5. Neoliberalism and the new Thatcher settlement

> Contemplation of an optimal system may suggest ways of improving the system, it may provide techniques of analysis that would otherwise have been missed and, in certain special cases, it may go far to providing a solution. But in general its influence has been pernicious. It has directed economists' attention away from the main question, which is how alternative arrangements will actually work in practice. It has led economists to derive conclusions for economic policy from a study of an abstract model of a market situation.
>
> Ronald Coase[1]

The Attlee settlement developed out of a post-war consensus across the three main political parties. In stark contrast, Margaret Thatcher aimed to impose a new, neoliberal ideological settlement. She did not, however, make that apparent on Friday, 4 May 1979, when, standing on the threshold of 10 Downing Street after winning the 1979 election, she offered a healing government for Britain:

> I would just like to remember some words of St. Francis of Assisi which I think are really just particularly apt at the moment … Where there is discord, may we bring harmony. Where there is error, may we bring truth. Where there is doubt, may we bring faith. And where there is despair, may we bring hope.[2]

This prayer in fact dates from seven centuries after St Francis of Assisi had died. It was published, in 1912, in a small spiritual French magazine (called *La Clochette – The Little Bell*).[3] Two years after Thatcher had promised to bring harmony and hope, her policies had so devastated parts of Britain that there were street riots – in London (Brixton) and Liverpool (Toxteth). Later, her catastrophic flagship reform of local government finance, the poll tax in 1990, also resulted in riots in Trafalgar Square.[4]

How to cite this book chapter:

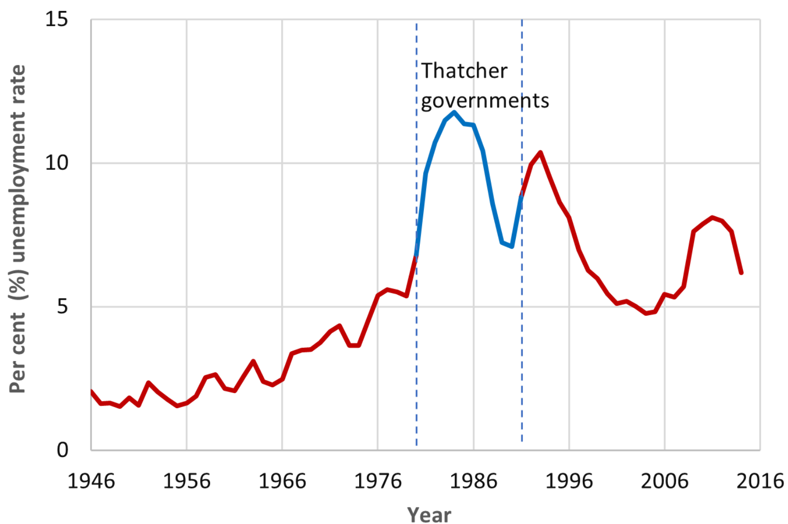
Bevan, Gwyn (2023) *How Did Britain Come to This? A century of systemic failures of governance*, London: LSE Press, pp. 109–138.
https://doi.org/10.31389/lsepress.hdb.e License: CC BY-NC

The Conservatives' election campaign in 1979 was helped by the aggressive advertising of Saatchi and Saatchi – then the hottest advertising company in Britain. Figure 5.1 shows its most memorable poster, 'Labour isn't working'. It vividly captured the failure of Labour government of 1974 to 1979 as the first since 1945 to fail to deliver on the commitment of the 1944 Employment White Paper to 'a high and stable level of employment'.[5] There had been a troubling uptick in unemployment (from around 5 per cent to nearly 7 per cent in 1979). Yet Figure 5.2 demonstrates that the new Conservative government then converted this slippage into a post-war record level of unemployment: the

Figure 5.1: Conservative campaign poster for the 1979 general election

Source: Poster produced by Saatchi & Saatchi for The Conservative Party.[6]

Figure 5.2: UK unemployment (%), 1946–2015



Source: Bank of England.[7]

percentage of the workforce unemployed increased dramatically to nearly 12 per cent in 1983, and it was not until 1996 that it again fell below 7 per cent.

So, why did the Thatcher government go on to win elections in 1983 and 1987? Her answer was TINA: There Is No Alternative. Alwyn Turner explains that this stance applied to both the lack of serious competition from potential rivals in the Conservative Party and a divided opposition.[8] A ferocious left–right internecine row within the Labour Party resulted in a substantial group of MPs and voters moving to the new Social Democratic Party.[9] As a result, Margaret Thatcher remained prime minister from 1979 until 1991, when she lost the support of Conservative MPs and members of her cabinet. Her three successive Conservative governments developed the Thatcher settlement further by rolling back the role of the state and replacing state activities with markets. As markets later morphed through successive waves of financialisation, the eventual result was the Global Financial Crisis of 2008, which hit the UK especially hard. I focus here on four of the Thatcher settlement's distinctive impacts:

- subjecting the economy to reforms inspired by neoliberal ideology, especially 'monetarist' economics;
- requiring industries to focus on increasing profits and shareholder value;
- deregulating finance; and
- enabling tenants to buy council houses, thus ushering in the near-complete financialisation of the housing market.

Carolyn Tuohy argues that the consequence of a political settlement is an 'accidental logic' that shapes how policy develops.[10] In this chapter I give an account of how the 'accidental logics' of neoliberalism played out at a macro-level in its systems of governance based on 'monetarism' and financialisation.

5.1 The ideology of neoliberalism

Friedrich von Hayek's *The Road to Serfdom* was published in 1944.[11] According to the Margaret Thatcher foundation, this

> became part of her enduring outlook. In fact one can argue that few books influenced her more deeply at any point in her life … she found herself exposed to one of the most effective and courageous political works ever written, a head-on assault against socialism, the fashionable cause of the day, an armed doctrine at the height of its power … She absorbed deeply Hayek's idea that you cannot compromise with socialism, even in mild social democratic forms, because by degrees socialism tends always to totalitarian outcomes, regardless of the intentions, professed or real, of its proponents.[12]

Two years younger than Aneurin Bevan, von Hayek was the diametrical opposite of his vision of democratic socialism in Britain. Bevan had left school before he was 14 and witnessed the suffering of the mining communities caused by unemployment and the 'means test' in the 1930s. Von Hayek had studied at the University of Vienna and experienced hyperinflation that destroyed the middle class. (The exchange rate of Austrian crowns for one US$ inflated from 16 to over 70,000 between 1919 and 1923.[13]) Von Hayek became a key developer of the Austrian School of Economics of Ludwig von Mises, and joined Lionel Robbins as a professor in LSE's Economics Department in 1931. Von Hayek addressed *The Road to Serfdom* to 'socialists of all parties' and argued that: 'Few are ready to recognize that the rise of fascism and Nazism was not a reaction against the socialist trends of the preceding period but a necessary outcome of those tendencies.'[14] Von Hayek set out the ideological foundations for rolling back the state and abandoning Keynesian economics. Whereas classical liberalism prioritised political institutions, neoliberalism in Britain followed von Hayek's argument that impersonal markets are the chief means of securing popular welfare and personal liberty.[15]

In 1945 von Hayek was lionised in the US as a protagonist in the fight against Franklin Roosevelt's New Deal of the 1930s: the *Reader's Digest* published a condensed version of *The Road to Serfdom*.[16] Thousands came to hear his public lectures.[17] Gary Gerstle summarised neoliberalism in the US as 'grounded in the belief that market forces had to be liberated from government regulatory controls that were stymieing growth, innovation and freedom'.[18] Roosevelt had put into practice Keynes's ideas to end the slump,

> founded on the conviction that capitalism left to its own devices spelled economic disaster. It had to be managed by a strong central state able to govern the economic system in the public interest.[19]

The economics of Keynes was, for Aneurin Bevan, an existential threat to socialism (see Chapter 3). But in the US the first American university textbook to set out Keynes's ideas, *Elements of Economics*, was described as 'a sort of second edition of Karl Marx's book "*Capital*"' and under pressure dropped from the curricula of American universities and ceased publication.[20] The febrile antagonism to communism in the 1940s and 1950s culminated in hearings of the House Un-American Activities Committee (HUAC), where US Senator Joseph McCarthy of Wisconsin notoriously asked: 'Are you now or have you ever been a member of the Communist Party of the United States?' A Republican congressman requested that HUAC launch an investigation into the author of *Elements of Economics*.[21]

In 1947, von Hayek invited like-minded individuals to the Swiss mountain village of Mont-Pèlerin and 39 thinkers came. That turned out to be the inaugural meeting of the Mont Pèlerin Society (MPS).[22] Lionel Robbins drafted its Statement of Aims, which began 'The central values of civilization are in danger'.[23] The statement identified as threats to these values 'a decline of belief

in private property and the competitive market', because 'without the diffused power and initiative associated with these institutions it is difficult to imagine a society in which freedom may be effectively preserved'. It continued that 'a decline of belief in private property and the competitive market' posed threats to 'the central values of civilization'.[24] By November 1947, the MPS was formally registered in the United States as a non-profit corporation with the purpose:

> To study and promote the study of political, economic, historical, moral and philosophic aspects of civil society having a bearing upon the institutional and organizational conditions compatible with freedom of thought and action.[25]

The MPS played a vital role in defining neoliberalism.[26] One later influential member of the MPS was Sir Antony Fisher, who founded the UK's Institute for Economic Affairs (IEA) in 1955.[27] And, in 1981, he founded the Atlas Economic Research Foundation, which became an international network of over 500 right-wing think tanks in 90 countries, who share the vision 'of a free, prosperous, and peaceful world where the principles of individual liberty, property rights, limited government, and free markets are secured by the rule of law'.[28]

Von Hayek's contribution to neoliberalism was ideological: to assert the primacy of markets, and the need for rolling back the state and abandoning Keynesian economics. In 1950, he moved to a chair at the University of Chicago but was not deemed appointable in the Economics Department.[29] In 1974, he was awarded the Nobel Prize in Economics for his 'penetrating analysis of the interdependence of economic, social and institutional phenomena'.[30] The institutions of neoliberal capitalism were shaped by Nobel Prize-winning economists who had taught and studied in the Chicago Economics Department: Milton Friedman, Robert Lucas and Myron Scholes.

