



University of Warwick institutional repository: <http://go.warwick.ac.uk/wrap>

This paper is made available online in accordance with publisher policies. Please scroll down to view the document itself. Please refer to the repository record for this item and our policy information available from the repository home page for further information.

To see the final version of this paper please visit the publisher's website. Access to the published version may require a subscription.

Author(s): Matthew Watson

Article Title: House Price Keynesianism  
and the Contradictions of the Modern Investor Subject

Year of publication: Forthcoming

Link to published version:

<http://www.tandf.co.uk/journals/titles/02673037.asp>

Publisher statement: This is an electronic version of an article to be published in Housing Studies. Housing Studies is available online at: <http://www.tandf.co.uk/journals/titles/02673037.asp>

**House Price Keynesianism  
and the Contradictions of the Modern Investor Subject**

**Matthew Watson**

**Department of Politics and International Studies**

**University of Warwick, Coventry, CV4 7AL**

**[matthew.g.watson@warwick.ac.uk](mailto:matthew.g.watson@warwick.ac.uk)**

**Forthcoming in *Housing Studies*, 25 (3), 2010.**

# **House Price Keynesianism and the Contradictions of the Modern Investor Subject**

## **Abstract**

This article conceptualises the marked downturn in UK house prices in the 2007-2009 period in relation to longer-term processes of national economic restructuring centred on a new model of homeownership. The structure of UK house prices has been impacted markedly by the Labour Government's efforts to ingrain a particular notion of financial literacy amid the move towards an increasingly asset-based system of welfare. New model welfare recipients and new model homeowners have thereby been co-constituted in a manner consistent with a new UK growth regime of 'house price Keynesianism'. However, the investor subjects who drive such growth are necessarily rendered uncertain as compared with the idealised image of Government policy because of their reliance on the credit-creating decisions of private financial institutions. The recent steep decline in UK house prices is explained here as an epiphenomenon of the disruptive effect on the idealised image caused by the dependence of investor subjects on pricing dynamics not of their making.

**Key Words:** UK house price collapse; house price Keynesianism; asset-based welfare; investor subjects; New Labour

## **Introduction**

There are many potential explanations of the sharp downward turn in house prices around the world as an effect of the global credit crunch.\* In the UK this was a 17-month reversal of the previous price trajectory lasting until February 2009, with average prices falling 20.6% on the Nationwide House Price Index from a high of £186,044 to a low of £147,746. It might be seen as a correction designed to counteract a temporary imbalance between the prevailing structure of house prices and their fundamental value (Shiller, 2008); as a reaction to the mistakes made by over-leveraged buyers on the expectation that house prices would continue to rise at their previous rate (Wolf, 2009); as the culmination of irresponsible mortgage lending on the misguided assumption that new financial instruments had eliminated credit risk (Best, 2010); or as the outcome of an extended period in which loose monetary policy provided banks with the option of creating credit at zero cost to themselves (Schwartz, 2009). All of these explanations quite clearly have something to be said for them, but even though they identify different culprits it is interesting to note that they share a common analytical starting point. All attempt to explain the recent housing market collapse in terms of trouble being stored up in the structure of house prices due to the increasing fragility of the system of private housing finance.

The aim of this article is to transcend the limits of this style of explanation by situating the UK housing market within a broader context of ongoing national economic restructuring. The space in which private life is now conducted in the UK represents so much more than merely old-fashioned notions of 'the home'. The dynamics of homeownership have become an integral feature of the Labour Government's attempts since 1997 to reconstitute the model welfare citizen

(Finlayson, 2009); an important means of routing the credit flows which sustain economic growth under a regime of 'privatised Keynesianism' (Crouch, 2009); a primary indicator of the health of the financial system as commercial banking practices associated with mortgage lending have become increasingly blurred with investment banking practices (Soros, 2008); the site of many of the contradictions of financialised capitalism as the failure of investment banking practices rebound into the commercial banking sector (Langley, 2006); and the precursor to new forms of intervention undertaken by a state allegedly in retreat (Wigan, 2010). In all of these ways ostensibly private dwellings have become quasi-public spaces positioned at the apex of political attempts to reproduce stable conditions suited to the expansion of wealth held privately within the economy.

Presenting the core claims of the article in this way necessarily places the analysis at a high level of abstraction. It is the emergent properties of a newly-constituted but still merely tendential relationship between the model homeowner, the model welfare recipient and private financial institutions that is of most concern. The argument is not that this relationship now dictates the content of everyday economic experiences for everyone in the UK, only that the trajectory of recent policy changes renders exposure to this relationship much more likely. It is this more than anything else that makes the situation visible throughout 2007-2009 different to previous periods of falling house prices in the UK, thus invalidating those previous experiences as direct analogues of what has happened recently. In the similarly-sized house prices falls of the late 1980s/early 1990s the reversal of the previous price trend affected only the-then dominant model of private homeownership as a symbol of a 'property-owning democracy' and the-then Conservative Government's reputation for governing competence in advocating that model. In the more recent period the model

of homeownership as a mechanism for entering an 'asset-holding society' has taken a hit, as has the Labour Government's reputation for governing competence in advocating that model. In addition, the impact on the welfare state and on the profitability of banks' business models has also been noticeable this time around.

