholders or politicians. This is where the "democratic" in democratic socialism comes in — whether a company is nationalised, mutualised, or subject to any other form of collective ownership, workers must either be in charge of making decisions themselves, or rigorously holding other decision-makers to account.

The UK Labour Party has recently proposed a series of policies aimed at democratising ownership in the British economy. These range from nationalisation, to worker ownership funds, to boosting support for the co-operative sector. Key parts of the UK's infrastructure — from transport to utilities — will be nationalised under the next Labour government, based on democratic models of corporate governance. Worker ownership funds will be established, which would see a portion of large firms' shares being transferred to workers, linked to their profitability. Financial support for the mutual and co-operative sector will be increased, and public procurement changed to ensure democratically-owned firms receive preferential treatment. And a National Investment Bank will be created to direct finance into potentially productive parts of the economy that have been chronically starved of capital.

But there is much more work to do. As it stands, the Labour Party's manifesto reads like a return to the post-war consensus. It seems radical from the perspective of twenty-first-century financialised capitalism, but it is really a return to social democracy. We cannot afford to be so defensive today. We must fight for something much more radical. We must fight for democratic socialism — not only because it is a better system, but because the capitalist model is running out of road. If we fail to replace it, there is no telling what destruction its collapse might bring.

Socialising Finance

The potential of democratic socialism is huge. The question is, how do we get from here to there? Why would a state beholden to the interests of asset owners socialise capital in a way that would lead to capital losses for its key constituency? Even if a new government responsive to a new group was elected, why should civil servants, public service workers, or local government officials respond to the interests of working people when their economic interests and ideological outlook are so aligned with the status quo? And even if it was possible to deal with these problems, wouldn't a new government run the economy in its own interests, rather than those of society as a whole?

These questions are all about power — and this is what the transition to democratic socialism comes down to. Whilst utopianism can help us sketch a vision of the future, it is meaningless without a coherent analysis of the power relations that sustain the existing system. Absent such a power analysis, the depiction of democratic socialism can verge on the kind of solutionism that many liberals fall prey to. The question we must ask ourselves today is how can a left movement build a politics to underpin democratic socialist economics?

The theory of social change laid out in this book links broad, structural changes in the nature of the economy with human agency. All capitalist economic models are subject to contradictions, which eventually lead to crises. During these moments of crisis, the institutions that support the normal functioning of the system break down and society enters an extended period of systems collapse. These moments are when insurgent movements — whether on the left or right — can shift the balance of social, economic and political power and build new institutions that reinforce the influence of their group. Today, the extended crisis of Anglo-American capitalism presents an opportunity to rebalance power away from capital and towards labour.

An analysis of how similar changes have occurred in the past should inform how we seize this moment. We must learn from the transition to finance-led growth that took place in the 1980s. Learning from Thatcherism means developing a strategy for political contestation at three levels: the level of narrative, of electoral politics, and of social forces.

After decades of stagnation caused by a financial crisis, the financial elite centred in the City of London is the natural villain in any left populist narrative. Increasing our collective wealth and reducing private debt will provide an immediate increase in living standards for a large potential electoral constituency. And, by steadily tightening regulation over existing financial firms and setting up socialist alternatives, a socialist government would be simultaneously weakening the power structures that undergird the existing system of finance-led growth, whilst also helping to build up the new economy in its place. Socialising finance represents an inversion of the Thatcherite project: socialists must take on the banks the way Thatcher took on the unions.

This threefold strategy must be effected from both the bottom-up, *and* the top-down. The social movements that have emerged around the left in recent years, combined with the labour movement, are the core political base for socialist transformation today — much as financial elites were the core base for the creation of finance-led growth. The inevitable diversity of such movements does make building a coordinated platform difficult. It is always going to be much harder for large numbers of people to come together to demand social change than for it is for elites to work together behind the scenes. But this is also the source of these movements' power. There are millions of activists across the UK able to organise to resist individual instances of exploitation or oppression, to campaign, and to protest. From the Occupy protests of 2011/12, to Extinction Rebellion, to the Deliveroo strikes, left social movements have, since the crisis, demonstrated their unique ability to win battles, shape wider narratives, and effect social change.

Working together, social movements of all kinds can come to form what Nick Srnicek and Alex Williams called an "ecology of organisations" that can work within and alongside political parties to challenge the narratives, electoral politics, and social forces that support finance-led growth.[5] These movements can develop and disseminate a narrative that pits working people against extractive financial elites by centring this language in their campaigning at both the grassroots level and in the media. They can support the development of a viable electoral project by engaging with political parties — supporting these parties to mobilise their key constituencies and challenging them to remain accountable to their base. But perhaps the most important role for social movements under finance-led growth is to mobilise directly to disrupt the institutions and power relations that reinforce the current system — both to weaken these structures, and to build a collective consciousness that will serve to strengthen the movements themselves. Collective action in the workplace, for example, both weakens bosses and serves to build the consciousness of those engaging in the collective action.

But for this kind of bottom-up political mobilisation to be effective, it must be based on a coherent understanding of the power relations that underpin finance-led growth. Organising in the workplace will not be enough; instead, these traditional tactics must be combined with new strategies that politicise asset ownership and expose extractive rentierism. Momentum campaigners in the UK, for example, recently organised a day of collective action targeting financial institutions that invest in fossil fuels, taking the fight against climate change straight to those who control our collective resources. Renters unions around the world are organising to protect tenants against exploitative landlords, as well as fighting for policies to protect renters throughout society. In Ireland, trade unions, political parties, and community movements launched a mass campaign to resist water privatisation and won.[6] Student movements all over the global North have resisted attempts to commodify higher education through the imposition of fees. Whilst not all of these campaigns have succeeded in achieving their aims, they have been integral in the building the movements that have been at the forefront of the socialist resurgence seen in many parts of the global North over the last several years.

This ecology of organisations will also come to play a critical role within established political parties by occupying an insider/outsider stance that allows them to hold these parties to account. Movements must retain strong links with key institutions and individuals, without providing unerring support, and while retaining their ability to criticise. The debates about the possibility of parliamentary socialism that have raged for the last half century hinge on whether it is possible for a socialist government to maintain its radical stance whilst in government. No matter what the individual characters of the Cabinet and leadership, it is unquestionable that that level of proximity to power changes the material incentives such individuals face. The inherent conservativism of the British state would place huge obstacles in the way of any radical programme of economic change. The “deep state” may attempt to prevent it altogether. Meanwhile, the temptation to alter the platform to appeal to the so-called “median voter” will remain significant. A strong ecology of organisations can provide the political pressure needed to ensure that parties retain their insurgent character when in government. Social movements that can operate within and against political parties are needed to build political parties that can operate within and against the state.

Socialist parties undergirded by strong social movements can also affect change from the top-down in ways that reinforce the strength of their base. These parties must develop a set of policies that will allow them simultaneously to challenge the power of private finance and promote public alternatives in its place. First, private finance must be properly constrained. The opportunities to do so are currently greater than ever, given the changing attitude towards financial regulation that has emerged amongst international policymakers since the financial crisis. It will be possible to drastically reduce the power of financial services using regulatory tools that are internationally accepted. Constraining the power of private finance would both reduce financial instability and act as a kind of Ridley Plan for finance capital.

These policies would reduce lending amongst these private institutions, so a public banking system must be constructed as the private system is constrained. The first plank of this public banking system would be public retail banking, which would offer highly competitive retail banking services available for free, to everyone. This system could then be used to enact a national programme of debt reduction, that would allow consumers and small businesses in debt distress to refinance their debt, and in some cases see large chunks of it written off altogether. A National Investment Bank (NIB), which would lend directly to businesses, should also be set up alongside this system.

This public banking system would not be subject to the regulation that governs the private system. Instead, it would be connected to the by then democratised Bank of England, which would be instructed to control the level of lending in the economy by directing these institutions to expand lending during downturns and temper it during upswings. Direct lending from the NIB could also be used in place of central bank bond purchases to boost output when interest rates reach zero and cannot be reduced any further.

But the truly transformative aspect of this plan would be to have the NIB act as the investment arm of a People's Asset Manager (PAM). The PAM would both manage the assets of a newly created Citizen's Wealth Fund, expanding public ownership, and invest on behalf of pension and insurance funds, socialising ownership across the whole economy. The CWF could eventually pay out a Universal Basic Dividend that would lock in support for the system by providing people with a tangible benefit from public ownership – much as the capital gains associated with right-to-buy have supported finance-led growth. The relationship would mirror that between today's investment banks and their in-house asset managers, which allow them to invest in companies to which they lend money. The combination of a NIB and a PAM would ensure that public investment benefits society as a whole, rather than enriching private shareholders.

1. Regulating the Private Banking System

Since the financial crisis, there has been a growing recognition of the need for what is now known as "macroprudential policy" — or regulation intended to curb systemic risk in the financial system.[7] Such policies aim to ensure banks do not create too much debt, either relative to the size of the economy, or relative to the amount of capital they hold. It will be important for an incoming socialist government to use these policies to constrain the power of the private banking system, reduce debt levels, and control asset prices.

The overarching regulation should be shaped around a new target for the Bank of England: an asset price inflation target.[8] The Bank should use new and existing regulatory tools to monitor domestic asset prices and control the amount of credit in the system to mute the ups and downs of the financial cycle. Knowing that banks are likely to lend too much when times are good, and lend too little when they are bad, the Bank should guide the private sector's lending behaviour by using dynamic regulatory interventions. For example, if household debt levels started to rise quickly, the Bank of England might issue guidance to private banks that they are only allowed to provide mortgages worth 80% of the value of the home. On its own, this would serve to privilege buyers who purchase homes without a mortgage, so this intervention would have to take place alongside broader reforms to the taxation of income, wealth, and capital flows to limit the distributive impact.

Another set of tools to control risk in the financial system are capital requirements that rise and fall depending on the state of the financial cycle. Depending on domestic regulation, all banks must hold a certain proportion of their lending as highly liquid capital — cash, equity, and some other assets defined by regulators. Higher capital requirements mean banks are able to lend less, limiting their profits — as a result, there has been a continued downward pressure on the quality and quantity of capital that banks are required to hold over the period of finance-led growth. Counter-cyclical capital requirements would give regulators the option of raising the amount of capital banks are expected to hold during the upswing of the financial cycle and reducing it during the downturn. The Bank should limit the definition of regulatory capital to cash or shareholders' equity, phasing out the inclusion of other assets. This would both strengthen banks individually, reducing the likelihood that any individual bank would fail, and support the Bank of England's ability to control lending.

Retail and investment banking should be also broken up, meaning that peoples' deposits would not be exposed to risks taken by banks' investment banking arms. The UK's system of universal banking — under which commercial and investment banking are combined in single entities — has not only implicated ordinary peoples' savings in the speculative activities undertaken by investment banks, it has also led to the emergence of giant uncompetitive monopolies that have gained a huge amount of both political and economic power. The 2012 LIBOR rigging scandal — when banks engaged in fraudulent activities surrounding interest rates — is a good example of the kind of collusion that can be expected from a system dominated by a few large players. The high rates of interest many such banks charge to lend to consumers, and the low interest rates they provide to depositors — often unrelated to the rates at which they are able to borrow from the central bank — are also evidence of oligopolistic behaviour. As of 2017, consumer and investment banking are ringfenced, but not explicitly separated, and a socialist government should completely separate them.

The UK's shadow banking system also needs to be subject to much tighter regulation. Tentative proposals were made in the US' Dodd–Frank Wall Street Reform and Consumer Protection Act, which aimed to subject some non-bank financial institutions to most of the regulations that govern the traditional banking system. Non-bank systemically-important financial institutions (SIFIs) would be subject to capital requirements, leverage ratios, liquidity requirements, and transparency measures. A similar approach should be taken in the UK. Any rigid regulation in this area would be evaded by financial institutions, who have historically found ingenious ways to undertake regulatory arbitrage. As such — and this should be a general principle for macroprudential regulation — the rules should be laid out in as broad terms as possible and implemented based on regulators' and central bankers' monitoring of risk as it arises and their interpretation of their mandate. As Andy Haldane, the Chief Economist of the Bank of England, argued in a 2012 speech, "complex environments often… call for simple decision rules… because these rules are more robust to ignorance".[9] Such an approach would, however, require regulatory institutions to be subject to continuous democratic and diverse expert scrutiny.

Taxation of the finance system also requires fundamental reform. The bank levy — introduced after the crisis — was a tax on banks' global balance sheets, designed to rise and fall in order to bring in the same amount of revenue each year. Today, it applies only to banks' domestic balance sheets and has fallen substantially. It has been combined with a corporation tax surcharge that doesn't have much of an impact on big banks. The tax should be expanded to cover banks' and shadow banks' full international balance sheets.

These measures should be combined with transactions taxes designed to limit activity in financial markets and curb capital flows. Financial transactions taxes (FTT), which are rapidly becoming popular around the world, should be combined with currency transactions taxes (CTT), which are less in vogue. The latter would act as a form of quali- tative capital control, disincentivising capital inflows and outflows. During normal times, the CTT should operate in the same way as the FTT — levied at a low level and applied to all ordinary currency and derivatives transactions. The Bank of England should also have a remit to increase the CTT in the event of rapid capital inflows or outflows, with a view to promoting the stability of the financial system.

The collection of these interventions would limit banks' profitability, thereby making them highly unpopular amongst key stakeholders. Central banks would therefore need to be insulated from regulatory capture. As argued above, independence for central banks has simply served to isolate decision-making from democratic accountability, leaving central banks beholden to financial interests. Central bank democratisation, discussed below, is therefore a critical enabler to these proposals.

2. Public Retail Banking

Taken together, these proposals would curtail the power and profitability of the finance sector. The leaders of these institutions would not take such interventions lying down — capital could strike or flee. Private commercial banks would be likely to reduce their lending and many investment banks may threaten to leave the country. Whilst many of the activities undertaken by the latter are socially useless, reductions in lending in an economy sustained by credit would have a significant impact. As a result, measures would need to be taken to build a public banking system that could service both consumers and businesses before such regulation was put in place.

One proposal, recently put forward by the UK Labour party, is to set up a network of Post Banks. The idea would be to capitalise a Post Bank, as a subsidiary of the Post Office, and run it as a series of decentralised local and regional banks. These banks would provide standard retail services to consumers — checking accounts, savings, insurance, personal and business loans — and be funded through deposits. But establishing a transformative public banking system requires intervention on a significantly larger scale. Establishing a network of Post Banks is a strong start for a public retail banking system. However, a socialist government should also fully nationalise RBS — rather than decreasing its stake — and turn this into another public retail bank, operating according to the same principles, whilst selling off its investment banking arm, or incorporating this infrastructure into the National Investment Bank. These banks should be capitalised as needed through bond central bank money issuance to support enough lending to absorb the impact of the macroprudential reforms outlined above.

The public retail banking system outlined here should not be subject to the same regulation as the private banking system. Public banks would not be pushed into undertaking ever riskier behaviours based on the imperative to maximise profits — and are in any case subject to much less risk than private banks because their lending is guaranteed by the state. And given the aim of this plan is to limit the size and strength of private capital, it makes sense to provide the public banking system with a competitive advantage that makes it more attractive to most customers. Over the long term, this would serve to shift consumers and businesses organically towards using the new public banking system, whilst also forcing up standards in the private banking system. This would mean that businesses and households were able to access credit more cheaply, fairly, and democratically than in the current system.