5.2 Monetarism

In 1976 (the year the British government needed an IMF loan), Friedman's award for the Nobel Prize in Economics cited as his major work *A Monetary History of the United States, 1867–1960*.[31] It praised Friedman and the Chicago School for the emergence of monetarism and giving us the terms 'money matters' or, even, 'only money matters'.[32] In his 1964 review, Charles Goodhart (who became the Bank of England's resident 'monetary economist') praised *A Monetary History of the United States, 1867–1960* for its statistical and historical aspects'. But he criticised the authors for basing 'their formal analysis completely and without compromise upon the neo-classical quantity theory of money, as reinterpreted by the Chicago school'. His judgement was that 'the authors do not really provide or refer the reader to evidence of sufficient weight to support the reliance that they place upon the classical price-specie [i.e., money] flow mechanism'.[33]

Paul Krugman points out that Margaret Thatcher 'was surrounded by men who had been really convinced by Milton Friedman'.[34] From 1979 to 1986, her government 'did not announce policy goals for output, employment or inflation; it simply announced targets for a broad monetary aggregate M3 (notes and coins and bank lending)'.[35] Goodhart correctly warned the Conservative Party, both before they won the 1979 election and after they had been elected as the new government, that 'monetarism' would fail in the UK's monetary and banking system.[36] James Forder's 2019 book on Milton Friedman points out that the attempt by Friedman and Schwartz to replicate their study of the US for the UK was heavily criticised for its failure to take into account their institutional differences (and its weak methodology).[37] Goodhart argued that a historic relationship between aggregate measures of money and subsequent inflation would breakdown when governments try to control the money supply. Goodhart's law is that 'any observed regularity will tend to collapse once pressure is placed upon it for control purposes'.[38]

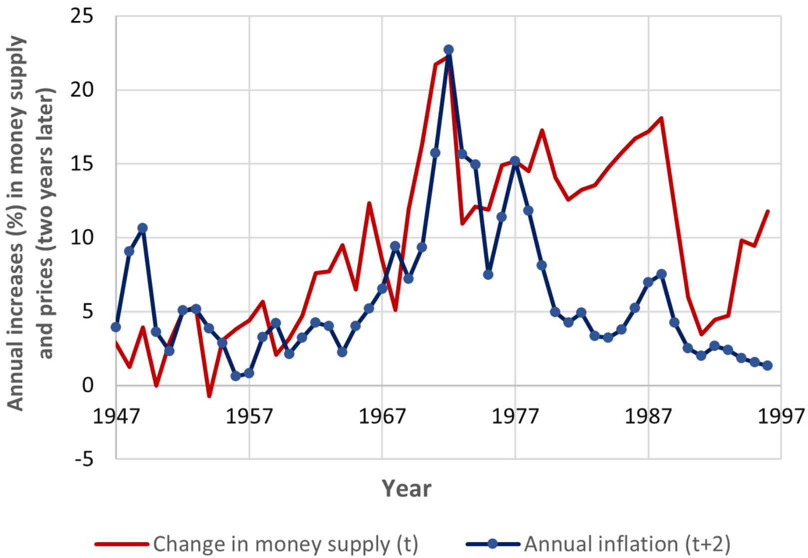
Figure 5.3 gives the percentage increases in the measures of money supply (based on various money measures) and the Consumer Price Index two years later for the first 50 years of the post-war period. It shows that, with one notable exception, there was virtually no relationship between the money supply and inflation. The exception is the monetary incontinence of the Barber boom, from 1970 to 1974 (see Chapter 4), which was followed by an alarmingly high rate of inflation. Charles Goodhart explained to me that:

> if you take a period which includes very volatile and extreme changes in the money stock, you will find a close relationship in a regression; but if you take a period in which the money stock has fluctuated over a relatively small range, then you are likely to find no relationship between monetary growth and nominal incomes.[39]

Figure 5.3 also shows that the Bank of England's attempts to control the money supply failed. That policy was abandoned in 1986. Friedman blamed the failure of 'monetarism' in Britain on the 'gross incompetence' of the Bank of England. As James Forder points out, Friedman's policy of 'monetarism', of targeting the quantity of money, 'has been rejected almost completely'.[40]

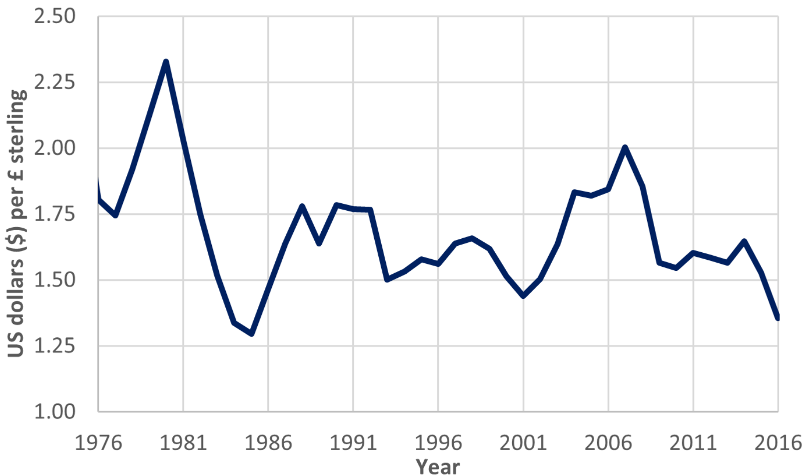
Within 18 months of Thatcher taking office, outputs in the manufacturing sector collapsed.[41] Alec Chrystal argued, however, that the primary cause of the reduction in inflation and deindustrialisation was not 'monetarism' but the 'Dutch disease' from the impact of North Sea oil.[42] In the Netherlands, in the 1960s, the discovery of natural gas had increased the value of its currency, which damaged its manufacturing industry and increased unemployment. Figure 5.4 shows the sharp increase in value of the pound sterling to above US$2.30 in 1980. In 1988 Hilde Bjørnland examined the impacts of North Sea oil on the economies of Britain and Norway. She explained that, although the 'Dutch disease' would have been expected to have caused a greater increase in unemployment in Norway, manufacturing declined in the

Figure 5.3: Annual percentage increases (%) in the UK money supply and in price levels (two years later), from 1946 to 2016



Source: Bank of England.[43]

Figure 5.4: The exchange rate of the pound in terms of US dollars



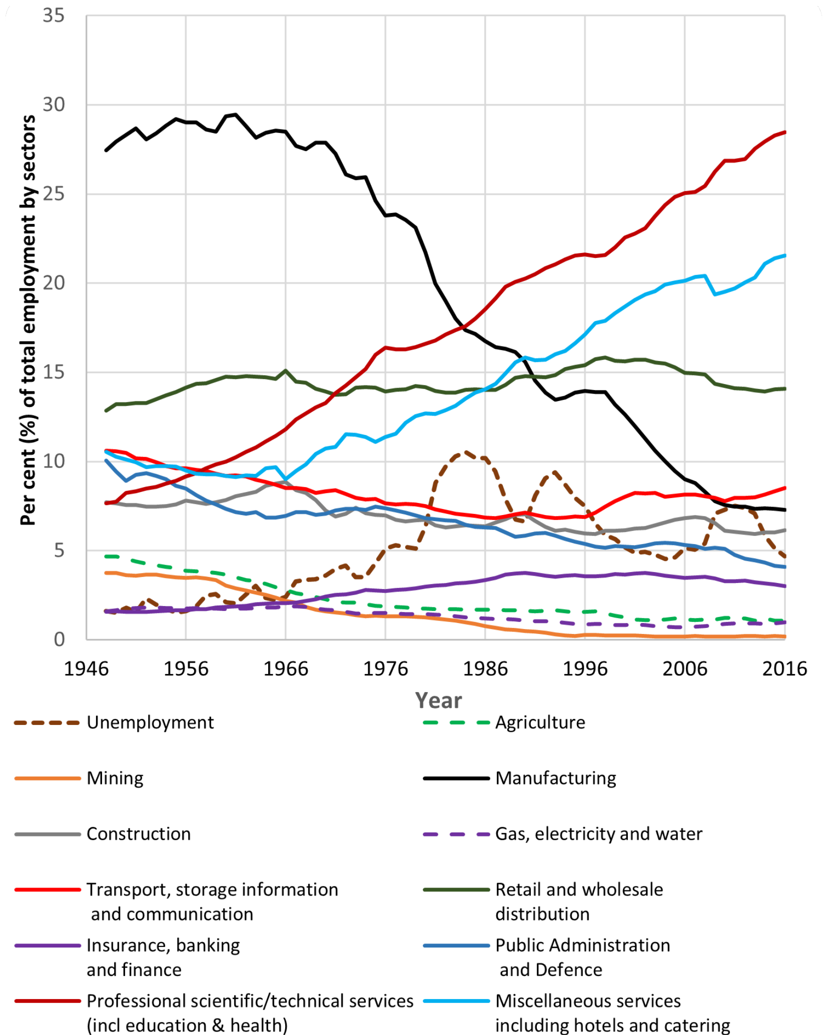
Source: Bank of England.[44]