The article proceeds in three stages in an attempt to draw out the distinctive features of the 2007-2009 house price reversal in the UK. The first section enlists Michel Foucault's genealogy of modern liberalism to create an account of the abstract characteristics of the investor subject. Foucault (2008) identified the highest stage of economic liberalism with the moment at which market rationality is engaged as the dominant motif of individual economic subjectivity. The connection is then made to New Labour's financial literacy programme, which has been used to generate forms of investor calculation consistent with successful activities on private financial markets. Section two moves the analysis from the microeconomic to the macroeconomic level. It shows that the production of investor subjects displaying the attributes of Foucauldian market rationality was considered necessary as a means of stabilising the national growth model that emerged in the UK with the demise of post-war Keynesianism. The ensuing growth model has relied on the expansion of personal debt to such an extent that it makes sense to think of it as a form of privatised Keynesianism, but here it is described specifically as 'house price Keynesianism' in an attempt to capture the importance of homeownership to the constitution of New Labour's investor subject. The third section focuses on the role of credit-creating institutions as the crucial intermediary between the microeconomic aspirations of an asset-holding society and the macroeconomic requirements of a growth model of house price Keynesianism. The concept of 'emotional labour' (Hochschild, 1983) is used to analyse the specificities of selling credit within already saturated mortgage

markets in order to ensure that banks continued to benefit from rising house prices. The conclusion outlines the major implications for the move towards an asset-based system of welfare of the increasingly shared fortunes of the banking sector and the housing market within the context of such emotional labour.

### **New Labour Welfare Policy, the Savings Habit and the Investor Subject**

Any discussion of the constitutive effects of government policy on the creation of investor subjects is necessarily abstract. It depicts a process that will forever be in the making and which can never be complete when viewed in aggregate across the whole of society. Alternative articulations of economic subjectivity will always be present, more so in some individuals than others, but at least latent in everyone due to the influence of prior socialisation practices (Martin, 2002). The investor subject in the UK, for instance, will continually encounter the post-war welfare state subject in the struggle to impose a particular behavioural rationality on the self. Paul Langley (2007: 78-85) has argued persuasively that the investor subject is existentially 'uncertain' because of the ever-present need to contain impulses to act in altogether different ways. The standard of empirical proof in the claims that follow in this section therefore lies only in being able to identify the dominant agential trends inferred by New Labour's programme of welfare reform. This can consequently be used to animate a theoretically-informed account of the shifting balance of economic subjectivities amidst the championing of an asset-owning society, with a view to understanding more from that about the pressures that make the investor subject both provisional and fragile.

Understood abstractly, the aim of an asset-based system of welfare is to encourage individuals to act to shift the moment at which current income is consumed in order to create a steady flow of consumption possibilities throughout the life cycle (Finlayson, 2008: 96-8). The consumption of current income is delayed when it is saved. The idea is not so much to save in order to preserve the value of current income but to transpose savings into investments in order to enhance it. If current income is invested successfully in assets whose value increases at a faster rate than consumer prices, the future income thus elicited is worth more to the investor in real terms than it was when it was earned.

The dominant narrative in Government documents encouraging the individual's entry into an asset-owning society takes a clearly moralised form (Prabhakar, 2003; White, 2003). The embrace of asset-based welfare is something that individuals should do and should also want to do, to reflect the duties they have to themselves to secure a comfortable future existence. The moralisation of asset-based welfare thus proceeds in much the same way as the prior moralisation of insurance. Insurance spreads out income from the point in the life-cycle in which it is earned by protecting future income from the need to make replacement purchases in the event of a sudden loss of property. The Treasury's presentation of its preferred system of asset-based welfare has very closely followed the insurance model. Individuals have been encouraged to provide coverage for themselves in the event of a future pensions' shortfall.

The Pensions Commission's final report, for instance, recommended that "policy towards private pension saving needs to move beyond a purely voluntary approach" (2006: 14). This was deemed to be due to inadequate knowledge amongst the UK population about what it will take for individuals to make good the future gap



in state insurance of consumption in later life. The dominant inference – and therefore the frame through which Pensions Commission documents should be understood – is that patterns of behaviour consistent with the post-war welfare subject are ineffective as a response to the moralisation of private insurance of welfare in later life. The requirement of behavioural change is thereby posited. Treasury policy designed to foster greater financial literacy has been oriented towards the creation of “increased self-reliance in the long-term”, reminding people of their responsibility to act now in order to defend their interests in later life. The assumption is that this will “enhance people’s capacity to be more independent” and thus enable them to provide for themselves “a secure income throughout retirement” (HM Treasury, 2001a: 2, 6).

The means adopted to secure the desired behavioural change has been to encourage the savings habit, particularly amongst low- and middle-income families. New Labour presented its savings programme in its first term in government as the route into an asset-owning society for people disadvantaged by their exclusion from inter-generational socialisation into budgeting for a rainy day. Saving is necessarily a forward-thinking activity and, in the absence of inherited wealth, it is also the only means to accumulate assets. As the *Savings and Assets For All* document stated (HM Treasury, 2001a: 9, 11): “the more regular and durable the saving habit of the individual is, the more likely they are at any one time to have built up a substantial stock of assets ... with a view to maximising the benefits they enjoy from asset ownership”. From this point on, Treasury interventions into everyday economic life in the UK routinely focused on efforts “to help those with the lowest levels of saving to make better informed decisions” (HM Treasury, 2001b: 3). The Government’s role as guarantor of the right to late-life well-being therefore increasingly revolved around “providing a significant component of relevant financial education, [... in order to ...]

ensure that individuals are properly equipped to take the right decisions for themselves” (HM Treasury, 2001b: 29).