The public banking system should be used to direct investment into socially desirable areas. The Bank and its stakeholders should be able to issue guidance to these new public banks on how much they are lending, and to whom. During an upward swing in the financial cycle, lending amongst these public institutions should be limited, other than for the most socially-necessary activities. During a downswing, these institutions should fill any gaps that arise in private credit creation. The relationship would work both ways — with the public banks providing the Bank of England with up-to-date information on the demand for credit, and the latter adjusting its outlook accordingly. Priorities for lending should be determined democratically based on a) the aims of the Green New Deal outlined below, and b) consultation with the stakeholders involved in the Bank's new democratic architecture.

3. Debt Refinancing

The above set of interventions would not reduce the existing stock of private debt and would affect asset prices. To deal with the debt problem without causing a financial crisis, the public banks should step in to allow consumers and businesses to refinance their existing debt on easy terms, or have it written off altogether. Total interest paid on loans should also be capped as a percentage of the initial value of the loan (e.g. 150% of the principal).

Those with substantial outstanding unsecured debts — debt not backed up by an asset like a house — should have the option of refinancing these debts within the new public banking system. The public banks should buy up the debt from the private banks, imposing a haircut on the private lenders, and then refinance it at much lower — and potentially negative real — interest rates. For those consumers in severe debt distress, or those who have already repaid the principal of the loan, write offs should be considered. The balance between refinancing and writing off the debt should be undertaken in consultation with the Bank of England, based on trends in current consumer and asset prices.

Falling asset prices resulting from the new limits on private lending may threaten the solvency of borrowers who have taken out secured loans. The first and most obvious market this would affect would be housing — depending on the state of the financial cycle at the time, house prices could fall, potentially pushing some borrowers into insolvency. The new public banks should stand ready to refinance consumers' mortgages, with strict terms and conditions applied. The public bank should pay as little as possible for the outstanding mortgage without prejudicing the solvency of the private institution that owns the mortgage — banks will have to take a hit, but not one large enough to threaten their solvency. Borrowers should repay the public bank the full value of the loan at market interest rates. The option of refinancing should serve to prevent a financial crisis, without obstructing the desired outcome of a steady increase in the affordability of housing.

Over the long term, the aim of the new system would be to reduce the desirability of private home ownership by keeping house prices in line with consumer prices and improving affordability and security of tenure for private and social renters. Housing would cease to be a financial asset and would come to represent a commercial good and a store of value. Such a proposal would have to be combined with a massive programme of house building — primarily for social housing — which should be guided by an industrial strategy aiming to boost employment and output in certain industries in certain parts of the country whilst decarbonising economic growth. Such a strategy could be implemented through the National Investment Bank outlined below. This would also require sweeping reform of regulation governing the housing market to make tenure more secure.

Many British businesses are also highly indebted and may experience similar problems were asset values to fall. The public banks, in coordination with the National Investment Bank, should consider offering the most distressed businesses the option of cheap refinancing. Again, the decisions here should be undertaken based on the size and nature of the business in question, with preference given to small businesses undertaking socially-useful activities in deprived areas.

4. Empowering workers

After this series of interventions, a large amount of the stock of existing private debt will have been transferred to the public sector, with consumers and businesses paying much lower rates of interest. This would serve to limit the power and profits of private finance capital, whilst also providing an immediate boost to living standards. However, more will need to be done in the short term to lift wages and living standards in order to empower working people in place of finance capital and reduce the demand for credit over the long term.

Wages must be increased at the bottom of the income spectrum by rolling out the real living wage across the country and to all ages. Wages per hour worked should also be raised by moving towards a four-day week. The anti-union legislation of the last several decades must be removed, and mandatory collective bargaining introduced. This would have to be accompanied with reforms to the structures of the major unions to make them more democratic, and support for new and smaller unions to scale up. But work is not limited to the workplace. Our economy currently relies on a huge amount of unpaid labour like child-rearing conducted primarily by women. Carers should be given the option of being remunerated for the reproductive labour they undertake or making use of expanded free care services provided by the state.

Tackling inequality also requires root-and-branch reform of the tax and benefits system. Taxation is far too large a subject to address in full here, but promising proposals have recently been put forward by the think tank IPPR to increase wealth taxation, reform corporate taxation, and reduce the income tax burden on lower and middle earners.[10] Improvements to the tax system would be facilitated by the system of capital controls outlined above, which should prevent a mass exodus of capital. More, however, will also have to be done to curb avoidance and evasion as outlined below. Cuts to social security must be reversed and the punitive sanctions regime that exists at the heart of Universal Credit should be removed. And finally, the UK should move towards providing a much wider share of public services and utilities free at the point of use. This last aim would be facilitated through the nationalisation of key utilities like transport, energy, and water.

5. A National Investment Bank and a Green New Deal

The combination of higher taxes on corporations and the wealthy, and much greater levels of collective ownership across the economy achieved through the public system of investment outlined below, would provide the revenues necessary to make such a system sustainable over the long-term. Smart investment, aimed at raising incomes, reducing inequality and greening economic growth, would also increase tax revenues as well as achieving a variety of other objectives.

This investment agenda should be undertaken under the mantle of the "Green New Deal", involving a dramatic increase in state investment to decarbonise the economy. This would involve decarbonising transport, energy, and other infrastructures through nationalisation and a programme of green investment; investment in research and development in green technology; and investment in decarbonising production, at home and abroad. The first plank would require direct state spending, but the second two could be undertaken through a National Investment Bank. The returns from this lending could then be shared equally through the creation of a People's Asset Manager.

The UK Labour Party has recently put forward a proposal for a National Investment Bank (NIB) that has been designed to "avoid direct competition with conventional banks". The bank would be capitalised through a £20bn bond issuance, and then issue its own bonds on financial markets backed up by a government guarantee, to bring its balance sheet up to £250bn. The NIB would then devolve funding to a set of Regional Development Banks (RDBs) that could undertake lending on the national bank's behalf. Rather than directly lending to businesses itself the bank will provide capital to a network of smaller banks, which will then lend on to their customers. In effect, this allows banks to lend to small businesses without the associated risks. The governance of the bank would also be orthodox. A CEO would be responsible to a board, composed of politicians, experts, and stakeholders, alongside regional directors of the RDBs.

A NIB of a sufficient scale, and funded and managed in the right way, could be a radical way to socialise capital across the whole of the economy and support the roll out of a Green New Deal, not just a mechanism to provide cheap funding for small, private businesses. An initial bond issuance to capitalise the bank by government seems sensible — though it should be larger than £20bn. But the bank doesn't need to act like a simple intermediary — raising money on private capital markets and on-lending to other private institutions. It should be able to lend directly to businesses themselves, as well as proposing its own investments, such as in infrastructure or energy projects. The majority of the NIB's bonds should be bought by the People's Asset Manager, as outlined below. It should include regional and local subsidiaries, created and managed in coalition with local communities. Effectively, the NIB should become a lending arm of the state, issuing bonds that could be bought by the state and given to the PAM, with the NIB then lending this capital on directly to sections of the economy that needed access to finance.[11]

The NIB will not need to be constrained by the macroprudential regulatory framework outlined above that would be applied to its private competitors. Instead, it should expand and contract its lending activities counter-cyclically based on the stage of the financial cycle, directed by the Bank of England. The NIB should also be connected to a series of regional and local institutions that are able to provide loans to small businesses, based on their geographical knowledge and local relationships. Considerations of counter-cyclicality should not, however, limit investment required for decarbonisation, which must take place as soon as a socialist government comes to power, regardless of the state of the economic cycle, counterbalanced by reduced lending and investment resulting from the greater regulation of private finance.

The NIB's governance structure should be democratic. Its board should be staffed with government ministers, representatives of labour and social movements, and some directly elected representatives. The regional and local investment banks should also have boards, staffed with representatives of the NIB, local stakeholders and directly elected local repre- sentatives. The scale of lending would be directed by the newly-democratised Bank of England, and the activities for which capital would be provided would be determined according to the democratically-determined missions.

But perhaps the most radical element of such a scheme would be to allow it to act as the investment arm of the People's Asset Manager (PAM). Much as today's investment banks generally also have their own linked asset managers the bank could help to negotiate investments by the PAM into the corporations for which it was providing funding. This would ensure that the finance provided by the bank didn't simply serve to enrich private shareholders but was distributed evenly across the economy as a whole.

6. A People's Asset Manager

If institutional investors like Blackrock, who manage billions of dollars' worth of other people's assets, have become some of the most powerful entities in the international economy, then the creation of a democratically-owned and run alternative could be a revolutionary project for a socialist government. I propose the creation of a People's Asset Manager (PAM), which would act alongside the National Investment Bank outlined above to steadily socialise ownership in the economy as a whole, in the same way that many international investment banks also have asset management arms to allow them to take advantage of investment opportunities that arise from their lending activities.

The PAM should contain a Citizen's Wealth Fund (CWF), which would be capitalised using existing collective assets, and added to through tax revenues and the profits from the system of democratic finance.[12] After several decades of almost continuous privatisation, the British state is relatively asset-poor. The Bank of England, however, owns a substantial amount of assets in the form of Treasuries — these could be used to capitalise the Citizen's Wealth Fund as the Bank unwinds quantitative easing. Building on the proposal outlined by IPPR, this fund should be added to through revenues of a reformed system of wealth taxation, as well as by transferring the Crown Estate and other collectively owned assets into the fund. When it is large and stable enough, the CWF should use its returns to pay out a modest Universal Basic Dividend (UBD) to all citizens. This UBD would boost incomes and lock in support for the system of collective ownership – just as right-to-buy locked in support for privatisation.

The NIB and CWF should then work alongside one another to identify investment opportunities that would promote collective ownership over strategic sectors of the economy, to increase investment in socially and environmentally desirable activities and, subject to these two primary goals, to maximise the fund's returns. When the NIB lends to a promising company, it should identify opportunities for the CWF to invest in that company in order to take advantage of the growth that would be fuelled by the NIB's lending. The CWF should also invest in other strategic sectors of the economy as part of the Green New Deal— the state could provide bonds to allow the CWF to buy up stakes in private companies if necessary. Future nationalisations could also be undertaken through the CWF. The CWF should balance its investments between domestic and international assets that support the aims of the Green New Deal with maximising risk-adjusted returns.

The PAM would also manage the private assets of domestic savers via public pensions pots, and the mutual and insurance funds that currently send their capital to private asset managers for investment. These funds would be encouraged — either via tax incentives or regulation — to allow the PAM to invest funds on their behalf. The government should also consider providing tax breaks to savers who invest their money in the PAM upon the point of withdrawal. The aim of the private fund would have to be to maximise risk-adjusted returns, with the Green New Deal coming as a secondary consideration, but this could be subject to negotiations between the PAM and the mutual and insurance funds involved and their members.

These two funds should be managed separately, and democratically, with the managers of each fund directly accountable to elected boards comprised of key stakeholders and citizens. The majority of decision makers in the PAM should be directly elected, with the remainder being selected by stakeholders including the government, trade unions, and community groups. As the PAM increased in size and importance, these elections would grow in significance, allowing working people to determine their priorities regarding collective investment.

The PAM should take up a role as an activist investor in the corporations whose stock it owns. But rather than pressuring companies to maximise shareholder value, it should use its shareholdings to support the objectives of the Green New Deal. For example, encouraging sustainable business practices, promoting internal democracy, reducing pay differentials, closing the gender pay gap, and promoting responsible tax practices. Over the long term, as the PAM increases its holdings over domestic enterprises, it could provide an important role in promoting accountability amongst state- or worker-owned corporations — both promoting efficiency and ensuring these corporations are acting in the interests of stakeholders.

7. Institutional Reform

To achieve any of these measures it will be necessary to democratise the UK's existing financial system. The first step in such a process should be to radically transform the Bank of England. Currently, the Bank of England is an independent entity, which operates based on a mandate set by the Treasury. The Bank has a mandate to control consumer price inflation and to maintain financial stability, the former of which is achieved through controlling monetary policy via the Monetary Policy Committee (MPC), and the latter of which is achieved through monitoring issuing guidance, and occasionally offering financial support to the private banking system via the Financial Policy Committee (FPC). The notional independence of the Bank of England has been undermined through quantitative easing, which has seen it purchase billions of pounds worth of government debt. This has both undermined the distinction between fiscal and monetary policy and, by inflating asset prices for the wealthy, proven that monetary policy has incredibly important distributive implications that mean the Bank must be held democratically accountable for its decisions.

As has been argued elsewhere in this book, the removal of significant portions of economic policymaking from the realm of democratic accountability has served to facilitate policy capture by elites. In the absence of a democratic pushback, the decisions of the independent Bank of England and other technocratic institutions responsible for supervising the finance sector, have come to reflect the interests of the powerful finance sector. If the UK's most important economic institutions are not democratised, then the powerful will use their control over our governing economic institutions to thwart a transition to democratic socialism.

The Bank of England must therefore be reformed and democratised. The introduction of an asset price inflation target for the FPC should be accompanied by a change in the MPC's remit: rather than simply monitoring consumer price inflation, the MPC should monitor the output gap — the gap between current demand in the economy and potential supply. These committees would have to work together very closely to monitor both consumer and asset price inflation and ensure they are coordinating their interventions to maximise their effectiveness. If there is a negative output gap, interest rates should be lowered, and guidance issued to the public banking system to increase lending to strategic sectors — and the opposite guidance should be given where there is a positive output gap. The makeup of the FPC and the MPC should also be changed to include representation from the government, labour and social movements, and other stakeholders, as well as containing a majority of directly elected members. Their decisions should be scrutinised frequently by an independent panel of citizens, including some experts, who would report back to the government and, if necessary, directly challenge the Bank's decisions.

The privileges currently enjoyed by the City of London Corporation should also be removed. The City of London Corporation is currently the only part of the UK over which the democratically-elected government has no authority, and its representative is the only unelected member allowed to enter the House of Commons. This is no accident. The City is supposed to be above and beyond democratic accountability. Governments may come and go, but the City of London Corporation remains, its authority untouched by the changes that take place around it. A socialist government must remove the City's special position and turn it into a local authority, just like any other, with democratically-elected representatives and a franchise based on residency.

The UK should also reform its relationships with the overseas territories and crown dependencies. This should be accompanied by a sweeping reform of financial transparency regulation. All private institutions — from banks to corporations — should have to submit to the public country-by-country reports of their revenue, profits, staff, and other costs, allowing regulators to determine whether they are avoiding taxes.[13] All financial institutions, and all their subsidiaries, should be forced to operate at the highest levels of transparency, making all requested information available to authorities when asked. These requirements should be extended to all of the UK's overseas territories and crown dependencies. The UK should also unilaterally opt to share all this information with other states, in the hope that this will be reciprocated. This should be accompanied by an increase in resources for tackling financial crime and tax evasion.

Many of these proposals would represent significant constitutional changes. As such, it would make sense for the democratisation of financial institutions to take place alongside a wider set of reforms to the British state. Other necessary measures not touched on in this section include reforms to the civil service — including a substantial curtailing of the power of the Treasury — Lords reform, and a programme of reform to local and regional government, aimed at increasing local democratic accountability and decentralising the British state.

