# Inside Britain's financial revolution

*Since the 1970s, the world economy has been characterised by a process of financialisation. Britain has played a key role in this trend by helping to create a financialised global order and establishing the City of London as a central hub. But why did the UK choose to propel this process? Drawing on a new book,* **Jack Copley** *explains why the emergence of financialisation in the UK is best understood as an accidental outcome rather than as the product of a coherent neoliberal ideology.*

It is increasingly common for political economists to claim that capitalism has become 'financialised'. Financialisation refers to a range of interrelated phenomena that have come to characterise the world economy since the 1970s: from the rise of shareholder value ideology, to the growth of colossal institutional investors, to the inflation and bursting of credit and asset price bubbles.

This process was propelled by state interventions. Policies of financial liberalisation were first introduced in the advanced capitalist world in the 1970s and 1980s, before being exported to the Global South as part of IMF and World Bank structural adjustment packages. Today's financialised global economy was very much a political creation.

The case of Britain perhaps best illustrates this dynamic. In the wake of the Bretton Woods system's collapse, successive British governments – from Edward Heath to Margaret Thatcher – enacted radical financial liberalisations that dismantled social democratic limits on financial activity. The result was the tremendous expansion and globalisation of the City of London financial centre.

But what drove this policy agenda of financial liberalisation? The prevailing orthodoxy among scholars of financialisation is that governments either submitted to financial lobbyists or became enthralled by neoliberal ideology. In this way, states functioned either as instruments wielded by financiers to advance their sectional interests or as vessels for radical laissez-faire ideology. Margaret Thatcher is said to exemplify this pattern, as she combined a cabinet packed with people formerly employed in the City of London with an outspoken commitment to neoliberal dogma. Her resulting package of financial deregulations, so the argument goes, constituted a coherent political project to advance the fortunes of the British financial sector.

My new book – *Governing Financialization: The Tangled Politics of Financial Liberalization in Britain* – challenges this dominant narrative on the politics of financialisation. By examining recently declassified government and Bank of England documents, I demonstrate that the British state's policies that fostered financialisation in the 1970s and 1980s were not primarily driven by financial lobbying or neoliberal ideology, nor were they part of a larger blueprint. Instead, the policies that unleashed the expansion of the City of London should be seen as short-term, haphazard strategies to steer the British economy through the global capitalist crisis of the era, while neutralising domestic working class backlash.

**Governing the downturn**

In the aftermath of World War II, global capitalism experienced a tremendous growth spurt. Sky high profitability drove a prolonged economic boom that served as the material basis for the construction of social democratic compromises in many countries, including welfare provisions, a great role for trade unions in national politics, and a prioritisation of full employment.

In Britain, part of this compromise involved the strict regulation of the City of London. Banks were organised into cartels that set interest rates, which governments used to transmit monetary policy changes to the financial system. In addition, banks faced quantitative limits on lending, as well as restrictions on international financial flows. In stark contrast to its role as the buccaneering centre for global finance in the pre-1914 period, the post-1945 City of London was remarkably constrained and nationally bounded.

By the late 1960s, the post-war boom was running out of steam. Global markets became glutted with manufactured goods, as the economic upswing translated into entrenched overproduction. As a result, profitability began a long downward march. In response to falling profits, businesses avoided making new investments and instead raised prices, generating both economic stagnation and price inflation, or 'stagflation'.

Britain experienced a particularly acute version of this global crisis, due to its relative lack of economic competitiveness. As the downturn worsened, Britain suffered repeated currency crises, as investors regularly dumped sterling *en masse* over fears of a deepening balance of payments deficit. Faced with the erosion of post-war prosperity, British governments began to call into question the sustainability of the social democratic compromise – including the restrictions on the City of London.

In *Governing Financialization*, I explore the key financial liberalisations pursued in this era: the 1971 Competition and Credit Control measures, the 1978-79 abolition of exchange controls, and the 1986 Big Bang and Financial Services Act. While these policies unshackled the City of London, propelling its growth and globalisation, they were not designed to privilege financial elites nor were they straightforward enactments of laissez-faire dogma. Rather, I demonstrate that these deregulations were crafted to respond to the crushing pressures of the global economic crisis while protecting policy-makers' electoral legitimacy. In other words, financial liberalisation was a way to manage the contradiction between capitalism's crisis tendencies and the demands of an enfranchised working class.

Certain liberalisations, like Competition and Credit Control, sought to impose painful economic discipline on the British economy, so as to boost its global competitiveness, without generating political backlash. This policy got rid of the previous, and deeply unpopular, scheme for demand management, whereby the state would impose direct limits on how much banks could lend in the hope of limiting consumption of imports and managing the balance of payments. In its place, a newly-marketised interest rate would allocate credit to those who could afford it. This price mechanism would thus cut off credit to borrowers, imposing financial discipline on the working class and rescuing the balance of payments, without the state being seen as responsible.

Other liberalisations, such as the scrapping of exchange controls, sought to simply postpone the effects of the global crisis so as to rescue the government's popularity. By abolishing limits on inward and outward money flows, policy-makers hoped to encourage an outflow of investment that would lower the pound's value and thus render Britain's industrial exports more competitive on world markets. This would artificially boost the fortunes of British industry, stimulate job creation, and win over voters – delaying the pain of the global economic crisis.

While some of these financial liberalisations had some success in achieving their objectives, most were woeful failures. But they all created powerful path dependencies that locked state and market actors into an increasingly financialised economic trajectory. My book, as such, warns against accounts of financial deregulation that overemphasise the power of lobbyists or the coherence of neoliberal ideas. Instead, the tremendous expansion of the City of London since the 1980s is best understood as an accidental outcome of the British state's trial-and-error attempts to reconcile the irreconcilable: the boom-and-bust dynamic of capitalist development and people's real needs and demands.

***For more information, see the author's new book, Governing Financialization: The Tangled Politics of Financial Liberalization in Britain (Oxford University Press, 2021)***

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*Note: This article gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: Alex Tai on Unsplash*

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