However, acting upon a savings habit that previously was poorly formed – whether this means having it ‘developed’ from scratch (HM Treasury/HM Customs and Revenue, 2008a: 38), ‘strengthened’ (HM Treasury, 2003: 12) or merely ‘reinforced’ (HM Treasury, 2001b: 13) – also involves a basic rethink of the individual’s economic priorities. The new priorities reflect new ways of conceptualising the self as an economic agent. The always provisional nature of the investor subject (Langley, 2007) means that this conception of the self is usually unstable and never materialises in practical terms fully formed. The Financial Inclusion Task Force (2008: 4), for instance, has stopped short of branding the Government’s savings strategy a complete success until such time as larger numbers on savings pilot schemes have “pledged to change their behaviour” after having had the advantages of the savings habit demonstrated to them. The Thoresen Report on *Generic Financial Advice* (2008: 7) came to the same conclusion about what counts as success. It noted that the description should apply only once the Government’s savings strategy has proved unequivocally that it is able “to change the way people engage with, and manage, their financial affairs”. The standard of proof being demanded in these instances says much about the nature of the broader policy. It implies that the objective of the move towards an asset-based system of welfare is, in the words of that system’s foremost academic proponent, Michael Sherraden, to “change [people’s] heads” (1991: 6). Certainly, the House of Commons Treasury Committee’s view of the overall strategy (2003: 4) is that its chief purpose is “to encourage people to build an asset up so that they can think about their future in a different way”.

‘The future’ is presented in all relevant Treasury documents of the period as a series of unknowns against which individuals should seek to secure themselves. The *Savings and Assets For All* document endorses “the ideal model of saving ... [as lying] ... somewhere between a long term and a rainy day saver. This would involve a strong commitment to saving for general rather than specific purposes, but with an acceptance that savings may need to be spent at some point in the future” (HM Treasury, 2001a: 10). Such a model would provide for people “financial security for a rainy day ... [plus] access to greater independence and long-term opportunity throughout their lives” via the inducement of “behavioural benefits in individuals, such as greater focus on the future” (HM Treasury, 2001b: 1; 2001a: 10). The ability to engage in successful financial planning is treated as the equivalent of being able to “ensure that people can ... cope with financial pressure”, in order to “protect against short-term variations in income and expenditure” (HM Treasury/HM Revenue and Customs, 2008b: 12; 2008a: 6).

In all of this, ‘the future’ is depicted as something to feel unsettled about, wary of, even fearful for. The image of unavoidable forward-oriented financial anxieties is a repeated refrain in Government literature, as is that of the distress to follow if adequate pre-emptive arrangements have not been put in place to deal with their long-term manifestations. According to Michel Foucault (2008: 66), the creation of a deeply uncertain future is a standard feature of neoliberal governmentality: “individuals are conditioned to experience their situation, their life, their present, and their future as containing danger”. The danger contained in not embracing the move towards an asset-based system of welfare is of leaving uninsured one’s standard of living in later life in the event of continued state retreat from a transfer payment system of welfare. As the Treasury has stated (2001b: 26), “While the costs of

making an informed decision to save may be great, a decision also has the potential to deliver significant benefits in terms of enhanced future consumption possibilities”.

Instituting uneasiness about an unsecured future acts to incentivise, in Foucault’s terms (1988), the government of the self by the self. These are techniques through which individuals impose limits on their behaviour, deliberately constraining their own autonomy in the interests of forward-looking objectives. It is about accepting the need for discipline and then constructing the means to enable the discipline to be internalised. Financial self-discipline of the sort required to access an asset-owning society encourages a prudentialist outlook on present behaviour. Pat O’Malley (1996: 199) calls it a “privatized actuarialism” in an attempt to capture the sense in which the only individuals who will accumulate assets successfully are those who are able to internalise processes of risk management within the self. Investment in financial markets – whether in commercial paper on the stock market or in bricks and mortar on the housing market – is the Labour Government’s preferred self-governing technique. It is from these preferences that the encouragement of the investor subject arises.

The investor subject fits Foucault’s characterisation of the generalised economic subject to emerge under conditions of neoliberal governmentality. This he describes (2008: 226) as a person who is “an entrepreneur of himself”. The move towards an asset-based system of welfare involves the attempt to facilitate universalised manifestations of self-entrepreneurship. All of the Treasury documents designed to promote the savings habit in the UK serve to validate the image of the entrepreneur within the actions of all future-oriented individuals. The aim is to create an acting self where the subject of an asset-based system of welfare exhibits the personalised imprints of market rationality. In other words, people must become so

attuned to that rationality that it is akin to forcibly inserting the market within the self. The remainder of the analysis focuses more specifically on the implications of the rise of the investor subject for the UK housing market.