8. Definancialising the Global Economy

Many of these measures would be opposed by existing international institutions. The power of these institutions to impose sanctions on states perceived to be in breech of collectively determined rules rests firstly on those states' membership of these institutions, and secondly the hegemonic power of the United States to enforce the rules. The first issue can be reversed by exiting these institutions, while the second must be challenged directly by moving socialist states out of the orbit of US imperial power – a challenge facilitated by the erosion of US hegemony likely to be seen over the coming decades.

Both will involve creating new international institu- tions based on alliances with states with similar interests in challenging the hegemony of finance-capital and US imperialism. Alongside other socialist states in the global North, this would have to be premised upon a grand bargain with states in the global South. Debts should be cancelled, tax havens shut down, unfair treaties renegotiated, and unequal international institutions reformed or replaced. Extractive links between north and south should be replaced with mutually beneficial trade links, as well as transfers of aid, investment, and technology.

Support should be offered to socialist movements around the world attempting to undertake similar transformations of power in their own states. Such a programme will rely on the creation of a new international economic order. This will have to be delivered through genuinely multilateral institutions that abide by the principle of one country one vote, rather than one dollar one vote. These new institutions would provide equal weight to every sovereign state and allow these states to pursue models of development that support the power and prosperity of their people.

Finance for the People

Together, this set of interventions would serve to curb the power of finance capital, whilst maintaining — and improving — the set of financial services to which consumers and businesses would have access. Some of the interventions outlined in this chapter, such as debt refinancing, would also provide an immediate boost to living standards, shoring up support for a new socialist government. Finance capital would be likely to resist these moves, so it is critically important that these measures are prepared well ahead of any socialist government coming into power. An incoming democratic socialist government should view these interventions as a Ridley Plan for the financial system and prepare accordingly.

Beyond all this, perhaps the most important role of a British democratic socialist government would be to provide the rest of the world with a beacon of hope. A socialist government in one of the most heavily financialised states in the global economy would seriously undermine international financial capital, concentrated as it is in the City of London — but it would also rally socialists all over the planet. After decades of capitalist realism, it would be possible to imagine a world based on cooperation rather than competition, on mutual aid rather than exploitation, and on stewardship of our common resources rather than ruthless extraction.

CONCLUSION

> There is no final victory, as there is no final defeat. There is just the same battle. To be fought, over and over again. So toughen up, bloody toughen up.
> — Tony Benn.

In the summer of 2001, the first meeting of the World Social Forum was held under the slogan "Another World is Possible". Delegates to this socialist alternative to the World Economic Forum stated their intention to disrupt capitalist globalisation, champion the rights of the global South, and resist American imperialism. Few heeded their rallying cry. Just over a decade earlier, the contours of the new global system had emerged with the fall of the Soviet Union, and free market cheerleaders were all too happy to declare that this new global system was now set in stone. History was over. Capitalism had won. Globalisation — constructed as a neutral, inevitable process — would bring the benefits of the free market to the more backwards parts of the world if they would only let it in. The planet was suffering from an acute collective depression that Mark Fisher termed "capitalist realism": it would have been easier for most people to imagine the end of the world than the end of capitalism.

Seven years later, those same people could have been forgiven for thinking that they were living through both. The financial crisis of 2008 rocked the global economy to its core, exposing the economists' dreams of taming the economic cycle as pure fantasy. When the US housing bubble burst, the financial flows that sustained the global banking system suddenly ground to a halt. The fictitious capital that had been created in asset markets over the preceding decades evaporated and many financial institutions, corporations and households found themselves insolvent as a result. The financial crisis that had begun in the US housing market swept around the world, creating the longest and deepest global recession experienced since 1929. Trade and investment flows fell sharply, marking the beginning of a slowdown in globalisation that endures to this day.

Political leaders were quick to employ their own version of capitalist realist discourse. The financial system must, they argued, be saved. There was no alternative. Ordinary working people would be the ones to suffer if it was not. National governments pumped liquidity into the financial system, hiked up deposit insurance, and eventually provided their ailing domestic banks with much needed capital. They rushed to implement stimulus programmes, cut interest rates, and launched the biggest monetary experiment since Bretton Woods in the form of quantitative easing. Those countries not in control of their own monetary policy found themselves facing the wrath of the bond markets. The financial crisis swiftly mutated into a sovereign debt crisis, with a particularly acute impact on the Eurozone. States all over the global North looked at the unfolding Greek tragedy with horror. Austerity, they claimed, was the only way forward. In few other parts of the world did austerity proceed as swiftly and as brutally as in the UK, where the Conservative–Liberal Democrat coalition government implemented a programme of cuts so harsh that it has been linked to 120,000 deaths over the last decade.

This succession of injustices was shrugged off by centre-left parties around the world, themselves unable to imagine that there might have been a different way to respond to the crisis. In the immediate aftermath of the crash, there didn't seem to be any resistance at all. By 2015, the near collapse of global capitalism had come and gone without once threatening the political system that underpinned it. But all was not as it seemed. For those in education when the financial crisis hit, the spell of capitalist realism was broken. Their identities were formed during a time of deep uncertainty, polarised political discourses, and crumbling institutions. They lived through the death of the world of neoliberal prosperity, and the birth of the world of post-crisis stagnation. They could see the contingency of the existing order. Suddenly, another world was possible again. But what kind of world would it be?

Ten and a half years to the day after the collapse of Lehman Brothers, the planet was presented with two potential futures. On 15 March 2019, a white supremacist opened fire on a mosque in Christchurch, New Zealand, killing forty-nine people, from young children to the elderly. The killer, Brenton Tarrant, posted a "manifesto" on Twitter before the shooting, in which he claimed that it was necessary to create a "climate of fear" for Muslims living in the West to prevent a "white genocide". He claimed to have been inspired by Dylann Roof, who killed nine African Americans in a church in the US, and Anders Breivik, who detonated a van bomb in Oslo, killing eight people, and then massacred sixty-nine young leftists at a camp for the Worker's Youth League, to publicise his own anti-migrant, anti-Islam manifesto.

On the same day, one million students from all around the world took part in an international school strike to protest politicians' inaction over climate change. Two thousand protests took place in 125 countries, with students from all corners of the globe demanding that their governments take action to protect their futures. Whilst commentators from the mainstream press jeered, students in the UK chanted "Oh Jeremy Corbyn" in support of the opposition leader, whilst holding up banners criticising the Conservative government. The British demonstrators had their own manifesto. Their rallying cry: "Change is needed, and it's needed now!"

These were not random, isolated events — they are symptoms of a decaying system. Finance-led growth collapsed in 2007, leaving stagnation and entropy in its wake. Our political and economic institutions were built during the boom and are not equipped to deal with the tensions that have arisen since the crash. Ruling elites have buried their heads in the sand, desperately defending the remnants of a dying model, whilst everyone else looks into their future and sees only hardship and decline. Collective sense-making, supervised by a media out of touch with the conditions faced by ordinary people, has broken down. In its place, new narratives have emerged among new political communities — whether white supremacists on the internet, or climate strikers in their schools. All around the world, people are turning to one another and saying the same thing: "things cannot go on as they are".

The gravity of this moment is hard to grasp for those who lived through the period of stability following the fall of the Berlin Wall. But perhaps the most important lesson to have emerged from the events of the last decades is that no capitalist system can remain stable for long. The global economy does not operate according to the predictable laws of neoclassical economics, thrown off course only by external shocks. Instead, capitalism engenders complexity, meaning that even the best organised capitalist economies inevitably tend towards chaos. Capitalist political and economic institutions attempt to contain complexity by subjecting capitalist societies to rigid hierarchies, in which owners have all the wealth and power. But, as Marx has shown us, such institutional configurations — whatever their nature, from socially democratic to free-market libertarian — cannot contain the chaos unleashed by the profit motive. When these institutions can no longer control the contradictions they were designed to accommodate, they strain, and even break. Such periods are marked by political, legal, and social upheaval, frequent transitions of power, and even revolutions.

The decade since the financial crisis has been one such period. Finance-led growth is a system premised upon wage suppression and rent extraction by elites — a process that creates little of value even as it transfers resources from the bottom to the top. With ever more resources controlled by the owners of capital, the only thing sustaining Anglo-American capitalism before the crash was the creation of ever greater amounts of debt. But as this debt has dried up, the stagnation created by a system premised upon rising inequality has been revealed. Economics increasingly resembles a zero-sum game, in which more for one group means less for another. And those with the political power are using it to monopolise the shrinking gains from growth for themselves. As long as the foundations of our finance-led growth model remain the same, then these contradictions will continue to escalate.

In this febrile political climate, the so-called centre — committed to propping up the status quo — cannot hold. When the liberal establishment decries the rise of "populism", they are demonstrating once again that they lack any understanding of the current political moment. The disdain directed at those who attempt to create political change outside of the "civilised" institutions of liberal democracy involves a total failure to understand that those institutions no longer work — something that is quite easy to forget when you are situated comfortably inside them. Rather than articulating a vision of what a new society could look like, the liberal elite comfort themselves by suggesting technocratic tweaks to various policy areas in an attempt to make the system work again. The old order is sinking, and the ruling classes are rearranging the deck chairs.

Elites may continue to claim that "there is no alternative", but deep down they know that capitalist realism is dead. The students who took strike action to protest the death of their planet are not bound by its constraints. But neither are the far-right extremists we see on our TV screens — either those who inhabit positions of power, or those who conduct brutal acts of mass-slaughter. Only those who know that a new world is coming can prepare for its arrival, and today, we face a choice between socialism and barbarism. When the international financial press praised the election of far-right President Jair Bolsonaro in Brazil, we saw where the allegiances of the ruling classes really lie. The establishment would much rather watch human beings turn against one another in a fit of fascist hysteria than watch them work together for a new and better world built on equality rather than hierarchy.

Ultimately, capitalism will end in a great battle between those who want to see human beings fight one another over the scraps of a dying system, and those who want to build something new. For those who wish to avert the rebirth of fascism, socialism is the only way forward. Those who claim that socialism could never work tend to do so on the basis that societies and economies are too complex to be governed by the logic of planning — only the decentralised logic of the market can provide for an optimal allocation of resources. But as more and more economic activity is concentrated within huge, bureaucratic, hierarchical firms, and equally huge, bureaucratic and hierarchical states, this argument becomes ever more ridiculous. In fact, those who claim that hierarchy and complexity do not mix have a point. As humanity has become more technologically advanced and more interconnected than ever, the capitalist model has become less and less viable. Subjecting complex societies to the rigidity of a capitalist hierarchy based on concentrated ownership can only lead to instability and injustice.

Unable to control the forces of complexity it has called forth, capitalism must now make way for democratic socialism, which, rather than seeking to contain complexity through the hierarchy of the firm and the state, extends the liberatory principles that the opponents of socialism hold so dear to *all* areas of political and economic activity. Rather than being constrained by a boss or a bureaucrat, democratic socialism provides a way for people to self-organise in pursuit of a collective endeavour. Working in this egalitarian, decentralised and cooperative way allows human beings' creative dynamism to be harnessed in response to some of the greatest challenges the world has ever faced. Democratic socialism allows people to take control of their communities, their workplaces, and their lives; it allows people to come together to build a better world.

Beyond Capitalism

Finance-led growth in many ways represented the apogee of capitalist development — trillions of dollars of capital being moved around the world, not to produce anything of value, but to seek out the next big speculative gain. The owners of capital became unimaginably wealthy on the back of this broken system, but when it collapsed under the weight of its own excesses, it was ordinary working people who were forced to bear the costs. The death of capitalist realism has led to the rebirth of ideology, and of history. The political upheaval of the last decade is a response to the re-emergence of fundamental questions about what kind of society we want to live in. Politics is no longer a question of making technocratic tweaks to a stable system; it is once again a great battle of ideas and the movements that champion them.

But with the death of capitalist realism, the greatest challenge faced by contemporary capitalist societies is no longer imagining a different kind of future, it is getting from here to there. Building a new politics does not simply mean changing the party of government. It involves a coordinated political project to radically rebalance power in society away from capital and towards labour. Doing so requires a series of overlapping interventions, mirroring those undertaken by the parties who built finance-led growth in the first place.

The division between those who live off work and those who live off wealth must take centre stage. As the disparity between those who own the assets and those who work for them widens, it will become increasingly important to make ownership the centre of our political debate once again. Left populist narratives that pit the people against the elite provide a good frame for this division, but unless the divide is filled with something substantive then it will be misused. Politicising ownership makes it clear that elites' strategy for maintaining power is to divide working people amongst themselves to prevent the emergence of any powerful democratic socialist movement. The alternative is to allow elites to deflect peoples' anger and disillusionment with the status quo onto other, even more exploited groups.

Alongside a thriving ecology of organisations committed to disrupting capitalist power relations, we also need political parties accountable to these movements which are committed to taking control of the commanding heights of the economy. The neoliberal electoral project rested on the extension of asset ownership to a wider section of the electorate, which convinced many middle earners to side with the owners of capital. The challenge for a socialist movement is to push this strategy even further by extending asset ownership to all working people in a bid to dissolve the distinction between capital and labour. The next challenge will be to ensure this radicalism is not diluted by a confrontation with the state. It is critical that socialist parties do not replicate the cartel model of political engagement pursued by many centre-left parties in the twentieth century. Instead, they must operate as movements within and outside, in and against, the state, held accountable by a large and diverse constituency able to impact the incentives faced by party leaders and parliamentarians.

Control over the state must be used to disrupt the power relations that undergird the existing order and build up new institutions in its place. Any socialist government will need its own version of the Ridley Plan to take on the entrenched power of finance-capital and deal with the threat of capital to strike or flee. Socialist governments-in-waiting must lay out coherent, comprehensible and exhaustive plans to socialise their financial systems. This strategy must highlight the division between those who own so much that they are able to live off the proceeds of their wealth — landlords, financiers, and speculators — and everyone else who is forced to work for a living. The message should be that the current model can only create more stagnation and decline. Far from anticipating capital gains of the kind seen in the pre-2007 period, those who own assets should expect to see their values decline as the economy stagnates. Their wages — eroded by several decades of finance-led growth

— and their debts will matter much more for their sense of prosperity. A socialist project would unite working people based on their interests as workers — and would provide the material incentives to do so by increasing wages, writing off debts, and socialising ownership of capital.

In other words, socialist governments must take on the banks the way Thatcher and Reagan took on the unions. Modern financial systems have created complex but effective mechanisms for the owners of capital to gain control over large swathes of the economy. Collective control of finance capital would mean collective ownership of these resources, as well as drastically limiting the power of those who currently monopolise them for their own ends. Such a plan must be premised upon the assumption that a socialist government will face resistance from those who occupy positions of wealth and power and put in place contingency plans as a result. The immensely challenging task of establishing a new institutional settlement, whilst battling with the powers that undergird the old, will be the central task of any socialist party that comes to power during the interregnum.

Together, the set of reforms outlined in this book would serve to radically shift wealth and power in society away from those who currently monopolise it, and towards those who have been forced to pay for the excess of these extractive elites. Implementing this strategy would create a fairer, more equal, and more prosperous society. But it would also represent the beginnings of a far more profound shift. As a public banking system emerges and grows, alongside a People's Asset Manager, ownership will steadily be transferred from the private to the public sector. As the state invests strategically to boost growth, employment, and equity whilst reducing carbon emissions to zero, living standards will improve, and the UK will become a model for green, sustainable growth. And as the democratic reforms to the country's economic institutions are embedded and scaled up, public engagement with economic decision making will grow, making democratic collective ownership a reality. And as we reform or replace the imperialist institutions that currently govern the international system, we will put in place the conditions for this model to spread around the world. Were the planet not staring down the barrel of a gun, such a project might seem like nothing more than a utopian dream. But capitalism is dying, and it is bringing the extractive, neo-colonial international order down with it.