UK and increased in Norway. She argued that these outcomes resulted from differences in government policies. The Norwegian government directed subsidies to maintain manufacturing output over the transitional period of North Sea oil. In the UK, much of the revenue from the North Sea went into paying social security payments (and existing external debts).[45]

In 1987, James Alt came to the same conclusion.[46] He identified vital differences in the key players, their institutional capabilities, and their governments deciding whether the key economic problem was unemployment or inflation.

- *Norway*. The government acted as a small country and set out to counter its vulnerability to currency speculation. Trade unions played a vital role in working with government on managing the transition

Figure 5.5: The distribution of UK employment across industrial sectors from 1996 to 2016



Source: Bank of England.[47]

to maintain jobs. The government had the institutional capacity on the supply side to target subsidies to the sectors of its economy under greatest threat.

- *Britain*. The government acted as a big country in which financial interests were paramount and their impact on the appreciation of the pound sterling was welcomed as an effective means of driving down inflation. Figure 5.4 shows that sterling's rate against the US dollar increased by a third, from 1.75 in 1977 to 2.33 in 1980. Alt argues that, even if there had been a Labour government, it would have lacked the institutional capacity on the supply side to target subsidies in the sectors and towns where they were most needed.

Figure 5.5 shows the changes over 70 years in the patterns of employment and unemployment in Britain. The two major sectors of employment at the start of the 20th century, agriculture and mining, had declined to account for less than 10 per cent by 1946. Figure 5.5 also shows that, from 1979, there was a sharp reduction in employment in the manufacturing industry, an increase in unemployment, and growth in services. The strongest growth was in professional and scientific services, and miscellaneous services (which include hotels and catering). The groups that were relatively stable were transport, storage, information and communication, and retail and wholesale distribution. Although the percentage working in insurance, banking and finance almost doubled, it accounted for only 3 per cent in 2016.

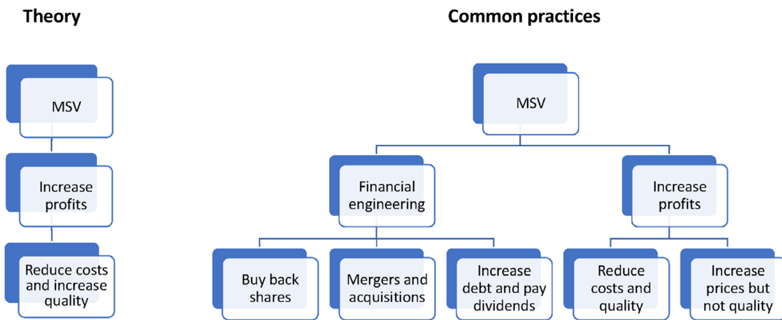
5.3 The Global Financial Crisis: made in Chicago?

For Milton Friedman, the principle that 'only money matters' was the basis of his 'fundamentally subversive doctrine', as he argued in an influential leader in the *New York Times* in 1970:

> there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception fraud.[48]

He went on to say that businessmen who interpret the 'social responsibilities' of business to include 'providing employment, eliminating discrimination, avoiding pollution … are … preaching pure and unadulterated socialism'. A risk to this slant was that senior executives might not agree: they might believe that their corporations also ought to serve stakeholders other than shareholders, such as customers, employees, creditors and the environment. In 1976 the economists Michael Jensen and William Meckling aimed to offer a solution to that problem by linking the remuneration of senior executives to increases in shareholder value.[49]

Figure 5.6: Five ways to maximise shareholder value (MSV)



Source: Author.

In the neoliberal world of perfectly competitive markets, economic institutions supposedly create incentives to reduce costs and improve quality, as illustrated in the left part of Figure 5.6. That has not been the consequence when corporations are governed with the sole objective of maximising shareholder value (MSV), as described by Rana Foroohar in the US[50] and Mariana Mazzucato in the UK.[51] The right part of Figure 5.6 illustrates the dysfunctional outcomes. For example, what ought a firm do with its profits: invest in the company or buy back shares? The former is risky, but the latter is a sure way of increasing shareholder value. (By definition, the value of a share is the total value of the firm divided by the number of shares.) General Electric (GE) used to be a $600 billion behemoth in the US. William Cohan attributes its demise, via being broken up for disposal, to cost-cutting, outsourcing and financial speculation.[52] The next chapter gives examples of how financial engineering by financing dividends by increasing debt undermined the outsourcing of care homes and the privatisation of water in England. As Martin Wolf argues, the consequences of corporations becoming 'appendages of financial markets' changed 'every aspect of corporate behaviour – its goals, its internal incentives, and the identity of those in charge'.[53]

In the US, financial services were deregulated from 1987, under Alan Greenspan as chairman of the US Federal Reserve. This sea-change was justified by the theory of 'rational expectations', developed by Robert Lucas, for which he was awarded the Nobel Prize in Economics in 1995. His theory is based on the 'efficient-market hypothesis': the price of a financial asset reflects all relevant generally available information.[54] In 1973, Fischer Black and Myron Scholes developed a formula that could put a price on a financial contract when it still had years to run, for example a 20-year mortgage. The Black–Scholes formula takes into account four variables: the time the mortgage has to run, the price of the house on which the mortgage is secured, the risk-free interest rate, and volatility over what the future price of the house might be.[55] In 1994, Robert Merton (another option-pricing expert) joined Myron Scholes as partners in the hedge fund Long-Term Capital Management. In 1995, Fischer Black died.

In 1997, Scholes and Merton shared the Nobel Prize in Economics 'for a new method to determine the value of derivatives'.[56] In 1998, Long-Term Capital Management (LTCM) collapsed. Alan Greenspan, the then chairman of the Federal Reserve, organised LTCM's rescue by a consortium of banks.[57] Naseem Taleb argued that LTCM's collapse clearly showed that the way the Black–Scholes formula modelled volatility was vulnerable to 'highly improbable' outcomes – 'black swans'.[58]

Two great economists of the 20th century had emphasised the vital distinction between *risk*, which can be quantified and modelled (for example, the likelihood of outcomes of throws of a dice), and future *uncertainty*, which cannot (for example, the future state of the economy). One was Frank Knight at the University of Chicago.[59] (He had opposed von Hayek's appointment to its Economics Department because the market could be equally inefficient as government.[60]) The other was John Maynard Keynes in *The general theory of interest, employment and money*.[61] John Kay and Mervyn King point out that Milton Friedman decided that Knight and Keynes were wrong: Friedman asserted that uncertain outcomes could be modelled using probability theory.[62] Kay and King highlight how those who followed Friedman in developing derivatives were incapable of recognising the vital distinction between their models of risk and uncertainty.[63] On 13 August 2007, as the Global Financial Crisis began to bite, David Viniar, the chief financial officer of Goldman Sachs, claimed that they were seeing market outcomes each day that were 25 standard deviations from their mean prediction. Kay and King point out that there are not enough days in the history of our universe for an outcome with that daily probability to happen.[64]

In 2003, Robert Lucas began his presidential address to the American Economic Association by stating that the 'central problem of depression prevention has been solved, for all practical purposes, and has in fact been solved for many decades'.[65] In that year, John Kay had asked whether 'history will judge whether Greenspan was the man who made millions of American rich – or the man who couldn't bear to tell them they had only imagined it?'[66] In 2005, the US monetary and financial elite met to celebrate Greenspan's retirement at their annual conference at Jackson Hole, Wyoming. Raghuram Rajan had the temerity to present his paper at that conference, asking, 'Has Financial Development Made the World Riskier?'[67] He argued that the deregulated financial system was vulnerable to a catastrophic meltdown. Larry Summers, a former Treasury secretary, described Rajan's advocacy of increased financial regulation as Luddite – like advocating giving up air travel because of a fear of crashes.[68] For the rest of the conference, Rajan felt like 'an early Christian who had wandered into a convention of half-starved lions'. What troubled him most was that his 'critics seemed to be ignoring what was going on before their eyes'.[69] Rajan argues that successive federal governments in the US, under Presidents Bill Clinton and George W Bush, used subprime mortgages to enable the poor to buy houses that would increase in price and make them feel better off.[70] This was the neoliberal solution to the problem of stagnant or

declining median incomes and the creation of the precariat: the 'large swathe of low-wage, low-skill, low-progression service-sector employment, often with poor labour standards'.[71]