### **House Price Keynesianism and the Encouragement of the Investor Subject**

There is an important irony in the way in which the investor subject has been formed in the UK under New Labour. With house prices rising on average by around 12% per year from Labour winning the 1997 General Election to the top of the market in 2007, this far outstripped the average rate of inflation for the same period. Real house price growth averaged almost 10% per year over that decade, making the housing market the ideal site for the accumulation of assets and for negotiating entry into an asset-owning society. Yet, the development of the investor subject is supposed to be about learning behavioural characteristics consistent with what Foucault calls ‘the responsabilisation of the self’ (see Miller and Rose, 2008). From this perspective, individuals perform self-governing acts of restraint and control on recognition that it is their responsibility to shape the context in which their future conduct will occur. Seeking entry into an asset-owning society is all about successfully shaping future consumption possibilities. However, the sharp downturn in UK house prices between October 2007 and February 2009 arguably revealed evidence of collective irresponsibility pervading housing market decisions.

Towards the end of New Labour’s first decade in power, there was an increasing tendency for buyers to over-leverage their housing stock purchases by taking out mortgage loans at or even above the prevailing price of the house. Equally,

for every over-leveraged buyer willing to trust the continued trajectory of price increases to erode the real value of their mortgage debt there was a similarly over-leveraged lender prepared to sell credit on exactly the same basis. Although it is certainly easier to say so with the benefit of hindsight, none of this now looks like the prudentialism associated with the successful enactment of investor subjectivity. Indeed, it takes on the appearance of O'Malley's privatised actuarialism gone terribly wrong, as attempts to internalise risk management within the self actually led to the production of systematic credit market risk. The Government's efforts to responsabilise the self seem thereby to have inadvertently created mass housing market irresponsibility as UK house prices rose steeply in the mid 2000s.

Looking back on this period, it now seems reasonably clear that the Government had ample opportunities to quell the over-heating of the housing market. In this instance there is more than merely hindsight to support such a claim. The introduction of the Key Worker Living programme in 2006 was itself an acknowledgement that the increasing divergence between the increase in house prices and the increase in wages was squeezing many first time buyers out of the housing market. Under the terms of that programme, public sector workers in socially significant employment qualified to have the state deliberately overturn market pricing signals on their behalf by meeting a proportion of their mortgage interest repayments (Department for Communities and Local Government, 2006). The fact that the Labour Government acknowledged the existence of accelerating affordability constraints but did nothing to intervene more systematically against the upward trajectory of house prices is the major policy story of this period. The proportion of take-home pay required to service mortgage repayments in the UK housing market as

a whole shot up to a record high of 42% in 2007, rising from 25% in 2003 (Royal Institution of Chartered Surveyors, 2007).

The Government's stance on this issue could be said to have incentivised irresponsible rather than responsible homebuyer activity by making over-leveraged purchases the only means of access into its preferred asset-owning society for so many people. The reason why lies in its concurrent pursuit of macroeconomic objectives that contradict the microeconomic goal of institutionalising fully responsabilised investment behaviour. Recently constituted investor subjects can take advantage of slow but certain periods of asset price inflation to become more comfortable in their new economic identities. However, New Labour chose to reproduce an underlying growth model for the UK economy which implied a very different process of asset price formation. As before, such an argument can only be made in abstract terms, and it focuses on what followed in the UK after the demise of the Keynesian growth model.

The nationally differentiated Keynesian growth model of the post-war period survived for as long as it did because it provided a temporary resolution to an inherent problem posed to all capitalist economies in the presence of democratic political institutions. To achieve longevity, any growth model must be capable of reconciling capitalism's requirement for confident mass consumers with its tendency to disrupt the smooth reproduction of labour market stability through frequent moments of often quite brutal restructuring (Aglietta, 2001). In the UK, the post-war Keynesian growth model did so through demand management processes activated via the transfer payments system of the welfare state. Such payments provided protection for ordinary people from the oscillations normally associated with the business cycle, in turn allowing them to become the sort of confident mass consumers whose very

existence allowed firms to plan for expanded reproduction in the future (Jessop, 2002). The Foucauldian ‘fear of the future’ was therefore mitigated for both individuals and firms in the same system of transfer payments.

A virtuous circle ensued. A combination of confident mass consumers and equally confident mass producers stimulated the sort of growth that prevented the transfer payments system from buckling under the demands being placed upon it. Successful delivery of growth was also necessary to prevent concerted democratic political mobilisation against capitalism as a whole in the face of pressures for restructuring. All that was needed in cyclical downturns was for the government to call upon the state’s capacity to issue debt in order to create forms of social policy that would sustain purchasing power and reproduce the confidence that in turn sustained the virtuous circle (Offe, 1985). In other words, the state played the role of insurer of last resort of the consumption activity that gave the Keynesian growth model its inbuilt dynamism.

Much has changed around the world since the heyday of the Keynesian growth model, but one thing has stayed noticeably the same in the UK. Debt is every bit as much today the principal driver of the growth that protects the legitimacy of the capitalist economy, even if the source of that debt has shifted significantly from the state’s former use of public debt to secure future consumption possibilities. In the 1990s, occurring simultaneously with attempts by many governments to placate financial markets by writing down public debt, there was a large expansion within those same markets of credit provision specifically aimed at low- and middle-income people (Montgomerie, 2007). These new credit flows were activated concurrently with the development of a range of high-tech derivatives markets delivering specialist technical functions for professional bankers (Bellofiore & Halevi, 2009). Financial



innovation was widely reputed at the time to have eliminated the threat of systemic risk, with newly traded instruments supposedly ensuring that the market price of all assets already fully reflected the prevailing balance of credit risk. In this way financial innovation also presented private financial institutions with release from their Foucauldian fear of the future, allowing them to sell debt at market prices to ordinary people with ostensible impunity. The accelerating private debt holdings that consequently arose then promoted the confident consumption which in turn drove economic growth.