At this critical juncture — at the crossroads between extinction and utopia — human beings must take back control of our history. For decades, we have allowed our futures to be determined by the wealthy and the powerful in the hope that they would use their influence for the good of the whole. But the financial crisis exposed many of our political and business leaders for what they are: self-interested, exploitative, and reckless elites, who would rather see the planet burn than sacrifice an iota of their wealth. It is now clear that the only power we can rely on is our own. To those who believe that selfishness, a resistance to change, and an inability to cooperate are the defining features of the human condition, this is a source of despair. But for those who have faith in the power of working people to change the course of history, it should come as a beacon of hope. We have the technology and resources to build a world based on cooperation rather than competition — it is time for politics to catch up.

NOTES

Introduction

1 This account draws on: Sowerbutts, R. (2016) "The Demise of Overend Gurney", *Bank of England Quarterly Bulletin 2016 Q2*. https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2016/the-demise-of-overend-gurney and Flandreau, M. and Ugolini, S. (2016) "The Crisis of 1866", in Dimsdale, N. and Hotson, A. (eds.) *British Financial Crises since 1825*, Oxford University Press, pp.76-93

2 This account draws on: House of Commons (2009) "Northern Rock's Business Model" in Treasury Select Committee Fifth Report Session 2007-08. https://publications.parliament.uk/pa/cm200708/cmselect/cmtreasy/56/5605.htm and Pym, H. (2016) *Inside the Banking Crisis: The Untold Story*, London: A&C

3 National Audit Office (2009) "The Nationalisation of Northern Rock". Report by the comptroller and auditor general, HC 298 Session 2008-2009. https://www.nao.org.uk/wp-content/uploads/2009/03/0809298.pdf

4 Epstein, G. (2005) "Introduction: Financialization and the World Economy", in Epstein, G (ed.) *Financialisation and the World Economy*, Cheltenham: Edward Elgar Publishing

5 This account draws on: Boyer (2000); Dore, R. (2008) "Financialisation of the Global Economy", *Industrial and Corporate Change*, vol. 17; Blackburn, R. (2006) "Finance and the Fourth Dimension", *New Left Review*; Stockhammer, E. (2008) "Some Stylised Facts on the Finance-Dominated Accumulation Regime", *Competiton and Change*, vol. 12

6 Krippner, for example, defines financialisation as "a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production" (in Krippner, R. (2012) *Capitalizing on Crisis: The Political Origins of the Rise of Finance*, Cambridge: Harvard University Press.; Stockhammer (2008) identifies a "finance-dominated' accumulation regime" in which "financial developments crucially shape the pattern and pace of accumulation".

7 See, e.g., Panitch, L. and Gindin, S. (2012) *The Making of Global Capitalism: The Political Economy of American Empire*, London: Verso; Konings, M. (2011) *The Development of American Finance*, Cambridge: Cambridge University Press; Krippner, R. (2012).

8 This account draws on: Boyer, R. (2013) "The Global Financial Crisis in Historical Perspective: An Economic Analysis Combining Minsky, Hayek, Fisher, Keynes and the Regulation Approach", *AEL: A Convivium*, vol. 3; Hay, C. (2013)

"The British Growth Crisis: A Crisis of and for Growth", *SPERI Paper No. 1*. http://speri.dept.shef.ac.uk/wp-content/uploads/2018/11/SPERI-Paper-No.-1-%E2%80%93-The-British-Growth-Crisis-FINAL1.pdf; Green, J. (2015) "Anglo-American Financial Interdependence and the Rise of Income Inequality", in Green, J., Hay, C. and Taylor-Goodby, P. (eds.) *The British Growth Crisis: The Search for a New Model*, London: Palgrave

9 Haldane, A. (2010) "The Contribution of the Financial Sector — Miracle or Mirage?", speech at the Future of Finance conference, London, 14 July 2010. https://www.bis.org/review/r100716g.pdf

10 Ibid.

11 Ibid.

12 Financial Stability Board (2012) *Global Shadow Banking Monitoring Report 2012*. http://www.fsb.org/wp-content/uploads/r_121118c.pdf

13 Haldane (2010)

14 My interpretation of financialisation relies on the work of some Marxist and some post-Keynesian thinkers, including Lapavitsas, C. (2013) *Profiting Without Producing*, London: Verso; Panitch and Gindin (2013); Panitch L and Gindin S (2008); Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*, Basingstoke: Palgrave Macmillan; Minsky H. (1989) *Stabilisng an Unstable Economy,* New York: McGraw Hill Professional; Epstein (2005) Boyer (2013); Boyer, R (2000) 'Is a Finance-Led Growth Regime a Viable Alternative to Fordism? A Preliminary Analysis', Economy and Society, 29, no. 1: 111-145; Stockhammer (2008); Stockhammer, E. (2004) "Financialisation and the Slowdown of Accumulation", *Cambridge Journal of Economics*, vol. 28; Palley, T. (2007), 'Financialization: What It Is and Why It Matters', *Working Paper No. 525*, New York: The Levy Economics Institute at Bard College; Duménil G. and Lévy D. (2004) *Capital Resurgent: roots of the neoliberal revolution*, Cambridge: Harvard University Press; Duménil G. and Lévy D. (2005) 'Costs and benefits of neoliberalism: a class analysis' in Epstein (2005); Duménil G and Lévy, D (2011) *The Crisis of Neoliberalism*, Cambridge: Harvard University Press; Hudson, M. (2012) *The Bubble and Beyond: Fictitious Capital, Debt Deflation and the Global Crisis*, London: Islet

15 This account draws on: Hudson (2012); Hudson, M. (2015) *Killing the Host: How Financial Parasites and Debt Destroyed the Global Economy*, London: Isley; Mazzucato, M. (2018) *The Value of Everything: Making and Taking in the Global Economy*, London: Allen Lane; Pettifor, A. (2017) *The Production of Money*, London: Verso; Keen, S. (2017) *Can We Avoid Another Financial Crisis?*, London: Polity; Epstein (2005); Hein, E.and Van Treeck, T. (2010) "Financialisation and Rising Shareholder Power in Kaleckian/Post-Kaleckian Models of Distribution and Growth", *Review of Political Economy*, vol. 22;

Onaran, O., Stockhammer, E. and Grafl, L. (2011) "Financialisation, Income Distribution and Aggregate Demand in the USA", *Cambridge Journal of Economics*, vol. 35; Barba, A. and Pivetti, M. (2008) "Rising Household Debt: Its Causes and Macroeconomic Implications — A Long-Period Analysis", *Cambridge Journal of Economics*, vol. 33; Crotty, J (2008) 'Structural Causes of the Global Financial Crisis: A critical assessment of the 'new financial architecture'', *Cambridge Journal of Economics*, vol. 33.

16 This account draws on: IPPR (2018) *Prosperity and Justice: A New Plan for the Global Economy — The Final Report of the IPPR Commission on Economic Justice*; Blakeley, G. (2019) "The Next Crash: Why the World Is Unprepared for the Economic Dangers Ahead", *New Statesman*, 6 March 2019.

17 World Bank (2019) 'Gross capital formation (% of GDP)', World Bank National Accounts Data.

18 See, e.g., Teulings, C. and Baldwin, R. (2014) *Secular Stagnation: Facts, Causes and Cures*, London: CEPR Press

19 Rogoff, K. (2015) "Debt Supercycle Not Secular Stagnation", in Blanchard, O., Rajan, R., Rogoff, K. and Summers, L. (eds.) *Progress and Confusion: The State of Macroeconomic Policy*, USA: MIT Press

20 Giles, C. (2019) "Politics Is Failing on Brexit but Economics Has Been on the Money", *Financial Times,* 14 March.

21 This account draws on: Marx, K. (1894) *Capital Volume III*; Mandel, E. (1981) "Introduction to Capital Volume III", in Marx, K. (1894) *Capital Volume III*; Grossman, H. (1922) *The Theory of Economic Crises*; Shaikh, A. (1978) "An Introduction to the History of Crisis Theory", *Union for Radical Political Economies*.

22 Perelman, M. (2000) *The Invention of Capitalism: Classical Political Economy and the Secret History of Primitive Accumulation*, USA: Duke University Press

23 This account draws on: on Phillips, L. and Rozworski, M. (2019) *The People's Republic of Wal-Mart: How the World's Biggest Corporations Are Laying the Foundation for Socialism*, London: Verso

24 See, e.g., Bastani, A. (2019) *Fully Automated Luxury Communism*, London: Verso.

25 Marx, K. (1847) *The Communist Manifesto*.

26 This account draws on: Meiksins Wood, E. (1995) *Democracy Against Capitalism: Renewing Historical Materialism*, London: Verso; Marx, K. (1846) *The German Ideology*; Mandel, E. (1975) *Introduction to Marxism*, London: Pluto

27 This account draws on: Marx (1946, 1984); Mandel (1981); Shaikh (1978);

Meiskins Wood (1995).

28 See, e.g. Duménil and Levy (2004)

29 See, e.g., Fukuyama, F. (1992) *The End of History and the Last Man*, London: Penguin

30 Marx, K. (1947) *The Poverty of Philosophy*.

31 Milburn, K. (2019) *Generation Left*, London: Polity

Chapter One The Golden Age of Capitalism

1 This account draws on: Conway, E. (2016) *The Summit: Bretton Woods, 1944: J. M. Keynes and the Reshaping of the Global Economy*, Cambridge: Pegasus; Steil, B. (2014) *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White and the Making of a New World Order*, USA: Princeton University Press; Panitch and Gindin (2012); Helleiner (1994)

2 Keynes (1936)

3 See Eichengreen, B. (2008) *The European Economy since 1945: Coordinated Capitalism and Beyond*, USA: Princeton University Press

4 Pettifor (2017)

5 Eichengreen, B. (2011) *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*, Oxford: Oxford University Press

6 Panitch and Gindin (2013)

7 Ibid.

8 This account draws on: Keynes (1936); Mann, G. (2016) *In the Long Run We Are All Dead* London: Verso; and Foster (2010) 'The Financialization of Accumulation', *Monthly Review* vol. 62.

9 This account draws on: Addison, P (1975) *The road to 1945: British politics and the Second World War*, New York: Penguin Random House; Dutton, D (1997) *British Politics Since 1945: The Rise, Fall and Rebirth of Consensus*, Hoboken: Wiley; Helleiner, E (1994) *States and the reemergence of global finance: From Bretton woods to the 1990s*, New York: Cornell University Press; Duménil and Levy (2004)

10 See, e.g., Addison (1975); Dutton (1997); Duménil and Levy (2004); Boyer (2000)

11 This account draws on: Marx, K. (1867) *Capital Volume I*; Marx (1894); Mandel (1981); Grossman (1922); Shaikh (1978); Harvey, D. (2018) *A Companion to Marx's Capital The Complete Edition*, London: Verso.

12 This account draws on: Schenk, C. (1998) "The Origins of the Eurodollar Market in London: 1955-1963", *Explorations in Economic History*, vol. 35; Green, J. (2016) "Anglo-American Development, the Eurodollar Markets, and the Deeper Origins of Neoliberal Deregulation", *Review of International Studies*, vol. 42; Helleiner (2004)

13 This account draws on: Panitch and Gindin (2013); Pettifor (2017); Epstein (2005); Shaxson, N. (2018) *The Finance Curse: How Global Finance Is Making Us All Poorer*, London: Bodley Head

14 Panitch and Gindin (2013)

15 This account draws on: Eichengreen (2011); Helleiner (1994); Panitch and Gindin (2013)

16 The transformation in the monetary system over the course of the twentieth century plays an important role in shifting the nature of finance. Whilst I touch on money at various points during this book, I do not delve into this complex issue in much detail. My understanding draws primarily on Lapavitsas (2013).

17 This account draws on Dutton (1997); Krippner (2012); Duménil and Levy (2004; 2011); Panitch and Gindin (2013); Streek, W. (2011) "The Crises of Democratic Capitalism", *New Left Review*, vol. 71, September-October.

18 Hazledine, T. (2017) "Revolt of the Rustbelt", *New Left Review*, vol. 105, May-June. https://newleftreview.org/II/105/tom-hazeldine-revolt-of-the-rustbelt

19 Dawney, K (2001) 'A history of sterling', The Telegraph, 8 October. https://www.telegraph.co.uk/news/1399693/A-history-of-sterling.html

20 This account draws on: Johnson, H. (1971) "The Keynesian Revolution and the Monetarist Counter-Revolution", *The American Economic Review*, vol. 61; Mann (2016)

21 Kalecki, M. (1943) "Political Aspects of Full Employment", *Political Quarterly*. https://delong.typepad.com/kalecki43.pdf

22 Harvey, D. (2005) *A Brief History of Neoliberalism*, Oxford: Oxford University Press

23 This account draws on: Mirowski, P. (ed) *The Road from Mont Pelerin: The Making of the Neoliberal Thought Collective*, Cambridge: Harvard University Press; Harvey (2005); Slobodian, Q. (2018) *Globalists: The End of Empire and the Birth of Neoliberalism*, Cambridge: Harvard University Press; Gamble, A. (1988) *The Free Economy and the Strong State: The Politics of Thatcherism*. Duke University Press Books.

24 This account draws on: Fine, B. (2009) "Neoliberalism as Financialisation" https://eprints.soas.ac.uk/5616/1/brooksgalip.pdf; Fine, B. and Saad-Filho, A. (2016) "Thirteen Things You Need to Know About Neoliberalism", *Critical*

Sociology, vol. 43; Palley (2007)

25 Hayek, F (1944) *The Road to Serfdom*; von Mises, L. (1949) *Human Action: A Treatise on Economics*.

26 Tribe, K. (2009) “Liberalism and Neoliberalism in Britain, 1930-1980”, in Mirowski (2009).

27 Evans, G. and Tilley, J. (2017) *The New Politics of Class: The Political Exclusion of the British Working Class*, Oxford: Oxford University Press

28 Gamble (1994)

Chapter Two Vulture Capitalism: The Financialisation of the Corporation

1 This account draws on: Gavett, G. (2013) “Has Maximizing Shareholder Value Gone Too Far?”, *Harvard Business Review* https://hbr.org/2013/08/has-maximizing-shareholder-val.html; Denning, S. (2014) “Why IBM is in Decline”, *Forbes*, 30 May. https://www.forbes.com/sites/stevedenning/2014/05/30/why-ibm-is-in-decline/#395c5ce53e48; Yang, J L (2013) “Maximizing shareholder value: The goal that changed corporate America”, *Washington Post,* 26 August. https://www.washingtonpost.com/business/economy/maximizing-shareholder-value-the-goal-that-changed-corporate-america/2013/08/26/26e9ca8e-ed74-11e2-9008-61e94a7ea20d_story.html?utm_term=.1b54870e4505

2 Moore, H. (2014) “IBM Fires Small-Town Workers for Wall Street Numbers. That’s the Good Part”., *Guardian*, 2 March. https://www.theguardian.com/commentisfree/2014/mar/02/ibm-fires-small-town-workers-for-wall-street-numbers

3 Mourdoukoutas, P. (2011) “Do Mergers and Acquisitions Enhance or Destroy Shareholder Value?”, *Forbes*, 4 October. https://www.forbes.com/sites/panosmourdoukoutas/2011/10/04/do-mergers-and-acquisitions-enhance-or-destroy-shareholder-value/#758c440ae9a9

4 Randall Wray, L. (2009) “The Rise and Fall of Money Manager Capitalism: A Minskian Approach”, *Cambridge Journal of Economics*, vol. 33; Shabani, M. Tyson, J., Toporowski, J. and McKinley, T. (2012) “Studies in Financial Systems No 14: The Financial System in the UK”, *FESSUD*. http://fessud.eu/wp-content/uploads/2012/08/UK-Country-Report-revised-August-2014-final-study-14.pdf.