Markovits describes how decisions on whether to offer a mortgage used to be made deliberatively in the US, by an army of mid-skilled professional loan officers who had the 'educational and social background commensurate to their solidly middle class status'.[72] They exercised 'independent judgement about the economic wherewithal and reliability of particular borrowers and the value of particular houses to ensure that each loan was providently made'. They took into account not only taxable income and loan-to-value ratio but also assessments of the 'borrower's character and standing in the community'.[73] Under those institutional arrangements, few investments were as 'safe as houses' as prices reflected ability to pay. After financialisation, the decisions to offer mortgages changed radically:

> A rump of gloomy Main Street workers collect data to fill in boilerplate loan applications. And a small elite of Wall Street workers 'correct' for the inaccuracies of initial loan decisions by repackaging loans into complex derivatives that quantify, hedge, and reallocate the risks of improvident originations.[74]

Naseem Taleb had expected that the collapse of Long-Term Capital Management would end the use of the Black–Scholes formula to value risk in financial derivatives. But, as Katharina Pistor explains, the way the institutions of financialisation work, banks kept the profits when their risk models worked and governments socialised the losses when they failed.[75] That is why, as Ian Stewart described, banks hired mathematically talented analysts to develop the Black–Scholes formula into 'ever-more complex financial instruments whose value and risk were increasingly opaque'.[76] As Pistor argues, the credit rating agencies gave derivatives credibility and have 'largely escaped liability for their use of misleading labels'. Their core argument is 'that they are in the business of offering opinions, and their utterances should therefore enjoy the protection of free speech under the US constitution's First Amendment'.[77] By 2007, the international financial system was trading derivatives valued at one quadrillion dollars (that is, $1,000,000,000,000,000) per year. (This is 10 times the total worth, adjusted for inflation, of all products made by the world's manufacturing industries over the last century.)[78] Even with Pistor's example of a credit risk manager charging the seemingly modest fee of 0.015 per cent, that would generate $15 billion in annual fees.

Financialisation changed the price mechanism for American houses from being determined in a normal market, in which increases in prices reduced demand, to a speculative market, in which increases in prices fuelled demand. When people with subprime mortgages were unable to make their monthly payments, the house of cards of financial derivatives progressively collapsed.[79]

On 15 September 2008, the scale of exposure of US investment bank Lehman Brothers to defaults on subprime mortgages resulted in its bankruptcy and the Global Financial Crisis became locked in.[80] In October 2008, Alan Greenspan, in his evidence to Congress, recognised that there had been a 'flaw' in his thinking. But he believed that the kind of heavy regulation that could have prevented the crisis would have damaged US economic growth.[81]

In December 2009, Paul Volcker, Greenspan's predecessor as chairman of the US Federal Reserve, said that he wished 'somebody would give me some shred of evidence linking financial innovation with a benefit to the economy' – his favourite financial innovation was the ATM.[82] Mariana Mazzucato points out that, before the 1970s, in economics, the financial sector was treated as 'a value extractor'.[83] Paradoxically, by the time of the Global Financial Crisis of 2008, that had changed in the national accounts of most countries so that the sector added value.[84] Martin Wolf lays out the impact of the Global Financial Crisis on trust in the institutions of capitalism:

> Many members of the public came to believe that these failings were the result not of stupidity but of the intellectual and moral corruption of decision makers at all levels – in the financial sector, regulatory bodies, academia, the media and politics. They also saw the resources of the state used to rescue both banks and bankers – the architects as they saw it of the disaster – whilst they (and those they loved) suffered large losses through foreclosure, unemployment, a prolonged period of stagnant or declining real wages and fiscal austerity. Finally, they also saw that while institutions were forced to pay huge fines, essentially nobody (or nobody of any importance) was punished for what had happened.[85]

Katharina Pistor explains that this is what the legal rules of the game that underpin the financialised institutions of capitalism were designed to do.[86] She cites the analysis by the late legal historian Bernard Rudden. He argued that, although the common law of property originated in extractive feudal societies, its 'feudal calculus still lives and breeds, but its habitat is wealth not land'.[87] The law of limited liability is designed to protect the wealth of shareholders so that their exposure to risk from investing in a firm is limited to the price they paid for their shares: that is, shareholders have legal protection to retain all dividends paid prior to when a firm goes bankrupt. Katharina Pistor describes how financialisation has offered opportunities for creative use of the law of limited liability, so a holding company is protected from having to repay dividends from its subsidiaries when they go bankrupt.[88] Tooze quotes the CEO of Citigroup telling journalists in the summer of 2007: 'as long as the music is playing you've got to get up and dance. We're still dancing.'[89] When the music stopped, the banks in the US were made offers so attractive that they would have been unwise to refuse.[90]

In 1982, Lehman Brothers in the US was the first major investment bank to convert from a partnership to a public company. It 'along with other financial intermediaries developed the legal partitioning of assets with the help of corporate law into an art form'.[91] The parent holding company of Lehman Brothers had 209 subsidiaries in 26 jurisdictions. Sixty were in the US state of Delaware, which has particularly 'nimble' rules that allow a corporation to pay dividends to shareholders 'even when this may be detrimental for its long term survival'.[92] During the financial crisis of 2008 the purpose of the US government's Troubled Asset Relief Program (TARP) was to implement programmes to stabilise the financial system. Viral Acharya et al found that, 'in the 2007–2009 period, all the banks which had received TARP funding [Congressional relief payments] had paid at least 45 per cent of the amount as dividends in 2007–2009'.[93] Pistor describes how the elaborate scheme developed by Lehman Brothers, its Regulation and Administration of Safe Custody and Local Settlement (RASCALS), was designed to protect a new company, LBF, against claims of creditors after Lehman Brothers went bankrupt. The case was brought in a London Chancery Court and presided over by the Chancellor, and:

> When the creditors argued that the entire scheme was a scam and should simply be set aside, the Chancellor was in disbelief … Like the chancery courts of the eighteenth century, which had sided with the landed elites, he had few qualms about parties using the law to their own private benefits, even if this put the entire system at risk.[94]

In March 2023, the Silicon Valley Bank collapsed. Paul Krugman in the *New York Times* observed:

> Just a few years ago, S.V.B. was one of the midsize banks that lobbied successfully for the removal of regulations that might have prevented this disaster, and the tech sector is famously full of libertarians who like to denounce big government right up to the minute they themselves needed government aid.[95]

John Thornhill in the *Financial Times* observed:

> [The] fiasco also shines an unforgiving spotlight on the hypocrisy of some of the biggest venture capital players on both sides of the Atlantic, who privately urged their portfolio companies to pull their money from the bank and then later publicly called for government support … Just like many of the banking titans after the global financial crisis of 2008, tech tycoons appear to favour the privatisation of profits and the socialisation of losses.[96]

5.4 The financialisation of the UK's economy after Thatcher

Eichengreen's explanation of why Britain had descended in rankings of real per capita incomes, from second in 1950 to 10th by 1979, was the country's lack of networks of investment banks lending to large enterprises that challenged unions in implementing the technologies of modern mass production.[97] What changed after 1979 was financialisation, with the dysfunctional outcomes summarised in Figure 5.6.[98] Anthony Warwick-Ching describes how, in the 1980s, many UK companies were acquired by European enterprises in transactions that were generously remunerative to those in Britain who organised them.[99] And John Kay showed how acquisitions and mergers resulted in the demise of the chemical giant ICI.[100] Financial services were deregulated in the UK in 1986, following the 'big bang' in the City of London.

Kay has set out how financialisation destroyed the mutual financial institutions and partnerships (such as building societies in the UK) that used to play a vital role in every country as trusted providers of retail financial services. For their partners and members, this realised financial returns in the short term but it resulted in the loss of goodwill and trust that had been established in these institutions over many years. There was a transformation from a 'risk-averse culture of mutual and partnership' to the 'competitive machismo in the public company'.[101] Simon Lee has pointed out that in the UK, after the demutualisation of the building society Northern Rock in 1997, the new housing bank financed an aggressive sixfold increase in its assets over the following decade through borrowing and debt. During the first half of 2007, Northern Rock accounted for nearly 10 per cent of total mortgage lending in the UK. As 80 per cent of its funding was from wholesale markets used by banks, it faced an impending crisis as that market froze in August 2007. After the BBC reported its problems there was, in September 2007, the first run on the deposits of a bank in the UK since 1878.[102] But the primary cause of the UK's subsequent homegrown financial crisis was the loss of £24 billion accumulated from a disastrous series of takeovers by the Royal Bank of Scotland, led by Sir Fred Goodwin, who retired early at age 50 with a pension fund of £17 million.[103]