Colin Crouch (2009) has called this new growth model ‘privatised Keynesianism’, but here the phrase ‘house price Keynesianism’ is preferred in an effort to capture the principal route through which personal debt fed the dynamics of growth in the UK. Crouch points to the way in which increasingly irresponsible bank lending was reconfigured as a public good as the new growth model hit its limits in the mid 2000s, and this was never more the case in the UK than with respect to the housing market. The over-leveraging of homebuyers amid ever higher loan-to-value mortgages was the equivalent of banks giving reduced regard to the borrower’s ability to repay the loan out of current income. Instead, as yet unrealised capital gains from expected future house price rises played an increasingly prominent role in rationalising the unfolding structure of similarly over-leveraged mortgage lending in the UK. The aggressive nature of this style of lending was tolerated as a public good for as long as house prices continued to rise, for this meant that the accumulated equity from the original purchase was sufficient to lessen the real burden of mortgage debt at the same time as sourcing new growth within the economy as a whole.

House price dynamics take on an altogether new dimension when they are an essential component of the growth model of house price Keynesianism. The

decision to activate an investor subjectivity and to purchase assets on the housing market thereby becomes more than merely a means for the individual to access an asset-owning society. It is also a means for the Government to reinvent the private space of the home as part of the public space of the national economy. Potential contradictions abound when – as has recently happened in the UK – the mode of incorporating private housing stock into the national growth model works against the implied prudentialism of the idealised investor subject. The normal workings of a speculatively motivated financial system offer precious few clues to the ordinary person of what, exactly, counts as prudential behaviour in any particular situation: to insist on the terms on offer or to temporarily withdraw from investment activity? In this way the investor subject in the UK, always an existentially uncertain character in any case, has had those uncertainties magnified.

### **Bank Business Models and the Enhancement of Investor Subject Uncertainty**

The tension inherent in any asset-based system of welfare is that individual savings have to be placed at the behest of potentially destructive price trends, where the conditions which make adverse price movements possible are themselves formed from individuals' savings activities. The tension is significantly magnified in practice because those same conditions provide potentially lucrative opportunities for private financial institutions to exploit. Credit creation activity within the mortgage lending market is the means of making profit from enhanced societal expectations that future welfare is linked to current homeowner status.

The mortgage lending strategies of banks helped the good times roll prior to the October 2007 price reversal, with easy credit enabling many homeowners to set their sights on much higher priced houses than would otherwise have been within the reach of someone on their income. However, the actions of banks to facilitate over-leveraged house purchases represents more than simply the aggregation of single decisions to under-price single mortgages. UK financial regulators had tolerated high loan-to-value lending because this was compatible with the expanded reproduction of the growth model of house price Keynesianism (Crouch, 2009). The cost recovery strategy to which banks were operating during the crucial 2004-2007 house price phase depended upon continually rolling over short-term obligations in credit markets, and their mortgage lending exposure meant that this in turn was dependent upon continued house price rises. The cost recovery strategies of private financial institutions and the national growth model thereby became locked-in to one another.

House of Commons Treasury Committee investigations (2008) have subsequently revealed evidence that the success of banks' business models came to rely less on guaranteeing repayments on each individual mortgage loan and more on attempting to flood the mortgage lending market with cheap credit in order to keep the whole loan structure afloat (see also Financial Services Authority, 2009). Banks typically lend differently when their priorities change in such a way. The specific structure of each loan will generally receive less rigorous oversight when their overriding objective is to ensure that general credit expansion facilitates inflationary pressures on asset prices. In this way there will be no guarantee – and therefore less likelihood – that individual loans will meet minimum stress-test thresholds designed to protect the integrity of the loan book as a whole. Due diligence in loan checking is unlikely to figure as prominently in banks' activities when they harness their role as

credit creators to their cost recovery interest in stimulating asset price inflation (Mason, 2009). Indeed, such oversight would probably serve as an impediment to achieving their aims in such situations, because it would almost certainly lead to a less marked expansion in credit than when stress-testing of individual loans is suspended. Due diligence in mortgage lending was very definitely pushed onto the back burner in the 2004-2007 house price phase, as aggressive lending techniques took hold in order to achieve rapid turnover in mortgage sales (Walters, 2008).

The specific way in which mortgages were sold in the period of accelerating affordability constraints also changed in order to reflect banks' new cost recovery priorities. House of Commons Treasury Committee investigations (2009) remain ongoing on this point at the time of writing, but early indications suggest the increasing marginalisation of previous forms of expert labour within the mortgage lending market. The model of expertise imprinted into the now old-fashioned image of the bank manager is one of a well-intentioned prudentialism enacted paternalistically on behalf of borrowers, only allowing individuals to take on loans that are well within their capacity to repay on time and in full. Whether this is a romanticised conception or not, such an image is closely attuned to the needs of the equally idealised investor subject in Labour Government savings strategy documents. One way in which the investor subject might learn self-protecting behavioural traits of this nature is through witnessing at first hand the expert labour of the old-fashioned bank manager. However, such experiences played little part in the normal process of selling mortgages in the run-up of UK house prices prior to 2007.