5 Friedman, M. (1962) *Capitalism and Freedom*, Chicago: University of Chicago Press

6 See, e.g., Jensen, M.C. and Meckling, W.H. (1976) “Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure”, *Journal of*

Financial Economics; Jensen, M. and Rubak, R. (1993) “The Market for Corporate Control: The Scientific Evidence”, *Journal of Financial Economics*, vol. 11.

7. This account draws on: Kohler, K., Guschanski, A. and Stockhammer, E. (2018) “The Impact of Financialisation on the Wage Share: A Theoretical Clarification And Empirical Test”, Post-Keynesian Economics Society Working Paper 1802.; Lazonick, W. and O’Sullivan, M. (2000) “Maximizing Shareholder Value: A New Ideology for Corporate Governance”, Economy and Society, vol. 29; Aglietta, M. and Breton, R. (2010) “Financial Systems, Corporate Control and Capital Accumulation”, Economy and Society, vol. 30; Stockhammer (2004); Orhangazi, O. (2007) “Financialisation and Capital Accumulation in the Nonfinancial Corporate Sector”, Cambridge Journal of Economics, vol. 32; Crotty, J. (2005) “The Neoliberal Paradox: The Impact of Destructive Product Market Competition and ‘Modern’ Financial Markets on Nonfinancial Corporation Performance in the Neoliberal Era”, in Epstein, G. (ed) Financialization and the World Economy; Dumènil, G. and Lèvy, D. (2005) “Costs and Benefits of Neoliberalism: A Class Analysis”, in Epstein , G.; Crotty, J. (2013) “How Big Is Too Big? On the Social Efficiency of the Financial Sector in the United States”, Political Economy Research Institute Working Paper 313; Haldane, A. (2015) “Who Owns a Company?”, speech to the Edinburgh Corporate Finance Convention, 22 May 2015; Clark, I. (2009) “Owners and Managers: Disconnecting Managerial Capitalism? Understanding the Private Equity Business Model”, Work, Employment and Society, vol. 23

8 Clark (2009)

9 Lawrence, M. (2017) “Corporate Governance Reform: Turning Business Towards Long-Term Success”, *IPPR*. http://www.ippr.org/corporategovernancereform; Kay, J. (2012) “The Kay Review of UK Equity Markets and Long-Term Decision Making” http://www.ecgi.org/conferences/eu_actionplan2013/documents/kay_review_final_

10 Mazzucato (2018)

11 This account draws on: Redwood, J. (1984) “Tilting at Castles”, speech given by John Redwood, then an adviser in the Conservative Party, to the Policy Unit, 11 June; Martin, I. (2016) *Crash Bang Wallop: The Inside Story of London’s Big Bang and a Financial Revolution that Changed the World*, London: Sceptre; Shaxson, N. (2012) *Treasure Islands: Tax Havens and the Men Who Stole the World*, London: Palgrave; Shaxson (2018); ; Centre for Policy Studies (2006) “Big Bang 20 Years On: New Challenges Facing the Financial Services Sector”

12 Shaxson (2012)

13 Robertson, J (2016) “How the Big Bang Changed the City of London Forever”, *BBC News*, 27 October. https://www.bbc.co.uk/news/business-37751599

14 Skinner, C. (2011) “How The City Developed, Part Thirteen: The Big Bang”, Chris Skinner’s blog. https://thefinanser.com/2011/12/how-the-city-developed-part-thirteen-thebig-bang.html/

15 Robertson (2016)

16 Ibid.

17 Warwick-Ching, L. (2007) “1986: British Gas privatisation and the search for Sid”, *Financial Times*, 23 November

18 Ibid.

19 National Audit Office (1987) *Department of Energy: Sale of Government Shareholding in British Gas plc*, NAO. https://www.nao.org.uk/pubsarchive/wp-content/uploads/sites/14/2018/11/Department-of-Energy-Sale-of-Government-Shareholding-in-British-Gas-plc.pdf

20 Institute for Economic Affairs (2000) *A Review of Privatisation and Regulation Experience in Britain*, IEA. https://iea.org.uk/publications/research/a-review-of-privatisation-and-regulation-experience-in-britain

21 Boston Consulting Group [BCG] (2016) *Privatising the UK’s nationalised industries in the1980s, BCG Centre for Public Impact’*, 11 April 2016.. https://www.centreforpublicimpact.org/case-study/privatisation-uk-companies-1970s/

22 IEA (2016)

23 Ibid.

24 BCG (2016)

25 Boutchkova, M. and Megginson, W. (2000) “Privatization and the Rise of Global Capital Markets”, *FEEM Working Paper 53*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=237408

26 Haldane (2015); Lawrence (2017)

27 This account draws on: Clark, G. (2000) *Pension Fund Capitalism*, London: Wiley; Blackburn, R. (2007) *Age Shock: How Finance is Failing Us*, London: Verso; Dixon, A. (2008) “The Rise of Pension Fund Capitalism in Europe: An Unseen Revolution?”, *New Political Economy*, vol. 13; Wray, L.R. (2011) “Minsky’s Money Manager Capitalism and the Global Financial Crisis”, *Levy Institute Working Paper 661*. http://www.levyinstitute.org/pubs/wp_661.pdf; Minns, R. (2001) *The Cold War in Welfare: Stock Markets Versus Pensions*, London: verso

28 Minns (2001)

29 Ibid.

30 See, e.g., Lenin, V.I. (1917) *Imperialism, the Highest Stage of Capitalism*; Keynes (1936); Randall-Wray (2014)

31 Minsky, H. (1986) *Stabilising an Unstable Econom*y, USA: McGraw-Hill

32 This account draws on: Clark (2009); Aglietta and Breton (2001) 'Financial Systems, Corporate Control and Capital Accumulation' *Economy and Society*, vol. 30; Haldane (2005); Kay (2011)

33 Lawrence (2017); Kay (2012)

34 Denning, S (2017) "Making Sense Of Shareholder Value: 'The World's Dumbest Idea", Forbes, 17 July. https://www.forbes.com/sites/stevedenning/2017/07/17/making-sense-of-shareholder-value-the-worlds-dumbest-idea/#5df3a25f2a7e

35 This account draws on: *Economist* (2004) Lord of the Raiders, 4 November. https://www.economist.com/business/2004/11/04/lord-of-the-raiders; *Economist* (1999) "Lord Hanson's Ghost", 1 April. https://www.economist.com/business/1999/04/01/lord-hansons-ghost; Cowe, R. (2004) "Lord Hanson', *Guardian*, 3 November. https://www.theguardian.com/news/2004/nov/03/guardianobituaries. obituaries; Wighton, D. (2004) "Obituary: Lord Hanson of Edgerton", *Financial Times*, 2 November. https://www.ft.com/content/b7c3a2b6-2c65-11d9-8339-00000e2511c8; *BBC News* (2000) "Lord Hanson: King of the Corporate Raiders", 5 July. http://news.bbc.co.uk/1/hi/business/820220.stm

36 *Economist* (2004)

37 Friedman (1962)

38 This analysis is drawn from Keynes (1936); Mann (2016).

39 Jensen and Meckling (1976)

40 This account draws on: Lazonick and O'Sullivan (2000); Kay (2012)*;* Orhangazi (2007); Haldane (2015); Mazzucato (2018); Crotty (2005); Dore (2008); Hein and van Treeck (2010)

41 Denning (2017)

42 *Economist* (2016) "Analyse This: The Enduring Power of the Biggest Idea in Business", *Economist*, 31 March. https://www.economist.com/business/2016/03/31/analyse-this

43 Lawrence (2017)

44 Haldane (2015)

45 Lawrence (2017)

46 Ibid.

47 See, e.g. Hudson (2017); Mazzucato (2017): Pettifor (2017)

48 Bank for International Settlements (2019) “Credit to the Non-Financial Sector”, BIS long series on total credit. https://stats.bis.org/

49 OECD (2019) “Non-Financial Corporations Debt to Surplus Ratio” https://data.oecd.org/corporate/non-financial-corporations-debt-to-surplus-ratio.htm

50 Lawrence (2017)

51 TUC (2016)

52 Armour, J., Deakin, S. and Konzlemann, S. (2003) “Shareholder Primacy and the Trajectory of UK Corporate Governance”, *ESRC Centre for Business Research, University of Cambridge Working Paper 266.* https://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/working-papers/wp266.pdf

53 This account draws on: Lapavitsas (2013); Foster and Magdoff (2012) *The Great Financial Crisis: Casues and Consequences*, USA: Monthll Review Press; Amin, S. (2011) *The Law of Worldwide Value*, USA: Monthly Review Press; Tepper, J. and Hearn, D. (2019*) The Myth of Capitalism: Monopolies and the Death of Competition*, London: Wiley; Mazzucato (2018).

54 *Economist* (2016) ‘Too Much of a Good Thing: Profits Are Too High. America Needs a Giant Dose of Competition”, 26 March. https://www.economist.com/briefing/2016/03/26/too-much-of-a-good-thing

55 Fontanella-Khan, J. and Massoudi, A. (2018) “Global Dealmaking Reaches $2.5tn as US Megadeals Lift Volumes”, *Financial Times*, 28 June. https://www.ft.com/content/fc30ca5e-7a1d-11e8-8e67-1e1a0846c475

56 Gutierrez, G., Philippon, T. and Dottling, R. (2017) “Is There an Investment Gap in Advanced Economies? If So, Why?”, *European Central Bank*. https://www.ecb.europa.eu/pub/conferences/shared/pdf/20170626_ecb_forum/T_I

57 Foorhar, R. (2018) “Tech Companies are the New Investment Banks”, *Financial Times*, 11 February. https://www.ft.com/content/0ee3bef8-0d87-11e8-8eb7-42f857ea9f09

58 Eurostat (2018) “Non-Financial Corporations — Statistics on Financial Assets and Liabilities”*, Eurostat*. https://ec.europa.eu/eurostat/statistics-explained/index.php/Non-financial_corporations_-_statistics_on_financial_assets_and_liabilities

59 Ibid.

Chapter Three Let Them Eat Houses: The Financialisation of the

Household

1. Department for Business, Energy and Industrial Strategy (2018) *The Characteristics of Those in the Gig Economy*, Department for Business, Energy and Industrial Strategy. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attach

2. Harari, D. (2018) "Household Debt: Statistics and Impact on the Economy", House of Commons Briefing Paper 7584, 21 December.

3. *BBC News* (2019) "UK Household Debt Hits New Peak, Says TUC", 7 January. https://www.bbc.co.uk/news/business-46780279

4. IPPR (2018)

5. Crouch, C. (2009) "Privatised Keynesianism: An Unacknowledged Policy Regime", *The British Journal of Politics and International Relations*, vol. 11

6. Strange, S (1986) *Casino Capitalism*, Manchester: Manchester University Press

7. Bank of England (2019) "Monthly 12 month growth rate of M4, seasonally adjusted", Bank of England dataset LMVQJW.

8. Ryan-Collins, J., MacFarlane, L. and Lloyd, T. (2017) *Rethinking the Economics of Land and Housing*, London: Zed Books

9. This analysis draws on: Hein (2012); Arestis, P. (ed.) (2011), *The Financial Crisis: Origins and Implications*, London: Palgrave; Crotty (2008); Duménil and Levy (2011); Foster (2009) 'The Financialisation of Capital and the Crisis', *Monthly Review,* vol. 59; Panitch, L and Gindin, S (2009) "The Current Crisis: A Socialist Perspective", *The Bullet*; Stockhammer, E. (2010) "Neoliberalism, Income Distribution and the Causes of the Crisis", in Arestis, P. (2011)

10. This account draws on: Milne, S. (2014) *The Enemy Within*, London: Verso; Gower, O. (dir.) (2014) *Still the Enemy Within*, https://the-enemy-within.org.uk/; Hunt, T. (2006) "The Charge of the Heavy Brigade", *Guardian*, 4 September. https://www.theguardian.com/theguardian/2006/sep/04/features5; Conn, D. (2012) "Miners' Strike: How the Bloodiest Battle Became the 'Biggest Frame-Up'", *Guardian*, 22 November. https://www.theguardian.com/politics/2012/nov/22/miners-strike-orgreave-bloodiest-battle

11. The plan is available at https://www.margaretthatcher.org/document/110795

12. Quotes from Gower (2014)

13. Dromey, J. (2018) "Power to the People: How Stronger Unions Can Deliver Economic Justice", *IPPR*. http://www.ippr.org/research/publications/power-to-the-people

14 Harvey (2005); Gamble (1994)

15 This account draws on: Pullen, J. (2009) *The Marginal Productivity Theory of Distribution: A Critical History*, London: Routledge

16 Bryson, A and Forth, J (2015) 'The UK's Productivity Puzzle', *National Institute of Economic and Social Research [NIESR]*; Barth, E, Bryson A and Dale-Olsen, H (2017) 'Union Density, Productivity and Wages', IZA - Institute of Labour Economics Discussion Paper No. 11111.

17 This account draws on: Palley (2007); Hein (2012); Stockhammer (2008)

18 This account draws on: Johnson, H. (1971) "The Keynesian Revolution and the Monetarist Counter-Revolution", *The American Economic Review*, vol. 61 https://www.jstor.org/stable/1816968?seq=1#page_scan_tab_contents; Friedman, M. (1963) *A Monetary History of the United States*, USA: Princeton University Press; Epstein, G (2009) "Financialization and Federal Reserve Policy in the Crisis: Central Bank Accountability For Financial Stability and Economic Reconstruction", Political Economy Research Institute, UMASS. https://www.peri.umass.edu/fileadmin/pdf/conference_papers/SAFER/Epstein_Fe Gamble (1994)

19 This account draws on: Harvey (2007); Epstein, G. and Jayadev, A. (2005) "The Rise of Rentier Incomes in OECD Countries: Financialisation, Central Bank Policy and Labour Solidarity", in Epstein (ed.) (2005); Pym, H. (2016) "Margaret Thatcher: How the Economy Changed", *BBC News*, 8 April. https://www.bbc.co.uk/news/business-22073527; Giles, C. (2013) "Thatcher's Quest Left 'Lasting Scar' on Economy", *Financial Times,* 8 April.

20 Trilling, D. (2010) "A 'Nightmare' Experience? The Tories' Economic Adviser on the Thatcher Years", *New Statesman,* 8 March. https://www.newstatesman.com/blogs/the-staggers/2010/03/thatcher-economic-budd-dispatches

21 Shabani et al (2014)

22 This account draws on: Stockhammer (2010); Keynes (1936); Lapavitsas (2013); Hein (2012); Lysandrou, P (2011) 'Global inequality, wealth concentration and the subprime crisis', *Development and Change,* vol. 42.