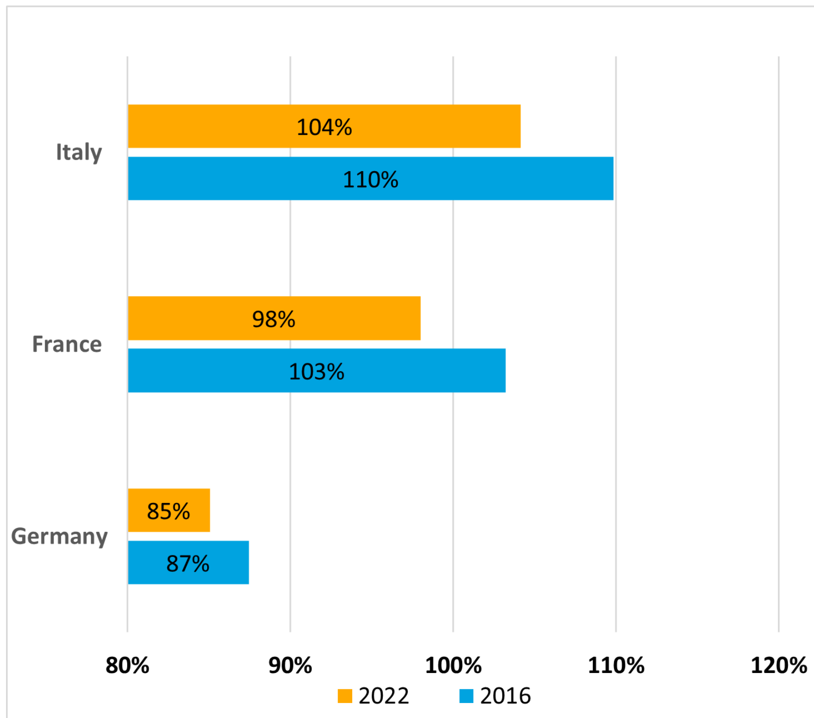
In 1997, Gordon Brown had a recurrent dream that his economic policies based on 'the bedrock of prudent and wise economic management for the long term' would avoid 'the shifting sands of boom and bust' and create the 'firm foundations [to] raise Britain's underlying economic performance'. He repeated variations on that dream in speeches every year to 2007, when he described his mission to build a 'dynamic and competitive enterprise economy' by 'building on our hard-won stability'.[104] In 2006, when the price of a typical house increased by £45 a day, Gordon Brown described the UK's 'light touch system of regulation' as 'fair, proportionate and increasingly risk based'.[105] In 2007, he envisaged 'a new golden age for the City of London' enabling Britain to become 'one of the greatest success stories in the new global economy.[106]

Michael Barber (an adviser to both the Blair and Cameron governments) likened Treasury forecasts to Joseph's interpretation of Pharoah's dream in the Bible:[107] 'Seven thin kine [cows] ate seven fat kine, and thin ears of wheat devoured good ears of wheat.'[108] Joseph's interpretation of Pharoah's dream was that there would be seven years of feast to be followed by seven years of famine. Pharoah asked Joseph to put into practice Keynes's principle of balancing the Egyptian economy over the economic cycle: to 'gather all the food of those good years that come, and lay up corn … And that food shall be for store to the land against the seven years of famine.' In the years of famine, 'all countries came into Egypt to Joseph for to buy corn; because that the famine was so sore in all lands'.[109] Pharoah's dream correctly predicted an economic cycle, but Treasury forecasts did not. In November 2008, Queen Elizabeth opened LSE's New Academic Building, and famously asked the assembled economists about the Global Financial Crisis of 2008: 'Why did nobody see this coming?'[110]

Simon Lee points out that, prior to the Global Financial Crisis, the UK enjoyed 59 successive quarters of sustained economic growth, which was driven mainly not by investment but by consumer demand financed by debt.[111] Hence the need for a prudent economic policy to build up a surplus to help cushion the economy through the Global Financial Crisis. That economic sin of omission allowed the Conservative–Liberal Democrat government (2010–15) to blame the Blair/Brown governments for the crisis, attributing it to their profligacy in public spending in order to justify their policy of austerity. Martin Wolf argues that its excessive severity undermined our public services and prolonged the recession in the UK, and its devastating impacts on the areas 'left behind' is why people there voted for Brexit, which then worsened their plight.[112]

Figure 5.7 compares the UK's GDP per capita as a percentage of that of Germany, France and Italy between 2016 and 2022. It shows that, after Brexit, it is not just parts of the UK areas that are now left behind but the whole country. The UK has lacked the economic growth so vital to generate the funding to repair the damage austerity has inflicted on our fragile public services. Economic growth depends on increases in productivity. Nicholas Crafts and Terence Mills found that, over the decade to 2018, the UK's productivity was 20 per cent below the pre-2008 trend. That fall is without precedent in the past 250 years.[113] Anna Stansbury, Dan Turner and Ed Balls attributed the UK's low productivity to a shortage of degrees in science, technology, engineering and mathematics; inadequacies in transport; and support for innovation outside, and unaffordable housing within, England's golden triangle.[114] Indeed, as Martin Wolf argued, given the UK's unprecedented decade of a low increase in productivity, the only way that the UK looks like solving the long-standing problem of regional inequalities is by levelling down.[115]

Figure 5.7: GDP per capita for the UK as a percentage (%) of that in Germany, France and Italy, in 2016 and 2022



Source: OECD.[116]
Note: GDP per capita was measured here in US $ at current prices and current purchasing power parities.

In 2021, the UK was ranked by the OECD as 20th for real GDP per capita (just ahead of Malta) and eighth for income inequality.[117] Britain is now a relatively poor, unequal country. Analyses by *Financial Times* journalist John Burn-Murdoch showed that the rich are doing fine. In 2019 (pre-Covid-19), the top 10 per cent of households in the UK and Germany had similar incomes, of over $120,000 (in US dollars at 2020 purchasing power parity). But the incomes of the bottom 5 per cent of people in the UK was $15,900, over 20 per cent lower than the same group in Germany.[118] By 2023, the US and the UK were outliers in inequality and getting worse:

> Real wages in the UK are below where they were 18 years ago. Life expectancy has stagnated, with Britain arcing away below most other developed countries, and avoidable mortality — premature

> deaths that should not occur with timely and effective healthcare — rising to the highest level among its peers, other than the USA, whose opioid crisis renders it peerless.[119]

5.5 Financialisation of housing in the UK

After Aneurin Bevan's dream of making public housing as central to the people of Britain as his NHS turned sour (see Chapter 4), one of the central planks of Thatcher's appeal to voters was the right to buy scheme, which seemed to give tenants of council-owned housing autonomy from badly run councils and standard-colour front doors. Depending on the duration of their tenancy, the scheme allowed council tenants discounts ranging from 33 per cent of market value (at three years) to 50 per cent (at 20 years or more).[120] The sitting tenants who bought their houses were now able to make their own alterations and improvements more easily. If they wanted to move on elsewhere, to another city or just a smarter part of town, they could sell up and recoup the full value of their house – creating over time a massive increase in family finances. Under the Thatcher governments, the number of new council houses built in England fell from 75,000 in 1979 to 8,000 in 1991; and under subsequent Conservative and Labour governments it further reduced to a rump.[121] Owner-occupation in the UK peaked at 72 per cent in 2001 and, by 2006, the stock of council and socially rented homes had almost been halved.[122] This chapter concludes by looking at the consequences of Margaret Thatcher's 'right to buy' scheme after the housing market became financialised. This has enabled the children of the rich, with access to the bank of mum and dad, to afford to take up offers of 'glossy' jobs in England's golden triangle, and thus entrenched geographical inequalities.

Anna Minton has argued that the country's crisis from the lack of affordable homes is chiefly due to three policies enacted by the Blair–Brown governments (1997 to 2010).[123] First, they continued the right to buy. Many former council houses and flats were then bought by new generations of private landlords who rented them out, at the bottom of the market, often to people who qualified for housing benefit welfare payments. By December 2022, private rents in 48 council areas were classed by the Office for National Statistics as unaffordable when compared with average wages.[124] Second, New Labour reduced the building of council houses to less than half those of the Thatcher years (below 8,000 homes per year on average). From 1991, local authorities accounted for at most 1 per cent of completions (see Figure 4.4 in Chapter 4). Third, they expanded private renting by encouraging 'buy to let mortgages'. These increased in number and value from under 50,000 and £4 billion in 2000, to 350,000 and £46 billion in 2007.