The new realities of entering the mortgage lending market as a potential homebuyer can be depicted abstractly as the shift from exposure to the 'expert labour' of the old-fashioned bank manager to exposure to the 'emotional labour' of a new

cadre of mortgage professionals. Emotional labour is Arlie Russell Hochschild's generic term (1983) for the transposition of elements of unwaged care work in the home into waged labour within the service economy. Emotional labourers are required by the wage relation to act upon themselves in order to manage their feelings for the purpose of display (Mears and Finlay, 2005: 319). The ultimate objective is to use their feelings to project a state of mind which a prospective customer can believe is within their reach if they purchase the product that the emotional labourer is attempting to sell. For the customer to buy the product they first have to buy into the possibility of sharing the emotional labourer's managed feelings for the product.

Understood abstractly, two separate exchanges thus take place. At one level, the final product – in the case of the mortgage lending market the mortgage loan itself – is purchased using the credit facility which the person selling the loan is at liberty to extend on behalf of the bank. At another level, however, this particular exchange can only take place if the personality of the emotional labourer – in the case of mortgage lending as embodied in the projected desire to become a homeowner – is structured into the overall deal. On first glance this might look as though emotional labourers are required to put their feelings on sale as a means of facilitating the all-important purchase of the final commodity. However, this is not necessarily so, because the personality which is exhibited as part of the final deal is very often an affectation that lasts for no longer than until the deal is signed (Hardt, 1999).

The concept of emotional labour provides possible clues as to how so many people in the UK bound themselves between 2004 and 2007 to mortgage agreements that dramatically over-leveraged their borrowing. The use-value produced by emotional labour is a specific form of subjectivity that is easily replicated by the onlooker (Abiala, 1999: 208). If the customer is to be persuaded that a particular

mortgage loan represents a good deal for them, say, then the benefits of homeownership they can expect from taking on the loan must be reflected in the seller's enthusiasm for the deal when adopting the customer's perspective. This is not the paternalistic prudentialism enacted by the old-fashioned bank manager as manifested in the tendency to say 'no' to loan requests, but an undisguised excitement for the advantages that the borrower will receive from purchasing credit that the seller is only too eager to part with. The excitement that the mortgage seller is able to affect for the house purchase that will be facilitated by agreeing to take on a loan remoulds the subjectivity of the person considering buying the house. The object of the mortgage seller's labour is the potential homeowner, and in the process of emotional labouring the mortgage seller works on the subject of the potential homeowner in an attempt to realise that potentiality.

Emotional labouring within the mortgage lending market therefore reinforces the stated aims of Labour Government savings policy by working on the people at its disposal in order to increase the likelihood that there will be more investor subjects to whom mortgage credit can be sold. However, it does so in a complex and tension-prone way. In both instances affected feelings equating to vicariously projected fear of the future play an important role in creating the preferred outcome. The major difference is one of distance, both physical and psychological. The text of Government savings policy narrates the reason why people should be worried about leaving late-life consumption uninsured in a detached, third-person form. It is an anonymous account of the difficulties that any person would face in maintaining current consumption patterns throughout retirement in the absence of an asset base to cash-in for that specific purpose (see, in particular, HM Treasury, 2003; 2007). The vicariously projected fear of the future animating the emotional labour of mortgage

sellers is, by contrast, much more personalised, as is befitting the fact that the projection is a means of working on a particular subject. It is presented to the person who is contemplating the purchase of mortgage credit through direct, face-to-face interaction and in an equally direct second-person form. The fears that individual potential homeowners should have about failing to act on investor subjectivity can be lived out in front of them through the affected feelings of mortgage sellers. Such fears can be multiplied by the latter's appeal to expertise in calling future price trends within both the mortgage lending and housing markets. The person who is given a glimpse of this expertise in order to be told that mortgage credit will not be this cheap again and that affordability constraints will worsen as house prices continue to rise will be more likely to agree to loan terms there and then. Early indications from House of Commons Treasury Committee investigations (2008; 2009) suggest that mortgage selling strategies of this nature were rife during the crucial 2004-2007 phase of house price increases.

The investor subject of the contemporary UK housing market thereby has potentially contradictory sources. On the one hand, the Labour Government's savings policy attempts to responsabilise homeowners, urging them to adopt self-governing techniques of prudentialism as a means of adaptation to an asset-based system of welfare. Yet on the other hand, the successful enactment of emotional labour by mortgage sellers has been shown under post hoc examination to have led to increasingly irresponsible purchases of mortgage credit by supposedly responsabilised investor subjects. Self-governing techniques remain the norm for investor subjects, but the dominant self-governing technique with respect to the UK housing market can hardly be said to have been one of prudentialism as house prices noticeably spiked between 2004 and 2007. The fact that genuinely responsabilised investor subjects

were incompatible with the cost recovery needs of private financial institutions in this period is one important reason why. Two very different articulations of fear of the future have competed for prominence in the constitution of the investor subject of the UK housing market: homeowners' fears of losing the wealth that they have striven to create through their savings strategies versus banks' fears of being unable to meet short-term cost recovery targets. Given what is now known about the subsequent price trajectory following the autumn 2007 reversal, the evidence suggests that mortgage sellers' inducement of irresponsibilised investment activity generally won out over the Government's inducement of responsabilised investment activity. Moreover, New Labour appears to have been content to tolerate such a situation because it was conducive to the reproduction of banks' underlying business models as house prices rose rapidly, while this, in turn, helped to sustain the national growth model of house price Keynesianism.