23 The Institute of Employment Rights (2014) "Real Wages Have Been Falling Since the 1970s and Living Standards Are Not About to Recover", 31 January. http://www.ier.org.uk/news/real-wages-have-been-falling-1970s-and-living-standards-are-not-about-recover

24 TUC (2016)

25 Shabani et al (2014)

26 Ibid.

27 Lawrence (2017)

28 World Bank (2019) “Gross Fixed Capital Formation (% GDP)”, World Bank dataset NE.GDI.FTOT.ZS, https://data.worldbank.org/indicator/NE.GDI.FTOT.ZS?locations=GB

29 This account draws on: Barba and Pivetti (2008); Crotty (2008); Duménil and Levy (2011); Lapavitsas (2013); Foster (2009); Shabani et al (2014); Blackburn (2006); Crouch (2009).

30 Shabani et al (2014)

31 This account draws on: Dutt (2005); Lazzarato, M. (2015) *Governing by Debt*, New York: Semiotext(e); Soderberg (2014); Hudson (2015)

32 Martin, R. (2002) *The Financialisation of Daily Life*; USA: Temple University Press; Shiller, R.J. (2003) *The New Financial Order. Risk in the 21st Century*, USA: Princeton University Press; Soderberg (2014)

33 Crouch (2009)

34 This account draws on: *BBC News* (2017) “Who are the Candy Brothers?”, 21 December https://www.bbc.co.uk/news/business-42442195; *This is Money* (2007) ‘A Property Fairytale: From £6,000 to £9bn”, 5 December. https://www.thisismoney.co.uk/money/mortgageshome/article-1616982/A-property-fairytale-from-6000-to-9bn.html; Ghosh, S. (2017) “Katy Perry, Personalised Superyachts, and Russian Spies: Inside the Crazy Life of London Property Tycoons the Candy Brothers”, *Business Insider*, 21 December. https://www.businessinsider.com/biography-life-story-lives-the-candy-brothers-2017-7?r=US&IR=T ; Callanan, N. (2018) “Credit Suisse Gives Loan to $209 Million London Home Owner”, *Bloomberg*, 9 October.

35 Office for National Statistics (2018) “Wealth in Great Britain Wave 5: 2014 to 2016”, Office for National Statistics. https://www.ons.gov.uk/releases/wealthingreatbritainwave52014to2016

36 Davis, A. (2013) “Right to Buy: The Development of a Conservative Housing Policy, 1945—1980”, *Contemporary British History*, vol. 27

37 This account draws on: Pettifor (2017); Wray, L.R. (2015) *Why Minsky Matters: An Introduction to the Work of a Maverick Economist*, USA: Princeton University Press

38 This account draws on: Bowen, A., Hoggarth, G. and Pain, D. (1999) “The Recent Evolution of the UK Banking Industry and Some Implications for Financial Stability”, Bank for International Settlements. https://www.bis.org/publ/confp07l.pdf; Bank of England (1991) “The Performance of Major British Banks, 1970-90”, Bank of England. https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1991/the-

performance-of-major-british-banks

39 This account draws on: Cook, J., Deakin, S. and Hughes, A. (2001) “Mutuality and Corporate Governance: The Evolution of UK Building Societies Following Deregulation”, *ESRC Centre for Business Research Cambridge, Working Paper 205* https://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/working-papers/wp205.pdf; Marshall J.N., Wills, R. and Richardson, R. (2003) “Demutualisation, Strategic Choice, and Social Responsibility”, *Environment and Planning*, vol. 21

40 World Bank (2019) “Broad Money (%GDP)’, World Bank, https://data.worldbank.org/topic/financial-sector?locations=GB&view=chart

41 This account draws on: Ryan-Collins et al. (2017); Pettifor (2017).

42 Blakeley, G. (2018a) “On Borrowed Time: Finance and the UK’s Current Account Deficit”

43 This account draws on: Aalbers, M. (2008) “The Financialisation of the Home and the Mortgage Market Crisis”, *Competition and Change*, vol. 12; Martin (2002); Soderberg (2014)

44 This account draws on: Shiller (2003); Soderberg (2014); Lazzarato (2015)

45 This account draws on: Martin (2002); Shabani et al (2014); Shiller (2003); Lazzarato (2015); Soderberg (2014); Davies, W., Montgomerie, J. and Wallen, S. (2015) “Financial Melancholia: Mental Health and Indebtedness”, Public interest report, Goldsmiths; Montgomerie, Johnna, et al. (2014) “The Politics of Indebtedness in the UK”, Public interest report, Goldsmiths; Graeber, D. (2011) *Debt: The First 5000 Years*, New York: Melville House

46 Shabani et al (2014)

Chapter Four Thatcher’s Greatest Achievement: The Financialisation of the State

1 Brown, G. (2006) “Gordon Brown’s Mansion House Speech”, *Guardian*, 22 June. https://www.theguardian.com/business/2006/jun/22/politics.economicpolicy

2 Financial Services Authority (2011) *The Failure of the Royal Bank of Scotland: Financial Services Authority Board Report*, https://www.fca.org.uk/publication/corporate/fsa-rbs.pdf

3 Monbiot, G. (2011) “The Medieval, Unaccountable Corporation of London is Ripe for Protest”, *Guardian*, 31 October. https://www.theguardian.com/commentisfree/2011/oct/31/corporation-london-city-medieval

4 Shaxson (2012; 2017)

5 Bureau of Investigative Journalism (2012) “Revealed: The £93m City lobby machine”, *The Bureau of Investigative Journalism* https://www.thebureauinvestigates.com/stories/2012-07-09/revealed-the-93m-city-lobby-machine

6 Lavery, S., Quaglia, L. and Dannreuther, C. (eds.) (2016) “The Political Economy of Brexit and the UK’s National Business Model”, *SPERI Working Paper 41*. http://speri.dept. shef.ac.uk/wp-content/uploads/2018/11/SPERI-Paper-41-The-Political-Economy-of-Brexit-and-the-UK-s-National-Business-Model.pdf

7 FSA (2011)

8 This account draws on: Lavery, S. (2019) *British Capitalism After the Crisis*, London: Palgrave; Cerny, P. and Evans, M. (2000) “New Labour, Globalisation and The Competition State”, *Centre for European Studies Working Paper 70*. https://ces.fas.harvard.edu/uploads/files/Working-Papers-Archives/CES_WP70.pdf; Katwala, S. (2013) “Ideology in Politics: Reflections on Lady Thatcher’s Legacy”, *IPPR Progressive Review* https://www.ippr.org/juncture/ideology-in-politics-reflections-on-lady-thatchers-legacy

9 Epstein (2005)

10 This account draws on: Hay, C. (1999) *Political Economy of New Labour: Labouring Under False Pretences?*, Manchester: Manchester University Press; Hall, S. (2003) “New Labour Has Picked Up Where Thatcherism Left Off”, *Guardian*, 6 August.

11 Hills, J. (2009) *A More Equal Society? New Labour, Poverty, Inequality and Exclusion*, Bristol: Policy Press.

12 See, e.g., Hay (1999); Hall (2003)

13 This account draws on: Heffernan R. (2000) *New Labour and Thatcherism: Political Change in Britain*, London: Palgrave; Jessop, B. (2002) “From Thatcherism to New Labour: Neo-Liberalism, Workfarism, and Labour Market Regulation”, in Overbeek, H. (ed.) *The Political Economy of European Employment: European Integration and the Transnationalization of the (Un)Employment Question*, London: Routledge; Watson, M. (2012) “New Labour’s ‘Paradox of Responsibility’ and the Unravelling of Its Macroeconomic Policy”, *The British Journal of Politics and International Relations*, vol. 15

14 This account draws on: Harvey (2005); Newman, J. (2000) “Beyond the New Public Management? Modernizing Public Services”, in Clarke, J. Gewirtz, E. and McLaughlin. S. (eds.) *New Managerialism, New Welfare?*, London: Sage; Hall S (2008) “The Neoliberal Revolution”, *Cultural Studies*, vol. 25

15 Hall (2003)

16 See, e.g. Dunleavy, P., Margetts, H., Bastow, S. and Tinker, J. (2006) “New Public Management Is Dead—Long Live Digital-Era Governance”, *Journal of Public Administration Research and Theory*, vol. 16; Hesmondhalgh, D., Nisbett, M., Oakley, K. and Lee, D. (2014) “Were New Labour’s Cultural Policies Neo-Liberal?”, *International Journal of Cultural Policy*, vol. 21

17 This account draws on: Pratley, N. and Pons, F. (2004) “Deep in Debt”, *Guardian*, 7 April. https://www.theguardian.com/politics/2004/apr/07/business.france; Whiteside, T. (1962). *The Tunnel Under the Channel*, London: Hart-Davis; Dickinson, D. (1998) “12 Billion Pounds Under the Sea”, *Independent*, 18 January. https://www.independent.co.uk/arts-entertainment/12-billion-pounds-under-the-sea-1139355.html; Smith, O. (2015) “The Channel Tunnel: 20 Fascinating Facts”, *Telegraph*, 1 December https://www.telegraph.co.uk/travel/destinations/europe/france/articles/The-Channel-Tunnel-20-fascinating-facts/

18 Woodman, P. (2012) “Channel Tunnel Rail Link Leaves £4.8bn Debt”, *Independent*, 6 July. https://www.independent.co.uk/news/uk/home-news/channel-tunnel-rail-link-leaves-48bn-debt-7918269.html https://www.independent.co.uk/news/uk/home-news/channel-tunnel-rail-link-leaves-48bn-debt-7918269.html

19 Trades Union Congress (2018) “UK Near Bottom of OECD Rankings for National Investment”, 9 September. https://www.tuc.org.uk/news/uk-near-bottom-oecd-rankings-national-investment

20 National Audit Office (2018) “PFI and PFI 2”, Report by the Comptroller General and Auditor General HC718, Session 2017-2018 https://www.nao.org.uk/wp-content/uploads/2018/01/PFI-and-PF2.pdf

21 Ibid.

22 This account draws on: MacFarlane, L. (2018) “From PFI to Privatisation, Our National Accounting Rules Encourage Daft Decisions. It’s Time to Change Them”, *OpenDemocracy*, 18 January. https://www.opendemocracy.net/neweconomics/pfi-privatisation-national-accounting-rules-encourage-destructive-decisions-time-change/

23 This account draws on: Crouch (2009); Davis, A. and Walsh, C. (2016) “The Role of the State in the Financialization of the UK Economy”, *Political Studies*, vol. 64

24 This account draws on: Blakeley, G. (2018b) “Carillion’s Missing Millions”, *Red Pepper*, 19 January. https://www.redpepper.org.uk/carillions-missing-millions/; Blakeley, G. (2018c) “The Problem with Outsourcing Is Not Carillion but the Market Itself”, *New Statesman*, 1 February. https://www.newstatesman.com/politics/economy/2018/02/problem-outsourcing-

not-carillion-market-itself

25 See, e.g., Blakeley (2018c); Blakeley, G (2019) "Interserve's Collapse Shows the UK's Outsourcing Model Is Broken", *New Statesman*, 20 March. https://www.newstatesman.com/politics/uk/2019/03/interserve-s-collapse-shows-uks-outsourcing-model-broken

26 Booth, R. and Hopkins, N. (2012) "London 2012 Olympics: G4S Failures Prompt Further Military Deployment", *Guardian*, 24 July. https://www.theguardian.com/uk/2012/jul/24/london-2012-olympics-g4s-military

27 Rawlinson, K. (2014) "Private Firms 'Are Using Detained Immigrants as Cheap Labour'", *Guardian*, 22 August. https://www.theguardian.com/uk-news/2014/aug/22/immigrants-cheap-labour-detention-centres-g4s-serco

28 Benjamin, J. (2018) "Capita Don't Just Provide a Few Services, They Seem Practically to Run Entire Councils", *Independent*, 31 January. https://www.independent.co.uk/voices/capita-carillion-outsourcing-local-authorities-councils-barnet-northamtonpshire-a8188006.html

29 United Nations (2018) "World Altered by 'Neoliberal' Outsourcing of Public Services to Private Sector, Third Committee Experts Stress, amid Calls for Better Rights Protection", Minutes of Seventy Third Session, 25 & 26 September, GA/SHC/4239. https://www.un.org/press/en/2018/gashc4239.doc.htm

30 See, e.g., Burnham, P. (2002) "New Labour and the Politics of Depoliticization", *British Journal of Politics and International Relations*, vol. 3 https://onlinelibrary.wiley.com/doi/abs/10.1111/1467-856X.00054

31 This account draws on: Tooze, A. (2015) "Notes on the Global Condition: Of Bond Vigilantes, Central Bankers and the Crisis, 2008-2017".https://adamtooze.com/2017/11/07/notes-global-conditionbond-vigilantes-central-bankers-crisis-2008-2017/; Panitch and Gindin (2013); Streeck, W. (2013), "The Politics of Public Debt: Neoliberalism, Capitalist Development, and the Restructuring of the State", *Max Planck Institute for the Study of Societies Discussion Paper 13/7*; Streek, W. (2015) "The Rise of the European Consolidation State", *Max Planck Institute for the Study of Societies Discussion Paper 15/1*; Hager, S. (2016) *Public Debt, Power, and Inequality: The Making of a Modern Debt State*, USA: University of California Press

32 This account draws on: Tooze (2015) and Birch, J. (2015) "The Many Lives of François Mitterrand", *Jacobin*, 19 August. https://www.jacobinmag.com/2015/08/francois-mitterrand-socialist-party-common-program-communist-pcf-1981-elections-austerity/

33 This account draws on: Panitch and Gindin (2013); Davis and Walsh (2016); Burnham (2002); Mair, P. (2013) *Ruling the Void: The Hollowing of Western Democracy*, London: Verso; Streeck (2014); Rodrik, D. (2018) "The Double

Threat to Liberal Democracy", *Project Syndicate*. https://www.project-syndicate.org/commentary/double-threat-to-liberaldemocracy-by-dani-rodrik-2018-02?barrier=accesspaylog; Slobodian (2017); Kiely, R. (2016) "From Authoritarian Liberalism to Economic Technocracy: Neoliberalism, Politics and 'De-democratization'", *Critical Sociology,* vol. 43; Cerny and Walsh (2000)

34 This account draws on: Mann (2016); Skidelsky, R. (2008) *Keynes: The Return of the Master*, London: Penguin.

35 This account draws on: Burnham (2002); Mair (2013); Epstein and Jayadev (2005); Epstein, G. (2009) "Financialization and Federal Reserve Policy in the Crisis: Central Bank Accountability For Financial Stability and Economic Reconstruction", Political Economy Research Institute, UMASS https://www.peri.umass.edu/fileadmin/pdf/conference_papers/SAFER/Epstein_Fe Palley, T. (1997) "The Institutionalization of Deflationary Monetary Policy", in Cohen, A.J., Hagemann, H. and Smithin, J. (eds.) *Money, Financial Institutions and Macroeconomics*, USA: Springer

36 See, e.g., Inham, G. (1984) *Capitalism Divided: The City and Industry in British Social Development*, London: Macmillan

37 This account draws on: Lapavitsas (2013); Hilferding, R. (1919) *Finance Capital: A Study of the Latest Phase of Capitalist Development*; Panitch and Gindin (2012); Pettifor (2017)

38 This account draws on: Epstein and Jayadev (2005); Epstein (2009); Miller, M., Weller, P. and Zhang, L. (2001) "Moral Hazard and the US Stock Market: Analysing the 'Greenspan Put'", *Centre for the Study of Globalisation and Regionalisation Working Paper 83/01*. https://warwick.ac.uk/fac/soc/pais/research/researchcentres/csgr/papers/workingp

39 This analysis draws on: Englen, E., Erturk, I., Froud, J., Johal, S., Leaver, A., Moran, M. and Williams, K. (2012) "Misrule of Experts? The Financial Crisis as Elite Debacle", *Economy and Society*, vol. 41; Davis and Walsh (2016); Shaw, E. (2012) "New Labour's Faustian Pact?", *British Politics*, vol. 7

Chapter Five The Crash

1 This account draws on: Tooze, A. (2018) *Crashed: How a Decade of Financial Crises Changed the World*, London: Allen Lane; Pym (2014); Fraser, I. (2014) *Shredded: Inside RBS, the Bank That Broke Britain*, Edinburgh: Birlinn; Sorkin, A.R. (2010) *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System — and Themselves*, London: Penguin; Blinder, A.S. (2013) *After the Music Stopped: The Financial Crisis, the Response, and the*

2 This account draws on: Palley, T. (2009) "The Limits of Minsky's Financial

Instability Hypothesis as an Explanation of the Crisis", *Macroeconomic Policy Institute Working Paper 11*; Foster (2009); Panitch and Gindin (2009); Gowan (2009); Arestis (2011); Crotty (2008); Duménil and Levy (2011); Lysandrou (2011); Stockhammer (2010).