The Global Financial Crisis reduced the number of new houses completed by private builders in England from 150,000 in 2007 to 83,000 in 2010. In 2012, the number of new houses built was still only 60 per cent of the number in 2007.[125] In 2013, the UK government introduced a 'Help to Buy' equity

loan scheme for a new-build house or flat worth up to £600,000 that was to be the owner's primary residence. In 2019, the National Audit Office (NAO) found that the scheme increased housing supply and home ownership and had a negligible impact on house prices, but fewer than 40 per cent of buyers using the scheme actually required it.[126] When the Chancellor of the Exchequer, George Osborne, launched the 'Help to Buy' scheme he promised that this would deliver 'a great deal for homebuyers' and 'a great support for homebuilders'. As the *Financial Times* observed, it 'certainly delivered on the second'.[127] The NAO found that '[t]he scheme has supported five of the six largest developers in England to increase the overall number of properties they sell year on year, thereby contributing to increases in their annual profits'.[128] One of them, Persimmon, received the largest individual share (nearly 15 per cent of Help to Buy sales between 2013 and 2018), with 60 per cent of all its sales financed by the scheme.[129] Its share price-linked bonus scheme made Persimmon's chief executive, Jeff Fairburn, 'the UK's highest paid chief according to annual reports' in 2017. His pay and bonuses were: £2 million in 2016, nearly £46 million in 2017, and £39 million in 2018. Total payments to Persimmon's executives from share price-linked bonus scheme were £444 million.[130]

Did this high pay reflect the quality of Persimmon's products? In April 2019, the *Financial Times* reported that Persimmon 'recently scored the lowest of all the major housebuilders in the Home Builders Federation's annual customer satisfaction survey'. Following its executive pay scandal and concerns over build quality, the new chairman of the board of Persimmon announced 'an independent review of its culture, workmanship and customer care'.[131] When the findings of the independent review were published, a leader article in the *Financial Times* described the report as 'devastating' and highlighting all that was wrong with a company driven only by the pursuit of profit, shareholder value and remuneration of senior executives:

> It has laid bare a corporate culture driven by greed, one with a focus on buying as much land as possible and selling the houses it built as quickly as possible rather than on building quality homes. It lays bare a litany of failings, from a reliance on box-ticking to the absence of systems to inspect work in progress. Even worse, the company had a 'nationwide problem of missing and/or incorrectly installed cavity barriers in its timber frame properties' to help to prevent the spread of fire. Given that the company has in the past 10 years achieved stellar stock market success, and in the process made Mr Fairburn and other executives extremely rich, it is doubly telling that careful independent scrutiny has found that it has no central purpose. The only purpose, it might be inferred, has been the creation of that wealth.[132]

The financialisation of housing generates high profits for builders, with unprecedented levels of returns to shareholders through dividends. Jonathan

Eley reported in the *Financial Times* that BP's return of 30 per cent on average capital employed, for 2022, was similar to that for the UK's largest housebuilder, Barratt Developments, for the half-year to December. As he observed,

> The profitability of the companies that turn patches of earth into habitable dwellings has attracted less attention than that of the oil titans who turn hydrocarbon sludge into fuel, but it has been no less remarkable.[133]

Tom Archer and Ian Cole pointed out that the Persimmon deal was 'just one end of a spectrum in the trend of rapidly inflating pay outs for senior executives across the housebuilding sector'.[134] They estimated that, after the Global Financial Crisis, the average profit by private builders on each completed house increased from £6,000 in 2009 to over £60,000 in 2017.[135] That profit is about twice the median family income.[136]

The UK's financialised housing market is designed to create shortages. The supply is restricted, because, in seeking to maximise shareholder value, builders require a high hurdle for returns on investment.[137] Demand is restricted because the prices of 'affordable' housing are defined with reference not to earnings but to prevailing market rates – up to 80 per cent.[138] Wendy Wilson and Cassie Barton estimated that, in 2021, median house prices in England were over nine times higher than median full-time earnings.[139] The least affordable area was the London borough of Kensington (where Grenfell Tower burnt down) where median house prices were 28 times higher than median full-time earnings.[140] Oliver Bullough devotes a chapter in *Moneyland* to high-end property, pointing out that, over 22 years from January 1995, 'the average price of a property bought in Kensington and Chelsea rose from £180,000 to more than £1.8 million'.[141]

High-end property is one of the commodities of Ajay Kapur's 'plutonomy', that is, an economy, like those of the US and UK, that is 'driven by massive income and wealth inequality … where the rich are so rich that their behavior … overwhelms that of the "average" or median consumer'. He foresaw that, in a plutonomy, these inequalities 'would likely drive a positive operating environment for companies selling to or servicing the rich' where 'rising tides lift yachts'.[142] Kapur showed that over 30 years from 1976 the rate of increase in prices of luxury goods items was twice that of general inflation. Plutonomy explains why, as Minton observes, the incentives generated in the UK's housing market are to build complexes of small luxury apartments in London that are sold off plan to foreign investors. They are unaffordable to most Londoners, let alone people in the rest of the country.[143] She quotes property consultants Savills's description of the 'champagne tower effect':

> Billionaires displace multi-millionaires from the top addresses, so they in turn displace millionaires. Equity migrates to the more

> peripheral areas of the capital and, eventually, out of the capital to the rest of the UK.[144]

A January 2020 *Guardian* leader on the UK's housing crisis drew attention to the rows of 'ghost houses' in London and pointed out that additional levies for foreign buyers of houses is one way in which governments in Canada, Singapore and Australia tackle their housing crises and 'create a win-win situation for everyone'.[145] It would lead to foreign investors leaving, a cooling of house prices, and hence more affordable homes. But a British government that succeeded in reducing the price of houses would not appeal to the many voters who have had the good fortune to have been able to invest in their own house.

Conclusions

Instead of a new social peace, the forging of a whole new policy settlement begun by the Thatcher governments resulted in such despair that there were riots of a kind highly unusual in the UK. Under Thatcher, neoliberalism delivered Friedman's impressive triad of toxic legacies: first, a post-war record for unemployment in the UK following monetarist policies; second, the demise of great enterprises forced to focus only on maximising profits and shareholder value; and third, the nemesis of global financial crisis from opaque financial instruments that hubristically modelled radical uncertainty.

The malign impact of financialisation on markets that used to work is exemplified by what happened to housing. In the 1980s, the 'right to buy' of council houses was touted as a solution to a socialised system that ended in the slum clearance/high-rise period building 'slums in the sky'. But, 40 years on, the financialisation of the housing market has contributed to insufficient numbers of houses being built in a global market where sellers aim to sell assets to the highest bidder. That makes homeownership unaffordable to many. As Paul Johnson notes, one consequence of high rents, high house prices and inadequate social housing has been a doubling in the annual Housing Benefit Bill over 20 years, to £22 billion in 2019. That is 'the very expensive canary in the coalmine'.[146]

Yet financialisation policies have shown the cockroach's capacity to survive the havoc they have caused. In 2023 (as I write), they still seem almost untouchable politically. There has been no reshaping of the legacies of the Thatcher settlement to combat the adverse effects of financialisation. The next chapter examines the way the Thatcher governments used private markets to roll back the state through outsourcing and the privatisation of nationalised industries, and how these innovations then degenerated from inadequacies in contracting and regulation. Chapter 7 considers the dysfunctional consequences of marketisation in a policy sphere that proved far harder for the state to shrug off, school education and the universities. Chapter 8 explains

why, despite attempts by governments in the 1990s, 2000s and 2010s to introduce varieties of a 'quasi-market' within the NHS, that policy has been abandoned.

Endnotes

[1] Coase, Ronald (1964) 'Papers and proceedings of the Seventy-Sixth Annual Meeting of the American Economic Association', *The American Economic Review*, vol. 54, no. 3, pp.194–95. https://www.jstor.org/stable/1818503. Cited by Williamson, Oliver (1985) *The economic institutions of capitalism*, UK: The Free Press, p.327.

[2] Ramishvili, Levan (2017, 16 January) 'Margaret Thatcher reciting St Francis of Assisi's prayer' [Video]. YouTube. https://www.youtube.com/watch?v=UhXlAGmUitU

[3] Margaret Thatcher Foundation (2019) '"And I would just like to remember some words of St. Francis of Assisi…"'. https://perma.cc/SU8H-6MBX

[4] King, Anthony and Crewe, Ivor (2013) 'A tax on heads', Chapter 4 in *The blunders of our governments*, UK: Oneworld.

[5] Minister for Reconstruction (1944) *Employment policy*, UK: HMSO, Cmd 6527, p.3.

[6] The Conservative Party/Saatchi & Saatchi (1979) 'Labour isn't working: Britain's better off with the Conservatives'. Available from: https://image.guardian.co.uk/sys-images/Politics/Pix/pictures/2001/03/10/pub_notworking.gif

[7] Bank of England (2016) 'A millennium of macroeconomic data'. https://www.bankofengland.co.uk/statistics/research-datasets

[8] Turner, Alwyn (2010) *Rejoice! Rejoice! Britain in the 1980s*, UK: Aurum Press, pp.4–25.

[9] Turner, Alwyn, *Rejoice!* pp.26–75.

[10] Tuohy, Carolyn (1999) *Accidental logics: The dynamics of change in the health care arena in the United States, Britain, and Canada*, UK: Oxford University Press.

[11] Von Hayek, Friedrich (1944) *The road to serfdom*, UK: Routledge.

[12] Margaret Thatcher Foundation (n.d.) 'Thatcher, Hayek & Friedman'. https://perma.cc/HN46-M5T4

[13] Wapshott, Nicholas (2011) *Keynes Hayek: The clash that defined modern economics*, UK: WW Norton & Company, p.22.

[14] Von Hayek, *The road to serfdom*, p.3.