## **Conclusion**

The article has focused specifically on the UK case, but the lessons to be drawn from it have a broader applicability. With the reconstruction of the banking sector still to take place fully following the recent credit crunch, the relationship discussed here between private financial institutions and the individual as both homeowner and welfare recipient will come under scrutiny in many countries. In the UK, that relationship was situated more firmly than at any previous time in the context of the move towards an asset-based system of welfare. The Treasury's financial literacy programme, coupled with related attempts to initiate investor subjects as a means of



facilitating that move, has strong supporters amongst international institutions such as the IMF and the OECD. The appeal to those institutions of investment-oriented financial literacy lies in the expectation that functioning investor subjects will gradually reduce reliance on the state for future welfare provision and thereby ease pressure on future fiscal balance. As the IMF and the OECD are important internationally as agents of policy transfer, New Labour's vision of an asset-owning society is likely to be advocated in other contexts as something to emulate.

The implication of the preceding analysis is that intimations of best practice in the Labour Government's attempts to induce the move towards an asset-based system of welfare should be treated with caution. At the very least, it is possible to show that there are clear points of tension built into the very foundations of New Labour's asset-owning society. The incorporation of individuals into the pricing dynamics enacted by private financial institutions does not go as far as to deny them agency under attempts to create such a society, but it does encroach on the particular type of agential autonomy that the prudentially-minded investor subject is supposed to exhibit. Individual investor subjects have the choice of how to position themselves with respect to the housing market, say, in their efforts to accumulate assets. Yet, the outcome of the accumulation strategy – and, by implication, the realisation of the vision of an asset-owning society – depends on the manifestation of house price trajectories over which no individual investor subject has any control.

As recent circumstances have shown, the prevailing level of house prices in the UK is at least in part a reflection of pricing dynamics within credit markets, and authority in those markets is the sole preserve of private financial institutions. Nothing in the bank bailout packages introduced by the Labour Government in 2008 in response to the credit crunch changes that fact (Watson, 2009). This is of great

significance for the likely success of the move towards an asset-based system of welfare. The continued delegation of price-making authority in credit markets to private financial institutions provides no buttress against adverse price movements that destroy accumulated personal wealth on housing markets and elsewhere. The state is likely to receive increased calls for public protection of future income and public insurance of future consumption possibilities in such scenarios. Yet, this applies even though the underlying logic of an asset-based system of welfare is consistent with state retreat from public activities of this nature. As demonstrated by the impact on UK house prices of worldwide financial instability between 2007 and 2009, the upshot of seeking behavioural realignments consistent with welfare self-sufficiency can often be that a welfare system based on transfer payments is replaced in the name of an asset-owning society by emergency public insurance of private insurance of future welfare. The political logic of the expediency of state retreat is thereby easily undermined when a growth model of house price Keynesianism co-exists with attempts to institutionalise an asset-based system of welfare. This finding should serve as a salutary lesson for other countries as well as the UK.

## **Acknowledgements**

\* This piece was written with the financial assistance of a grant from the Economic and Social Research Council (number RES-000-22-2198), which I gratefully acknowledge. A first draft was delivered as a plenary lecture at the Housing Studies Association Annual Conference held at Cardiff University in April 2009. Many thanks to the local organiser, Pauline Card, for the invitation. I would also like to thank the journal's three anonymous reviewers for many insightful comments and for showing me how to see more in my own arguments than I had been able to do on my own.

## References

- Abiala, K. (1999) Customer orientation and sales situations: variations in interactive service work, *Acta Sociologica*, 42 (3), pp. 207-222.
- Aglietta, M. (2001) *A Theory of Capitalist Regulation: The US Experience*, revised edition (London: Verso).
- Bellofiore, R. & Halevi, J. (2009) Deconstructing labor: a Marxian-Kaleckian perspective on what is 'new' in contemporary capitalism and economics, in C. Gnos & L.-P. Rochon (eds) *Employment, Growth and Development: A Post-Keynesian Approach* (Cheltenham: Edward Elgar).
- Best, J. (2010) The limits of financial risk management: or, what we didn't learn from the Asian financial crisis, *New Political Economy*, 15 (1), forthcoming.
- Crouch, C. (2009) Privatised Keynesianism: an unacknowledged policy regime, *British Journal of Politics and International Studies*, 11 (3), pp. 382-399.
- Department for Communities and Local Government (2006) *Evaluation of Key Worker Living: Final Report* (London, HMSO).
- Financial Inclusion Task Force (2008) *Minutes 10 April 2008, FITF (08) 13* (London: FITF).
- Financial Services Authority (2009) *The Turner Review: A Regulatory Response to the Global Banking Crisis* (London: FSA).
- Finlayson, A. (2008) Characterizing New Labour: the case of the Child Trust Fund, *Public Administration*, 86 (1), pp. 95-110.