3 Barwell, R. and Burrows, O. (2010), "Growing Fragilities? Balance Sheets in the Great Moderation", Bank of England Financial Stability Paper 10

4 This account draws on: Minsky (1986); Keynes (1936); Minsky, H. (1993) "The Financial Instability Hypothesis", in Arestis, P. and Sawyer, M. (eds.) *The Elgar Companion to Political Economy*, London: Edward Elgar Publishing; Shiller, R. (2000) *Irrational Exuberance*, USA: Princeton University Press; Wray (2011; 2015); Jayadev, A. (2016) "Minsky's Many Moments", *Institute for New Economic Thinking*, 5 August. https://www.ineteconomics.org/perspectives/blog/minskys-many-moments; Muñoz, J. (2011) "Orthodox versus Heterodox (Minskyan) Perspectives of Financial Crises: Explosion in the 1990s versus Implosion in the 2000s", *Levy Economics Institute Working Paper 695* http://www.levyinstitute.org/pubs/wp_695.pdf; Whalen, C. (2017) "Understanding Financialization: Standing on the Shoulders of Minsky", *Levy Economics Institute Working Paper 892*. http://www.levyinstitute.org/pubs/wp_892.pdf; Knight, F. (1921) *Risk, Uncertainty and Profit*; Fisher, I. (1933) *The Debt-Deflation Theory of Great Depressions*; Wray, L.R. and Tymoigne, É. (2008) "Macroeconomics Meets Hyman P. Minsky: The Financial Theory of Investment", *Levy Economics Institute Working Paper 543*. http://www.levyinstitute.org/publications/macroeconomics-meets-hyman-p-minsky; Bhattacharya, S., Goodhart, C., Tsomocos, D.P. and Vardoulakis, A.P. (2014) "A Reconsideration of Minsky's Financial Instability Hypothesis", *Journal of Money, Credit and Banking*, vol. 45 http://eprints.lse.ac.uk/64218/

5 OECD (2011) "International Capital Flows: Structural Reforms and Experience with the OECD Code of Liberalisation of Capital Movements", Report from the OECD to the G20 Sub-Group on Capital Flow Management. https://www.oecd.org/economy/48972216.pdf

6 Lane, P. (2012) "Financial Globalisation and the Crisis", *BIS Working Paper 397*. https://ssrn.com/abstract=2248065

7 This account draws on: Blakeley (2018a); Lane (2012); Favilukis, J., Kohn, D., Ludvigson, S.C. and Van Nieuwerburgh, S. (2012), "International Capital Flows and House Prices: Theory and Evidence", in *Housing and the Financial Crisis*, Chicago: University of Chicago Press. https://static1.squarespace.com/static/54397369e4b0446f66937a73/t/56590b88e4l Ferrero, A. (2012) "House Price Booms, Current Account Deficits, and Low Interest Rates", *Staff Report Number 541, Federal Reserve Bank of New York*. https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr541.pdf

Felix, D. (2005) “Why International Capital Mobility Should Be Curbed and How It Could Be Done”, in Epstein (2005); Geet, P. (2015) “Housing Demand, Savings Gluts and Current Account Dynamics”, *Globalization and Monetary Policy Institute Working Paper 221* https://www.dallasfed.org/~/media/documents/institute/wpapers/2015/0221.pdf; Guschanski, A. and Stockhammer, E. (2017) “Are Current Accounts Driven by Competitiveness or Asset Prices? A Synthetic Model and an Empirical Test”, *Greenwich Papers in Political Economy number GPERC55* http://gala.gre.ac.uk/17946/1/CA%20imb%20draft%201_00%20gppe%20%282% pdf; Laibson, D. and Mollerstrom, J. (2010) “Capital Flows, Consumption Booms and Asset Bubbles: A Behavioural Alternative to the Savings Glut Hypothesis”, *The Economic Journal*, vol. 120 https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1468-0297.2010.02363.

8 This account draws on: Tooze (2018); Aalbers (2008); Acharya, V. and Richardson, M. (2009) “Causes of the Financial Crisis”, *Critical Review*, vol. 21; Lysandrou (2011); Dymski, G. (2009) “Why the Subprime Crisis Is Different: A Minskyian Approach”, *Cambridge Journal of Economics* vol. 34; Segoviano, M., Jones, B., Lindner, P. and Blankenheim, J. (2013) “Securitization: Lessons Learned and the Road Ahead”, *IMF Working Paper 13/255*. https://www.imf.org/external/pubs/ft/wp/2013/wp13255.pdf; Ashcraft, A. and Schuermann, T. (2008) “Understanding the Securitisation of Subprime Mortgage Credit”, *Federal Reserve Bank of New York Staff Reports No 318*; Lewis, M. (2011) *The Big Short: Inside the Doomsday Machine*, London: Penguin; National Audit Office (2016) “Introduction to Asset-Backed Securities”, Briefing Paper November 2016. https://www.nao.org.uk/wp-content/uploads/2016/07/Introduction-to-asset-backed-securities.pdf; Bank of England (2008) *Financial Stability Report No. 23*, April 2008 https://www.bankofengland.co.uk/-/media/boe/files/financial-stability-report/2008/may-2008; Bank of England (2007) *Financial Stability Report No. 22*, October 2007.

9 This account draws on: Tooze (2018); Fligstein, N. and Goldstein, A. (2012) “A Long Strang Trip The State and Mortgage Securitisation, 1968-2010”, in Preda, A. and Knorr-Cetina, K. (eds.) *The Oxford Handbook of the Sociology of Finance*, Oxford: Oxford University Press; Thompson, H. (2009), “The Political Origins of the Financial Crisis: The Domestic and International Politics of Fannie Mae and Freddie Mac”, *Political Quarterly*, vol. 80

10 This account draws on: Keynes (1936); Minsky (1986); Shiller (2000); Knight (1921); Haldane, A. and May, R.M. (2011) “Systemic Risk in Banking Ecosystems”, *Nature*, vol. 469.

11 This account draws on: Jablecki, J. and Machaj, M. (2009) “The Regulated Meltdown Of 2008”, *Critical Review*, vol. 21; Lockwood, E. (2014) “Predicting

the Unpredictable: Value-At-Risk, Performativity, and the Politics of Financial Uncertainty", *Review of International Political Economy*, vol. 22; Colander, D. and Haas, A. (2009) "The Financial Crisis and the Systemic Failure of the Economics Profession", *Critical Review*, vol. 21; Haldane and May (2011); Lysandrou, P. and Nesvetailova, A. (2015) "The Role Of Shadow Banking Entities in the Financial Crisis: A Disaggregated View", *Review of International Political Economy*, vol. 22; Michell, J. (2016) "Do Shadow Banks Create Money? 'Financialisation' and the Monetary Circuit", *University of the West of England Economics Working Paper 1602* http://eprints.uwe.ac.uk/28552/1/1602. pdf; Moosa, I. (2010) "Basel II as a Casualty of the Global Financial Crisis", *Journal of Banking Regulation*, vol. 11; Tobias, A. and Hyun Song, S. (2009) "The Shadow Banking System: Implications for Financial Regulation", *Federal Reserve Bank of New York Staff Paper 382*; Adrias, T. and Ashcraft, A. (2012) "Shadow Banking Regulation", *Federal Reserve Bank of New York Staff Report 559*

2 This account draws on: Tooze (2018); Wray (2015); McCabe, P. (2010) "The Cross Section of Money Market Fund Risks and Financial Crises", Finance and Economics Discussion Series Divisions of Research & Statistics and Monetary Affairs Federal Reserve Board, Washington, D.C.

3 This account draws on: Tooze (2018); Michell (2016); Lysandrou and Shabani (2018) "The Explosive Growth of the ABCP Market Between 2004 And 2007: A 'Search for Yield' Story", *Journal of Post-Keynesian Economics*, vol. 41; Adrian, T. (2013) "Repo and Securities Lending', *Federal Reserve Bank Of New York Staff Reports 529*; Acharya, V. and Schnabl, P. (2010) "Do Global Banks Spread Global Imbalances? The Case of Asset-Backed Commercial Paper During the Financial Crisis of 2007-09", *NBER Working Paper 16079*; Covitz, D., Liang, N., Suarez, G. (2009) "The Evolution of a Financial Crisis: Panic in the Asset-Backed Commercial Paper Market", Finance and Economics Discussion Series Divisions of Research & Statistics and Monetary Affairs Federal Reserve Board, Washington, D.C.; Gorton, G. and Metrick, A. (2012) "Securitized Banking and the Run On Repo", *Journal of Financial Economics*, vol. 104

4 Scanlon, K. and Whitehead, C. (2011) "The UK Mortgage Market: Responding to Volatility", *Journal of Housing and the Built Environment*, vol. 26; Milne, A. and Wood, J.A. (2013) "An Old Fashioned Banking Crisis: Credit Growth and Loan Losses in the UK 1997-2012", Paper prepared for conference: The Causes and Consequences of the Long UK Expansion: 1992 to 2007, 19-20 September 2013, Clare College Cambridge

5 Financial Conduct Authority (2019) "Statistics on Mortgage Lending: March 2019 Edition: MLAR Detailed Tables", FCA https://www.fca.org.uk/data/mortgage-lending-statistics; Office for National Statistics (2019) "Gross Domestic Product: Chained Volume Measures: Seasonally Adjusted £m" https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/abmi/pn2.

16 Bank of England (2017; 2018)

17 This account draws on: Bank of England (2018; 2017); Scanlon and Whitehead (2011); Milne and Wood (2013); Boyer (2013).

18 Ellis, L. (2008) "The Housing Meltdown: Why Did It Happen in the United States?", Bank for International Settlements Working Papers No 2590. https://www.bis.org/publ/work259.pdf

19 This account draws on: Tooze (2017); Pym (2016); Fraser (2016)

20 Congressional Budget Office (2012) "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from October 2011 Through December 2011" http://www.cbo.gov/sites/default/files/cbofiles/attachments/02-22-ARRA.pdf

21 Tooze (2018)

22 Blakeley (2019)

23 Federal Reserve (2019) "Recent Balance Sheet Trends" https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

24 Takeo, Y. (2018) "Bank of Japan's Hoard of Assets Is Now Bigger Than the Economy", *Bloomberg*, 13 November. https://www.bloomberg.com/news/articles/2018-11-13/bank-of-japan-s-hoard-of-assets-is-now-bigger-than-the-economy

25 Howell, M. (2019) "Why Markets Should Get Set for 'QE4'", *Financial Times*, 18 February. https://www.ft.com/content/71801c80-3353-11e9-bb0c-42459962a812

26 Matthews-King, M. (2017) "Landmark Study Links Tory Austerity to 120,000 Deaths", *Independent*, 16 November. https://www.independent.co.uk/news/health/tory-austerity-deaths-study-report-people-die-social-care-government-policy-a8057306.html

27 *BBC News* (2015) "RBS: Government Sells £2.1bn of Shares in Bank at a Loss", *BBC News*, 4 August. https://www.bbc.co.uk/news/business-33769906

28 See, e.g., Lewis (2011); Sorkin (2010); Foorhar, R. (2017) *Makers and Takers: How Wall Street Destroyed Main Street*, USA: Crown Business

Chapter Six The Post-Crisis World

1 This account draws on: Rawlinson, K., Sherwood, H. and Dodd, V. (2017) "Grenfell Tower Final Death Toll: Police Say 71 Lives Lost as Result of Fire", *Guardian*, 16 November. https://www.theguardian.com/uk-news/2017/nov/16/grenfell-tower-final-death-toll-police-say-71-people-died-in-fire; *BBC News* (2018) "Grenfell Tower: Inquiry Opens with Tribute to Stillborn

Baby", 21 May. https://www.bbc.co.uk/news/uk-44190742; *BBC News* (2018) "Grenfell Tower: What Happened", 18 June https://www.bbc.co.uk/news/uk-40301289; Booth, R. and Wahlquist, C. (2017) "Grenfell Tower Residents Say Managers 'Brushed Away' Fire Safety Concerns", *Guardian*, 14 June; Syal, R. and Jones, H. (2017) "Kensington and Chelsea Council has £274m in Reserves", *Guardian*, 19 June; Booth, R. (2018) "Grenfell Tower Inquiry: What We've Learned So Far",

2 Butler, P. and Booth, R. (2018) "Key Points from UN Envoy's Report on Poverty in Britain", *Guardian*, 16 November.

3 Bulman, M. (2018) "Food Bank Use in UK Reaches Highest Rate on Record as Benefits Fail to Cover Basic Costs", *Independent*, 24 April.

4 The Trussell Trust (2019) "Universal Credit and Food Banks" https://www.trusselltrust.org/what-we-do/research-advocacy/universal-credit-and-foodbank-use/.

5 Fitzpatrick, S., Pawson, H., Bramley, G., Wilcox, S., Watts, B. and Wood, J. (2018) "The Homelessness Monitor: England 2018', Crisis.

6 Butler, P. (2018) "New Study Finds 4.5 Million UK Children Living in Poverty", *Guardian*, 16 September; Bulman M (2018) "Child Homelessness in England Rises to Highest Level in 12 Years, New Figures Show", *Independent*, 13 December.