[15] Tribe, Keith (2015) ‘Liberalism and neoliberalism in Britain’. In Mirowski, Philip and Plehwe, Dieter (eds) (2015) *The road from Mont Pèlerin: The making of the neoliberal thought collective, with a new preface*, UK: Harvard University Press, p.75. https://doi.org/10.4159/9780674495111

[16] Von Hayek, Friedrich A. (1999) *The condensed version of The Road to Serfdom by F. A. Hayek as it appeared in the April 1945 edition of Reader's Digest*, UK: The Institute of Economic Affairs. https://iea.org.uk/publications/the-road-to-serfdom/

[17] Wapshott, Nicholas, *Keynes Hayek*, p.207.

[18] Gerstle, Gary (2022) ‘Part I The New Deal order’, in *The rise and fall of the neoliberal order: America and the world in the free market era*, UK: Oxford University Press, p.2. https://doi.org/10.1093/oso/9780197519646.001.0001

[19] Gerstle, Gary, *The Rise and Fall of the Neoliberal Order*, p.2.

[20] Carter, Zachary (2021) *The price of peace: money, democracy, and the life of John Maynard Keynes*, US: Penguin, pp.376, 378.

[21] Carter, Zachary, *The price of peace*, p.377.

[22] Carter, Zachary, *The price of peace*, p.383.

[23] Mirowski, Philip and Plehwe, Dieter (eds) (2015) ‘Introduction’, in *The road from Mont Pèlerin*, p.24.

[24] Tribe, Keith, ‘Introduction’, in *The road from Mont Pèlerin*, pp.24–25.

[25] Butler, Eamonn (n.d.) *A short history of the Mont Pelerin Society*. https://perma.cc/7HLA-WDP5

[26] Mirowski, Philip (2015) ‘Postface: Defining neoliberalism’. In *The road from Mont Pèlerin*, pp.417–55.

[27] Mirowski, Philip, ‘Postface’.

[28] Atlas Network (n.d.) ‘Over 500 partners in almost 100 countries around the globe’. https://perma.cc/K4Q5-C3TM

[29] Wapshott, Nicholas, *Keynes Hayek*, p.217.

[30] The Nobel Prize (2023) ‘Friedrich August von Hayek – Facts’. https://perma.cc/QU25-CH9S

[31] Friedman, Milton and Schwartz, Anna (2008) *A monetary history of the United States, 1867–1960*, US: Princeton University Press. https://muse.jhu.edu/pub/267/monograph/book/36656

[32] The Nobel Prize (1976) ‘Milton Friedman - Press Release’. https://perma.cc/A447-YJEH

[33] Goodhart, Charles (1964) 'A monetary history of the United States, 1867–1960', *Economica*, New Series, vol. 31, no. 123, p.314. https://www.jstor.org/stable/2550627

[34] Krugman, Paul (1994) *Peddling prosperity: Economic sense and nonsense in the age of diminished expectations*, UK: WW Norton & Company, p.173.

[35] Krugman, Paul, *Peddling prosperity*, p.174.

[36] Goodhart, Charles (1997) 'Whither now?' *PSL Quarterly Review*, vol. 50, no. 203, pp 400, 405–06. https://rosa.uniroma1.it/rosa04/psl_quarterly_review/article/view/10583

[37] Forder, James (2019) 'Monetary trends in the United States and the United Kingdom'. Chapter 17 in *Milton Friedman*, UK: Palgrave Macmillan, pp.307–13.

[38] Goodhart, Charles (1984) *Problems of monetary management: The UK experience*, UK: Macmillan Education, pp.91–121.

[39] Goodhart, Charles (2023) Email to Gwyn Bevan, 4 January.

[40] Forder, James, *Milton Friedman*, p.411.

[41] Coutts, Ken; Tarling, Roger; Ward, Terry; and Wilkinson, Frank (1981) 'The economic consequences of Mrs Thatcher', *Cambridge Journal of Economics*, vol. 5, no. 1, pp.81–93. https://www.jstor.org/stable/23596658

[42] Chrystal, K. Alec (1984) 'Dutch disease or monetarist medicine?: The British economy under Mrs. Thatcher', *Federal Reserve Bank of St. Louis Review*, vol. 66, no. 5, pp.27–37. https://perma.cc/Y3KG-BLZH

[43] Bank of England (2016) 'A millennium of macroeconomic data'. https://www.bankofengland.co.uk/statistics/research-datasets

[44] Bank of England (2016) *A millennium of macroeconomic data*. https://www.bankofengland.co.uk/statistics/research-datasets

[45] Bjørnland, Hilde (1998) 'The economic effects of North Sea oil on the manufacturing sector', *Scottish Journal of Political Economy*, vol. 45, no. 5, p.582. https://doi.org/10.1111/1467-9485.00112

[46] Alt, James E. (1987) 'Crude politics: Oil and the political economy of unemployment in Britain and Norway, 1970–85', *British Journal of Political Science*, vol. 17, no. 2, pp.149–99. https://doi.org/10.1017/S0007123400004695

[47] Bank of England, *A millennium of macroeconomic data*.

[48] Friedman, Milton (1970) 'The first and core principle is that "the social responsibility of business is to increase its profits"', *New York Times*. https://perma.cc/7MMB-67DY

[49] Mazzucato, Mariana (2018) *The value of everything: Making and taking in the global economy*, UK: Hachette, p.166; Jensen, Michael and Meckling,

William (1976) 'Theory of the firm: Managerial behavior, agency costs and ownership structure', *Journal of Financial Economics*, vol. 3, no. 4, pp.305–60. https://doi.org/10.1016/0304-405X(76)90026-X

[50] Foroohar, Rana (2016) *Makers and takers. How Wall Street destroyed Main Street*, US: Currency, p.62.

[51] Mazzucato, Mariana, *The value of everything*, pp.163–70.

[52] O'Brien, Hettie (2022) 'Power Failure by William D Cohan review – pulling the plug'. *The Guardian*, 17 November. https://perma.cc/ATG6-URSE

[53] Wolf, Martin (2023) *The crisis of democratic capitalism*, UK: Penguin, pp.148, 153.

[54] The Nobel Prize (2023) 'Robert E. Lucas Jr. – Facts'. https://perma.cc/QC8D-WHXV

[55] Black, Fischer and Scholes, Myron (1973) 'The pricing of options and corporate liabilities', *Journal of Political Economy*, vol. 81, no. 3, pp.637–54. https://www.jstor.org/stable/1831029

[56] The Nobel Prize (2023) 'The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 1997'. https://perma.cc/DK36-K5QB

[57] Pistor, Katharina (2019) *The code of capital. How the law creates wealth and inequality*, US: Princeton University Press, pp.101, 105. https://muse.jhu.edu/pub/267/monograph/book/64439

[58] Taleb, Nassim (2007) *The black swan: The impact of the highly improbable*, UK: Penguin, p.282.

[59] Knight, Frank (1921) *Risk, uncertainty and profit*, US: Houghton Mifflin.

[60] Wapshott, Nicholas, *Keynes Hayek*, p.217.

[61] Keynes, John Maynard (1973) *The general theory of interest, employment and money*, UK: Macmillan.

[62] Kay, John and King, Mervyn (2020) *Radical uncertainty. Decision-making beyond the numbers*, UK: Bridge Street Press, p.74.

[63] Kay, John and King, Mervyn, *Radical uncertainty*, pp.366–68.

[64] Kay, John and King, Mervyn, *Radical uncertainty*, p.6.

[65] Lucas Jr, Robert E. (2003) 'Macroeconomic priorities', *American Economic Review*, vol. 93, no. 1, pp.1–14. https://doi.org/10.1257/000282803321455133

[66] Kay, John (2003) *The truth about markets: Why some nations are rich but most remain poor*, UK: Allen Lane, pp.5–6.

[67] Rajan, Raghuram (2005) *Has financial development made the world riskier?* NBER Working Paper Series, No 11728, US: National Bureau of Economic Research. https://www.nber.org/papers/w11728.pdf

[68] Tooze, Adam (2018) *Crashed: How a decade of financial crises changed the world*, UK: Penguin, p.67.

[69] Rajan, Raghuram (2011) *Fault lines*, US: Princeton University Press, p.3. https://doi.org/10.1515/9781400839803

[70] Rajan, Raghuram, *Fault lines*, pp.34–36.

[71] Muellbauer, John and Soskice, David (2022) *The Thatcher legacy. Lessons for the future of the UK economy*, UK: The Resolution Foundation, p.25. https://perma.cc/7G84-87LN

[72] Markovits, Daniel (2019) *The meritocracy trap*, UK: Penguin, p.165.

[73] Markovits, Daniel, *The meritocracy trap*, p.167.

[74] Markovits, Daniel, *The meritocracy trap*, p.167.

[75] Pistor, Katharina, *The code of capital*.

[76] Stewart, Ian (2012) 'The mathematical equation that caused the banks to crash'. *The Observer*, 11 February, https://perma.cc/SV8J-N2XF

[77] Pistor, Katharina, *The code of capital*, p.86.

[78] Stewart, Ian, *The mathematical equation*.

[79] Tooze, Adam, 'Subprime', Chapter 2 in *Crashed*, pp.42–71.

[80] Tooze, Adam, 'Subprime'; 'The worst financial crisis in global history', Chapter 6, pp.143–65.