- Finlayson, A. (2009) Financialisation, financial literacy and asset-based welfare, *British Journal of Politics and International Relations*, 11 (3), pp. 400-421..
- Foucault, M. (1988) Technologies of the self, in L. Martin et al *Technologies of the Self* (London: Tavistock).
- Foucault, M. (2008) *The Birth of Biopolitics: Lectures at the College de France, 1978-1979* (Basingstoke: Palgrave Macmillan).
- Hardt, M. (1999) Affective labor, *Boundary 2*, 26 (2), pp. 89-100.
- HM Treasury (2001a) *Saving and Assets For All: The Modernisation of Britain's Tax and Benefit System, Number Eight* (London: HMSO).
- HM Treasury (2001b) *Delivering Saving and Assets: The Modernisation of Britain's Tax and Benefit System, Number Nine* (London: HMSO).
- HM Treasury (2003) *Strengthening the Saving Habit of Future Generations* (London: HMSO).
- HM Treasury (2007) *Financial Inclusion: An Action Plan for 2008-11* (London: HMSO).
- HM Treasury/HM Revenue and Customs (2008a) *The Saving Gateway: Operating a National Scheme* (London: HMSO).
- HM Treasury/HM Revenue and Customs (2008b) *The Saving Gateway: Operating a National Scheme. Summary of Responses* (London: HMSO).
- Hochschild, Arlie Russell (1983) *The Managed Heart: Commercialization of Human Feeling* (Berkeley, CA: University of California Press).
- House of Commons Treasury Committee (2003) *Child Trust Funds: Second Report of Session 2003-4* (London: HMSO).
- House of Commons Treasury Committee (2008) *The Run on the Rock. Fifth Report of Session 2007-08, Volume II* (London: HMSO).

- House of Commons Treasury Committee (2009) *Banking Crisis: Dealing with the Failure of UK Banks. Seventh Report of Session 2008-09* (London: HMSO).
- Jessop, B. (2002) *The Future of the Capitalist State* (Cambridge: Polity Press).
- Langley, P. (2006) The making of investor subjects in Anglo-American pensions, *Environment and Planning D: Society and Space*, 24 (6), pp. 919-934.
- Langley, P. (2007) Uncertain subjects of Anglo-American financialization, *Cultural Critique*, 65, pp. 67-91.
- Martin, R. (2002) *Financialization of Daily Life* (Philadelphia, PA: Temple University Press).
- Mason, P. (2009) *Meltdown: The End of the Age of Greed* (London: Verso).
- Mears, A. & Finlay, W. (2005) Not just a paper doll: how models manage bodily capital and why they perform emotional labor, *Journal of Contemporary Ethnography*, 34 (3), pp. 317-343.
- Miller, P. & Rose, N. (2008) *Governing the Present: Administering Economic, Social and Personal Life* (Cambridge: Polity Press).
- Montgomerie, J. (2007) Financialization and consumption: an alternative account of rising consumer debt levels in Anglo-America, *CRESC Working Paper Series*, 43 (Manchester: University of Manchester).
- O'Malley, P. (1996) Risk and responsibility, in A. Barry, T. Osborne and N. Rose (eds) *Foucault and Political Reason: Liberalism, Neo-Liberalism, and Rationalities of Government* (Chicago, IL: University of Chicago Press).
- Offe, C. (1985) *Contradictions of the Welfare State* (Cambridge, MA: MIT Press).
- Pensions Commission (2006) *Implementing an Integrated Package of Pension Reforms: The Final Report of the Pensions Commission* (London: HMSO).
- Prabhakar, R. (2003) *Stakeholding and New Labour* (Basingstoke: Palgrave).

- Royal Institution of Chartered Surveyors (2007) *RICS Housing Accessibility and Affordability Update for Great Britain* (London: RICS).
- Schwartz, H. (2009) *Subprime Nation: American Power, Global Capital, and the Housing Bubble* (Ithaca, NY: Cornell University Press).
- Sherraden, M. (1991) *Assets and the Poor: A New American Welfare Policy* (New York: M.E. Sharpe).
- Shiller, R. (2008) *The Subprime Solution: How Today's Global Financial Crisis Happened and What to Do about It* (Princeton, NJ: Princeton University Press).
- Soros, G. (2008) *The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What It Means* (New York: Public Affairs).
- Thoresen, O. (2008) *Thoresen Review of Generic Financial Advice: Final Report* (London: HMSO).
- Walters, B. (2008) *The Fall of Northern Rock: An Insider's Story of Britain's Biggest Banking Disaster* (Petersfield: Harriman House).
- Watson, M. (2009) 'Habitation versus improvement' and a Polanyian perspective on bank bailouts, *Politics*, 29 (3), pp. 183-192.
- White, S. (2003) Freedom, reciprocity and the citizens' stake, in K. Dowding, J. de Wispelaere and S. White (eds) *The Ethics of Stakeholding* (Basingstoke: Palgrave).
- Wigan, D. (2010) Credit risk transfer and crunches: global finance victorious or vanquished?, *New Political Economy*, 15 (1), forthcoming.
- Wolf, M. (2009) *Fixing Global Finance: How to Curb Financial Crisis in the 21<sup>st</sup> Century* (New Haven, CT: Yale University Press).