7 NHS (2011) "Homeless Die 30 Years Younger than Average", NHS, 21 December.

8 This account draws on: IPPR (2018); Blakeley (2018a)

9 Garside, J. (2015) "Recession Rich: Britain's Wealthiest Double Net Worth Since Crisis", *Guardian*, 26 April.

10 Partington, R. (2019) "UK Income Inequality Increasing as Benefits Cuts Hit Poorest", *Guardian*, https://www.theguardian.com/inequality/2019/feb/26/uk-income-inequality-benefits-income-ons

11 Schmuecker, K (2018) 'Tuesday's Spring Statement is an opportunity to right the wrong of in-work poverty', Joseph Rowntree Foundation, 12th March. https://www.jrf.org.uk/blog/tuesday%E2%80%99s-spring-statement-opportunity-right-wrong-work-poverty

12 TUC (2018)

13 Harari (2018)

14 Bank for International Settlements (2019) "Credit to the Non-Financial Sector", BIS long series on total credit. https://stats.bis.org/

15 OECD (2019) "Non-Financial Corporations Debt to Surplus Ratio"

https://data.oecd.org/corporate/non-financial-corporations-debt-to-surplus-ratio.htm

16 Blakeley (2019)

17 CEIC (2019) "United States Investment: % of GDP", CEIC. https://www.ceicdata.com/en/indicator/united-states/investment--nominal-gdp

18 BIS (2019)

19 Summers, L. (2013) "Secular Stagnation", Speech at the 14th Annual IMF Research Conference. Washington DC, November 14

20 Rogoff (2015)

21 Gordon, B. (2015) "The Turtle's Progress: Secular Stagnation Meets the Headwinds", in Baldwin and Teulings (2015)

22 Baldwin and Teulings (2015)

23 Milanovic, B. (2015) "Bob Solow on Rents and Decoupling of Productivity and Wages", *globalinequality*, 2 May. https://glineq.blogspot.com/2015/05/bob-solow-on-rents-and-decoupling-of.html

24 This account draws on: Marx (1867); Mandel (1976); Harvey (2018)

25 This account draws on: Duménil and Lévy (2004; 2005); Palley (2007); Hein (2012).

26 This account draws on: Lapavitsas (2013); Stockhammer (2004); Aglietta and Breton (2001); Clark (2009); Foster (2010); Hein (2012); Dutt (2005); Palley (2007).

27 This account draws on: Lapavitsas (2013); Panitch and Gindin (2012); Blakeley (2018a); Norfield, T. (2016) *The City: London and the Power of Global Finance*, London: Verso; Amin, S. (2018) *Modern Imperialism, Monopoly Finance Capital, and Marx's Law of Value: Monopoly Capital and Marx's Law of Value*, USA: Monthly Review Press

28 United Nations Conference on Trade and Development (2008) Trade and Development Report 2008: Commodity Prices, Capital Flows and the Financing of Investment.

29 Shaxson (2012); Garcia-Barnardo, J., Fichtner, J., Takes, F. and Heemskerk, E. (2017) "Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network", Scientific Reports, vol. 7

30 United Nations Economic Commission for Africa (Uneca) (2012) "Illicit Financial Flows REPORT OF THE HIGH LEVEL PANEL ON ILLICIT FINANCIAL FLOWS FROM AFRICA", *Uneca*.

31 See, e.g., Krugman, P. (2015) "The Case for Cuts Was a Lie. Why Does Britain

Still Believe It?", *Guardian*, 29 April. https://www.theguardian.com/business/ng-interactive/2015/apr/29/the-austerity-delusion; Portes, J. and Holland, D. (2012) "Self-Defeating Austerity?", *National Institute Economic Review No. 222*, October.

32 Ostry, J., Loungani, P. and Furceri, D. (2016) "Neoliberalism: Oversold?", *Finance and Development*, vol. 53.

33 Giles, C. (2018) "UK Public Finances Near the Bottom of IMF League Table", *Financial Times,* 10 October.

34 Callinicos, A. (2012) "Contradictions of Austerity", *Cambridge Journal of Economics*, vol. 36.

35 See, e.g., Corlett ,A., Finch, D. and Whittaker, M. (2016) "Living Standards 2016: The Experiences of Low to Middle Income Households in Downturn And Recovery", Resolution Foundation; Portes, J. (2018) "Austerity Really Has Hit Poor People Hardest — The Figures Prove It", *Guardian*, 14 March.

36 Child Poverty Action Group (2017) "The Austerity Generation: The Impact of a Decade of Cuts on Family Incomes and Child Poverty".

37 Resolution Foundation (2017) "Poorest Third of Households Will Be Worse Off from Tax and Benefit Changes Starting This Week, Despite a £1bn Giveaway", Press release, 2 April.

38 Office for National Statistics (2019) "Family Spending in the UK: April 2017 to March 2018"

39 Jacobs, M., Hatfield, I., King, L., Raikes, L. and Stirling, A. (2017) "Industrial strategy Steering Structural Change in the UK Economy", IPPR.

40 Press Association (2017) "Commutes of More Than 30 Minutes Linked To Poor Productivity, Stress And Depression", 22 April.

41 Department for Education (2018) "Permanent and Fixed Period Exclusions in England: 2016 to 2017", 19 July.

42 Barnardo's (2018) "Children Excluded from School 'Are at Risk of Knife Crime'", Press release, 30 October.

43 *BBC News* (2018) "Deficit for NHS Trusts in England Double the Amount Planned", 31 May.

44 YouGov (2017) "How Britain Voted at the 2017 General Election" https://yougov.co.uk/topics/politics/articles-reports/2017/06/13/how-britain-voted-2017-general-election

45 Harari (2018)

46 Joyce, M. & Liu, Z. and Tonks, I. (2014) "Institutional Investor Portfolio

Allocation, Quantitative Easing and the Global Financial Crisis," *Bank of England Working Paper 510*

47 Evans, J. (2017) "Home Ownership to England Falls to 30-Year Low", *Financial Times*, 2 March.

48 Cribb, J., Hood, A. and Hoyle, J. (2018) "Just 1 in 4 Middle-Income Young Adults Own Their Own Home — Down from 2 in 3 Twenty Years Ago", IFS press release,.

49 Office for National Statistics (2018) "Making Ends Meet: Are Households Living Beyond Their Means?"

50 Williams, A. (2017) "London House Prices Fall for the First Time Since 2009", *Financial Times*, 29 September.

51 Office for National Statistics (2019) "UK House Price Index Summary: November 2018"

52 Office for National Statistics (2018) "Business Investment in the UK: July to September 2018 Revised Results"

53 Office for National Statistics (2019) "Insolvency Statistics — October to December 2018 (Q4 2018)"

54 Blakeley (2019).

55 World Bank (2018) "Gross fixed capital formation (annual % growth)"

56 IMF (2018) "Fiscal Monitor 2018: Capitalising on Good Times"

57 Oguh, C. and Tanzi, A. (2019) "Global Debt of $244 Trillion Nears Record Despite Faster Growth", *Bloomberg*, 15 January.

58 Partington, R. (2018) "Wall Street Sets Record for Longest Bull Run in History", *Guardian*, 22 August

59 Seeking Alpha (2019) 'Stocks In 2019: Volatility Is Back' https://seekingalpha.com/article/4234365-stocks-2019-volatility-back

60 Barrett E and Greifeld K (2019) 'Treasuries Buying Wave Triggers First Curve Inversion Since 2007' https://www.bloomberg.com/news/articles/2019-03-22/u-s-treasury-yield-curve-inverts-for-first-time-since-2007

61 Federal Reserve Bank of St Louis (2018) 'Stock Market Capitalization to GDP for United States' https://fred.stlouisfed.org/series/DDDM01USA156NWDB

62 Curran, E. (2018) "China's Debt Bomb", *Bloomberg*, 17 September.

63 Moody's (2018) "Moody's: China Shadow Banking Activity Increasingly Reveals Challenging Trade-Off Between Growth and Deleveraging", *Moody's Investors Service*, 3 December.

54 BIS (2019)

55 Banerjee, R. and Hofmann, B. (2018) "The Rise of Zombie Firms: Causes and Consequences", *Bank for International Settlements Quarterly Review*, September.

56 Colombo, J. (2018) "The US Is Experiencing A Dangerous Corporate Debt Bubble", *Forbes*, 29 August. https://www.forbes.com/sites/jessecolombo/2018/08/29/the-u-s-is-experiencing-a-dangerous-corporate-debt-bubble/#547ffa2f600e

57 Heath, M. (2018) "These May Be the World's 10 Riskiest Housing Markets", *Bloomberg*, 13 September.

58 Byres, W. (2012) "Basel III: Necessary, but Not Sufficient", speech to the Financial Stability Institute's 6th Biennial Conference on Risk Management and Supervision, Basel, 6 November

59 This account draws on: Laybourn-Langton, L., Rankin, L. and Baxter, D. (2019) "This is a Crisis: Facing up to the Age of Environmental Breakdown", *IPPR*. http://www.ippr.org/research/publications/age-of-environmental-breakdown; Intergovernmental Panel on Climate Change (2018) "Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change sustainable development, and efforts to eradicate poverty".

Chapter Seven The Way Forward

1 This account draws on: Piketty (2013); Hudson, P. and Tribe, K. (2017) *The Contradictions of Capital in the Twenty-First Century*, London: Agenda; Harvey, D. (2014) "Afterthoughts on Piketty's Capital", http://davidharvey.org/2014/05/afterthoughts-pikettys-capital/; Mandel (1976; 1981); Harvey (2018).

2 This account draws on: Marx (1894); Mandel (1981)

3 See, e.g., Autor, D. and Dord, D. (2012) "The Growth of Low Skill Service Jobs and the Polarisation of the US Labour Market", MIT Department of Economics.

4 This account draws on: Mazzucato, M. (2011) *The Entrepreneurial State: Debunking Public vs Private Sector Myths*, London: Anthem; Mazzucato, M. (2015) "The Market Creating State", *RSA Journal*, vol. 2.

5 Srnicek N. and Williams A. (2016) *Inventing the Future: Postcapitalism and a World Without Work*, London: Verso.

6 Eagleton, O. (2017) "Criminalising Anti-Austerity in Ireland", *Jacobin*, 21 April.

7 This account draws on: Baker, A. (2013) “The New Political Economy of the Macroprudential Ideational Shift”, *New Political Economy*, vol. 18. https://www.tandfonline.com/doi/abs/10.1080/13563467.2012.662952; Galati, G. and Moessner, R. (2011) “Macroprudential Policy — A Literature Review”, *BIS Working Paper 337*; Blanchard, O., Rajan, R., Rogoff and Summers (2016); Bank of England (2009) “The Role of Macroprudential Policy: A Discussion Paper” http://www.bankofengland.co.uk/publications/other/financialstability/roleofmacrop Kregel, J. (2014) “Minsky and Dynamic Macroprudential Regulation”, *Levy Economics Institute Public Policy Brief No. 131*.

8 This account draws on: Blakeley (2018a)

9 Haldane, A. (2012) “The Dog and the Frisbee”, speech given at the Federal Reserve Bank of Kansas City’s 36th economic policy symposium, 31 August.

10 IPPR (2018)

11 See, e.g., Stirling, A. (2018) “Just About Managing Demand: Reforming the UK’s Macroeconomic Policy Framework”, IPPR.

12 See, e.g., Roberts, C. and Lawrence, M. (2018) “Our Common Wealth: A Citizens’ Wealth Fund for the UK”, IPPR.

13 See, e.g., Murphy, R. (2017) *Dirty Secrets: How Tax Havens Destroy the Economy*, London: Verso

ACKNOWLEDGEMENTS

Writing a book is hard. I was told so from the beginning. But it's impossible to prepare for quite how difficult, and what kind of difficult, it will be. I would like to say that I managed it through my own resourcefulness, determination, and sheer force of will, but that would be a lie. There were moments when I came close to giving up, when I wondered what the hell I was doing, when I questioned why I had the right to a voice that I so clearly had not earned. There were long periods when my mental and physical health deteriorated under the weight of the stress, the pressure, the imagined expectations, and the self-imposed solitude. There were times when I seriously questioned my ability to complete the massive task I had set for myself. To add insult to injury, I lost two laptops. If all I've learnt from this process is the habit of continuously backing up my work, then it's probably been worth it.

Whenever things got tough, there was someone there to support me. As soon as I reached out for help — and sometimes before — I had someone by my side. First, the man without whom I would not be writing this book. When we met, I was a swirl of random ideas — you inspired, encouraged, and sometimes forced me to put them onto a page. Without you, this book wouldn't exist, and I would be half of the person that I am today. Second, my parents. It's difficult to express the amount of love, support, and joy my mum and dad have brought me, especially as I've grown up and we've become friends. I am so lucky to be loved by such intelligent, passionate, and kind people. Third, my grandparents — to whom I've dedicated this book. My grandad, Ken Weaving, a former shop steward, was a fiercely intelligent, articulate and passionate socialist. My grandma, Doreen Weaving, who maintains that she converted him to the cause, is the toughest woman I know.

My godparents have given me love, support, and a place to escape. My brother has done his best to keep me grounded, helped along by the whole Weaving family. My best friend and roommate has dealt with my bad moods, my workaholism, and my books strewn all over the house. She has been my rock, and the first person I've turned to, throughout this whole process. My friends have put up my bad-tempered rants about capitalism, my frequently cancelling plans, and my tears, all whilst supporting me every step of the way. My comrades — especially Ash, Debs, Kirsty, Charlotte, Aaron, Owen, Ellie, Michael, David, Max, Wendy and Nathan — have all been there for me and stuck their necks out for me on multiple occasions. My fellow London Young Labour committee members and my fellow ward and CLP officers and members have heroically endured my appalling disorganisation. My colleagues — particularly Maeve, Laurie, Mat, Carys, Alfie, Leslie, Jade, Florri and Sofie – tolerated, and even engaged with, my polemicizing long before it emerged in written form. My bosses at both the IPPR and the *New Statesman* have given me all the flexibility I've needed to get this thing done, even when it hasn't been convenient for them. And NEON — and especially Dan, Matt and Kev — gave me the opportunity to put my ideas out into the world.

But this book has been a collective endeavour in more ways than one. It has relied upon the direct emotional, intellectual, and psychological support given to me by friends, family, colleagues, and comrades, but it has also built on the thinking, guidance, and solidarity of a much larger movement. I have spent several years constantly reading the work of socialist thinkers, activists, and academics — many of whom I have had the extraordinary pleasure of meeting over the course of the last year — and it is to them, more than to my formal education, that I attribute my understanding of the world. I have also spent the last several years debating, campaigning, and door-knocking with some inspirational people from across the UK. In truth, being around Labour and Momentum activists has been the first time that I have really felt like I was part of anything. The greatest debt I owe is to our living, breathing, irrepressible movement that has changed the world.

There are, however, some individuals within this movement who merit particular gratitude. James Meadway has put up with me asking obscure questions about Marxist theory at all hours of the morning and has generally been my mentor (even if he would hate to be described as such). Special thanks go to James, Costas Lapavitsas (whose work has inspired so much of my thinking), Michael Jacobs and George Eaton, who read the book in its early form and provided comments. I would also like to thank Leo Panitch, Joe Guinan, Sarah McKinley, Christine Berry, Alfredo Saad-Filho, Ann Pettifor, David Graeber, Michael Hudson, Steve Keen, Adam Tooze, Laurie MacFarlane, David Rowland, Sahil Dutta, Fran Boait, Richard Kozul-Wright, Mark Seddon, Scott Lavery, Jeremy Green, Ewan

McGinety, Nicholas Shaxson, John Christensen, Michal Rozworski, Leigh Phillips, Miriam Brett, Zack Exley, Waleed Shahid, David Adler, Sarah Jaffe, Hilary Wainwright, Will Stronge, Cat Hobbes, Ronan Burtenshaw, Rebecca Long-Bailey, Laura Pidcock, Richard Burgeon, Jon Trickett, and Dan Carden — all of whom have offered me help and advice, or influenced my thinking.

Finally, Tariq. You'd hate me to say anything emotional, so I'll simply say thanks for all the free books, booze and advice. It's been one hell of a ride.