[81] Beattie, Alan and Politi, James (2008) '"I made a mistake," admits Greenspan'. *Financial Times*, 23 October. https://perma.cc/7VX4-323H

[82] *WSJ London* (2009) 'Volcker praises the ATM, blasts finance execs, experts', *Wall Street Journal*, 8 December. https://perma.cc/T2HS-XEXH

[83] Mazzucato, Mariana, *The value of everything*, p.110.

[84] Mazzucato, Mariana, *The value of everything*, p.108.

[85] Wolf, Martin, *The crisis of democratic capitalism*, p.103.

[86] Pistor, Katharina, 'Cloning legal persons', Chapter 3 in *The code of capital*, pp.47–75.

[87] Rudden, Bernard (1994) 'Things as thing and things as wealth', *Oxford Journal of Legal Studies*, vol. 14, no. 1, pp.82–83. Cited in Pistor, Katharina, *The code of capital*, p.5.

[88] Pistor, Katharina, *The code of capital*, p.52.

[89] Tooze, Adam, *Crashed*, p.71.

[90] Tooze, Adam, *Crashed*, p.198.

[91] Pistor, Katharina, *The code of capital*, p.52.

[92] Pistor, Katharina, *The code of capital*, p.61.

[93] This excluded government-sponsored enterprises (GSEs). See Acharya, Viral; Gujral, Irvind; Kulkarni, Nirupama; and Shin, Hyun (2011) *Dividends and bank capital in the financial crisis of 2007–2009*, US: National Bureau of Economic Research (No. w16896). https://perma.cc/5PDS-S3KP

[94] Pistor, Katharina, *The code of capital*, pp.73–75.

[95] Krugman, Paul (2023) 'How bad was the Silicon Valley Bank bailout?' *The New York Times*, 14 March. https://perma.cc/7DGK-YCC8

[96] Thornhill, John (2023) 'SVB shows that there are few libertarians in a financial foxhole', *The Financial Times*, 13 March. https://perma.cc/7W2J-XVY9

[97] Eichengreen, Barry (1996) 'Explaining Britain's economic performance: A critical note', *Economic Journal*, vol. 106, no. 434, p.213. https://doi.org/10.2307/2234944

[98] Mazzucato, Mariana, *The value of everything*, pp.163–70.

[99] Warwick-Ching, Anthony (2020) *Stolen heritage: The strange death of industrial England*, UK: Troubador.

[100] Kay, John (2015) *Other people's money*, UK: Profile Books, p.45.

[101] Kay, John, *Other people's money*, p.30.

[102] Lee, Simon (2009) *Boom and bust: The politics and legacy of Gordon Brown*, UK: Oneworld, pp.234, 227.

[103] Lee, Simon, *Boom and bust*, p.238.

[104] Summers, Deborah (2008) 'No return to boom and bust: what Brown said when he was chancellor', *The Guardian*, 11 September. https://perma.cc/8HM5-GC3H

[105] Lee, *Boom and bust*, p.97.

[106] Lee, *Boom and bust*, pp. 224–25.

[107] Barber, Michael (2015) *How to run a government so that citizens benefit and taxpayers don't go crazy*, UK: Penguin Books, p.251.

[108] Genesis, Chapter 41, verses 15–24. *The Bible* (King James Version). https://perma.cc/U9KP-5DHV

[109] Genesis, Chapter 41, verse 57.

[110] Giles, Chris (2008) 'The economic forecasters' failing vision'. *Financial Times*, 25 November. https://perma.cc/FJ7L-4RMY

[111] Lee, Simon, *Boom and bust*, p.68.

[112] Wolf, Martin, *The crisis of democratic capitalism*, p.112.

[113] Crafts, Nicholas and Mills, Terence (2020) 'Is the UK productivity slowdown unprecedented?' *National Institute Economic Review*, vol. 251, pp.R47–R53. https://doi.org/10.1017/nie.2020.6

[114] Stansbury, Anna; Turner, Daniel; and Balls, Ed (2023) *Tackling the UK's regional economic inequality: Binding constraints and avenues for policy intervention*. M-RCBG Associate Working Paper Series, US: Harvard University's DASH repository. https://nrs.harvard.edu/URN-3:HUL.INSTREPOS:37374470

[115] Wolf, Martin (2023) 'The UK economy has two regional problems, not one', *Financial Times*, 8 March. https://perma.cc/9EAN-53SA

[116] OECD (2023) *Gross domestic product (GDP): GDP per capita, USD, current prices and PPPs*. https://stats.oecd.org/index.aspx?queryid=61433

[117] OECD (2022) 'OECD Data: United Kingdom'. https://data.oecd.org/united-kingdom.htm

[118] Burn-Murdoch, John (2022) 'Britain and the US are poor societies with some very rich people', *Financial Times*, 16 September. https://perma.cc/GVX4-QWFY

[119] Burn-Murdoch, John (2022) 'Britain's winter of discontent is the inevitable result of austerity', *Financial Times*, 22 December. https://perma.cc/N9DQ-4KMF

[120] Muellbauer, John and Soskice, David, *The Thatcher legacy*, p.13.

[121] Office of National Statistics (2023) 'Table 3b – House building: permanent dwellings started and completed, by sector, England, historical calendar year series', *House building, UK: permanent dwellings started and completed by country*. https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ukhousebuildingpermanentdwellingsstartedandcompleted

[122] Muellbauer, John and Soskice, David, *The Thatcher legacy*, p.13.

[123] Minton, Anna (2022) 'From gentrification to sterilization? Building on big capital', *Architecture and Culture*, pp.1–21. https://doi.org/10.1080/20507828.2022.2105573

[124] Booth, Robert and Goodier, Michael (2022) 'Soaring rents making life "unaffordable" for private UK tenants, research shows', *The Guardian*, 1 December. https://perma.cc/57XB-A3DB

[125] Office of National Statistics, 'Table 3b - House building: permanent dwellings started and completed, by sector, England, historical calendar year series'.

[126] Comptroller and Auditor General (2019) *Help to Buy: Equity Loan scheme – progress review*. https://www.nao.org.uk/reports/help-to-buy-equity-loan-scheme-progress-review/

[127] Hammond, George (2019) 'Help to Buy offers biggest hand to housebuilders', *Financial Times*, 1 March. https://perma.cc/Y8ZQ-CMR2

[128] Comptroller and Auditor General (2019) *Help to Buy: Equity loan scheme – progress review*. (HC 2216), UK National Audit Office, p.9. https://www.nao.org.uk/reports/help-to-buy-equity-loan-scheme-progress-review/

[129] Williams, Aime (2018) 'Persimmon boosted by scheme to help first-time buyers', *Financial Times*, 21 August. https://perma.cc/SB8E-YA2P

[130] Evans, Judith (2019) 'Former Persimmon boss was paid £85m in two years', *Financial Times*, 18 March. https://perma.cc/SKG6-SMW2

[131] Hammond, George (2019) 'Housebuilder Persimmon to launch wide-ranging independent review', *Financial Times*, 5 April. https://perma.cc/3VX8-J54P

[132] Editorial (2019) 'Persimmon report shows capitalism at its worst', *Financial Times*, 19 December. https://perma.cc/K69S-NG4G

[133] Eley, Jonathan (2023) 'UK housebuilders' profitability no less remarkable than BP's returns', *Financial Times*, 9 February. https://perma.cc/X485-T3KE

[134] Archer, Tom and Cole, Ian (2021). 'The financialisation of housing production: exploring capital flows and value extraction among major housebuilders in the UK', *Journal of Housing and the Built Environment*, vol. 36, p.1376. https://doi.org/10.1007/s10901-021-09822-3

[135] Archer, Tom and Cole, Ian, 'The financialisation of housing production', p.1377.

[136] Office for National Statistics (2021) 'Average household income, UK: financial year ending 2021'. https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2021

[137] Archer, Tom and Cole, Ian, 'The financialisation of housing production', p.1383.

[138] Wilson, Wendy and Barton, Cassie, *What is affordable housing?* House of Commons Briefing Paper, p.12. https://researchbriefings.files.parliament.uk/documents/CBP-7747/CBP-7747.pdf

[139] Wilson, Wendy and Barton, Cassie, *What is affordable housing?* p.21.

[140] Wilson, Wendy and Barton, Cassie, *What is affordable housing?* p.22.

[141] Bullough, Oliver (2018) *Moneyland: Why thieves and crooks now rule the world and how to take it back*, UK: Profile, p.222.

[142] Kapur, Ajay (2006) 'The plutonomy symposium — rising tides lifting yachts', *The Global Investigator*, Citigroup 29 September, p.8. https://perma.cc/SD59-4TP8

[143] Minton, Anna, 'From Gentrification to Sterilization?' p.5.

[144] Minton, Anna, 'From Gentrification to Sterilization?' p.5.

[145] Editorial (2020) 'The Guardian view on the UK housing crisis: No plan to fix it', *The Guardian*, 5 January. https://perma.cc/Z8TS-XDHE

[146] Johnson, Paul (2019) *Doubling of the Housing Benefit bill is a sign of something deeply wrong*, UK: Institute for Fiscal Studies. https://ifs.org.uk/publications/13940